Migrant Seasonal Workers

The impact on the horticulture and food processing sectors of closing the Seasonal Agricultural Workers Scheme and the Sectors Based Scheme

Migration Advisory Committee

May 2013

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Chairman's Foreword



1. Seasonal Agricultural Workers Scheme

UK agricultural output is valued at £23.7 billion (2011), just under 1 per cent of Gross Domestic Product (GDP). Vegetables, horticulture, fruit and potatoes account for 16 per cent of the total (£3.6 billion). Some 83 per cent of fruit consumed in the UK (by value) and 62 per cent of vegetables are imported.

A Seasonal Agricultural Workers Scheme (SAWS) has been in place for over sixty years. Since 2008 the SAWS has only been open to workers from Bulgaria and Romania (A2 countries). The present quota is 21,250 who mostly work in horticulture. The Department for Environment, Food & Rural Affairs states that the total number of seasonal and casual workers in agriculture is some 67,000.

The SAWS is extremely well managed by the UK Border Agency. There are nine operators. Five are sole operators who supply labour only to their own farms. The remaining four are multiple operators supplying labour to many different growers. Over 500 growers use the SAWS, with a concentration in Herefordshire, East Anglia, Kent and the east coast of Scotland. The operators monitor the growers and the UK Border Agency monitors both the operators and growers. Thus, the SAWS workforce is properly regulated which may not always be the case with labour supplied by gangmasters from A8 countries (Poland, Lithuania, etc).

Most parties gain from the SAWS. Growers get a supply of efficient labour tied to (living on) the farm and who cannot work in other sectors. Supermarkets receive a reliable supply of British produce – one major supermarket described the SAWS as "incredibly important". Consumers gain via prices for British goods which are lower than they otherwise would be. Migrants realize a good wage – normally over £300 per week and have low living costs. British workers are not displaced by SAWS workers (see below) and there are no real integration issues because the SAWS workers normally live on the farm.

What of the SAWS' impact on immigration? The work is seasonal, with a maximum duration of stay of six months. There is a very high return rate to Bulgaria and Romania. Many of the SAWS workers also return to the same grower in successive years. SAWS workers do not count in the International Passenger Survey (IPS) immigration figures – which only measure those coming to the UK for over a year. It is possible that the IPS inflow would be higher without

a SAWS because potential permanent migrants (say from A8 countries) might replace temporary SAWS migrants.

Many member countries of the Organisation for Economic Co-operation and Development have a seasonal agricultural work programme (see Chapter 4). For example, Germany has averaged 300,000 seasonal workers annually in the last decade, mainly from Poland and Romania. And New Zealand has 8,000 places for seasonal workers from certain Pacific Islands.

The immediate issue the Migration Advisory Committee (MAC) has been asked to address is what will happen when the present SAWS ends this year once A2 workers no longer have any restrictions on where they can work in the European Union (EU). The implicit question – for the Government, not the MAC – is whether there should be a replacement SAWS for workers from a non-EU country.

2. What might happen to the labour supply from 2014 onwards?

Presently there are four main potential sources of EU labour – A2, A8, gangs and UK. It should also be remembered that there are over 26 million people unemployed in the EU.

Growers, operators and A2 workers concur that the labour supply from Bulgaria and Romania will not immediately dry up. Some will return next year to the same grower; others will encourage family and friends to try working in horticulture. This work is potentially attractive in the short run because it provides a stepping stone into the wider British labour market. For example, the operators normally help the worker to get a national insurance number and to set up a bank account.

A second source of labour is A8 workers, and workers from other EU countries like Portugal. Some growers recruit directly in A8 countries, some use recruitment agencies and some labour is supplied directly at the farm gate. This A8 labour is free to move employers but remains a major source of seasonal labour in horticulture.

A third source is supplied by gangmasters. Concerns have been raised about some gangmaster-supplied labour including: quality, exploitation, payment of tax and national insurance contributions and living conditions. The major supermarkets are particularly sensitive to this matter because of their emphasis on ethical trading standards.

British workers are the fourth potential source of labour. All the operators and growers we spoke to stated that they had tried to recruit (and retain) British workers but without success. The farms are not normally in high unemployment areas; British workers are reluctant to live on (be tied to) the farm; and growers state that British workers either cannot or will not work at the intensity required to earn the agricultural minimum wage. At present British workers have little incentive to come off social security benefits for seasonal work; the introduction of the universal credit may provide a somewhat greater incentive but the earnings disregard (now renamed work allowance) for a single person is quite modest.

This year, as a result of a working group set up by the Department for Work and Pensions, HOPS Labour Solutions Ltd and their partners are running a pilot

scheme to encourage British workers into horticulture. The pilot will offer training and a guaranteed job in horticulture for 200 workers in its first year. The scheme aims to raise awareness that the experience and skills gained in a seasonal role can lead to a permanent position in the industry. While it is a welcome initiative, the scheme does not address any shortfall in the supply of seasonal labour.

The SAWS has not displaced British labour. Rather, it was the deficient supply of British workers which led to the expansion of the SAWS. This raises a thorny issue. Once a low-skill, low-wage sector becomes immigrant-intensive, is it feasible for the native population to regain the jobs?

3. Supermarkets – a pivotal role

If labour supply from the EU (including UK) dwindles, it follows that wages will be bid up. But horticulture output is tradable. This raises the key question: would supermarkets pay a premium for British produce and how large might such a premium be? In the jargon: what is the price elasticity of demand by the supermarkets for British horticultural products? It should be remembered that it is the supermarkets that have driven the intensification process for the benefit of consumers. Horticultural productivity has risen such that real prices to the grower for many items have been stable or falling for a quarter of a century and, more remarkable, the nominal price of apples and pears received by the grower has hardly risen over the same period (see Chapter 5).

Consider the following example. Growers told us that SAWS labour costs are around 50 per cent of their total costs. And that the retail price is roughly double that paid to the grower. Therefore SAWS labour costs are around 25 per cent of the total retail price. Taking a simple example, if pay rose 20 per cent to attract the required EU labour, and the cost increase were to be passed on such that farmers and retailers retain their nominal margins, this could raise the supermarket price by around 5 per cent. Would this trigger a switch to imports? What if pay rose instead by 40 per cent? There is some experience of consumers paying a premium price for high-quality milk. But it is an open question whether customers would accept a "British grown" premium for many fruit and vegetable lines.

4. Alternatives

If EU labour supply is inadequate or too costly to stop the potential switch to imports, then one or more of the following occurs: horticulture contracts; technical changes permit more capital and less labour to be used; and/or a replacement SAWS from outside the EU is established.

The industrial structure may alter, meaning horticulture contracts and other uses are found for the inputs previously used by horticulture. This would imply some failed investments. For example, investment in fruit trees – substantial in the last few years – normally has a 25-year time horizon, with no return at all for the first three years. And some permanent jobs – among input suppliers, transport and packing – supported by SAWS labour will disappear. Any such loss of jobs would be concentrated in the geographic areas mentioned above which are major SAWS users. It should be remembered, however, that the economy and labour market is constantly adjusting and most resources have alternative uses.

Technical change may take place such that capital substitutes for the previous SAWS labour. There are many recent examples including table-top strawberry, rigs for harvesting and packing celery and concept orchards where the apples are grown on short trees trained in a long line rather than on traditional fruit trees. Supermarkets are prepared to work with growers to help them lower costs but it is unlikely that many innovations are waiting on the shelf. For example, picking top fruit by robots is around a decade away and, anyway, could prove too costly. Thus, technical change – partly endogenous to the lower labour supply – is, at best, only a partial solution.

A third alternative is a replacement SAWS scheme with non-EU labour. The National Farmers' Union has suggested (Chapter 3) reverting to the original SAWS model of student labour from agricultural colleges, perhaps from the Ukraine, with a cultural component integrated into the scheme. An alternative might be to restrict the SAWS to Croatia, the next EU accession country. But Croatia has a small population, traditional links with Germany and higher GDP per head than the A2 area. It is possible that a SAWS for Croatia would not generate the requisite labour supply.

It is a matter for the Government, not the MAC, to decide whether or not to establish a new SAWS. But it should be noted that any new quota would probably be below the present number. There are two reasons for this. First, growers all agreed that some A2 and A8 labour would continue to be supplied. Second, it is proposed in England and Wales to replace the agricultural minimum wage (AMW, which regulates horticulture pay) with the national minimum wage (NMW) later in 2013. The AMW has a premium overtime rate for hours in excess of 39. The NMW does not. Presently many growers limit hours to 39 per worker per week in order not to incur the overtime premia. They will have no incentive to impose such a limit under a NMW regime. Therefore, fewer workers could work more hours.

5. A replacement SAWS?

A replacement SAWS would mean that horticulture is treated as a favoured sector. It gets preferential access to reliable, tied (in the sense of living on the farm and with restricted access to employment in other sectors) and relatively cheap labour.

There are analogies. Consider just two. In the 1960s many migrants from the Punjab and Pakistan settled in the textile belts of Lancashire and Yorkshire. As Winder puts it in his history of British immigration: *"Employers in Huddersfield, Dewsbury, Burnley and Blackburn could hardly believe their luck, as hordes of cheap labour arrived to work hard in their increasingly cash-strapped businesses"* (Winder, 2004).

In the 1970s and early 1980s the coal industry and coal miners were supported by a little-known tax on electricity consumers: the power companies were required to buy UK-produced coal at nearly double the price coal was available on the international spot market.

These examples are quite thought-provoking. The supply of cheap labour from the Indian sub-continent did not stop the painful contraction of the textile sector.

And once its subsidy was withdrawn, the coal industry suffered severe retrenchment.

Therefore a replacement SAWS should only be considered if it would help horticulture thrive in the long run. Unsurprisingly, evidence from stakeholders is that it would. Indeed, some growers are stalling on major investment decisions until there is certainty over such a replacement scheme. It is possible that any replacement scheme could be viewed as a transitional measure until the requisite technology – robot apple pickers, for example – comes on-stream.

If there were to be a replacement SAWS, it is important to ponder who would lose out. It is probable that the main losers would be A2 and A8 workers who might otherwise have taken these SAWS jobs. It is unlikely that British residents would lose because SAWS workers live on the farm and, therefore, do not cause congestion or integration problems. And UK workers generally are not prepared to supply their labour to this sector.

6. Sectors Based Scheme

There is also a quota of 3,500 places under the Sectors Based Scheme (SBS) which covers meat and fish processing and mushroom growing. The regulations governing SBS are different from SAWS and in 2011 only 787 places were taken up. Stakeholders mostly suggest disbanding the SBS, and the MAC concurs.

7. Secretariat

Once again our secretariat has done a splendid job. Visits around the UK were organised. And a product and labour market previously almost unknown to the MAC were analysed speedily and thoroughly. The MAC is fortunate to have its high-quality secretariat in these troubled times.



Professor David Metcalf CBE

The Migration Advisory Committee and secretariat

The Migration Advisory Committee (MAC) is a non-departmental public body comprised of economists and migration experts. It provides independent and evidence-based advice to the Government on migration issues. Questions to the Committee are determined by the Government.

Chair



Professor David Metcalf CBE

Members



Dr Jennifer Smith



Dr Martin Ruhs



Professor Jonathan Wadsworth



Professor Jackline Wahba

UK Commission for Employment and Skills representative



Lesley Giles

Home Office representative



Glyn Williams

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Vanna Aldin; Anne Ball; Cordella Dawson; Adrian Duffy; Stephen Earl; Emily Eisenstein; Jocelyn Goldthorp; Tim Harrison; Kyle Magee; Margaret Mcgrath; Daniella Oliviero; David Style; Josephine Thomas.

Summary

Introduction (Chapter 1)

1. On 1 August 2012, the Minister for Immigration asked the Migration Advisory Committee (MAC) to consider the following question and report back by 30 March 2013:

"*The current restrictions on A2 workers will be removed at the end of 2013 and the current sector-based schemes for A2 workers (covering agriculture and food processing) will then close. What impact across the whole of the UK will this have on the sectors currently covered by the sector-based schemes?*"

2. Participation in the Seasonal Agricultural Workers Scheme (SAWS) has been limited exclusively to nationals of Bulgaria and Romania (A2) since 2008, while participation in the Sectors-Based Scheme (SBS) has been limited to A2 nationals since 2007. Access to the UK labour market is presently restricted for A2 nationals but these restrictions will end on 31 December 2013.

3. The analysis in this report is based on a combination of desk-based research and evidence we received from corporate partners. We received 53 written responses to our call for evidence and visited partners across the UK.

The impact of closing the Sectors-Based Scheme (SBS) on the food processing sector (Chapter 2)

4. The approximate Gross Value Added (aGVA) for the food processing sector was £19.5 billion in 2011. The sector comprises 6,440 enterprises and a total of 376,000 employees**.**

5. The SBS was introduced in May 2003 and initially applied to the hospitality and the food processing sectors, with quotas of 10,000 places for each sector. In July 2005, the use of the SBS by the hospitality sector was ended and the quota for the food processing sector was reduced to 3,500 places, and it has since been kept at this level.

6. Workers in the SBS are required to work in specific unskilled or low-skilled jobs within fish, meat or mushroom processing. SBS permits are issued for a maximum of 12 months. Workers must be aged between 18 and 30.

7. We received seven responses to our call for evidence solely regarding the SBS and a small number which mentioned the scheme amongst other issues. Most of the responses mentioned the considerable delays in the application process recently experienced by both employers and migrants.

8. Only between 17 and 45 per cent of the 3,500 places of the quota were allocated between 2007 and 2011. More recently, since 2009 take-up has been below 25 per cent and has been particularly low in 2012 when only 9 per cent of places of the quota were allocated. The number of firms using the SBS has also been falling since 2007. The decline in the use of the scheme may in part be due to previous experience of delays in the application process, combined with the fact that employment on the SBS can lead to the permanent jobs.

9. From the analysis of available data presented in Chapter 2 and evidence from partners, it appears that the impact of the closure of the SBS scheme would be minimal.

The impact of closing the Seasonal Agricultural Workers Scheme (SAWS) on the horticulture sector (Chapters 3-7)

10. The commission from the Government refers to agriculture in general, though we found that the majority of migrant workers under the SAWS are employed in horticulture. We provide an overview of the agriculture sector and its labour demand and supply in **Chapters 5** and **6** respectively, but mostly we concentrate on the impacts on horticulture of ending the SAWS.

11. UK horticulture production has grown in value terms in recent years, indicating a certain resilience compared with agriculture whose contribution to the UK economy has declined. Horticulture is highly labour-intensive and reliant on a seasonal workforce.

12. The current SAWS, which is described in detail in **Chapter 3**, allows growers in the UK to recruit labour from Bulgaria and Romania to do short-term, low-skilled agricultural work. Workers must be aged 18 or over, and there is no upper age limit. Successful applicants get a work card which gives permission to work in the UK, for a specific employer, for a maximum of six months. After this time nationals of Bulgaria and Romania can remain in the UK but, with few exceptions, they are not permitted to be employed. The SAWS is managed by nine approved operators on behalf of the UK Border Agency. They each have a fixed number of work cards to issue to workers each year. The operators either recruit for their own farms (sole operators) or on behalf of farms (multiple operators).

13. The quotas of people allowed to work in the UK under the SAWS have changed throughout the scheme's history. Following our recommendations in 2008 the quota was raised to 21,250 in 2009 and has been kept at this level. Take-up of the quota has remained very high since 2008 and was 98 per cent in 2012. Based on the SAWS work cards issued, concentration of these workers is particularly high in Kent, Herefordshire, parts of the East of England and the east coast of Scotland.

14. Most developed countries have similar schemes for seasonal labour, or have some mechanism for subsidising an agriculture sector which would otherwise not be sufficiently competitive to survive. Details of how various countries source their seasonal workforce in agriculture are presented in **Chapter 4**. The lack of resident labour willing to engage in agricultural work, particularly seasonal work, is an international issue.

15. There are currently four main sources of seasonal workers in horticulture in the UK:

- UK resident workers;
- gangmaster labour (comprised of a mix of nationalities already present within the UK, including A8 nationals);
- workers recruited from the A8 countries either directly by farms or by labour providers; and
- workers from the A2 countries under the SAWS.

16. Although SAWS workers make up a minority of the seasonal agricultural workforce, they are highly valued as a stable, reliable source of labour in horticulture. The A8 migrants remain an important element of the workforce but their lengths of stay on the farms and productivity levels have declined since labour market restrictions were removed in 2004. Gangmaster labour is also used but is not a preferred option for the growers due to high turnover rates and the fact they do not generally live on the farm. The proportion of UK workers in the seasonal workforce has decreased over time and it is unlikely this trend will reverse or that UK workers will replace the SAWS workers post-2013.

17. The potential impacts on horticulture of ending the SAWS are presented in **Chapter 7**. After the ending of the SAWS there are likely to be short and medium-term effects on the seasonal labour supply for the horticulture sector. On the basis of the evidence we received, combined with our own analysis, we expect that in the **short term** (one to two years) it is likely that sufficient seasonal labour will be available to the sector through a combination of the four categories of workers above (with the A2 workers being recruited as workers in the A8 countries are presently). However, in the **medium term**, there may be a decline in the supply and quality of labour as patterns of migration and employment for A2 nationals change.

18. If a farmer experiences labour shortages, addressing these shortages is likely to translate into an increase in costs. This could occur via several inter-related mechanisms: increased wages, increased costs of recruitment and increased production costs.

19. Importantly, an increase in the costs of labour may translate into higher prices further along the supply chain which can then impact on the demand for the product. If consumers were unwilling to accept current quantities of British produce at a higher price, the evidence suggests this will result in greater

substitution towards imported produce. Such an outcome would have an adverse impact on British horticulture.

20. If the cost of labour per unit of output increases, substitution to more capital-intensive technology becomes more viable. However, this depends on whether such technology is available and would have the effect of reducing the cost of labour per unit of output. We have not seen evidence that this is a likely scenario, at least in the short to medium term.

21. Therefore, a likely consequence of this chain of events would be industrial restructuring. Effectively this means that horticultural activity in the UK would be reduced to a level which could be sustained by the labour available at new wage rates. The remaining land and other resources currently used by horticulture would then be released for alternative economic activities.

22. In the short term, a reduction in the size of the horticulture sector would be likely to have, at most, a modest negative impact on the UK economy and UK employment levels. However, the geographical distribution of the horticulture sector suggests that any such small national level impacts could be felt more significantly in those local areas where this activity is concentrated. These areas may see a loss of permanent employment (mostly among the UK resident population) and a reduction in economic activity as this labour-intensive industry experiences a decline. The interlinked nature of the food supply chain means it is likely that connected businesses in other sectors will also be impacted by a shrinkage in the horticulture sector. If this occurs, the land and resources currently used for horticulture will, in time, be put to alternative use, which in some instances may possibly lead to greater economic efficiency.

Our conclusions (Chapter 8)

Sectors Based Scheme

23. Based on the evidence we received and our assessment of current take-up of migrant labour in the food processing sector through the SBS, we consider that the closure of this scheme at the end of 2013 is unlikely to have negative impacts on employers' ability to meet their labour needs through the UK and EU labour markets.

Seasonal Agricultural Workers Scheme

24. We found little evidence that, following the closure of the current scheme at the end of 2013, the current supply of seasonal workers from Bulgaria and Romania and the A8 countries will decline in the short term. However, in the medium term, farmers are likely to experience increasing difficulties sourcing the required level of seasonal labour from the EU (including the UK) labour market. A new source of seasonal labour is likely to be required, or the horticulture sector will need to consider alternatives if increased labour costs cannot be absorbed without impacting on its size. It is for the Government to decide whether and how to support the horticulture

sector. However, to secure long-term investments in horticulture, it would be helpful for farmers to know what the Government will do post-2013 as soon as is practicable.

Chapter 1 Introduction

1.1 Migration Advisory Committee

1.1 The Migration Advisory Committee (MAC) is a non-departmental public body comprised of economists and migration experts that provides transparent, independent and evidence-based advice to the Government on migration issues. The questions we address are determined by the Government.

1.2 Previously we have provided advice on, amongst other things, the design of the Points Based System (PBS) for managed migration including annual limits, the transitional labour market access for citizens of new European Union (EU) accession states, the economic impact of restricting or removing settlement rights and the minimum income requirement for sponsorship under the family migration route.

1.2 What we were asked to do

1.3 On 1 August 2012, the Minister for Immigration asked us to consider the following question and report back by 30 March 2013:

"The current restrictions on A2 workers will be removed at the end of 2013 and the current sector-based schemes for A2 workers (covering agriculture and food processing) will then close. What impact across the whole of the UK will this have on the sectors currently covered by the sector-based schemes?"

1.4 The commission from the Government refers to agriculture in general, though we found that the majority of migrant workers under these sector-based schemes were employed in horticulture. This report, therefore, concentrates on this sub-sector of agriculture. Horticulture is defined to be those farms where fruit, nursery stock, vegetables, bulbs and flowers constitute the primary produce of the enterprise.

1.3 Policy context

1.5 The PBS currently makes no provision for low skilled migrant labour to be brought to the UK from outside the European Economic Area (EEA). When the PBS was first introduced in 2008 a separate route for low-skilled workers (Tier 3) was identified, but never opened. This was mainly

because the labour supply effects following EU enlargement in 2004 would be sufficient to meet any need for this type of worker. However, there are two schemes whereby a limited quota of persons can be brought in from outside the EEA to do low-skilled work, namely the Sectors Based Scheme (SBS) and the Seasonal Agricultural Workers Scheme (SAWS). It is the impact of closing these schemes that the Government has asked us to look at in this report.

1.6 Since 2008, participation in the SAWS has been limited exclusively to nationals of Bulgaria and Romania, though 40 per cent of the 2007 quota was also reserved for nationals of these countries. Participation in the SBS has been limited to nationals of Bulgaria and Romania since 2007. Access to the UK labour market is presently restricted for nationals of Bulgaria and Romania but these restrictions will end on 31 December 2013.

1.7 The Treaty of Accession 2005 governs the accession of Bulgaria and Romania to the EU and allows existing members to impose transitional restrictions on the free movement of labour from Bulgaria and Romania for a maximum of seven years from the day of accession. Employment restrictions could be imposed for the first two years following accession and could then be extended for a further three years. After that, they could be extended for an additional two years only if the national domestic labour market was experiencing a serious disturbance or threat thereof. Our previous reports, Migration Advisory Committee (2008) and Migration Advisory Committee (2011), looked at whether the restrictions should be kept in place. Those reports set out what access to the UK labour market is available to nationals of Bulgaria and Romania. We do not repeat that information here.

1.8 In 2007, therefore, two policy objectives, namely to have a scheme to allow low-skilled work to be carried out by non-EEA nationals and to place restrictions on access to the UK labour market by nationals of Bulgaria and Romania, came together. The Accession (Immigration and Worker Authorisation) Regulations 2006, which came into force on 1 January 2007, established that the sector-based schemes would be limited to nationals from Bulgaria and Romania. The lifting of restrictions on access to the labour market for nationals of Bulgaria and Romania from 1 January 2014 mean that the present sector-based schemes will come to an end.

1.9 In this report we refer to the A8 and the A2. The A8 consists of the eight Eastern European countries which acceded to the European Union (EU) in 2004[1] and the A2 comprises the two countries which acceded to the EU in 2007, namely Bulgaria and Romania. All EU countries are members of the European Economic Area, together with Iceland, Liechtenstein and Norway.

[1] Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia. The 2004 accession also included Cyprus and Malta.

1.10 This report is the latest in a number of reviews that have looked at the sector-based schemes. We look at some previous reviews in Chapter 3. We also received proposals about new schemes that could replace the present arrangement, potentially drawing on nationals from countries other than Bulgaria and Romania, and we discuss the most substantial of these, again in Chapter 3.

The UK Border Agency

1.11 In this report we refer to the UK Border Agency. On 26 March 2013 it was announced that the functions of the UK Border Agency would be brought into the Home Office and split into two separate entities: an immigration and visa service and an immigration law enforcement organisation. The names of these new bodies have not been announced at the time of writing. Therefore, references in this report to the UK Border Agency should be read as references to the former UK Border Agency.

1.4 What we did

1.12 The analysis in this report is based on a combination of desk-based research and evidence we received from corporate partners, gathered through a series of targeted activities. In this report "corporate partners", or just "partners", refers to all parties with an interest in our work or its outcomes, and private and public sector employers, trade unions, representative bodies and private individuals are included within this term.

1.13 On 22 October 2012 we published a call for evidence which set out the Government commission and questions on which we sought views and evidence from partners. In particular, we encouraged responses from employers, labour providers, relevant trade associations and unions and other experts in the subject area and offered to meet partners to discuss the issues. The deadline for responses was 18 January 2013 and we received a total of 53 written responses to the call for evidence.

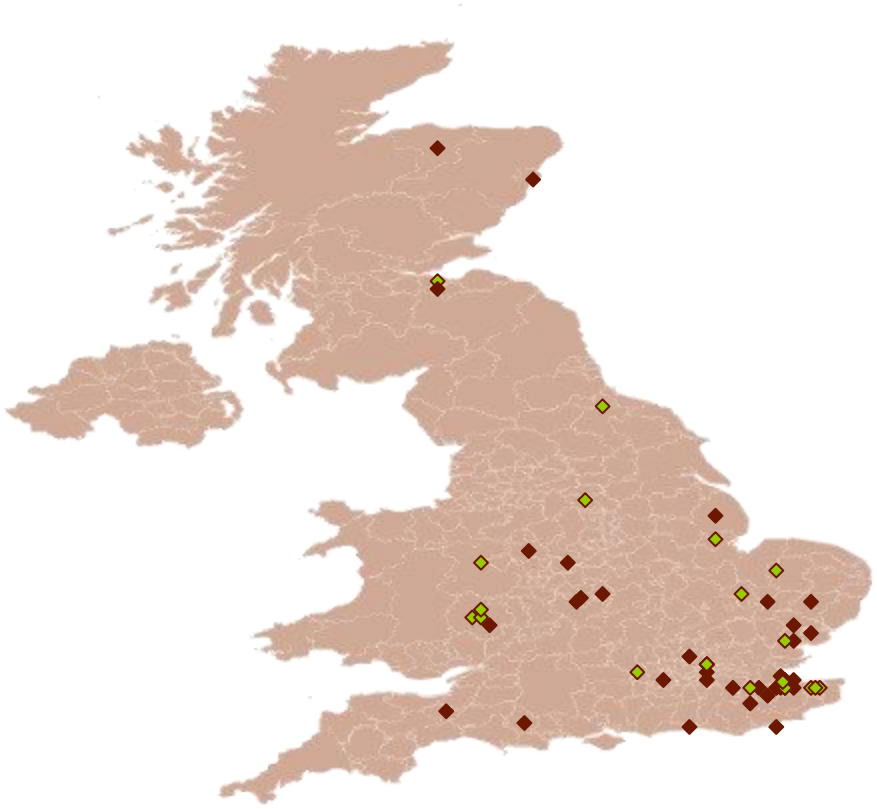
1.14 The response from the food processing sector in relation to the SBS was noticeably smaller than the response in relation to the SAWS. We received a total of seven responses solely in relation to the SBS and a small number of other responders mentioned the scheme amongst other issues. To encourage responses in relation to the SBS we wrote to over 50 parties who were recorded as having used the scheme at some point since the beginning of 2010. We also contacted six representative bodies including the British Meat Processors Association, Seafood Scotland and the Mushroom Industry Association of Northern Ireland as well as publicising the call for evidence through "The Mushroom People", Ireland's Mushroom Community online. Although we offered to go to visit any users of the scheme we did not receive an invitation to do so. We also contacted a number of the main users of the scheme via telephone.

1.15 We received 46 responses in relation to the SAWS, and met with around 65 partners including farmers, operators of the SAWS, supermarkets, representative bodies and government departments. We visited 12 farms

across the country and went on farm inspections with the UK Border Agency. We met with the Scottish Government, the National Farmers' Union Scotland and horticultural growers in Scotland. We also held a workshop with academics with expertise in this area.

1.16 Figure 1.1 indicates the geographic spread of our visits and the evidence we received in relation to this commission.

Figure 1.1: Locations of visits made and evidence received by Migration Advisory Committee during 2012-13 in relation to the sector-based schemes



Notes: Green dots represent visits made by the Migration Advisory Committee and/or its secretariat. Red dots denote locations from which evidence was submitted.
Source: Migration Advisory Committee analysis 2013

1.17 A list of all those who responded to our call for evidence and those we met with, and have not requested confidentiality, is presented in Annex A.

1.5 Structure of the report

1.18 In order to answer the question in the commission it is necessary to have a clear understanding of how the SBS and SAWS operate, as well as an understanding of how the sectors work and the factors determining labour supply. The report is therefore presented broadly in two parts.

1.19 First, we provide background and contextual information for the two schemes. As the SBS is a much smaller scheme, we introduce and conclude our discussion of it in Chapter 2. Thereafter we introduce the SAWS (Chapter 3) and then compare the UK experience against that of other countries, where migrant seasonal labour is also commonplace (Chapter 4).

1.20 The second half of the report focuses in greater detail on how the horticulture sector operates, including across the supply chain from grower to retailer (Chapter 5), and the sources of its seasonal workforce (Chapter 6). These analyses allow us to set the framework for assessing the potential impacts of the closure of the SAWS (Chapter 7).

1.21 Our task here is not to recommend what action the Government should take with respect to this sector in the future. We do conclude though by setting out broadly - and without expressing any preference - what the options for the future may be, based upon our findings of the impacts (Chapter 8).

1.6 Thank you

1.22 We are grateful to all partners who responded to our call for evidence and to those who engaged with us at meetings and events. We are particularly grateful to those partners who organised or hosted events on our behalf.

Chapter 2 The food processing sector and the Sectors Based Scheme

2.1 Introduction

2.1 We have been asked to consider the impact on the food processing sector of ending the Sectors Based Scheme.

2.2 In this chapter we first provide an overview of the SBS, including a brief history, followed by a description of the current policy and operation of the scheme. We then present data on both the usage of the scheme and the characteristics of workers employed through it. We briefly look at the size of the food processing sector and in particular those sub-sectors which are covered by the SBS. This coverage comprises the fish, meat and mushroom processing sub-sectors. We then analyse how firms using the SBS and the workers they employ through the scheme are distributed regionally and across sub-sectors of the food processing sector. Finally, we review the issues raised by partners in their evidence to us regarding the current SBS and its potential future.

2.2 The Sectors Based Scheme: brief history and current policy

2.3 The SBS was first introduced in May 2003 and initially covered the hospitality sector as well as the food processing sector, with quotas of 10,000 places for each. Following consultation, these sectors were identified as having labour needs that could not be met by the UK or the European Economic Area (EEA) workforce. Firms within these sectors could use the scheme to employ migrants from any non-European Union (non-EU) country. Within the food processing sector, this coverage extended to only three sub-sectors; fish, meat and mushroom processing. In 2004, the quotas were reduced to 9,000 for the hospitality sector, and 6,000 for the food processing sector, based on the level of take up of the scheme by nationals of countries which joined the EU in 2004 (Hansard, 2004).

2.4 In July 2005, the SBS coverage of the hospitality sector was terminated. This was the result of indications that the labour requirements of the sector could be met without the scheme, in addition to evidence that the scheme was being used as a means of facilitating illegal entry. This evidence was presented in the Home Office's review of the Sectors Based Scheme (Home Office, 2005a), conducted in 2005. In July 2005, the quota for the

food processing sector was further reduced to 3,500 places and it has since been kept at this level.

2.5 From the beginning of 2007 the scheme has been restricted to Bulgarian and Romanian nationals. Workers under the SBS are required to work in specific unskilled or low-skilled jobs within fish, meat or mushroom processing. The list of applicable job titles has remained broadly the same since the scheme's inception. Examples of these job titles include; fish filleter, fish packer, animal gut remover, meat bone breaker, meat cutter, lairageman (pre-slaughter animal welfare attendant) and mushroom processor.

2.6 Further requirements under the SBS include that:

- the gross pay and conditions of employment are equal or exceed those normally given to a resident worker doing similar work;
- employers are required to ensure that the resident labour market has been tested: all posts must be first advertised through Jobcentre Plus/Jobcentre or Job and Employment Office and European Employment Services (EURES);
- the potential employee is going to be working full-time; and
- the potential employee is between the age of 18 and 30.

2.7 SBS permits are issued for a maximum of 12 months. Under the transitional measures applied to Bulgarian and Romanian nationals, those who have worked in the UK legally for a continuous 12-month period cease to be subject to work authorisation requirements and can apply for a registration certificate confirming that the holder has free access to the labour market. We do not have data on the number of SBS applicants who stayed for the maximum duration of their SBS permit and then applied for a registration certificate.

2.8 In order to bring a worker to the UK under the SBS, an employer must first apply to the UK Border Agency for a SBS permit on their behalf. If the application is successful, the UK Border Agency issues a letter of approval to the employer. This must then be forwarded to the worker, so that the worker is able to apply for an accession worker card, also known as a purple work card. Until they have obtained an accession worker card, they are unable to commence working in the UK.

2.9 Several partners who have used the SBS told us they have experienced considerable delays in the application process. The Embassy of Romania told us that there were delays between the initial application and the issuing of an accession worker card. Employers found these delays problematic as it made forward planning for their business difficult if they were relying on new SBS workers to meet their labour demands.

"The process of applying for a permit under the SBS scheme can take anywhere from 2 to 6 months or more in some cases. It is not easy to depend on receiving the work permits in time for an employee to start work as there is a huge lack of information ... making planning our recruitment very difficult."

Fiddleford Mushrooms Ltd response to MAC call for evidence

"... it takes up to a year to employ Romanian or Bulgarian nationals. We are very likely to continue to employ nationals from Romania and Bulgaria and expect that the process will become a lot faster."

Suffolk Mushrooms Ltd response to MAC call for evidence

2.3 Use of quota and characteristics of migrants under the Sectors Based Scheme

2.10 In this section we present the available data on the use of the SBS compared to the annual quota, and on the characteristics of migrants employed through the scheme. This includes Management Information (MI) data from the UK Border Agency. We first look at the SBS from 2003 to 2006 when the scheme was open to all non-EU nationals. We then look at the scheme from 2007 to 2012, during which time the scheme has only been open to Bulgarian and Romanian nationals.

Pre-2007

2.11 Table 2.1 shows the number of successful SBS permit applications (those that were approved or were successful upon review) per year from 2003 to 2006. We use the number of successful SBS permit applications as an approximation of the number of workers employed through the SBS. However, this may not reflect the number of people who came to the UK under the scheme as people may not have used their accession worker cards after they were approved or, despite their SBS permit being approved, may subsequently have been refused an accession worker card (entry clearance). This is especially true for data up until the end of 2005. According to Home Office (2005a), there was a 31 per cent entry clearance refusal rate across the whole scheme. Most of these refusals were concentrated within the hospitality sector. 57 per cent of nationals from Bangladesh attempting to work in the ethnic cuisine sub-sector were refused entry.

2.12 According to MI data from the UK Border Agency (2009), in 2008 the total number of applications for accession worker cards was 3,970, but the total number approved was 2,775. From 2003 to 2006 the quota was on an annual basis but commenced and finished in the middle of each year. There were nearly 36,000 successful applications to the scheme during this period, equivalent to approximately 85 per cent of the quota.

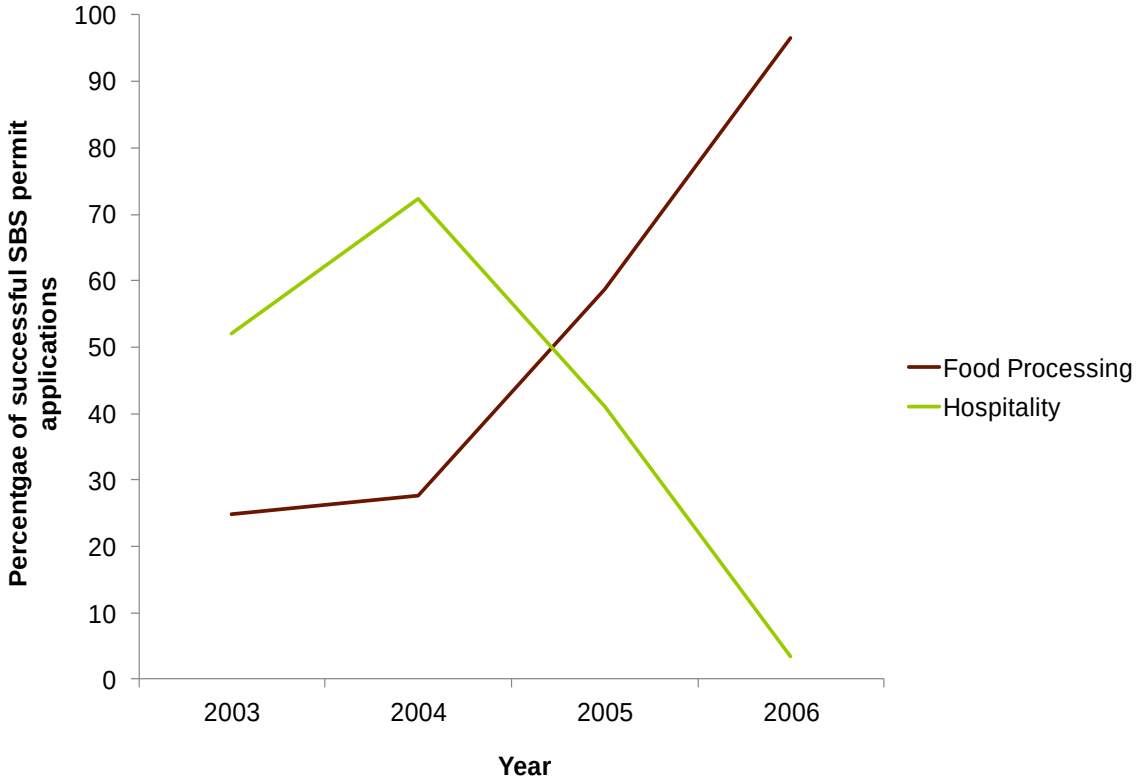
Table 2.1: Number of successful SBS permit applications, 2003 to 2006

Year	Successful SBS permit applications	SBS Quota
2003*	7,809	20,000
2004**	16,865	15,000
2005***	7,401	3,500
2006	3,586	3,500

Notes:*The SBS was introduced in May 2003. The quota was set on an annual basis but did not match the calendar year. 2007 was the first year in which the annual quota was set to match the calendar year. **From 15 June 2004, a rule was instituted that no nationality could account for more than 20 per cent of the available quota. Bangladesh reached this level on 18 June 2004 and as of 21 June 2004, no further applications were accepted. ***The coverage of the hospitality sector by the SBS was terminated in July 2005. The number of successful SBS applications is based on the number of applications which were either approved or successful on review. We use this number as an approximation of the number of workers employed through the SBS. However, this may not reflect the number of people who came to the UK under the scheme as people may not have used their accession worker cards after they were approved or, despite SBS permit approval, may have subsequently been refused an accession worker card.
Source: UKBA Management Information data

2.13 Prior to its termination in 2005, the SBS coverage of the hospitality sector accounted for the majority of SBS permits approved. Figure 2.1 uses data presented by Salt (2009) and shows that in 2004 around 12,000 or over 70 per cent of SBS permits approved were for employment in the hospitality sector. From May 2003 to the end of 2006, the food processing sector accounted for over 14,400 SBS work permits approved.

Figure 2.1: Percentage of SBS permits approved by sector, 2003 to 2006

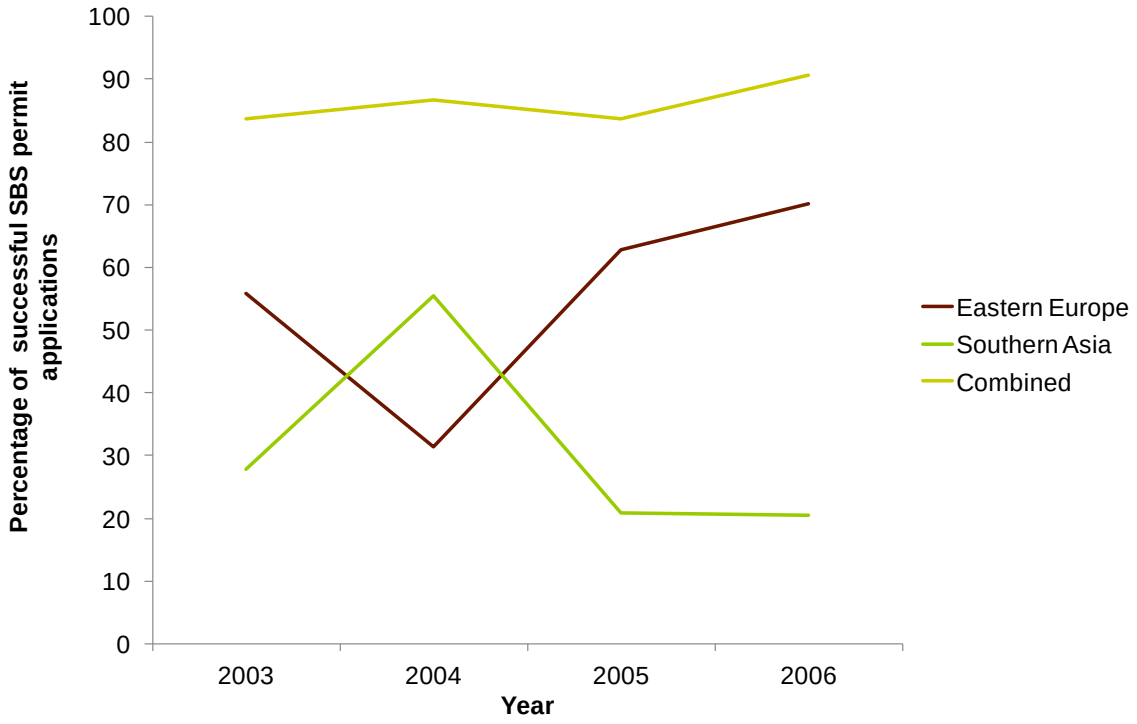


Notes: From 15 June 2004 a rule was instituted that no nationality could account for more than 20 per cent of the available quota. Bangladesh reached this level on 18 June 2004 and as of 21 June 2004, no further applications were accepted. Coverage of the hospitality sector by the SBS was terminated in July 2005. Any SBS worker who could not be classified as working in the food processing or hospitality sector was labelled other/unclassified. The number of successful SBS permit applications is based on the number of applications which were either approved or successful on review. We use this number as an approximation of the number of workers employed through the SBS. However, this may not reflect the number of people who came to the UK under the scheme as people may not have used their accession worker cards after they were approved or, despite SBS permit approval, may have subsequently been refused an accession worker card.
Source: Salt (2009)

2.14 During this period, the vast majority of successful SBS applications were from either Eastern Europe or Southern Asia.[2] Figure 2.2 shows that between 2003 to 2006, 81 to 96 per cent of SBS workers were from one of the two regions.

[2] Countries were assigned to regions based on: United Nations Statistics Division (2013) - *Composition of macro geographical (continental) regions, geographical sub-regions, and selected economic and other groupings*.

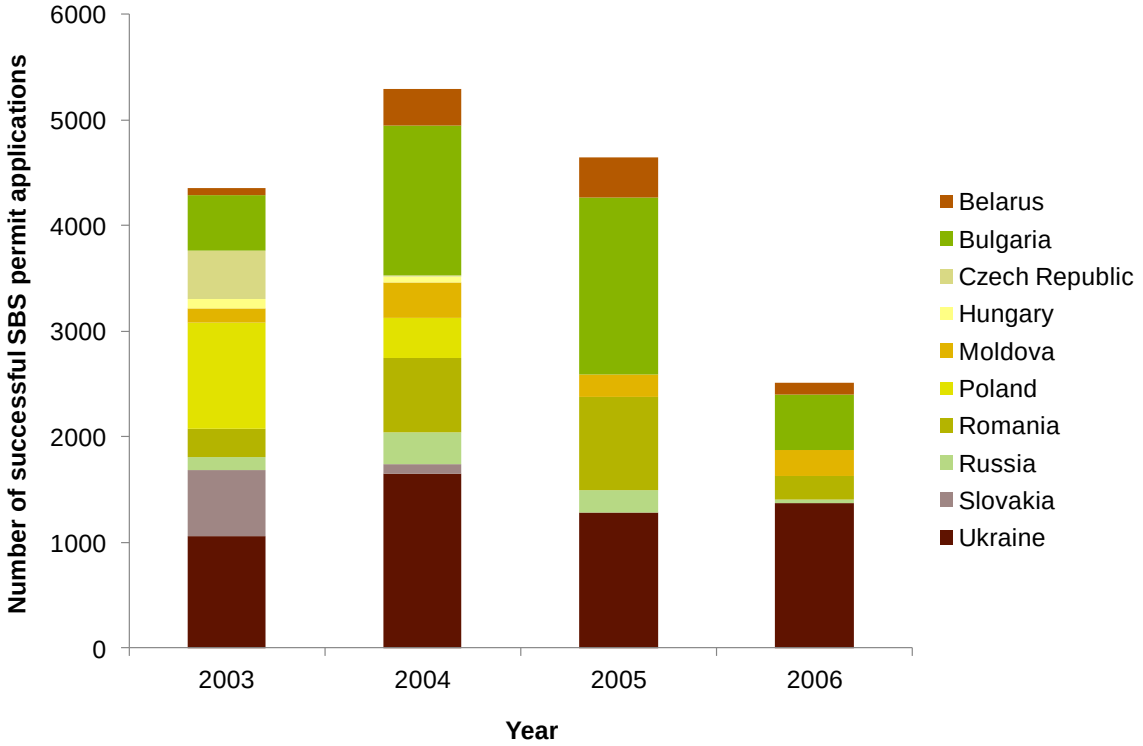
Figure 2.2: Percentage of successful SBS permit applications from Eastern Europe and Southern Asia, 2003 to 2006



Notes: From 15 June 2004, a rule was instituted that no nationality could account for more than 20 per cent of the available quota. Bangladesh reached this level on 18 June 2004 and as of 21 June 2004, no further applications were accepted. Coverage of the hospitality sector by the SBS was terminated in July 2005. The number of successful SBS permit applications is based on the number of applications which were either approved or successful on review. We use this number as an approximation of the number of workers employed through the SBS. However, this may not reflect the number of people who came to the UK under the scheme as people may not have used their accession worker cards after they were approved or, despite SBS permit approval, may have subsequently been refused an accession worker card. Countries were assigned to regions based on the United Nations Statistics Division (2013) - Composition of macro geographical (continental) regions, geographical sub-regions, and selected economic and other groupings. Eastern Europe includes the following countries; Belarus, Bulgaria, Czech Republic, Hungary, Poland, Republic of Moldova, Romania, Russian Federation, Slovakia and Ukraine. Southern Asia includes the following countries; Afghanistan, Bangladesh, Bhutan, India, Iran (Islamic Republic of), Maldives, Nepal, Pakistan and Sri Lanka.
Sources: MAC analysis of UK Border Agency Management Information data and United Nations Statistics Division (2013)

2.15 Successful SBS permit applications from Eastern Europe came from ten countries, with the highest number from Ukraine and Bulgaria. Figure 2.3 shows the number of successful SBS permit applications that came from each of these countries from 2003 to 2006. Ukraine and Bulgaria respectively accounted for over 5,000 and 4,000 successful SBS permit applications, together representing over a quarter of the total during this period.

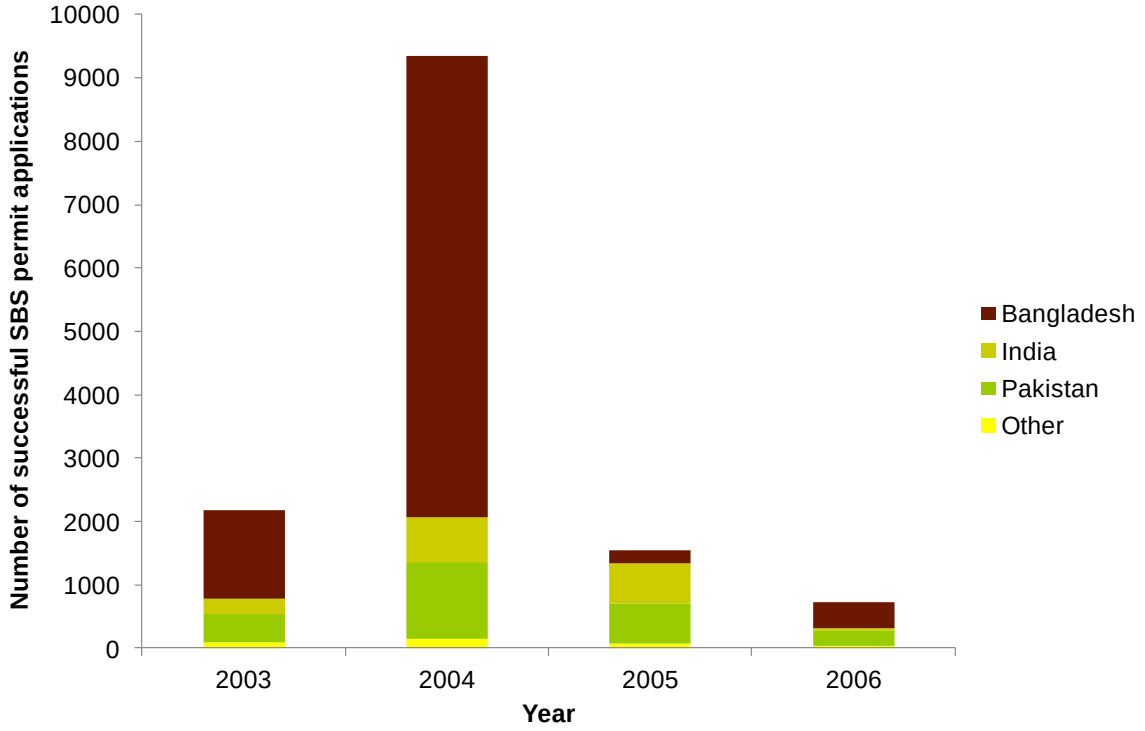
Figure 2.3: Number of successful SBS permit applications from Eastern Europe by country, 2003 to 2006



Notes: Coverage of the hospitality sector by the SBS was terminated in July 2005. The number of successful SBS permit applications is based on the number of applications which were either approved or successful on review. We use this number as an approximation of the number of workers employed through the SBS. However, this may not reflect the number of people who came to the UK under the scheme as people may not have used their accession worker cards after they were approved or, despite SBS permit approval, may have subsequently been refused an accession worker card. Countries were assigned to regions based on: United Nations Statistics Division (2013) - *Composition of macro geographical (continental) regions, geographical sub-regions, and selected economic and other groupings*. Eastern Europe includes the following countries; Belarus, Bulgaria, Czech Republic, Hungary, Poland, Republic of Moldova, Romania, Russian Federation, Slovakia and Ukraine.
Sources: MAC analysis of UKBA Management Information data and United Nations Statistics Division (2013)

2.16 As shown in Figure 2.4, from 2003 to 2006 most successful SBS applications from Southern Asia were from Bangladesh. During this period there were 9,000 successful SBS applications from Bangladesh, with 7,000 (43 per cent of the total) in 2004 alone. The subsequent decline in this number is due to the closure of the SBS for the hospitality sector in July 2005.

Figure 2.4: Number of successful SBS permit applications from Southern Asia by country, 2003 to 2006



Notes: From 15 June 2004, a rule was introduced that no nationality could account for more than 20 per cent of the available quota was instituted on 15 June 2004. Bangladesh reached this level on 18 June 2004 and as of 21 June 2004, no further applications were accepted. Coverage of the hospitality sector by the SBS was terminated in July 2005. The number of successful SBS permit applications is based on the number of applications which were either approved or successful on review. We use this number as an approximation of the number of workers employed through the SBS. However, this may not reflect the number of people who came to the UK under the scheme as people may not have used their accession worker cards after they were approved or, despite SBS permit approval, may have subsequently been refused an accession worker card. Countries were assigned to regions based on: United Nations Statistics Division (2013) - *Composition of macro geographical (continental) regions, geographical sub-regions, and selected economic and other groupings*. Southern Asia includes the following countries; Afghanistan, Bangladesh, Bhutan, India, Iran (Islamic Republic of), Maldives, Nepal, Pakistan and Sri Lanka.
Sources: MAC analysis of UKBA Management Information data and United Nations Statistics Division (2013)

Post-2006

2.17 Since 2007 the SBS has been restricted to Bulgarian and Romanian nationals and the scheme has been significantly under-used. Table 2.2 shows that only between 17 and 45 per cent of the 3,500 places of the quota were allocated between 2007 and 2011. More recently, since 2009 take-up has been below 25 per cent and has been particularly low in 2012 when only 9 per cent of places of the quota were allocated.

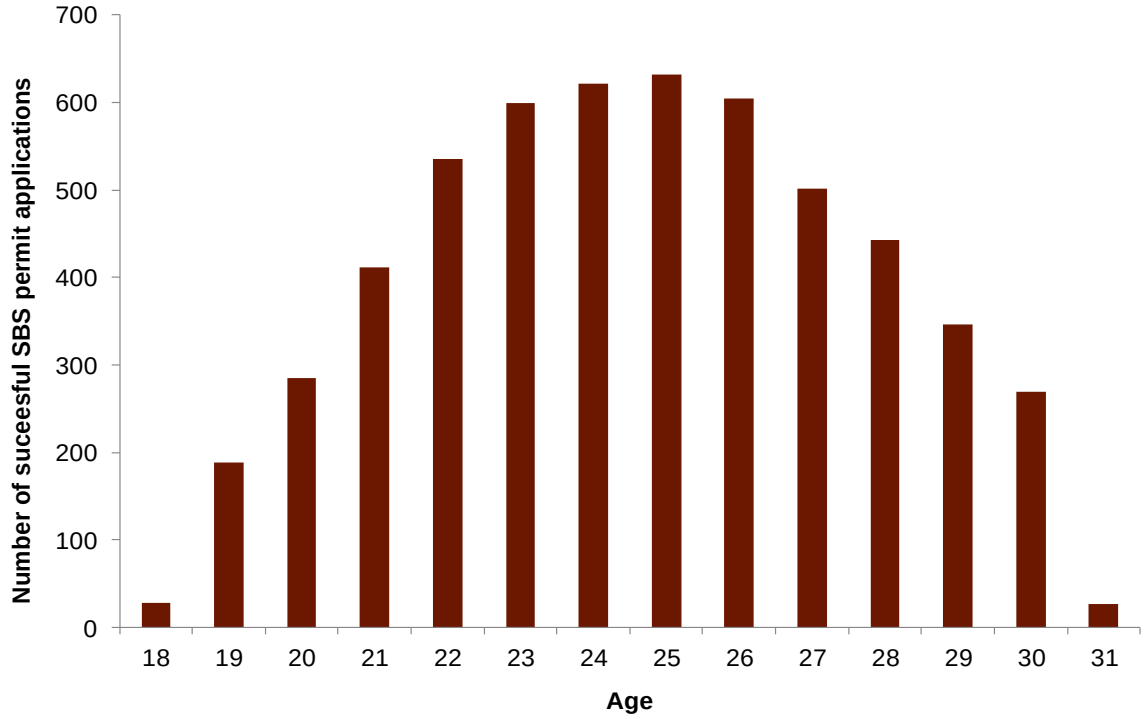
Table 2.2: Number of SBS applications approved, 2007 to 2012

Year	Number of SBS applications approved	Percentage of SBS quota used (%)
2007	1,407	40
2008	1,569	45
2009	775	22
2010	601	17
2011	787	23
2012	330	9

Note: Since 2007 the SBS has only been open to Bulgarian and Romanian nationals and is only applicable for specific posts within the food processing sector.
Sources: Home Office (2013)

2.18 In terms of demographic characteristics, from 2007 to 2012, people who have successfully applied for employment through the SBS have been in their mid-twenties and approximately three-fifths were male. Figure 2.5 shows the age profile of people who successfully applied for employment through the SBS during this period**.** The mean age of successful applicants during this period was 25, reflecting the age restrictions that apply to the scheme. The ages presented are based upon the date on which a SBS worker's application was successful. It should be noted that this analysis is using UKBA MI data, and that data for 2012 are only available from the period 1 January 2012 to 30 September 2012.

Figure 2.5: Number of successful SBS permit applications by age, 2007 to 2012*



Note: *Data for 2012 is only for the period 01 January 2012 to 30 September 2012. The number of successful SBS permit applications is based on the number of applications which were either approved or successful on review. We use this number as an approximation of the number of workers employed through the SBS. However, this may not reflect the number of people who came to the UK under the scheme as people may not have used their accession worker cards after they were approved or, despite SBS permit approval, may have subsequently been refused an accession worker card. Age is based on the date on which their application was cleared. Within the dataset for this time period there were individuals of an age outside of the SBS age restrictions. This amounted to a total of 5 individuals, and these observations were not incorporated in this analysis.
Source: MAC analysis of UK Border Agency Management Information data

2.4 Size of the food processing sector

2.19 In order to provide context to the use of the scheme, in this section we present an overview of the food processing sector, in particular those sub-sectors currently covered by the SBS. Defra (2012a) defines the manufacture of food and drink products as including *"everything from primary processing (milling, malting, slaughtering) to complex prepared foods."*

2.20 In 2011 the nominal approximate Gross Value Added (aGVA) of the manufacture of food products in the UK was £19.5 billion. Box 2.1 defines and outlines how aGVA is calculated by the Annual Business Survey (ABS). The aGVA measures the income generated by firms, less the costs of goods and services used to create this. The sector comprised 6,440 enterprises and a total of 376,000 employees**,** encompassing both full-time and part-time employees.

Box 2.1: Calculation of approximate Gross Value Added (aGVA)

The approximate estimate of Gross Value Added at basic prices (aGVA) published in the Annual Business Survey is a measure of the income generated by businesses within their industries and sectors, less the cost of goods and services used to create the income. The main component of income is turnover, while purchases are the main component of the consumed goods and services (referred to as intermediate consumption). Stock levels which may rise or fall can also have an impact on aGVA, as can the values of subsidies received or duty paid. Businesses' labour costs (for example, wages and salaries) are paid from the value of GVA, leaving an operating surplus which is a good approximation for profit. The cost of capital investment, financial charges and dividends to shareholders are met from the operating surplus.

The ABS publishes aGVA at basic prices: Gross Value Added (GVA) at basic prices is the output at basic prices minus intermediate consumption at purchaser prices. The basic price is the amount receivable by the producer from the purchaser for a unit of a product, minus any tax payable plus any subsidy receivable on that product.

There are differences between the ABS approximate measure of Gross Value Added and the measure published in the UK National Accounts. The ABS measure of aGVA is called approximate because it does not fully allow for some National Accounts concepts such as taxes, subsidies or income earned in-kind. National Accounts carry out coverage adjustments, quality adjustments, coherence adjustments and conceptual and value adjustments such as subtracting taxes and adding subsidies not included in the ABS measure. The National Accounts estimate of GVA uses input from the ABS and a number of other sources, and covers the whole UK economy, whereas ABS does not include some parts of the agriculture and financial activities sectors, or public administration and defence.

The ABS measure covers only market output, whereas National Accounts add non-market output (for example government services supplied for free such as education, charities), and own account output (products and services produced and consumed by a business, for example a farm growing feed for its own livestock). The ABS total aGVA for the UK Business Economy is around two thirds of the National Accounts whole economy GVA, because of these differences in coverage and calculation. The ABS estimates are also not adjusted for inflation.

Source: Office for National Statistics (2012a)

2.21 We now focus on the three sub-sectors of the food processing sector currently covered by the SBS: fish, meat and mushroom processing.

2.22 Table 2.3 shows that the nominal aGVA of the **fish processing sub-sector** was £550 million in 2011. In real terms this represents an increase in value of 6 per cent from 2008. The sub-sector comprises nearly 350 enterprises and 14,000 employees. With regard to the manufacture of food products as a whole, the fish processing sub-sector contributed 3 per cent of nominal aGVA and 4 per cent of employment in 2011.

2.23 The nominal aGVA of the **meat processing sub-sector** was £1.7 billion in 2011. This represents a real increase in value of 22 per cent from 2008. The sub-sector is made up of around 430 enterprises and approximately 41,000 employees. With regard to the manufacture of food products as a whole, the meat processing sub-sector contributed 8 per cent of nominal aGVA and 11 per cent of employment in 2011.

Table 2.3: Overview of the fish and meat processing sub-sectors, 2008 and 2011

Year	Nominal aGVA (£ million)	Number of enterprises	Employment (thousands)
Fish processing sub-sector			
2008	475	343	16
2011	549	347	14
Meat processing sub-sector			
2008	1,231	419	46
2011	1,651	426	41

Notes: Data for the fish processing sub-sector are for Standard Industrial Classification (SIC) 10.2 production and processing of fish, crustaceans and molluscs. Data for the meat processing sub-sector are for both SIC 10.11, processing and preserving of meat and SIC 10.12 processing and preserving of poultry meat. Employment includes both full-time and part-time employment and is based on an average for the year. Each job is counted once irrespective of whether it is full-time or part-time. Employment data are from the Business Register and Employment Survey (BRES). Changes in the treatment of working owners in the 2011 BRES have led to a discontinuity between the 2010 and 2011 BRES employment estimates. Care should be taken when making comparisons between employment in 2011 and that in any earlier years.
Source: Annual Business Survey (2012a), provisional results

2.24 Data for the **mushroom processing sub-sector** are not directly available from the ABS. Defra (2012a) estimates the value of the production of mushrooms to have been £114 million in 2011. In real terms this figure is virtually unchanged since 2008. Using survey responses from growers, Defra (2011a) estimates that there were 31 growers of indoor mushrooms in England in 2010. This represents a 28 per cent decline in the number of growers since 2007. We have been unable to find equivalent information for Northern Ireland, Scotland or Wales. The views of partners within the mushroom sub-sector regarding the impact of closing the scheme are incorporated in our analysis and can be found later in this chapter.

Nature of work in the food processing sector

2.25 Work in fish, meat and mushroom processing is not seasonal and workers tend to be employed all year round. Unlike seasonal workers in horticulture, they are not required to live on site. The conditions of the work itself may be considered unattractive.

> *"Work in the food processing sector and particularly meat and fish factory work is not the most attractive of occupations. It is often cold, wet manual labour and can be quite gruesome to say the least."*
>
> Active Immigration (Labour Provider) response to MAC call for evidence

Earnings across the Sectors Based Scheme

2.26 While precise earnings data for employees in jobs included under the SBS are unavailable, data from the Annual Survey of Hours and Earnings (ASHE) are available for occupations at the 4-digit level according to the

Standard Occupational Classification (SOC). Using guidance from the Office for National Statistics (ONS) coding index and Warwick Institute for Employment Research's Computer Assisted Structured Coding Tool (Cascot), the most plausible SOC code has been determined based upon the job title itself as well as descriptions of what activities this job title actually involves. Table 2.4 sets out a selection of job titles listed under the SBS, which have been allocated to the most plausible SOC code in order to provide examples of possible earnings within these sectors. The figures presented are for 2011 and are median gross hourly earnings from the Annual Survey of Hours and Earnings (ASHE). It should be noted that these figures include bonus payments. For comparison, the 2011 National Minimum Wage (NMW) is also presented for individuals aged 21 and over. The Agricultural Minimum Wage (AMW) is also presented, as this is relevant for jobs within the mushroom processing sub-sector.

2.27 Due to the differing jobs involved in this scheme, median hourly earnings in 2011 ranged from £6.92 to £8.37 an hour. These figures are at least 13 per cent higher than the National Minimum Wage in 2011.

Table 2.4: Median gross hourly earnings (£) for selected job titles covered by the Sectors Based Scheme, 2011

SOC code and occupation title	Example of job title	2011 hourly earnings (£)
5119 Agriculture and fishing trades n.e.c.	Fisherman working on fishing vessels forming part of the in-shore fishing fleet	8.47
5431 Butchers	Meat bone breaker	7.99
5433 Fishmongers and poultry dressers	Fish filleter	6.92
6139 Animal care services n.e.c.	Lairageman	7.60
8111 Food drink tobacco process operative	Meat process operative	7.83
9119 Fishing and other elementary agricultural occupations n.e.c.	Mushroom processor	7.54
9134 Packers, bottlers, canners, fillers	Fish / Meat Packer	7.37
9260 Elementary storage occupation	Meat cold store operator	8.29
Agricultural Minimum Wage (above compulsory school age)	-	6.10 to 9.14*
National Minimum Wage (for age 21 and over)	-	6.08

Notes: *The Agricultural Minimum Wage (AMW) varies depending on which grade an employee falls into. More information regarding the current AMW and how employee grades are determined is available at: https://www.gov.uk/agricultural-workers-rights/pay-and-overtime. n.e.c stands for not elsewhere classified. Using guidance from the Office for National Statistics (ONS) coding index and Warwick Institute for Employment Research's Computer Assisted Structured Coding Tool (Cascot), the most plausible Standard Occupational Classification (SOC) 2010 code has been determined based upon the job title itself as well as descriptions of what activities this job title actually involves. 2011 median gross hourly earnings are from the Annual Survey of Hours and Earnings (ASHE) and these figures include bonus payments.
Source: Annual Survey of Hours and Earnings (2012a), Gov.uk (2013a) and Gov.uk (2013b)

2.28 When we asked employers in the mushroom processing sub-sector about the earnings of SBS employees, they told us that remuneration frequently included the use of a bonus structure. Employees are paid the agricultural minimum wage with the opportunity to earn more depending on their productivity. One employer within the mushroom sector noted that this was highly dependent on the level of skill. New employees were subsidised while developing the requisite skills, while more experienced and skilful employees earned up to £11 an hour.

Employment of migrants in the food processing sector

2.29 We previously presented data regarding employment within the fish and meat processing sub-sectors from the ABS. However, the ABS does not contain data regarding the number of migrants working within these sub-sectors. Therefore we use data from the Labour Force Survey (LFS) to estimate these numbers. The LFS estimates of employment within the fish and meat processing sub-sectors differ in each case by less than 1,100 workers from those presented from the ABS. This may be due to the fact that the LFS surveys a sample of employees whereas the ABS surveys a sample of employers.

2.30 Data from the LFS for 2011 suggest that migrants may have constituted over a fifth of the workforce in the fish processing sub-sector. For Standard Industrial Classification (SIC) 10.2, the production and processing of fish, crustaceans and molluscs, 4,500 workers or approximately 34 per cent of the 13,200 workforce were estimated to be non-UK nationals.

2.31 Nearly two-fifths of workers in the meat processing sub-sector were estimated to be migrants. According to the LFS, and based on data for both SIC 10.11, the processing and preserving of meat and SIC 10.12, the processing and preserving of poultry meat, in 2011, 17,600 or 44 per cent of the 40,000 workers in the meat processing sub-sector were non-UK nationals.

2.32 We were unable to find equivalent data for the number of migrants working within the mushroom processing sub-sector.

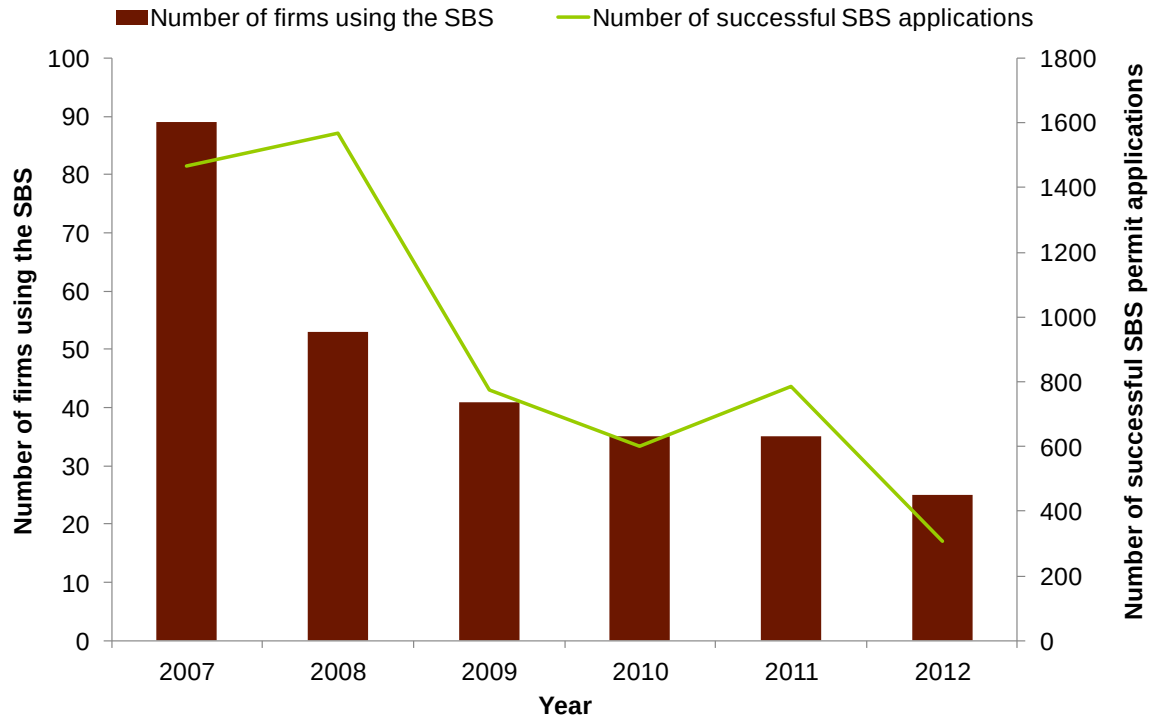
2.5 Take-up of the Sectors Based Scheme

2.33 The number of firms using the SBS has been falling since 2007. Figure 2.6 shows that in 2007 nearly 90 firms made use of the SBS. This number had fallen to 35 in 2011, a reduction of over 60 per cent, the last complete year for which data were available. There has also been a substantial decline in the number of successful SBS applications. There were 1,407 successful SBS applications in 2007. This number had decreased by 44 per cent to 787 in 2011.

2.34 The decline in the use of the scheme may in part be due to previous experience of delays in the application process, in addition to the fact that the SBS can lead to the creation of permanent jobs. As stated earlier in this chapter, SBS workers are permitted to stay in the UK for an initial period of 12 months. At the end of this period, they are able to remain in the UK if they are able to support themselves and any dependants. We have been told by employers using the scheme that some SBS workers choose to stay and work for the same firm for multiple years. If this is the case then there will not be a high rate of turnover of employees. Consequently, firms may not need to use the scheme to replenish their workforce.

2.35 Another reason for this decline could be a preference of employers to employ migrants on casual terms. An inquiry by the Equality and Human Rights Commission (2012) stated that the meat and poultry processing sectors *"... uses agency workers extensively."* One of the findings of their inquiry was that, *"Many agency workers worked continuously for years but few were taken on as permanent staff."* The inquiry also discovered, *"widespread evidence of mistreatment and exploitation of migrant and agency workers."* As staff taken on with employment terms as required by the SBS would receive greater protection from terms and conditions, particularly after twelve months, employers may have been dis-incentivised from using the scheme.

Figure 2.6: Number of firms using the SBS and number of successful SBS permit applications, 2007 to 2012*



Notes: *For 2012 data are only available for the period 01 January 2012 to 30 September 2012. The number of successful SBS permit applications is based on the number of applications which were either approved or successful on review. We use this number as an approximation of the number of workers employed through the SBS. However, this may not reflect the number of people who came to the UK under the scheme as people may not have used their accession worker cards after they were approved or, despite SBS permit approval, may have subsequently been refused an accession worker card.
Source: MAC analysis of UKBA Management Information data

2.36 The number of firms using the SBS in both the fish and meat processing sub-sectors has fallen since 2007. Table 2.5 shows that there were 21 firms in the fish processing sub-sector making use of the SBS in 2007. This number had more than halved by 2011. The meat processing sub-sector accounted for over half of all firms utilising the SBS in 2007. By 2011, this number had decreased by over 85 per cent, and meat processing accounted for under a quarter of all firms using the SBS. By contrast, the number of firms using the scheme in the mushroom processing sub-sector remained relatively stable. On average, 16 firms in this sub-sector have used the SBS each year, with 19 firms using the scheme in 2011.

Table 2.5: Number of firms using the SBS, 2007 to 2012*						
Processing Sub-Sector	**2007**	**2008**	**2009**	**2010**	**2011**	**2012***
Fish	21	12	11	10	9	6
Fish and Meat	3	2	1	1	1	0
Meat	52	21	13	10	6	5
Mushroom	13	18	16	14	19	14
Total	**89**	**53**	**41**	**35**	**35**	**25**

Note:*Data only available for the period 01 January 2012 to 30 September 2012.
Source: MAC analysis of UKBA Management Information data

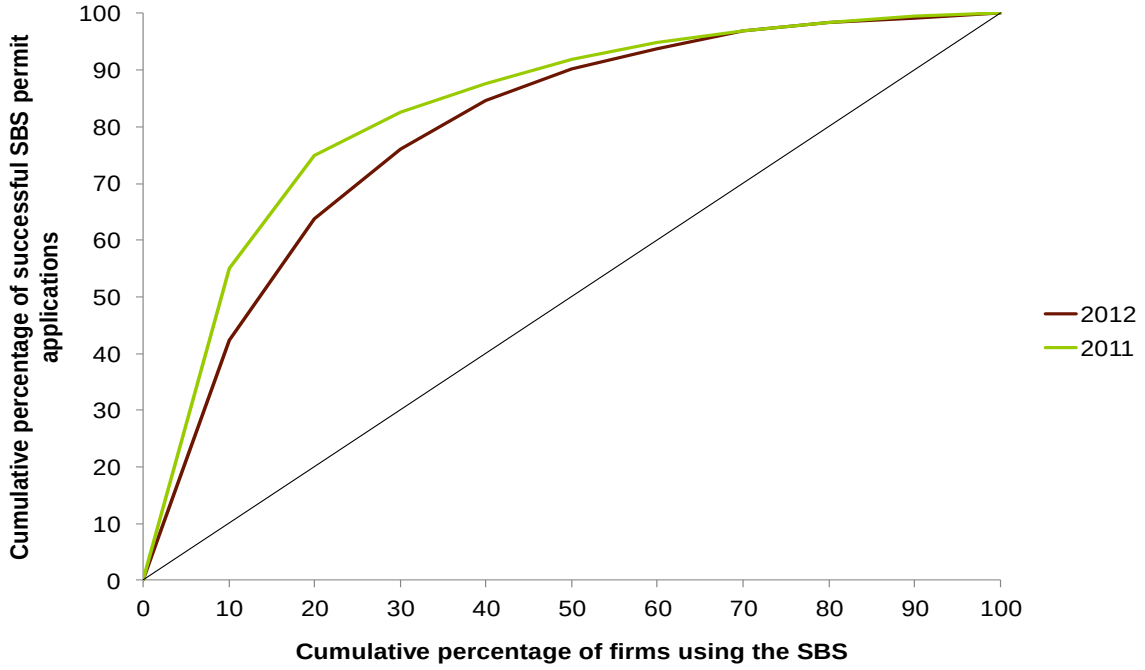
2.37 The number of successful SBS applications has followed a similar trajectory. As shown in Table 2.6, the number of successful SBS applications in the fish processing sub-sector fell by 42 per cent between 2007 and 2011. There has been a greater decline in the number of successful SBS applications in the meat processing sub-sector. There were 804 successful SBS applications in 2007. This number fell to just 18 in 2011. In the mushroom processing sub-sector, the decline in the number of successful SBS applications between 2007 and 2011 is far smaller. The number is lower than at its peak of 959 in 2009, but as recently as 2011 it was 644; or 80 per cent of SBS workers across all sub-sectors for that year.

Table 2.6: Number of successful SBS permit applications, 2007 to 2012*						
Processing Sub-Sector	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Fish	206	176	144	141	119	70
Fish and Meat	95	10	10	9	6	0
Meat	804	425	89	133	18	7
Mushroom	363	959	532	319	644	230
Total	**1468**	**1570**	**775**	**602**	**787**	**307**

Notes:*Data only available for the period 01 January 2012 to 30 September 2012. The number of successful SBS permit applications is based on the number of applications which were either approved or successful on review. We use this number as an approximation of the number of workers employed through the SBS. However, this may not reflect the number of people who came to the UK under the scheme as people may not have used their accession worker cards after they were approved or, despite SBS permit approval, may have subsequently been refused an accession worker card.
Source: MAC analysis of UKBA Management Information data

2.38 In each year, a small number of firms account for a disproportionate number of successful SBS applications. Figure 2.7 shows the cumulative distribution of successful SBS applications by firms for the years 2011 and 2012. One firm in the mushroom processing sub-sector was responsible for over 25 per cent of successful SBS applications in 2012. In the same year, five employers accounted for over 60 per cent of successful SBS applications, over two-thirds of which were within the mushroom processing sub-sector. Large firms in the mushroom processing sub-sector also accounted for a similarly high proportion of successful SBS applications in 2011.

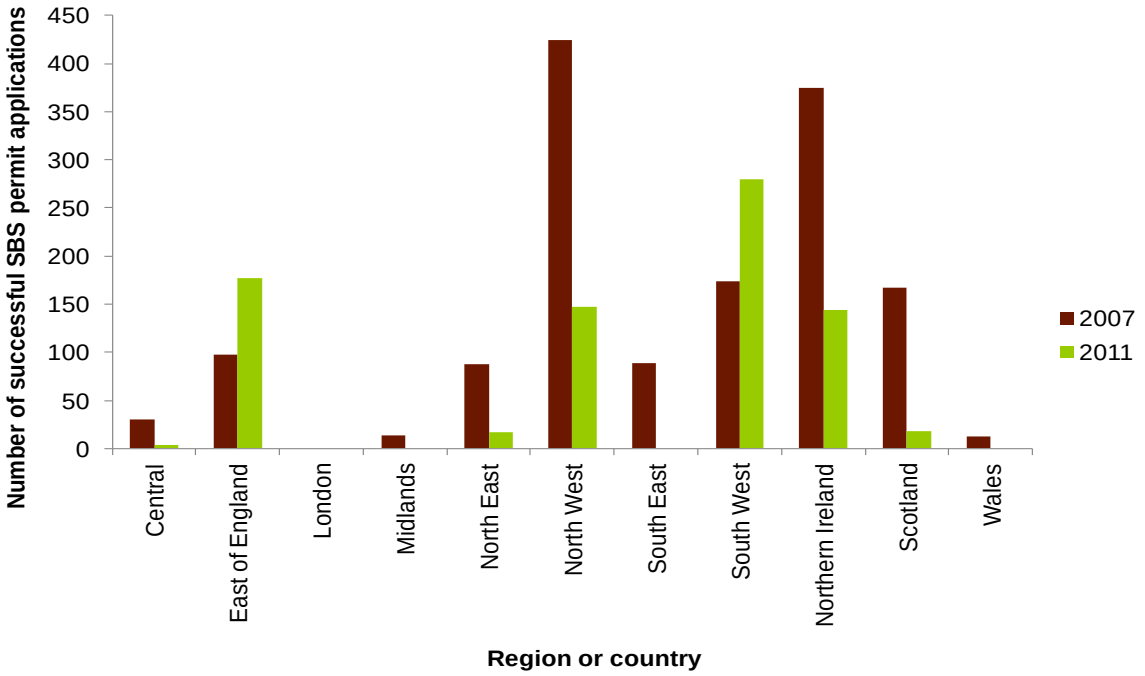
Figure 2.7: Cumulative distribution of successful SBS permit applications by firm, 2011 and 2012*



Notes:*Data only available for the period 01 January 2012 to 30 September 2012. The number of successful SBS permit applications is based on the number of applications which were either approved or successful on review. We use this number as an approximation of the number of workers employed through the SBS. However, this may not reflect the number of people who came to the UK under the scheme as people may not have used their accession worker cards after they were approved or, despite SBS permit approval, may have subsequently been refused an accession worker card.
Source: MAC analysis of UKBA Management Information data

2.39 Most regions or countries have witnessed a substantial fall in the number of successful SBS applications since 2007. Using UK Border Agency MI data, successful applications were matched to a region or country, and where data were unavailable the headquarters of the sponsor firm were used to approximate the region or country. Figure 2.8 shows that in 2011, in both the North West of England and Northern Ireland, the number of successful SBS applications was less than half of what it was in 2007. The decline was proportionately even greater in the North East of England, Scotland and the South East of England. In contrast to this, from 2007 to 2011, the number of successful SBS applications in both the East of England and the South West of England increased by over 60 per cent. During this entire period London, the Midlands and Wales have made relatively little use of the scheme.

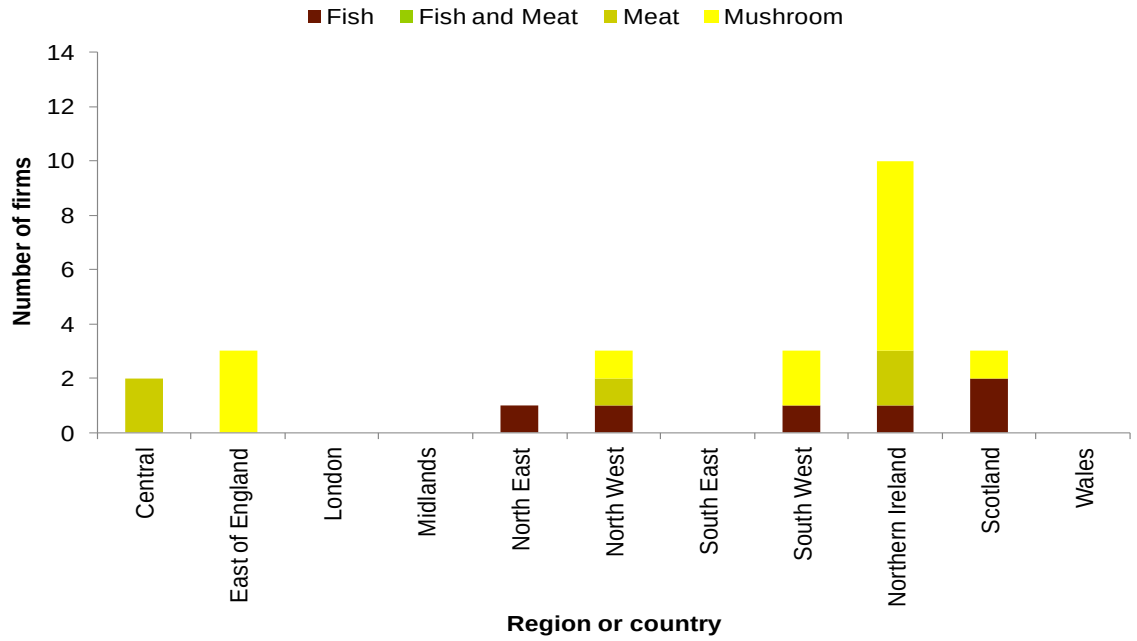
Figure 2.8: Number of successful SBS permit applications by region or country, 2007 and 2011



Notes: The number of successful SBS permit applications is based on the number of applications which were either approved or successful on review. We use this number as an approximation of the number of workers employed through the SBS. However, this may not reflect the number of people who came to the UK under the scheme as people may not have used their accession worker cards after they were approved or, despite SBS permit approval, may have subsequently been refused an accession worker card. If data were unavailable, firms / workers were assigned to a region based on the location of the headquarters of the firm.
Source: MAC analysis of UKBA Management Information data

2.40 Figure 2.9 shows that in 2012, 40 per cent of firms using the SBS were located in Northern Ireland. Of these, 70 per cent were in the mushroom processing sub-sector. One third of firms using the SBS in the fish processing sub-sector were located in Scotland, the rest were spread among coastal regions of England. In the meat processing sub-sector, firms using the SBS were spread evenly across Central England, the North of England and Northern Ireland. Half of all firms using the SBS in the mushroom processing sub-sector were located in Northern Ireland. Most of the other firms using the scheme in this sub-sector could be found in the East and South West of England.

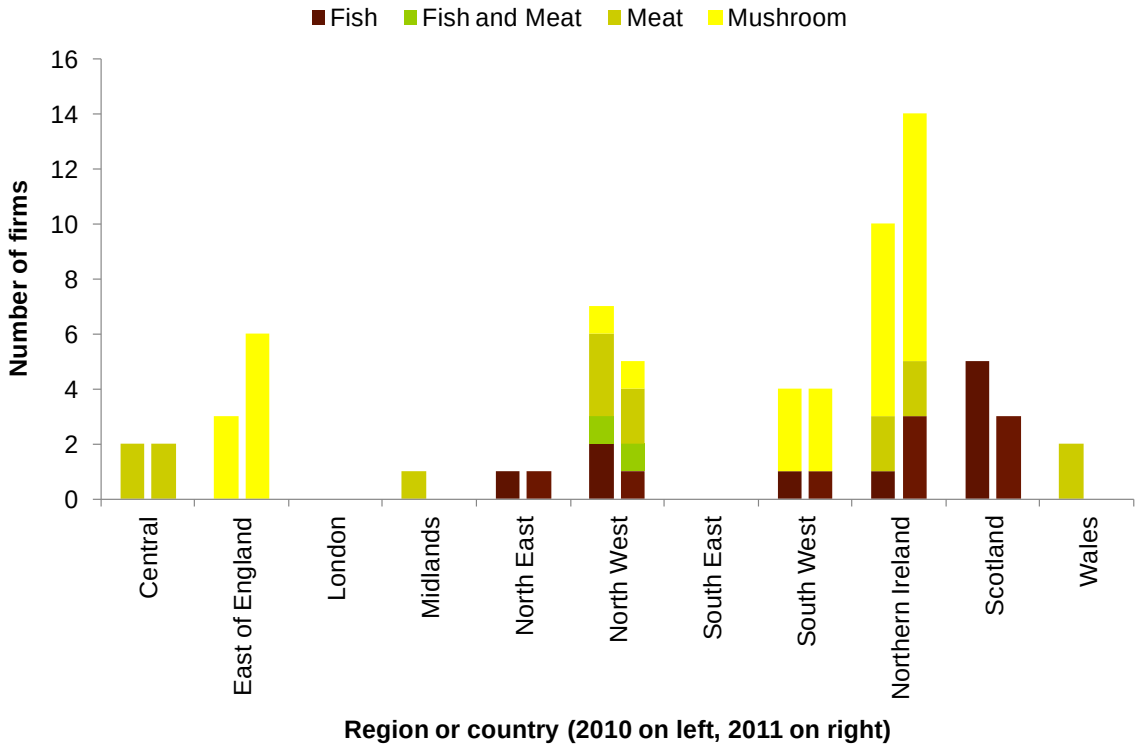
Figure 2.9: Distribution of firms by region or country and sub-sector, 2012*



Notes:*Data only available for the period 01 January 2012 to 30 September 2012. If data were unavailable, firms/workers were assigned to a region based on the location of the headquarters of the firm.
Source: MAC analysis of UKBA Management Information data

2.41 The distribution of firms was very similar in the two years prior to this. Figure 2.10 displays equivalent graphs for 2010 and 2011. Apart from the decline in the number of fish and meat processors using the scheme, there is little difference between these graphs and the one for 2012. In 2011 there were twice as many firms using the SBS in the East of England as there were in 2010 and 2012. However, these three additional firms all employed 10 or fewer SBS workers in 2011.

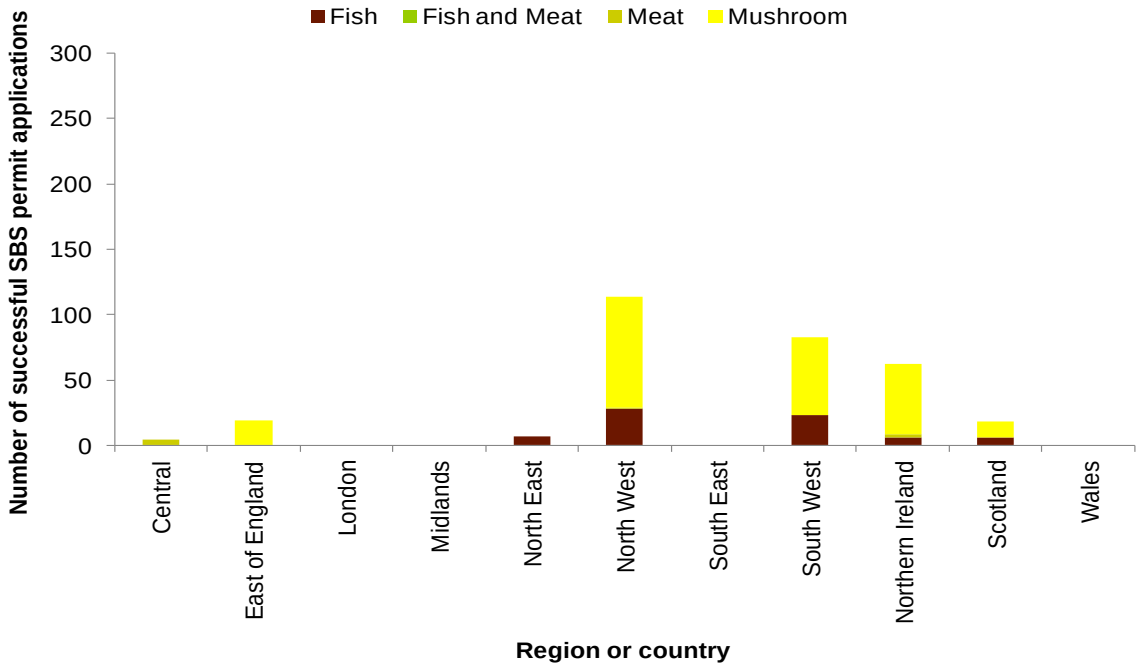
Figure 2.10: Distribution of firms by region or country and sub-sector, 2010 and 2011



Notes: If data were unavailable, firms/workers were assigned to a region based on the location of the headquarters of the firm.
Source: MAC analysis of UKBA Management Information data

2.42 Figure 2.11 shows the distribution of successful SBS applications (i.e. employees rather than employers) in 2012, by region or country and sub-sector. This shows that the mushroom processing sub-sector accounted for substantially more successful SBS applications than either the fish or meat processing sub-sectors. Data on successful SBS applications indicate a different geographical distribution for this sub-sector from that of the distribution of employers. This is chiefly due to one firm in the North West of England and several employers in the South West of England who were responsible for a large number of successful SBS applications.

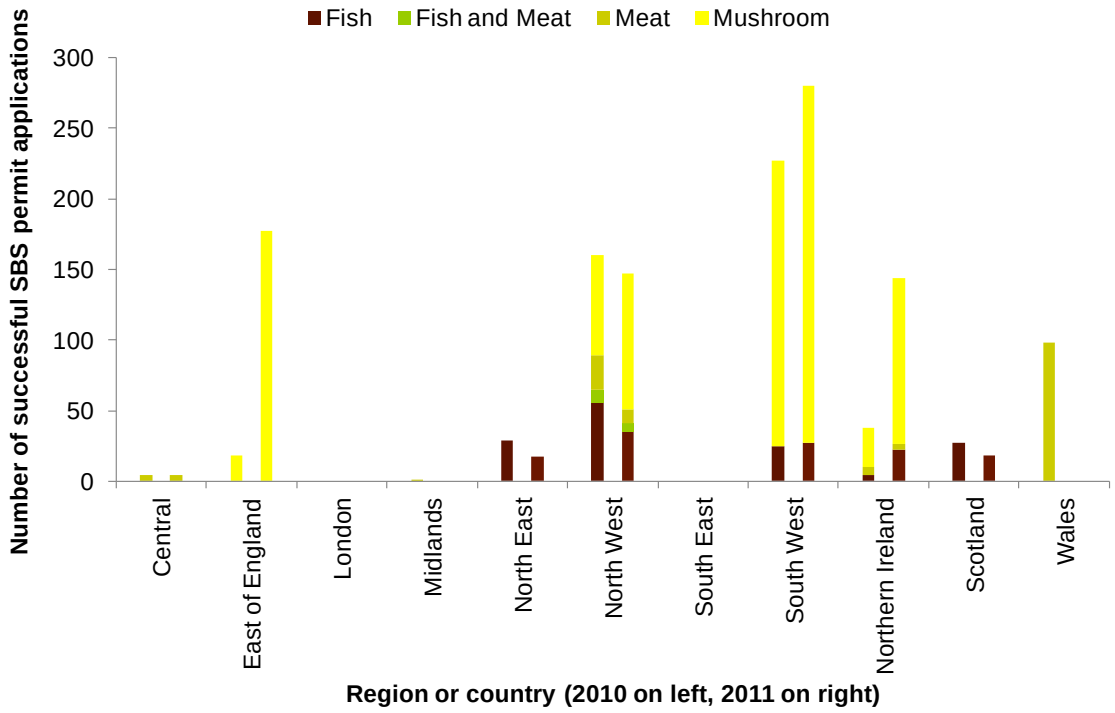
Figure 2.11: Distribution of successful SBS permit applications by region or country and sub-sector, 2012*



Notes:*Data only available for the period 01 January 2012 to 30 September 2012. The number of successful SBS permit applications is based on the number of applications which were either approved or successful on review. We use this number as an approximation of the number of workers employed through the SBS. However, this may not reflect the number of people who came to the UK under the scheme as people may not have used their accession worker cards after they were approved or, despite SBS permit approval, may have subsequently been refused an accession worker card. If data were unavailable, firms/workers were assigned to a region based on the location of the headquarters of the firm.
Source: MAC analysis of UKBA Management Information data

2.43 The use of the SBS is driven by the varying labour demands of a small number of employers. The distribution of successful SBS applications in 2010 and 2011 demonstrated more variation than the distribution of firms using the SBS for the same time period. Figure 2.12 shows the distribution of successful SBS applications for 2010 and 2011. The number of successful SBS applications in the East of England fluctuated from fewer than 20 in 2010, to over 170 in 2011 and then fewer than 20 once again in 2012. This difference is due to one firm which accounted for a much larger number of successful SBS permit applications in 2011 than they did in either 2012 or 2010. Similarly, the number of successful SBS permit applications in Northern Ireland was almost twice as high in 2011 as it was in 2012 or 2010.

Figure 2.12: Distribution of successful SBS permit applications by region or country and sub-sector, 2010 and 2011



Notes: The number of successful SBS permit applications is based on the number of applications which were either approved or successful on review. We use this number as an approximation of the number of workers employed through the SBS. However, this may not reflect the number of people who came to the UK under the scheme as people may not have used their accession worker cards after they were approved or, despite SBS permit approval, may have subsequently been refused an accession worker card. If data were unavailable, firms/workers were assigned to a region based on the location of the headquarters of the firm.
Source: MAC analysis of UKBA Management Information data

2.44 Information from the ABS presented in Section 2.4 suggests that, on average, the 350 and 430 firms within the fish and meat processing sub-sectors employ around 40 and 100 people respectively. In the first nine months of 2012, six firms in the fish processing sector employed a total of 70 SBS workers, an average of 12 SBS employees per firm. In the first nine months of 2012, the five firms in the meat processing sector only employed a total of 7 SBS workers. This may suggest that firms in these sub-sectors are not overly reliant on this scheme for recruiting employees.

2.45 In the mushroom processing sub-sector in 2012, 14 firms employed a total of 230 SBS workers, an average of 16 SBS employees per firm. We do not have data on the total numbers of employees within this sector. Consequently, we do not know whether this represents a significant proportion of the workforce. However, three firms employed over 60 per cent of SBS workers in this sub-sector. Therefore, the other 11 firms accounted for an average of 8 SBS employees each. The evidence we received from partners within the mushroom processing sub-sector did not suggest that firms are dependant on the scheme.

2.46 The analysis of available data regarding the fish, meat and mushroom processing sectors and their use of the SBS does not indicate that they are reliant on labour provided through the scheme. Relatively few firms use the scheme and it appears to account for only a very small percentage of employment within these sectors. This suggests that the small number of firms currently making considerable use of the scheme would be able to source alternative labour if the SBS were closed.

2.6 Response from partners

2.47 There was little response to our call for evidence from partners involved in the SBS. We sent our call for evidence to over 45 previous or current SBS users as well as other relevant partners to consider their views regarding the scheme and its future. We received seven responses solely regarding the SBS and a small number which mentioned the scheme amongst other issues. We also had telephone conversations with a sample of firms and published the call for evidence on online forums and through industry associations. In general, partners expressed the view that closing the scheme would not greatly impact on their businesses or the sector.

2.48 In written evidence and in telephone discussions, several partners expressed the view that closing the scheme at the end of 2013 would make it easier to employ workers from Bulgaria and Romania. From 01 January 2014, employers will be able to employ Bulgarian and Romanian nationals who are outside of the current age restrictions and will no longer have to deal with the bureaucracy of the application process. Fiddleford Mushrooms Ltd, one of the largest users of the SBS in 2011 told us:

> *"We currently use the SBS Scheme to employ workers from Romania and Bulgaria. Closing this scheme would provide us with a much wider choice of employees from these countries as age restrictions currently apply."*
>
> Fiddleford Mushrooms Ltd response to MAC call for evidence

2.49 Partners from within the fish processing sector presented similar views. We were told that the closure of the scheme would provide employers with a quicker and less restrictive recruitment process for Bulgarian and Romanian nationals. The Scottish Seafood Association also expressed the view that employers in Scotland would welcome the end of the SBS.

> *"The feedback I have received indicates that any measures to relax rules to allow foreign workers to work in Scotland is to be welcomed."*
>
> Scottish Seafood Association response to MAC call for evidence

"The end of the scheme in its current form for us is a good thing. We are unable to get local staff who are willing to work a full week and the current application process can be quite time consuming for Bulgarians coming to work for us."

Spey Fish Ltd response to MAC call for evidence

2.50 We received evidence from the British Meat Processors Association (BMPA) suggesting that the scheme is not widely used by their membership. Consequently they are not concerned about a potential closure of the scheme.

"It would appear that BMPA members do not employ many people from either Bulgaria or Romania and so do not have any concerns about the closure of the relevant Sector Based Board or a change in the ease of employment or availability of staff from either country."

British Meat Processors Association (BMPA) response to MAC call for evidence

2.51 We were told by the Department for Environment, Food and Rural Affairs (Defra) that they have not received any notifications of concern on the part of stakeholders regarding the future of the SBS. They also point out that, as the under-utilisation of the scheme would suggest, the food processing sector does not use the SBS to the extent that the horticulture sector uses the Seasonal Agricultural Workers Scheme (SAWS).

"The Sector-based Scheme does not appear to play the same role for the processing sector as SAWS does for the horticulture sector. Stakeholders have not expressed any concerns about the future of the scheme, which has not in any event been fully utilised in recent years."

Defra response to MAC call for evidence

2.52 However, we received two responses expressing the view that the SBS would be required to meet the demand for labour within the food-processing sector. Active Immigration, a labour provider, suggested the food processing sector would still require the SBS in the future. They explained that employment within the sector is unattractive due to low levels of pay and the conditions of the work itself.

"...jobs in the SBS sector are perceived as unattractive ... The pay offered is normally at or near national minimum wage...

Thus employees will move on quickly. This is most frustrating for the employers who have spent time and effort on training."

Active Immigration (Labour provider) response to MAC call for evidence

2.53 They argued that there could be a repeat of the pattern of employment that occurred for A8 nationals post-accession in 2004, when these nationals had unrestricted access to the UK labour market. At that time, there was reportedly an initial increase in employment of A8 nationals, but due to the unattractive nature of the work, workers left the sub-sectors to look for employment elsewhere. As such, Active Immigration suggest that a replacement SBS may be warranted.

2.54 We received similar evidence from the Scallop Association, who represent a large proportion of UK Scallop fishermen, gear manufacturers, processors and a small number of divers. Their members also expressed concerns about the recruitment and retention of workers without the SBS.

" ...our members are concerned about retention levels as the work we offer is unpopular with the Resident Labour Market including citizens of the A8 Accession Countries ... Our members have employees who started with them on SBS and have remained for a number of years."

Scallop Association response to MAC call for evidence

2.55 This support for a replacement scheme is not representative of the views expressed in the evidence submitted by most of the firms within the relevant sub-sectors of the food processing sector. The majority of partners within the fish, meat and mushroom processing sectors believe they would not be greatly impacted by the end of the SBS, and some may even welcome it.

2.7 Conclusions

2.56 From the analysis of available data presented in this chapter and evidence from partners, it appears that the impact of the closure of the SBS scheme would be minimal. Based on the low use of the scheme, the size of the food processing sectors involved and the views of employers themselves, we do not expect any significant negative consequences for the sector when the scheme closes at the end of 2013. In fact, it is the view of partners that the end of the SBS may have a positive effect, through facilitating quicker and less restrictive recruitment with reduced bureaucracy for employers.

2.57 In Chapter 3, we provide an overview of the Seasonal Agricultural Workers Scheme.

Chapter 3 The Seasonal Agricultural Workers Scheme

3.1 Introduction

3.1 The second, and major, part of our commission is to consider the impact on agriculture of closing the Seasonal Agricultural Workers Scheme (SAWS). As we set out in Chapter 1, the SAWS supplies temporary migrant labour mainly for the horticulture sector.

3.2 This chapter provides context around the SAWS. First, we look at the history of this scheme to establish how the current version grew out of other, earlier schemes. We also look at the use of quotas within the scheme and the take-up of these over recent years.

3.3 We then present an overview of the design of the current scheme and how it operates. We focus on what we consider to be key aspects of the scheme and the nature of the work, which stems from the types of produce being grown. Key aspects included are elements of the impact of seasonality on the demand for SAWS workers and the desirability for having SAWS workers located at or very near to the place of work.

3.4 This is followed by an analysis of the demographics of the SAWS workers including their nationality, gender and age. We then examine which areas of the UK have the highest demand for SAWS workers.

3.5 Next, we look at how the scheme is perceived by those who use it, including workers, growers and operators, drawing on material from our visits and from the responses to our call for evidence. We finish the chapter with an account of previous reviews of SAWS both by ourselves and other authorities, and look at a new scheme proposed by one of our partners.

3.2 Brief history of the Seasonal Agricultural Workers Scheme

3.6 The scheme originated after the Second World War and was designed to facilitate the movement of young people from across Europe to work in agriculture, primarily as an additional source of labour in peak season. It was originally set up as an opportunity for cultural exchange for young people but has developed and changed with trends in demand and supply of labour as well as the policy environment.

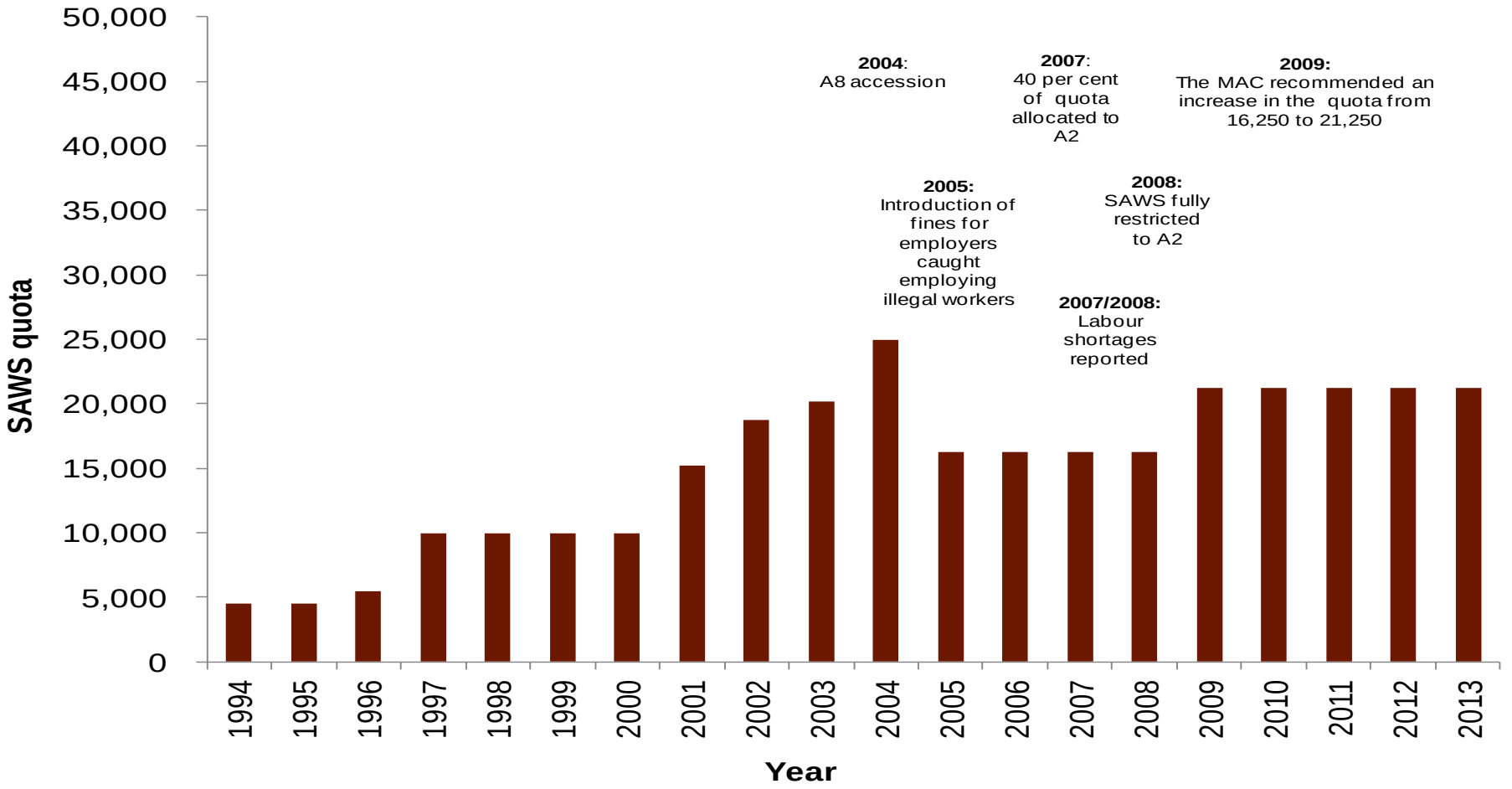
Seasonal Migrant Labour

3.7 During the Second World War a number of organisations co-ordinated volunteers to help restore land and buildings and to work during peak harvest periods. After the War, UK volunteers went overseas to help with reconstruction in Europe and volunteers from other countries were accepted into the UK. Participants were mostly young people, often students, aged between 18 and 25.

3.8 While there have been changes in the eligibility rules, quota size and operation of the scheme, the scheme has remained essentially the same, enabling workers (usually students) to come to the UK for short periods, specifically to live and work on farms during peak seasons. A number of labour providers became operators for the scheme and came to have an increasingly important role by recruiting participants, allocating them to employers and monitoring pay and conditions.

3.9 The annual quotas of people allowed to work in the UK under the scheme have changed throughout the scheme's history. As shown in Figure 3.1, the quota increased from 5,000 at the beginning of the 1990s to 25,000 in 2004 before being reduced in 2005 to16,250. In Migration Advisory Committee (2008) we recommended, on the basis of evidence we received from partners, that the Government expand the annual quota under SAWS by 5,000 from 16,250 to 21,250 in 2009. The Government accepted this recommendation and since 2009 the quota has remained at this level.

Figure 3.1 Seasonal Agricultural Workers Scheme (SAWS) annual quota, 1994 to 2013



Note: This graph displays the SAWS quota, not necessarily the take-up of the scheme. A8 refers to the following countries: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia. A2 refers to Bulgaria and Romania. MAC refers to the Migration Advisory Committee.
Source: UK Border Agency

Seasonal Migrant Labour

3.10 Since 2005 the underlying policy of successive governments has been to phase out the SAWS. The reduction in the SAWS quota from 25,000 to 16,250 in 2005 was to take account of the fact that nationals of countries which joined the European Union (EU) in 2004 had accounted for a third of the take-up of the SAWS in 2003. Following accession, these A8 nationals could continue to work in this sector without restriction and the expectation was that they would continue to do so, at least in the short-term. This is discussed further in Chapter 6.

3.11 In Home Office (2005b), the previous Government announced its intention to phase out, over time, existing quota-based low-skilled migration schemes, including the SAWS, because labour needs at low skill levels could be met from an expanded EU labour market. It was against this background that the SAWS was closed to non-European Economic Area (non-EEA) nationals when Bulgaria and Romania (A2) joined the EU, and participation was confined to A2 nationals as part of the transitional restrictions which applied to them. This change was consistent with the underlying policy of phasing out the scheme in the light of availability of EU labour, as it was known that the restrictions on the A2, and hence the sector-based schemes themselves, could at most only last for seven years after accession.

Take-up of the SAWS quota

3.12 Table 3.1 shows the SAWS quota alongside the relevant number of SAWS work cards printed from 2004 to 2007, before the scheme was restricted to nationals of Bulgaria and Romania only. We use this number to approximate the number of people employed through the SAWS. These cards must be printed in order to recruit SAWS workers to farms. If work cards are unused, then operators may return them for a refund. Based on these data, the take-up of the scheme during this period varied between 82 and 100 per cent of the places allocated by the quota.

Table 3.1 Number of SAWS work cards issued, 2004 to 2007

Year	SAWS work cards printed	SAWS quota	Percentage of SAWS quota used (%)
2004	20,554	25,000	82
2005	15,611	16,250	96
2006	16,171	16,250	100
2007	16,796	16,250	103

Note: We use the number of SAWS work cards to approximate the number of workers employed through the SAWS. In some years the number of SAWS work cards may exceed the number allowed by the quota. This is due in part to lags between the issue of cards by UK Border Agency to scheme operators, sometimes up to three months in advance of the quota year in order to facilitate their recruitment process, and the actual issue of cards. SAWS work cards approved may also include replacement cards not included in the quota figure.
Source: UK Border Agency Management Information (MI) data

3.13 The Home Office publishes the number of the SAWS applications approved for more recent years. Based on these data, Table 3.2 shows that use of the scheme has remained high since 2008. Take-up of the scheme last year was 98 per cent.

Table 3.2: Number of SAWS applications approved, 2008 to 2012

Year	SAWS applications approved	SAWS quota	Percentage of SAWS quota used (%)
2008	16,461	16,250	101
2009	20,179	21,250	95
2010	19,798	21,250	93
2011	20,035	21,250	94
2012	20,842	21,250	98

Note: In some years the number of SAWS work cards may exceed the number allowed by the quota. This is due in part to lags between the issue of cards by UK Border Agency to scheme operators, sometimes up to three months in advance of the quota year in order to facilitate their recruitment process, and the actual issue of cards. SAWs work cards approved may also include replacement cards not included in the quota figure.
Source: Home Office (2012)

3.3 Description of the current scheme

3.14 The current SAWS allows farmers in the UK to recruit labour from Bulgaria and Romania to do short-term, low-skilled agricultural work. Workers must be aged 18 or over and there is no upper age limit. Successful applicants receive a work card which gives permission to work in the UK, for a specific employer, for a maximum of 6 months. After this time nationals of Bulgaria and Romania can remain in the UK but, with few exceptions, they are not permitted to work as an employee. The restrictions can vary according to circumstance. However, individuals can work as self-employed. The full range of restrictions on access to the labour market applying to Bulgarian and Romanian nationals are set out in Migration Advisory Committee (2011).

3.15 The SAWS is managed by nine approved operators on behalf of the UK Border Agency. They each have a fixed number of work cards to issue to workers each year. When the full quota of work cards have been issued, the scheme is closed for the year and no more applications are accepted.

3.16 The SAWS work cards are allocated to operators who recruit either for their own farms (sole operators) or on behalf of farms (multiple operators). There is considerable variation in the number of work cards issued to each operator. As shown in Table 3.3, HOPS Labour Solutions Ltd and Concordia (YSV) Ltd are the largest multiple providers with over 8,100 work cards allocated to each for 2013. Of the sole operators, S&A Produce (UK) Ltd and Barway Service Ltd have the largest allocations of work cards with 1,500 and 1,225 respectively. Wilkin and Sons Ltd have the smallest number of work cards allocated of any operator (280).

Table 3.3: Breakdown of SAWS quota by operator for 2013		
	SAWS Operator	**Work cards allocated for 2013**
Multiple operator (recruits on behalf of farms)	Concordia (YSV) Ltd	8,125
	HOPS Labour Solutions Ltd	8,100
	Fruitful Jobs Ltd	620
	Sastak Ltd	300
Sole operator (recruits only for own farms)	S&A Produce (UK) Ltd	1,500
	Barway Service Ltd	1,225
	Haygrove Ltd	575
	R&J M Place Ltd	525
	Wilkin and Sons Ltd	280
	Total	**21,250**

Source: UK Border Agency

3.17 The larger sole operators have several farm locations at which the SAWS workers are based. For instance, S&A Produce have three main accommodation sites in Kent and Herefordshire. Similarly, Barway Service Ltd (which provides labour for The Shropshire Group) has farms in several locations in East Anglia and the West Midlands.

3.18 The SAWS operators are labour providers and multiple operators must register with the Gangmasters Licensing Authority (GLA). GLA registration is optional for sole operators depending on their recruitment arrangements, such as whether they recruit for subsidiary companies in their corporate structure. Registered operators may be inspected by the GLA and, in addition, the UK Border Agency also conducts annual inspections on the farms and operators using SAWS workers. We accompanied the UK Border Agency Programme Manager on a representative inspection and observed him examining the operator's and the farmer's administration including pay systems for workers, handling of work cards, as well as the health and safety and welfare of workers.

3.19 Farms using operators to source labour will be inspected by the operator to ensure the appropriate standards of health and safety, welfare, pay, accommodation and management of UK Border Agency requirements are met. These operator inspections are mandatory prior to a farm using the SAWS and are followed up by at least one visit each year that the farm continues using the scheme, together with UK Border Agency SAWS contract management inspections.

Description of work done by SAWS workers

3.20 SAWS workers are tied to the farms on which they work. They may switch between farms but only with the permission of the operator. The work they carry out is relatively low-skilled and includes:

- planting and gathering crops;
- on-farm processing and packing of crops; and

- handling of livestock.

3.21 The vast majority of the work consists of picking and packing crops. As is examined further in Chapter 6, the work is generally manual, repetitive, and physically demanding, often in uncomfortable conditions. Picking salads or cabbages in the fields can be cold, wet and muddy. The picking rigs are noisy and move at a constant and relentless rate. Picking strawberries and raspberries in glasshouses can be hot and requires dexterity. The packing rooms are noisy and cold. We observed some of the work done by the seasonal workers and saw the stamina and skill required to meet the productivity and quality targets. As we shall see when we look at the characteristics of SAWS workers, this means that the work tends to be more suited to younger people. Indeed, employers told us that although they valued the older seasonal workers who used to come to the countryside on working holidays, these people were not as productive as the younger SAWS workers.

3.22 Work shifts for seasonal workers can be unpredictable depending on the weather. They can often start very early in the morning (particularly with temperature-sensitive soft fruit) and at busy times picking and packing may go on 24 hours a day requiring night-time working. Additionally, the stock management system of buyers means that often workers will be required at very short notice to complete rush orders. Such a system leans heavily on having a workforce which is close at hand, can be summoned at short notice and lacks other distractions. In addition, as the SAWS workers are not permitted to work in other sectors, the growers can rely on them remaining on the farm for the duration of the season.

"The SAWS offers flexible working hours. This is essential in a sector that can be unpredictable. SAWS participants live on site and are willing to work when a supermarket order is received or when the weather results in a peak in crop. Such flexibility enabling growers to respond is important especially with soft fruit which is highly perishable and has a small time window in which to be harvested."

Concordia (YSV) Ltd response to MAC call for evidence

3.23 Table 3.4 shows the distribution of SAWS farms according to the agricultural produce in which they specialise. In 2012 there were 20,521 SAWS work cards issued across 514 farms. These numbers are based upon both UK Border Agency Management Information (MI) data and data supplied to us by the SAWS operators. These data do not cover all of 2012, therefore the number of SAWS work cards differs from the number of 20,842 presented in Table 3.2. It should be noted that the same farms may grow different types of produce. Therefore, the total number of farms using the SAWS may not equal the number of farms using the SAWS by agricultural produce, as some farms will be responsible for more than one type of crop or agricultural activity. The same is true for the total number of SAWS work cards and the farms for which they were issued.

3.24 As shown in Table 3.4, the available data show the majority of farms that use the SAWS are engaged in horticulture and mainly produce soft fruit, salad and vegetables and top fruit (fruit grown on trees).

Table 3.4: Uses of the SAWS in the agricultural sector, 2012*

Total number of farms using the SAWS	Number of farms using the SAWS by produce		Total number of SAWS work cards	Number of SAWS work cards on farms using the SAWS by produce	
Concordia (YSV) Ltd**					
285	Salad and Vegetables	129	8,156	Salad and Vegetables	8,156
	Soft Fruit	97		Soft Fruit	
	Top Fruit	61		Top Fruit	
	Flowers and Plants	43		Flowers and Plants	
	Livestock	2		Livestock	
	Other	1		Other	
HOPS Labour Solutions**					
170	Soft Fruit	77	8,381	Soft fruit	5,856
	Salad and Vegetables	45		Top fruit	1,603
	Top Fruit	30		Salad and vegetables	1,541
	Potatoes	19		Flowers and plants	489
	Flowers and Plants	16		Potatoes	152
	Livestock	5		Livestock	38
Fruitful Jobs Ltd**					
9	Soft fruit	6	682	Soft fruit	667
	Flowers and plants	2		Potatoes	46
	Dairy	1		Top Fruit	46
	Potatoes	1		Flowers and plants	14
	Top Fruit	1		Dairy	1
Sastak Ltd					
16	Flowers and Plants	16	312	Flowers and Plants	312
	Potatoes			Potatoes	
	Salad and vegetables			Salad and vegetables	
	Soft fruit			Soft fruit	
	Top fruit			Top fruit	
Shropshire Group					
22	Salad and vegetables	22	1,153	Salad and vegetables	1,153
Haygrove Ltd					
6	Soft fruit	6	598	Soft fruit	598
R&J M Place Ltd**					
1	Soft fruit	1	494	Soft fruit	494
S&A Produce Ltd**					
3	Soft Fruit	3	769	Soft Fruit	769
	Salad and vegetables	2		Salad and vegetables	
Wilkin and Sons Ltd					
1	Soft fruit	1	213	Soft fruit	213

Notes: *UK Border Agency Management Information data for some operators are only for the period 01 January 2012 to 30 September 2012. **Data provided from SAWS operators does not exactly match UK Border Agency Management Information (MI) data and was provided in November 2012, and so does not cover the entire year. Where the data were available, farms and SAWS work cards were matched to produce. Often different types of produce are produced on the same farm. Therefore, farms may be matched to more than one type of produce. Consequently the total number of farms using the SAWS may not equal the number of farms using the SAWS by produce. This is also true for the total number of SAWS work cards and the number of SAWS work cards on farms using the SAWS by agricultural produce.
Sources: Evidence provided by SAWS operators and MAC analysis of UK Border Agency Management Information data

Seasonal Migrant Labour

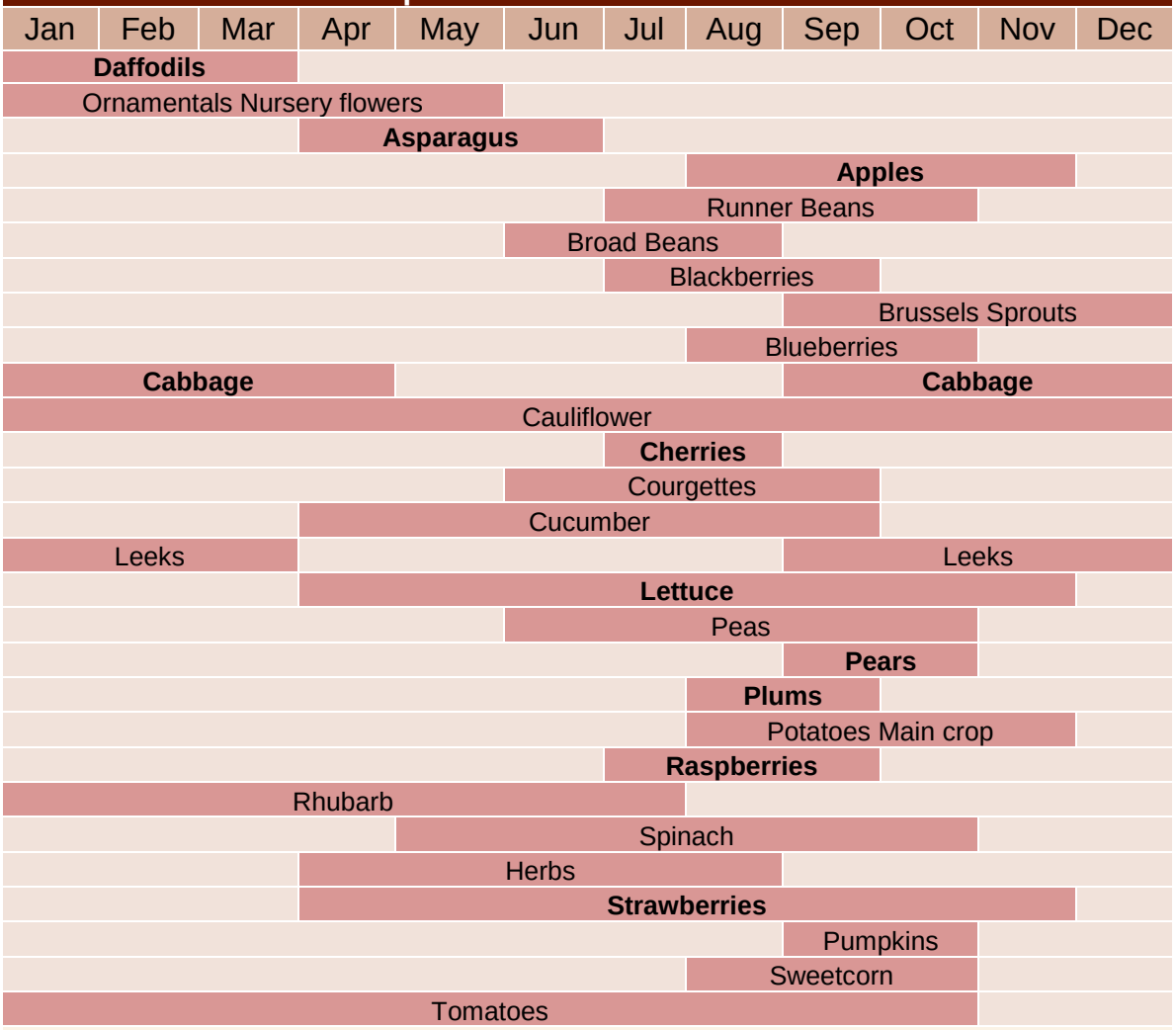
3.25 Estimates for the number of farms engaging in non-horticultural activities are much lower. At most, seven farms that used the SAWS had livestock and only one generated dairy produce.

Seasonality of SAWS work

3.26 The SAWS enables workers to come to the UK for a maximum of six months. This reflects the seasonality of the crops they work on. The horticulture industry, and certain crops in particular, have large peaks in labour demand during the harvest period. This is mainly between June and October although new varieties of plants and improved technology have lengthened the season for some crops.

3.27 Table 3.5 shows the calendar for crop harvests in the UK. This demonstrates that while there is horticultural work throughout the year, the majority of the crops need to be harvested between June and October. The key crops which use SAWS workers are highlighted in bold.

Table 3.5: Calendar of crop harvest



Source: HOPS Labour Solutions Ltd (2013)

3.28 Scott (2012) conducted a survey of horticultural farms and concluded that the demand for farm labour at peak season is about four and a half times

the demand at low season. This indicates that there is insufficient work across the sector to maintain a permanent workforce large enough to cope with periods of highest demand without resorting to some sort of seasonal boost.

Accommodation provided to SAWS workers

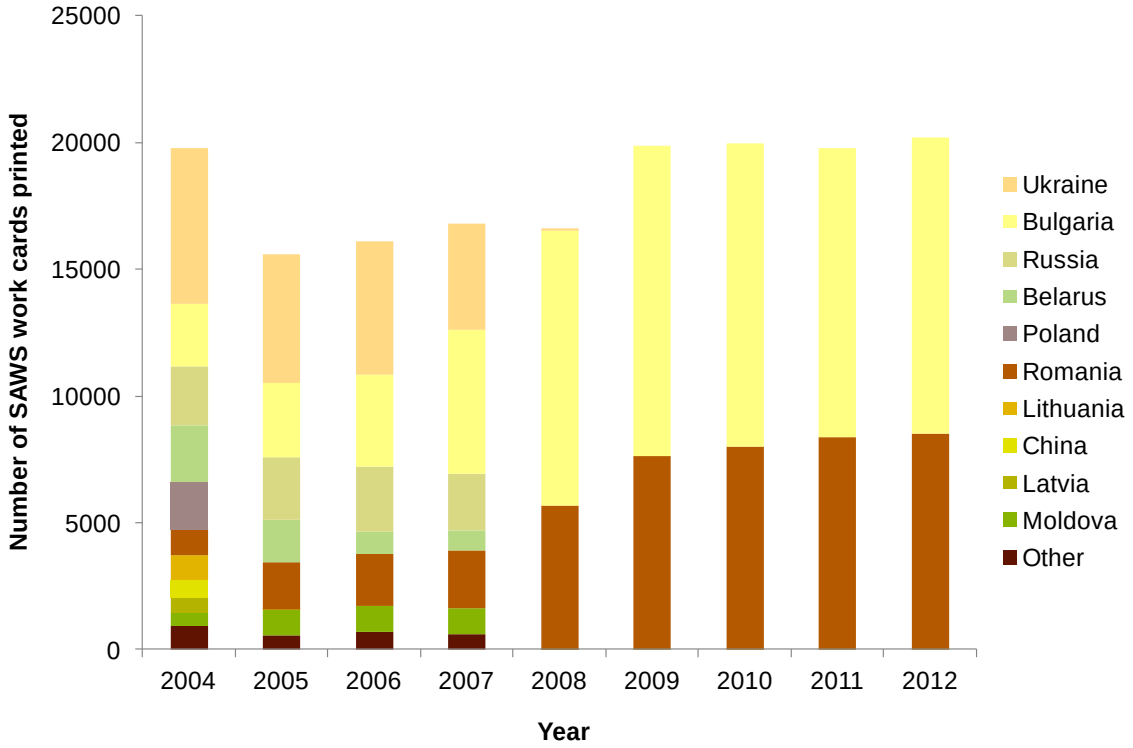
3.29 The SAWS workers are generally accommodated on the farms by the farmer who employs them, although the workers can choose to find their own accommodation if they wish. On the farms that we visited the workers were mostly housed in static caravans, with between two and six people to a unit. Smaller numbers can be housed in purpose-built hostel buildings or rented houses. Whatever form the accommodation takes, almost all the SAWS workers are housed either on-site or a very short distance away from the workplace. The employers provide washing and cooking facilities, and many provide communal areas for entertainment and socialising as well as facilities such as Wi-Fi.

3.30 Some of the farms we visited were in highly rural areas with only very small population centres nearby. The SAWS workers tend to be isolated on the farms on which they live and work with, in some cases, only a once-a-week food shopping trip laid on by their employers. The workers we spoke to expressed the view that this suited them as they were seeking to maximise the amount of money they could earn during their time on the farm. They were content to have as few distractions as possible on which to spend their pay and were generally happy to remain on-site in order to be available for additional work should it be offered.

3.4 Characteristics of SAWS workers

3.31 From an initial focus in the immediate aftermath of the Second World War on bringing young people from within Europe to the UK, there has been a drift eastwards in the nationality of participants in the SAWS. Figure 3.2 shows that in recent times the majority of SAWS workers have come from Eastern Europe, either from countries that have since acceded to the EU or from those outside the EU such as Ukraine and Moldova.

Figure 3.2: Number of SAWS work cards issued by nationality, 2004 to 2012*



Notes: *For the year 2012 data are only up to 30 September 2012. We use the number of SAWS work cards to approximate the number of workers employed through the SAWS. After 2008, there were individuals within the dataset who were listed as being from a country other than Bulgaria or Romania. This amounted to a total of 111 individuals and they were not incorporated in this analysis.
Source: MAC analysis of UK Border Agency Management Information data

3.32 From 2004 to 2007, between 81 to 96 per cent of SAWS workers came from Eastern Europe and mainly from six countries: Ukraine (33 per cent of Eastern European SAWS workers, 2004 to 2007), Bulgaria (23 per cent), Russia (15 per cent), Romania (11 per cent), Belarus (9 per cent) and Moldova (6 per cent). A number of partners told us that they would like to see this eastwards movement continue post-2013. We discuss this further below.

"We believe that non EEA countries such as Ukraine, Russia, Belarus and Moldova represent good potential sources of the candidates we need. Ukraine alone has circa 250,000 agricultural students which is potentially more than the entire A8 and A2 put together. These were the main source countries for SAWS prior to the Home Office changing the scheme to A2 only. In our experience the candidates stayed on farms for the correct length of stay and only a very small number of workers did not return home."

The Co-operative Group response to MAC call for evidence

3.33 The majority of SAWS workers are between the ages of 18 and 35 with around two-fifths of them female. Since 2004, 95 per cent of SAWS work cards were printed for people within this age range.

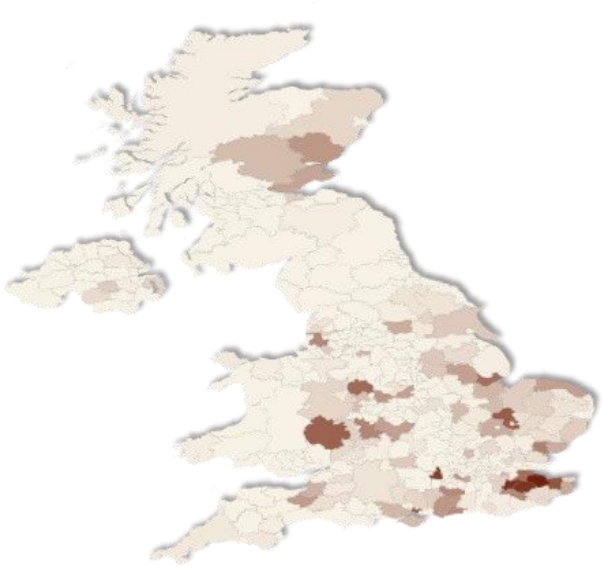
3.34 One of the important characteristics of the users of the SAWS is the high number of returnees, i.e. workers who return to the scheme (and often to the same farm) sometimes for several years. This is not reflected in the data from the UK Border Agency but many growers and operators told us that a high percentage (sometimes over 50 per cent) of their workforce had returned from the previous year. For instance, Haygrove Ltd told us that 62 per cent of their 2011 SAWS workers returned in 2012. This was a significant advantage to the grower as these workers were more efficient and required less training time. Several growers told us they offered incentives for returnees such as an additional week's pay.

3.5 Geographical distribution of SAWS workers

3.35 The geographical distribution of issued SAWS work cards is concentrated in a few regions. Figure 3.3 shows the 25 local authorities with the highest number of issued SAWS work cards. The map in Figure 3.3 also gives an indication of regional concentration by comparing the number of SAWS work cards within a local authority area to the resident population. The concentration of SAWS work cards is particularly high in Kent, Herefordshire, parts of the East of England and much of the east of Scotland.

Figure 3.3: Top 25 Local authorities by number of SAWS work cards, 2012*

Ratio of SAWS work cards to local authority population



Lighter shaded areas indicate a low number of SAWS workers in a local authority area relative to the resident population.

Darker shaded areas indicate a high number of SAWS workers in a local authority area relative to the resident population.

County / Council Area (Scotland)	Local authority	SAWS work cards
Herefordshire	County of Herefordshire Council	3,068
Kent	Swale	1,314
Cambridgeshire	East Cambridgeshire	1,153
Angus	Angus	1,143
Kent	Maidstone	1,071
Perth & Kinross	Perth and Kinross	966
Staffordshire	Stafford	855
Kent	Tonbridge and Malling	646
Warwickshire	Stratford-on-Avon	553
Norfolk	North Norfolk	518
Kent	Canterbury	509
Worcestershire	Wychavon	508
Lincolnshire	Boston	469
Fife	Fife	468
West Sussex	Chichester	464
Cornwall	Cornwall	412
Berkshire	Wokingham	330
Aberdeenshire	Aberdeenshire	292
Kent	Tunbridge Wells	291
Kent	Medway	247
Somerset	Taunton Deane	246
Hampshire	Fareham	230
Essex	Colchester	224
Staffordshire	Lichfield	209
East Riding of Yorkshire	East Riding of Yorkshire	202

Note: *For the year 2012 data are only up to 30 September 2012. We use the number of SAWS work cards to approximate the number of workers employed through the SAWS.
Sources: Defra (2012) and MAC analysis of UK Border Agency Management Information Data

3.36 The South East and West Midlands accounted for over 55 per cent of SAWS workers in 2012. Table 3.6 shows that Kent and Herefordshire account for a particularly high percentage of workers (21 per cent and 15 per cent respectively). Over 4,000 SAWS workers in 2012 were in Kent, and over 3,000 located in Herefordshire. Northern Ireland and Wales, as well as regions such as London and the North East made little or no use of the scheme in 2012.

Table 3.6: Percentage of SAWS work cards by region or country and counties accounting for one per cent of more of SAWS workers, 2012*

Region or Country	Percentage of SAWS work cards printed (%)	Counties accounting for one per cent or more of SAWS work cards printed	Percentage of SAWS work cards printed (%)
South East	29.7	Kent	20.8
		West Sussex	3.2
		Hampshire	2.1
		Berkshire	1.6
		Surrey	1.3
West Midlands	26.9	Herefordshire	15.2
		Staffordshire	5.6
		Warwickshire	2.7
		Worcestershire	2.7
Scotland	14.6	Angus	5.7
		Perth and Kinross	4.8
		Fife	2.3
		Aberdeenshire	1.4
East of England	13.4	Cambridgeshire	6.9
		Norfolk	3.7
		Essex	1.8
East Midlands	5.4	Lincolnshire	3.7
South West	5.1	Somerset	2.4
		Cornwall	2.0
Yorkshire and the Humber	1.9	East Riding of Yorkshire	1.0
North West	1.3	Lancashire	1.0
Northern Ireland	0.2	-	-
London	0.1	-	-
North East	0.0	-	-
Wales	0.0	-	-
Unknown	1.2		
Total	**100**		**92.1****

Note: *For the year 2012 data are only up to 30 September 2012. We use the number of SAWS work cards to approximate the number of workers employed through the SAWS. ** Does not sum to 100 as it excludes counties with less than one per cent of work cards printed.
Source: MAC analysis of UKBA Management Information (MI) data

3.6 How the SAWS is perceived by users

3.37 The evidence we received from partners who use the SAWS was, perhaps unsurprisingly, supportive of the scheme. Employers and operators both stressed that the key to the success of the scheme was that it provides employers with a flexible, reliable and consistently high-performing workforce, which is essential for their business to flourish.

"SAWS labour provides huge flexibility, reliability and consistency to growers….the need to harvest during certain windows of the day can be unpredictable….SAWS workers usually live on site and are therefore able to respond very quickly to peaks and troughs in demand."

The National Farmers' Union response to MAC call for evidence

3.38 In large part, this is due to the fact that SAWS workers live on-site and are on the farms specifically to work and earn money. The fact that the workers are unable to go to other employment within the UK (except as a managed move between farms within the SAWS) is also an important advantage. For the farmer or grower this means that part of their seasonal workforce is highly reliable and unlikely to leave for other work when the weather is poor and there are few hours of work, or when the conditions are particularly difficult. This is reflected in the longer lengths of stay for the SAWS workers compared to other seasonal agricultural workers (discussed further in Chapter 6).

3.39 The other side to the arrangement is that, when circumstances dictate that there is no work, the SAWS workers can be moved to other farms by the operators, to the advantage of both the workers and the growers.

"SAWS provides us with a guarantee that a majority of the seasonal workforce we need will be present on our farms for on average 22 weeks - the remainder of our labour force being made up of A8 nationals and home nationals. We can manage the flexibility and unreliability of A8 nationals and home nationals because we have SAWS as the majority component of our seasonal labour force."

The Co-operative Group response to MAC call for evidence

"This season (2012) we have managed to employ 14 local English people for our seasonal work. Their average stay was 2.5 months, but this figure conceals the big difference between those working indoors and outdoors. People tended to stay longer when they worked in packhouse (av. Stay 122 days), but not when they worked outside (harvesting – av. Stay 5 days; non-harvest work – av. Stay 47 days). By comparison people from A2 countries stayed on average 4.7 months and there was no difference between those working outdoors or indoors."

Hugh-Lowe Farms response to MAC call for evidence

3.40 Employers also highlighted that the employees tend to be of high calibre, with a positive work attitude, well informed about the nature of farm work and willing to work hard.

"SAWS workers are usually younger, very intelligent and willing to work and always turn up on time, every day. We assume that only the best come here, because it must take a lot of drive to leave home and go to a foreign country to seek work."

H T Hulme response to MAC call for evidence

3.41 Partners told us that the availability of high-quality, high-performing, flexible workers is essential in ensuring that they are able to meet their deadlines. The flexibility provided by SAWS workers ensures that they are able to meet the demands of their customers within very tight timescales.

"Concordia considers SAWS, uniquely, to have enabled flexibility from a managed voluntary workforce, which can respond quickly to changing demand. This is important for an industry, often susceptible to weather, where the supply chain and "just in time" management is and has to be highly developed."

Concordia (YSV) Ltd response to MAC call for evidence

3.42 Similarly, the ability to recruit SAWS workers allows employers to minimise the costs incurred by them in recruiting, training and managing a workforce which is subject to high levels of turnover and is, therefore, less productive.

"When labour market restrictions were lifted in 2004 for people from A8 countries: We had high labour turnover caused by migration of the experienced workers to different sectors…..We experienced a drop in productivity due to this labour turnover and loss of skills. Production costs rose. However ….prices for strawberries have remained largely static for 10 years."

Hugh-Lowe Farms response to MAC call for evidence

"…after the accession of A8 countries in 2004…we employed A8 staff from several agencies who performed poorly – our picking cost was 30% higher in 2005 than in 2012. On 2,000 tonnes of strawberries this equates to a £420,000 increase."

Edward Vinson Ltd response to MAC call for evidence

3.43 Whilst the SAWS provides employers with a reliable, consistent workforce, partners also told us that the scheme ensures that labour conditions are regulated effectively, reducing the risk that migrant workers may be exploited.

"SAWS drives improved employment standards because it is managed by SAWS Operators on behalf of the Home Office. The SAWS Operators ensure as a grower we receive the correct amount of labour but it also ensures that the individuals employed under the scheme are treated fairly."

The Co-operative Group response to MAC call for evidence

"For participants there is the reassurance that they know they are participating in a structured programme with quality controls and that their placement has been thoroughly checked. Multiple operators also provide a third party that can mediate between the foreign staff member and employer if difficulties or misunderstandings arise….the enforcement of employer legislation and other standards ensures that SAWS embodies a duty of care to participants."

Concordia (YSV) Ltd response to MAC call for evidence

3.44 We received very little evidence from SAWS workers themselves, so our understanding of the benefits of the scheme to participants is limited, although we did speak to a number of them on our visits. However, HOPS Labour Solutions Ltd, one of the SAWS operators, consider that the salaries on offer ensure that the SAWS participant is attracted to the scheme.

"the average wage in Romania is approximately £400 per month…an average SAWS worker can earn £1,400 which is 3.5 times the average salary in their home country."

HOPS Labour Solutions Ltd response to MAC call for evidence

3.45 We anticipated that we might receive evidence warning of the risks of exploitation of workers who are tied to their jobs. But in effect we received none that explicitly stated this risk.

"Any attempt to exploit people's desperation, be they migrant workers or benefit recipients, by increasing competition and potential division based on race or circumstance, in an attempt to drive down workers terms and conditions, must be avoided at all cost. Such attempts could only create discord and will work contrary to creating a harmonious, stable and highly productive workforce."

Unite response to MAC call for evidence

3.46 Not everyone felt that the SAWS was perfect in its current form. The major issue for employers is that the quota levels are too restrictive to meet their needs, requiring them to employ from outside the scheme. Partners told us that this brings problems in respect of recruitment and training costs associated with high levels of staff turnover.

"At present we are able to recruit the extra numbers we require over and above the SAWS allocation, but not without some difficulty. For instance, one of our members requires 375 seasonal workers for their harvest. They have a SAWS allocation of 165, leaving 210 to source. In the course of a season from May – October they employed 674 workers from A8 countries because many worked for only one to four weeks and then moved on to other non-farming work."

The Asplins Producer Organisation Ltd response to MAC call for evidence

"SAWS quota…has stayed the same since 2009. At the same time the market is growing. We do need more people to cover our ground but sometimes we can't get enough people just because of quota restrictions."

Hugh-Lowe Farms response to MAC call for evidence

3.47 Another concern highlighted by partners was that the period of time that a SAWS worker could take employment was limited to six months, which they felt is often too short. Many employers told us that, as their growing

seasons are longer than six months, they are required to employ two people to undertake the same job.

"The biggest limitation is 6 months working period for the work card. For some areas where the growing period is longer than 6 months, it would be very practical to extend it to 8 months and not to create another work card. That would save training another person for the same job."

Hugh-Lowe Farms response to MAC call for evidence.

3.48 However, despite the concerns expressed by partners, the general consensus among employers is that the SAWS provides a reliable, consistent, high-quality workforce which allows them to continue as viable businesses, while ensuring that labour regulations are enforced.

3.7 Previous reviews of the SAWS

3.49 There have been several previous reviews of the SAWS which have similarities to the review we have been asked to conduct. Box 3.1 provides more detailed information about a major review of the SAWS in 2002. We have set this review aside from the others and described its findings in more detail as this review considered many of the same questions that we look at in this report.

Box 3.1: Review of the Seasonal Agricultural Workers Scheme, 2002

The 2002 review published in Work Permits (2002) reported that farmers were finding it increasingly difficult to recruit resident workers to meet their seasonal labour needs. Low unemployment levels and the short-term, manual nature of seasonal work that requires long hours and is weather dependent made it difficult for farmers to compete with other industries for labour. Many farmers advertised their seasonal vacancies with the Jobcentre network but in general were disappointed at the low numbers of referrals and the motivation of those that did apply. Resident workers were also discouraged from undertaking seasonal work by the distances they were required to travel to their place of work. The disruption to workers' incomes as a result of moving off and on the benefits system in order to take up seasonal work was also perceived to be significant in discouraging resident workers. We look at similar issues in Chapter 6 of this report.

The impact of EU accession on the SAWS and the demand for seasonal labour within UK agriculture was said to be difficult to predict, similar to the difficulties in predicting the response of nationals from Bulgaria and Romania to being granted full access to the UK labour market in 2014. It was expected that as countries acceded, nationals from those states would seek work in other, better paid industries, and farmers would need to look to other parts of the world to meet their demand for seasonal labour.

As we have found with our work on the SAWS, in 2002 it was widely seen as an essential source of seasonal labour. It provided reliable and flexible labour in time for planting and harvesting, allowing farmers to plan their activities accordingly. The use of operators to administer the scheme was viewed as conferring credibility by ensuring appropriate accommodation, pay, health and safety, and other conditions are maintained. They were perceived as offering a cost effective means by which small and

Box 3.1: Review of the Seasonal Agricultural Workers Scheme, 2002 (cntd)

medium-sized farms in particular could access labour from a legitimate source.

The health and safety of SAWS participants while they were in the UK was identified as of particular concern because of their inexperience, limited understanding of the English language and the dangers inherent in the agriculture industry. We identify similar concerns when considering the impact of unregulated labour coming into the sector measured against the present scheme.

The provision of accommodation was regarded as essential owing to the rural locations and lack of rented accommodation. It was recognised that farmers benefited considerably from the flexibility of housing workers on-site, able to respond quickly to the vagaries of the weather and the need to harvest for long hours on some days. We identify these same issues in this chapter. The inspection function of operators was seen as essential in ensuring the welfare of SAWS workers and guarding against potential exploitation.

In 2002, farmers were described as very satisfied with the quality of the SAWS labour provided by the scheme. Workers were praised for being highly flexible, motivated and able to deal well with the physical demands of agricultural work. This is very similar to what we were told during our visits to farms and in responses to our call for evidence.

The 2002 review recommended the retention of the SAWS as a scheme that provided a source of labour to meet seasonal demand, and the retention of operators to administer the scheme.

3.50 Box 3.2 sets out summaries of subsequent reviews of SAWS that took place between 2002 and 2011 including the main recommendations from each report. Each review recognised an ongoing need for the SAWS to continue.

Box 3.2: Other reviews of SAWS

Defra (2002). *The Policy Commission on the Future of Farming and Food.*

The Commission's remit was to advise the Government on how to create a sustainable, competitive and diverse farming and food sector. The remit covered England only and the report of the Commission made around 100 recommendations. One of the recommendations was that the quota for the Seasonal Agricultural Workers Scheme (SAWS) should be immediately increased to 50,000 and the quota and the terms of the scheme should be reviewed regularly. The SAWS was described as a valuable source of labour for the farming industry and it was stated that there was continuing evidence that the quota at the time of 15,200 was insufficient to meet demand. The Government produced the *Strategy for Sustainable Farming and Food* in response to the Commission's recommendations but did not increase the SAWS quota.

Migration Advisory Committee (2008). *The labour market impact of relaxing restrictions on employment in the UK of nationals of Bulgarian and Romanian EU member states*.

In 2008, the UK Government was obliged by EU law to notify the European Commission if it intended to maintain labour market restrictions on A2 nationals beyond January 2009. The Government asked us to consider what the likely impact on the UK labour market would be of relaxing restrictions on employment in the UK for A2 nationals, and whether it would be sensible to do so. We said that the agriculture sector was heavily dependent on immigrant labour and, that in the very short term, there was no sensible

Box 3.2: Other reviews of SAWS (cntd)

alternative to immigration. We also said that crucially A2 workers coming to the UK on a seasonal basis did not gain permanent unrestricted access to the UK labour market.

In the medium term we expected to see the agriculture sector make efforts to address shortages and reduce long-term dependency on migrants, and that the Government may wish to work with the sector on this. We recommended that the Government expanded the quota under SAWS from 16,250 in 2008 to 21,250 in 2009 and that the wider labour market restrictions be maintained. The Government accepted both of these recommendations.

Fruit and Vegetables Task Force (2010). *Report of the Fruit and Vegetables Task Force.*

The task force proposed that a new SAWS be introduced following the removal of transitional arrangements for Bulgarian and Romanian nationals and that this be based on the format of the original scheme. The task force also said that it believed that more could be done to encourage British citizens to undertake seasonal work, including adapting the welfare system to encourage those in receipt of benefits to respond to growers' need for short-term labour as a positive step towards leaving the benefits system, without undue financial disincentives. Further SAWS-related work was taken forward by the Farming Regulation Task Force.

Farming Regulation Task Force (2011). *Striking a balance: reducing burdens; increasing responsibility; earning recognition.*

Urged the Home Office to introduce a replacement for the SAWS to enable workers from prospective accession states to provide seasonal labour for UK agriculture and horticulture. A need was identified for more to be done to encourage UK citizens to take seasonal agricultural work. It was recommended that the Department for Work and Pensions adapt the benefits system to reduce financial disincentives (such as loss of benefits) for the unemployed to undertake seasonal work. SAWS was identified as an example of a system that produced good outcomes in providing a significant proportion of the seasonal labour necessary in the horticulture industry and having exceptionally high return rates to country of origin. It was identified as a largely trouble-free scheme.

It was felt that after 2013 Bulgarian and Romanian nationals would no longer wish to work in the horticulture industry. The report states that when the current SAWS ends there would be scope to introduce a new scheme which should cast the net wider to include countries which are being considered for EU membership, such as Croatia, Macedonia and Montenegro as well as non-EU countries such as Ukraine, Belarus and Moldova.

The Government response to the Taskforce recommendations pointed out that a number of measures had already been taken to provide improved employment support and financial incentives to work, and stated that the Government would welcome any initiatives from the industry to encourage greater take-up of seasonal agricultural work by the EU workforce. In relation to the future of SAWS, the Government said that it would consider options for addressing seasonal labour needs beyond 2013 and, in order to inform this consideration, would commission advice from us.

3.8 A proposal for replacing the current SAWS

3.51 The previous reviews of SAWS examined the issues around the use and the need for a seasonal worker scheme in agriculture, whether it should continue and in what format. This report looks at what the impacts of

closing the SAWS might be. Our remit is not to recommend or design a new scheme for seasonal workers to replace the current SAWS. However, the successful operation of the current SAWS and the support from the sector for its continuation, as highlighted in the relevant section above, indicate that there would be few barriers to implementing a new scheme.

3.52 The National Farmers' Union (NFU) has set out a proposal for a scheme which returns to the original model for the SAWS: enabling foreign students to come for a maximum of six months and excluding students in their final year of studies in order to ensure a strong motivation for return. The main features of the NFU proposal are presented in Box 3.3.

Box 3.3: NFU proposal for a new Seasonal Agricultural Workers Scheme

The NFU have proposed a new SAWS with the following characteristics:

Oversight by the Home Office and managed by licensed operators with an annual quota decided by the Home Office and the Migration Advisory Committee - A new scheme should be overseen by the Home Office in much the same way as the current SAWS scheme and managed by licensed operators.

Checks on arrival and departure for SAWS workers - A new scheme should include a robust system for checking arrivals, departures and return to home country.

A scheme open to students of agriculture - A new SAWS scheme should return to the origins of the original scheme as a youth work experience programme.

Preference given to students from within the EU - A replacement to the SAWS scheme should require that operators continue to recruit from the EU in preference to non-EU applicants. However, a new scheme should be available to university-level students (not in their final year) of agriculture or agriculture related subjects from any countries (i.e. both EU and non-EU).

Positioned under the Temporary Workers and Youth Mobility Tier of the Points Based System - To be consistent with Government policy the new scheme should be contained within Tier 5 of the Points Based System – Temporary Workers and Youth Mobility, which prohibits participants to enter the country with dependents.

A set of independently accredited scheme standards - A new SAWS scheme should have a specific set of standards, which are the subject of an accreditation scheme, managed by SAWS operators.

Restricted to a maximum six month placement - Permission to work and remain in the UK should be via a work card or specific visa category and restricted to the dates on the work card and a maximum period of six months.

An educational element should be incorporated - Under the previous SAWS programme, agriculture students were often set assignments to complete during their placement. This should be encouraged under a new scheme. A more robust educational element could include the provision of English lessons and on-the-job training.

Farmers and growers should be encouraged to provide cultural activities (for example, excursions to local areas of interest, visits to sites of significance).

Source: Nationals Farmers Union (2012)

3.53 The NFU proposal has support from the horticulture sector, although there are differences of opinion on the details. Some partners suggested that SAWS workers should be able to stay longer than six months and that it should be open to non-students.

"I believe the NFU proposal is watering down a scheme that is practical, trustworthy and effective to try to make it politically acceptable. … It would be an error to limit a future scheme to students. It is not limited now, where it once was, and notably we and other SAWS operators are employing very many non-students. This is more successful than student only as their return rate to us is higher reducing retraining; return rate to their country is not different than students."

Haygrove Ltd response to call for evidence

3.54 In other evidence we received, not commenting on the specific NFU proposal, there was interest in sourcing students from agricultural colleges in the Ukraine and Moldova, although a number of other countries were also mentioned as being potential sources of workers.

"In respect to a revised SAWS for non EEA countries from 2014. It should be based upon the principles of the SAWS prior to 2007. A work experience programme aimed at young people in further education, aged between 18 to no more than 30, selected through an application and interview process in country. The more likely and relevant source would be from the new Eastern Europe, the Eastern Partnership countries of Belarus, Moldova and the Ukraine."

STM-Acord SRL, Moldova response to MAC call for evidence

3.55 The two largest operators, HOPS Labour Solutions Ltd and Concordia (YSV) Ltd, provided letters of support from a number of Ukrainian universities, advocating the feasibility of the NFU proposed scheme. Ukrainian universities operate within the Bologna Process, based on a series of agreements among European countries to ensure comparability in the standards and quality of higher education qualifications. Reportedly, this stipulates that 50 per cent of students should undertake practical training abroad. Participation in a seasonal workers scheme (with some sort of assessment or write up) would therefore contribute to their qualification.

3.56 Other partners, including the Confederation of British Industry and representatives from the Tomato Working Party, told us that they favoured some sort of return to arrangements that existed prior to the 2004 EU accession.

"With the removal of employment restrictions of A2 nationals necessitating a change to seasonal worker schemes the government should consider a replacement scheme – at least as a temporary measure to manage and monitor the transition – which returns to the origins of the SAWS scheme; as a programme of work experience open to students from outside the EU."

Confederation of British Industry response to MAC call for evidence

3.57 It appears that a new scheme open to students from selected Eastern European countries would continue to provide a ready supply of seasonal workers to meet the demand and requirements of growers. It is for the Government to decide whether or not it wishes to have such a scheme. However, it is worth highlighting some key points here, namely:

- the current scheme works well in several aspects including enforcement, welfare and return rates, the latter helping to ensure the impact on long-term migration to the UK is kept to a minimum;
- it is possible in the future that a new source of migrant labour will be needed and this means looking further east, and in doing so the scheme would (if the NFU proposal is taken up) be returning to source countries such as, for example, Ukraine, Belarus and Moldova; and
- a key consideration is a self-enforcing mechanism to ensure the seasonal workers are just temporary migrants and return home as they currently do, and the use of agriculture university students would be one way of doing this.

3.58 In Chapters 6 and 7 of this report we look at the demand and supply of labour to the horticulture sector to determine whether the need for seasonal workers will continue to be met in the absence of a seasonal scheme. First, however, we look at what schemes for seasonal workers exist in other countries to see what, if anything, we can learn from these countries' experiences.

Chapter 4 International evidence on migrant workers in agriculture

4.1 Introduction

4.1 This chapter provides an overview of seasonal agricultural workers schemes in other countries and compares the design of these schemes with the UK approach. Section 4.2 contains an overview of temporary migration routes (or equivalents), by country. Section 4.3 then sets out three international examples of where action has been taken by government to become less reliant on migrant labour, or where horticulture is treated as a favoured sector over and above European Union (EU) subsidies.

4.2 Seasonal worker schemes in agriculture in other countries

4.2 The Seasonal Agricultural Workers Scheme (SAWS) is not unique to the UK. Seasonal worker schemes in agriculture operate in many developed countries. These are mostly or entirely reliant on migrant workers.

4.3 Table 4.1 below presents volumes of seasonal workers by country to put the UK position into context. This shows that the UK is by no means unique in the existence of its SAWS scheme. For instance Italy allows up to 35,000 seasonal workers to be employed in agriculture each year.

> *"The UK position is not unusual. Most developed and high income countries are dependent on migrant labour for seasonal work in agriculture. Canada has run its Seasonal Agricultural Programme since 1966. The USA has a specific visa category, H-2A, for seasonal work. In Spain, despite currently having unemployment levels of 26% there is a dependency on North African labour. Poland is dependent on Ukrainian migrant labour in its horticulture sector."*
>
> Concordia (YSV) Ltd response to MAC call for evidence

Table 4.1: Volume of seasonal agricultural workers admitted and primary nationalities by country		
Country	**Volume**	**Main Nationalities**
Sweden	5,700 (2012)	Thailand
France	896 (2011)	Morocco & Tunisia
Spain	4,148 (2009)	Morocco
Germany	300,000 (annual average over last decade), 8,000 from 2012 (Croatians only)	Romania, Poland and Bulgaria (historically). Croatia
Italy	35,000 (quota)	Bangladesh & Morocco
Canada	25,000 present in Canada (1 December 2012)	Mexico and the Caribbean
US	55,000 (2011)	Mexico
New Zealand	8,000 (quota)	Pacific Islands
Australia	12,000 (quota)	Pacific Islands and East Timor
Sources: detailed in chapter text		

Germany

4.4 Germany has a long history of seasonal agricultural work programmes, extending back to the late 19th century and based on importing Polish labour. Temporary work permits were introduced in 1890 and remained in place until seasonal workers were largely replaced by forced labour during the Second World War. After 1945, labour in the sector was unregulated and although employment in West German agriculture fell significantly, due largely to greater mechanisation, there remained a considerable degree of illegal working in this sector. This was particularly true among Polish nationals and people excluded from regular work in Germany such as political refugees (asylum seekers) up to 1990.

4.5 Following German reunification seasonal work permits were re-introduced in 1991 restricting the number of seasonal farm workers from Poland and other Eastern European countries. These were initially valid for three months (later extended to six months) per year to cover seasonal demand peaks (Hess *et al*., 2011).

4.6 Of all the countries we consider in this chapter, Germany has been by far the largest user of temporary migrant labour in agriculture. For most of the previous decade this has averaged around 300,000 seasonal workers per year and the vast majority of these (up to 90 per cent) have, until recent years, come from Poland.

4.7 More recently Romania has become the main source country, supplying around 194,000 seasonal workers in 2011, mostly in agriculture (Migrationsbericht, 2011). Since 2012 Bulgarian and Romanian workers have been exempt from the obligation to obtain a work permit for seasonal work, which may be carried out during a period of no more than six months. Germany also has a bilateral agreement with Croatia as a source country for seasonal workers in agriculture (Federal Ministry of Labour and Social Affairs, 2013), with a limit of 8,000 workers. When Croatia joins the

EU in July 2013, there are plans that Croatian nationals will also be exempt from the requirement to obtain a work permit for seasonal work.

4.8 Normally, businesses that wish to employ Bulgarian, Romanian or non-European Economic Area (EEA) nationals in any job must carry out a 'priority examination' to determine whether a German or EU candidate is available to do the work. Prior to 2012 (when Bulgarian and Romanian nationals were exempted from the obligation to obtain a work permit), most seasonal agricultural workers were exempt from this requirement.

Sweden

4.9 Swedish labour migration policy was dramatically reformed in 2008, as a result of concerns about labour shortages and an ageing population. Unlike other countries, there are no skill requirements or limits on the number of work permits that can be issued to migrants. The system is essentially demand led, with employers left to judge their own need for migrant labour. The Organisation for Economic Co-operation and Development (OECD) described their resulting labour migration system as one of the most liberal in the world (OECD, 2011).

4.10 Sweden does not operate an explicit scheme for seasonal workers: indeed, identifying such workers in Swedish migration statistics can be difficult as they require the same work permit as any other foreign nationals recruited by a Swedish employer. However, berry-picking is singled out as a job-title to which additional special migration rules apply. All employers seeking to offer work to non-EEA migrants for any job must show the Swedish Migration Board that they:

- have written an offer of employment that classifies the occupation of the employee according to the Swedish Standard Occupational Classification;
- have advertised the job in Sweden and the EU for 10 days;
- offer terms of employment that are equal to or better than those provided under a Swedish collective agreement or that are customary in the relevant occupation or industry; and
- offer a minimum annual pre-tax salary of at least SEK 13,000, which is approximately the same as the UK national minimum wage (Migration Advisory Committee, 2012). Note that this comparison does not take into account differences in the cost of living between the two countries.

4.11 Those wishing to employ berry-pickers must also:

- prove that salaries were paid to any previously employed berry-pickers;
- show that their company can afford to pay minimum salaries, even if the berry harvest is poor;

- guide the berry-pickers in their work and organise transport, accommodation, food and set out these plans in writing;
- present all costs for which the berry-picker is liable; and
- prove that the berry-picker is informed about the terms of the job, terms of employment, legal rights of access to private land and traffic regulations in Sweden.

4.12 Seasonal employment in Sweden generally lasts no longer than three months, although permit validity is often slightly longer than this to include up to two weeks additional stay (OECD, 2011). Defining seasonal workers as labourers in agriculture, horticulture and fisheries staying in Sweden for 102 days or less, OECD analysis shows that 71 per cent of seasonal workers in 2010 came from Thailand, with others coming from China, Vietnam, Bangladesh and the Ukraine. The Swedish Migration Council estimated that around 5,700 seasonal workers were employed in 2012.

Italy

4.13 Italy issues seasonal worker permits for workers from outside the EEA on the basis of a quota, which is established annually in a “flow decree”. The maximum quota is determined by the Presidency of the Council of Ministers on the recommendation of the Ministry of Labour and Social Policies, based on trends in employment and unemployment rates, the needs of the labour market and assessments of need carried out at regional level (European Migrant Network, 2010a).

4.14 Italy operates a number of bilateral agreements with source countries including Morocco, Moldova and Egypt, which give employers access to lists of workers that wish to emigrate for employment purposes, although seasonal workers may also come from other countries. The employer is required to make a request by name for a work permit, and must prove that the employee will be suitably housed. Nationals from Bulgaria and Romania do not require work permits for employment in agriculture.

4.15 The authorised period of work varies depending on the type of seasonal activity, but cannot be less than twenty days or more than nine months. An employer can ask for a seasonal employment permit lasting a maximum of three years for an employee who has worked for two consecutive years. The employee would be required to apply for a visa every year.

4.16 The quota for seasonal workers in Italy doubled between 2001 and 2006, from 39,400 to 80,000. The quota remained at this level until 2010 but was undersubscribed, with only 21,400 permits issued in 2010. The quota was reduced to 60,000 in 2011 and again to 35,000 in 2012 (OECD, 2012). In 2011 the largest user of seasonal work permits in agriculture was Bangladesh (34 per cent), followed by Morocco (15 per cent) (Caritas/Migrantes, 2012).

France

4.17 In line with Sweden, France does not operate an explicit seasonal agricultural workers scheme. Seasonal worker residence permits for a range of sectors can be issued to non-EU nationals for a period not exceeding six months out of 12. Until 2007 seasonal workers could be employed for eight months out of 12, but this was reduced with the exception of specific jobs in horticulture and forestry where seasonal labour is needed for longer. These permits are issued for a period of three years and can be renewed if the applicant can prove that they never stayed more than six months out of 12. In 2011, 896 residence permits for seasonal workers were issued.

4.18 Employers are required to prove that they have been unsuccessful in finding workers to fill vacancies inside the EU. Employers must also prove that they:

- are in compliance with local labour law and conditions of practice for regulated professions;
- offer pay and conditions consistent with those offered to French nationals in equivalent employment;
- offer pay at least equal to the monthly minimum wage, even if work is part time; and
- offer appropriate housing.

4.19 Bulgarian and Romanian nationals can apply for a European Community residence permit to work under an employment contract lasting longer than three months but less than 12. Bulgarian and Romanian nationals have access to a list of 291 designated occupations, for which employers do not have to test the resident labour market. Only five of these occupations relate to seasonal agricultural work – horticulture workers, viticulture workers, foresters, lumberjacks and seasonal agricultural aides.

Spain

4.20 Spanish policy on temporary migration is based on the use of bilateral agreements as the main route of access for foreign workers to the Spanish labour market. Since 2004, temporary migration policy has been part of a larger government strategy to harmonise migration policy with development objectives and collaboration on legal and illegal flow control.

4.21 To date, Spain has signed bilateral agreements with Colombia (2001), Ecuador (2001), Morocco (2001), the Dominican Republic (2002), Romania (2002), Bulgaria (2003) and Mauritania (2007). It has also signed cooperation agreements with Gambia (2006), Guinea (2006), Guinea Bissau (2008), Cape Verde (2007), Mali (2007), Senegal (2007) and Niger (2008). This route is known as the Collective Management of Recruitment in Country of Origin (CMRCO).

Seasonal Migrant Labour

4.22 Work permits will be granted under CMRCO subject to a forecast of the number of employees that will be required in a given period. This forecast is made by the Ministry of Labour and Immigration based on information provided by the public employment service and consultation with relevant bodies. Foreign workers are selected within their country of origin through collaboration between local authorities and the Spanish Government. The Spanish Government also gathers information about vacancies in Spain.

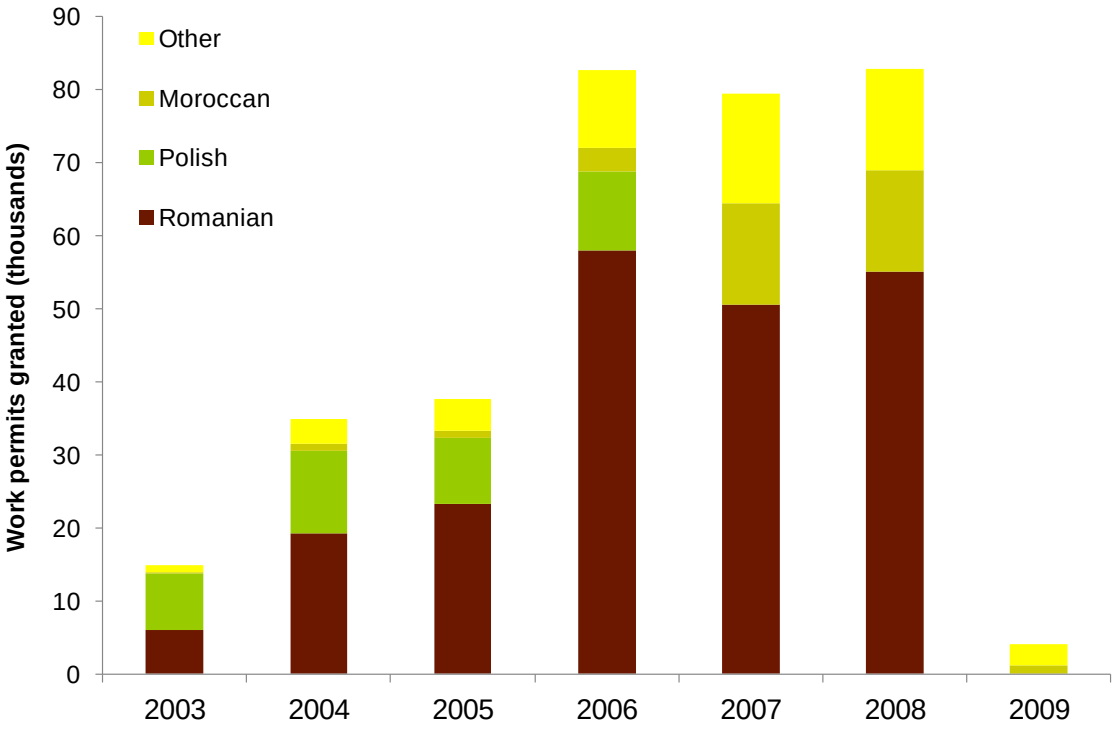
4.23 Temporary workers may also come to work in Spain through the General Scheme, which pre-dates CMRCO. To obtain a residence permit through this route a specific job must be offered to a named individual by an employer, on the condition that the post cannot be filled by a person already resident in Spain. Both types of permit are issued for a maximum nine out of twelve consecutive months.

4.24 Additional conditions that must be met by employers and employees include requirements that:

- foreign nationals must possess the qualifications or skills to perform the work, have no criminal record for crimes under Spanish law and must not remain in Spain illegally;
- the employer must ensure continuous work during the validity period of the permit;
- employees must agree to return to their country of origin at the end of their contract. They must prove that they have done so by visiting a Spanish diplomatic mission or consular office within one month of the end of their employment in Spain; and
- employers must guarantee decent accommodation and hygiene conditions, organise the journey to and from Spain and pay for a portion of travel expenses.

4.25 Figure 4.1 below details work permits granted by Spain by year. From 2004 to 2008, Romanian nationals accounted for the majority of temporary work permits. Total permits granted declined dramatically after Spain lifted restrictions on access to its labour market for Bulgarians and Romanians in 2009. In December 2012 Spain requested and was granted permission to reintroduce labour market restrictions for Romanians to the end of 2013, in the context of growing domestic unemployment.

Figure 4.1: Work permits granted to seasonal workers by nationality, Spain, 2003-2009



Source: European Migrant Network (2010c)

Canada

4.26 Canada operates a Seasonal Agricultural Workers Program (SAWP), which allows farmers to import foreign workers for up to eight months out of 12. The programme operates using bilateral agreements between Canada and each of the participating countries, which include Jamaica since 1966, Trinidad and Tobago (1967), Mexico (1974) and the Organisation of Eastern Caribbean States (1976). Under the terms of the bilateral agreements, it is the responsibility of sending governments to:

- select and recruit the temporary foreign workers;
- ensure workers have necessary documentation;
- maintain a pool of foreign workers; and
- appoint representatives to assist workers in Canada.

4.27 There is no quota for the SAWP. The volume of workers employed is determined by employer demand and country supply.

4.28 Employers who wish to participate in the scheme must submit a request for a labour market opinion to Human Resources and Skills Development Canada, proving that they have made efforts to recruit Canadian workers through advertisement for two weeks on the national Job Bank and one additional medium. The position is then advertised to foreign workers who

can apply for a temporary work permit from Citizenship and Immigration Canada.

4.29 SAWP employers are required to satisfy a range of conditions and requirements. They must ensure that all employees possess health insurance, provide free accommodation, pay for part of transportation to and from country of origin and register the worker under the appropriate compensation and safety insurance plans.

4.30 Employers must provide temporary foreign workers with the provincial minimum wage, the prevailing wage identified by the Canadian Government or the same wage as their Canadian employees in equivalent employment, whichever is higher.

4.31 As of December 2012, 25,000 SAWP workers were present in Canada (Citizenship and Immigration Canada, 2012). Agricultural workers from other countries can now also be hired through two additional routes: the Lower-Skilled Stream and Agricultural Stream (for a maximum of 24 months). From April 2011, a maximum duration of four years of accumulated work was imposed for most temporary foreign workers. For example, a worker spending eight months per year working in Canada would reach the four-year limit after six years. Once the worker has reached the limit, the worker must be absent from Canada for a period of four years in order to be eligible to work in Canada again.

The United States

4.32 Since 1986, US farmers have been able to employ temporary agricultural workers legally through the H-2A agricultural workers programme. Individuals from over 50 countries are eligible to work in the H-2A programme, including Bulgarians and Romanians. However, the overwhelming majority of H-2A migrants are Mexican citizens: in the financial year 2012, 65,000 visas were issued under the programme. Of these, 94 per cent were to Mexican citizens (US Department of State, 2012). There is no statutory limit on the number of migrants who can come in through the programme.

4.33 An approved H-2A visa is generally valid for an initial period of one year. An employer can petition to extend an H-2A worker's stay in increments of one year, up to a maximum of three consecutive years. At this point the worker must stay outside the US for a period of at least three months before being readmitted as an H-2A worker.

4.34 Employers who wish to hire workers through the H-2A programme must first apply to the Department of Labor for certification that US workers who are "able, willing and qualified" to do the work are not and will not be available to fill the relevant vacancy. In addition, it must be certified that the employment of the H2-A workers will not adversely affect US workers in equivalent employment. To fulfil this requirement, employers must:

- prepare a job order for recruitment of US workers, in cooperation with their local State Workforce Agency;
- place at least two advertisements in daily newspapers or equivalents and provide evidence of doing so;
- advise former US workers that the vacancy is available;
- continue to engage in "active recruitment" of US workers until the H-2A workers depart for the United States; and
- prepare a recruitment report explaining why the employment of H2-A workers is necessary, detailing recruitment efforts.

4.35 In addition to these requirements, employers of H2-A workers and workers in corresponding employment are subject to wage thresholds designed to protect the US agricultural workforce. They must pay the state or federal minimum wage, the local prevailing wage or the adverse affect wage rate, whichever is higher (Whittaker, 2008). The adverse affect wage rate deals specifically with agricultural workers.

4.36 The H-2A programme represents a small proportion of total hired farm employment. In 2011, the average annual number of hired farm workers in the US (excluding agricultural service workers, excluding Alaska) was 749,000 (Bruno, 2012). This compared to 55,000 H-2A visas issued in the 2011 financial year (US Department of State, 2011). Low take-up of the scheme may be seen as evidence that it does not meet the needs of US agricultural employers, possibly due to the administrative burden of taking part. This low take-up is likely to be reinforced by the availability of illegal workers, who are willing to work for lower wages than authorised workers (Bruno, 2012).

New Zealand

4.37 Introduced in April 2007, New Zealand's Recognised Seasonal Employer (RSE) scheme was created to ease labour shortages in horticulture and viticulture. The RSE scheme has 8,000 places for seasonal workers to enter New Zealand for a maximum of seven months out of 11[3]. Preference is given to workers from Pacific Island Forum countries (Fiji excepted). A 2012 report from the New Zealand Department of Labor stated that, from its inception, 75 per cent of seasonal workers participating in the scheme have been from Samoa, Solomon Islands, Tonga, Kiribati, Tuvalu and Vanuatu (New Zealand Department of Labor, 2012).

4.38 In its design, New Zealand policymakers paid attention to prior experience with seasonal worker programmes around the world to ensure the success of the scheme and to mitigate risks of overstaying. Employers that wish to

[3] Workers from Kiribati and Tuvalu may stay for nine months out of each 11.

participate in the scheme must first register as a Recognised Seasonal Employer, before applying for approval to recruit workers. As part of this, employers are required to take reasonable steps to recruit New Zealanders into the available positions. They are required to pay the market rate for the work being carried out, pay half the worker's return air fare between New Zealand and the country of residence and ensure workers have access to accommodation, food and health services at reasonable cost.

4.39 Workers are allowed to be re-employed in subsequent years, but employers must bear the cost of repatriating workers if they become illegal, providing an incentive for employers to select workers they believe will return to their country of origin (Gibson and McKenzie, 2010).

4.40 The RSE policy was created not only to meet a shortage of seasonal labour in New Zealand's horticulture and viticulture sector, but also to contribute to the country's broad development objectives in the Pacific region. At its inception, Winston Peters, New Zealand Minister of Foreign Affairs stated of the scheme: "*It will help alleviate poverty directly by providing jobs for rural and outer island workers who often lack income-generating work. The earnings they send home will support families, help pay for education and health, and sometimes provide capital for those wanting to start a small business."* October 2006.

Australia

4.41 Similarly to New Zealand, Australian farmers in horticulture unable to find enough labour in the local workforce have access to a seasonal agricultural workers scheme that enables the recruitment of individuals from the Pacific Islands (including Kiribati, Nauru, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu) and East Timor. The scheme opened on July 1st 2012, following a three-year pilot. The Australian scheme is subject to a cap of approximately 12,000. As with New Zealand, a primary objective of the scheme is to contribute to the economic development of Pacific Island countries and East Timor. Workers may come to Australia for between 14 weeks and six months.

4.42 To employ seasonal workers, employers must be approved by the Department of Education, Employment and Workplace relations. Approved employers of seasonal horticultural workers are required to:

- provide the Australian Government with evidence of labour market testing;
- organise flights, transport and accommodation for workers, the cost of which is shared with the worker;
- ensure a minimum of 30 hours of work per week;
- ensure the wellbeing of workers is monitored and managed;

- provide evidence that workers are employed and paid in accordance with Australian workplace entitlements; and
- ensure that seasonal workers depart Australia before the expiration of their visa.

4.3 Efforts to become less reliant on migrant labour in agriculture in other countries

Germany: regulation of Seasonal Foreign Farm Labour since 1991

4.43 By 1994, a period when Germany and much of the rest of the EU was emerging from the recession of the early 1990s and the collapse of the European Exchange Rate Mechanism, there were increasing concerns that young unemployed Germans were turning down work in agriculture as they deemed the salary too low. This resulted in a proposal to change the law to prevent such refusals, but offset by a weekly wage top-up of 25 Deutsch Marks (effectively €15 or about £13 at present rates of exchange). A revised proposal eventually became law in mid-1996 allowing for a premium of DM25 *per day* for German workers.

4.44 Further attempts were made to encourage the employment of German workers in agriculture in 1998. Additional restrictions were introduced in 1999 limiting the number of foreign seasonal farm workers a farm could hire to 85 per cent of their 1996 levels. Some flexibility was allowed to enable farms to hire more foreign workers if it could be shown that German workers were not available. By seeking to disincentivise the hiring of Polish workers, the belief was that the German unemployed would fill the gap. However, the matching process (due to a lack of ties of mainly urban Germans with rural agricultural areas) led to higher transaction costs and, if anything, resulted instead in more informal employment (Holst *et al*., 2008).

4.45 These restrictions were extended to 2007 and further tightened allowing the hiring of only 80 per cent of the 2005 levels of seasonal workers (effectively about two-thirds of the 1996 level). For those farms/areas unable to attract sufficient German labour this restriction was relaxed to 90 per cent. When extended again in 2009, the 90 per cent relaxation was applied formally to all labour administration districts with less than 7.5 per cent unemployment. These restrictions came to an end over time. In 2010 A8 nationals gained full access to the German labour market, while Bulgarian and Romanian nationals were no longer required to obtain a permit from seasonal work from 2012.

4.46 The restrictions appear to have had only a very limited effect on reducing the reliance on migrant seasonal workers in favour of domestic labour. Between 1994 and 2005 the number of foreign seasonal agricultural workers practically doubled, though did contract again to some extent after 2005 with the tightening of restrictions. This decline was probably affected by stagnating demand for key crops such as asparagus as well as greater competition for seasonal workers due to rising wages in Poland.

Seasonal Migrant Labour

4.47 The German unemployed did not benefit from the restrictions as envisaged by the German labour administration. For any German who took up seasonal agricultural work followed by unemployment, earnings from seasonal work were later deducted from their social welfare payments. Furthermore, there was a significant mismatch between those German regions (mainly in the South and West) where horticultural production is concentrated and areas of high unemployment, for example East Germany. However, an evaluation of the 2005 reforms carried out in four German regions did indicate some success in getting the German unemployed back into these jobs in the region of Stade, a major fruit tree growing area in northern Germany. This was due to a greater emphasis on the job-matching process to better identify at an early stage those jobseekers who might be suitable and interested in this type of work. This process was carried out initially through the public employment service and then between the farm and potential worker in order to learn more about the work involved. The evaluation also identified lack of transportation to farms as a barrier and recommended more resources to help with this, and that this be co-funded by the public employment service and farmers themselves (Federal Ministry for Labour and Social Affairs, 2007).

United States: closure of the Bracero programme, 1964

4.48 As a result of agricultural labour shortages due to the Second World War, the US signed a bilateral agreement with Mexico creating the Bracero programme in 1942, which allowed US growers to employ Mexican citizens in agricultural work. Despite the creation of the programme, the illegal immigrant population of US grew dramatically in the early 1950s. Over one million illegal Mexican nationals were apprehended in 1954, compared to approximately 30,000 in 1944 (Martin, 2003).

4.49 The introduction of repatriation measures for illegal immigrants in 1954 meant that the popularity of the programme increased. At its peak in 1959, approximately 440,000 Braceros came to the US, compared to less than half that number in 1953 (Martin, 2003). The Bracero programme was closed in 1964 as political concerns about the impact of the programme on domestic workers rose.

4.50 An evaluation of the impact of the closure of the programme carried out 15 years later concluded that this attempt to keep foreign labour out of US agriculture did not have a significant positive impact on US workers in terms of wages. Using time series analysis, Jones and Rice (1980) concluded that growth in average farm wages was relatively stable from 1954 to 1977, despite the closure of the programme. While not fully documented, the authors also state that there was an upsurge in the number of known illegal Mexican immigrants employed in agriculture after the closure of the Bracero programme: in 1964 there were 11,000, in 1966, 24,000, and by 1976, 116,000 (Jones and Rice, 1980). These partial data refers only to those illegal immigrants known to the US Immigration and Naturalization Service.

4.51 This evidence of increased illegal immigration after the closure of the Bracero programme suggests some degree of dependence on migrant labour that was not followed by a shift towards technological change once legal channels of employment were made unavailable.

4.52 However, Martin *et al.* (2006) argue that this was not necessarily the case. They point out that the closure saw widespread mechanisation in some crops that had previously depended on this type of worker: in the early 1960s, 80 per cent of the 45,000 workers that had picked the tomatoes needed for ketchup production were Braceros. However, by 2006 approximately 5,000 local workers were employed in harvesting five times more tomatoes than during the Bracero era (Martin *et al*. 2006).

4.53 Mechanisation had been highly successful: engineers developed a machine capable of cutting tomato plants and shaking fruits from the vine. Scientists developed tomato breeds that ripened at the same time and were of a shape more amenable to machine handling. By 1969, 100 per cent of Californian processing tomatoes were harvested by machine, compared to 100 per cent hand-picked in 1960.

4.54 This evidence suggests that the closure of the Bracero programme was unsuccessful from the point of view of encouraging US workers into agriculture. There is some evidence that mechanisation was highly successful in the California tomato industry (Martin *et al*. 2006) - otherwise, dependence on migrant workers continued because of the availability of illegal workers (Jones and Rice, 1980).

Agricultural innovation in the Netherlands

4.55 Relative to the UK, agriculture is an important sector in the Netherlands economy. Agriculture, forestry and fishing represents 1.6 per cent of Netherlands GDP (compared to 0.8 per cent in the UK). It is estimated that the so called ‘agrocomplex’, which covers all of the economic activities associated with the production, process and distribution of agricultural products accounted for 10.3 per cent of Netherlands total value added in 2010 and a similar proportion of employment (Lei Wageningen, 2012).

4.56 The Netherlands accounted for more than a third of the total European exports of fresh vegetables in 2003 (Heide, Sivis and Heijman, 2011). Much of this horticulture is practised in greenhouses. Relative to countries that also grow large volumes of fruit and vegetables (such as Spain), the ‘natural’ Netherlands season is relatively short and labour is expensive. Rapid innovation and focus on productivity growth in Dutch horticulture beginning in the 1950s have kept the sector competitive (Cantliffe and Vansickle, 2003).

4.57 Technical innovation in Dutch agriculture over the last 60 years has been marked by repeated efforts to improve labour productivity, although this slowed markedly from the mid-1990s. Buurma (2001) details labour-saving innovations in the Netherlands chronologically:

- Improvements 1945 to 1965: horticultural production switched from ‘hotbeds’ to greenhouses. All plant work on hotbeds had been carried out from the outside, which meant opening and closing hotbed frames. The use of greenhouses removed the need for workers to do this. In addition, the introduction of sprinkler watering (as opposed to the use of hoses) saved labour time. The construction of more roads, replacing canals, also improved labour productivity.

- Improvements 1965 to 1980: until 1960, climate control in greenhouses was performed by hand. 1965 to 1980 saw the widespread introduction of electric climate control systems, which saved labour time and increased yield by creating a constant climate in the greenhouse. Research was carried out to evaluate different cropping and grading systems from the point of view of labour use, enabling farmers to identify the best working methods for their specific situation.

- Improvements 1980 to 1993: in fruit and vegetable production, a railway system was introduced to transport products around the greenhouses, considerably reducing labour hours spent on the task. Bumblebees were introduced for pollination, resulting in a higher crop yield for lower labour costs. Prior to 1980, greenhouse roofs had to be washed regularly to improve light transmission. The introduction of roof washing machines again saved labour costs.

- 1993 to 2000: concentration on improvements moved from methods for improving labour productivity to human resource management, with a focus on teambuilding, education and motivation.

4.58 It could be conjectured that from the mid-1990s the Netherlands reached a point at which labour productivity could not be further improved with physical technology, given the constraint of existing knowledge. Despite this, the Netherlands do not currently operate a seasonal agricultural workers scheme for workers from outside the EEA. However, this does not mean that Dutch workers have taken up the seasonal jobs.

4.59 From 2000, the Dutch Public Employment Service ran a project with horticulture employers organisations in the horticulture sector, under which they would issue employment permits for workers from outside the EU. Like similar schemes and projects in other OECD countries, employers were required to show they had made sufficient efforts to recruit workers from inside the EU. From 2007, employers lost interest in the scheme as they were easily able to recruit Polish workers.

4.60 However, there is some evidence that Dutch horticulture is nonetheless treated as a favoured sector. Dutch greenhouse industry users of natural gas are given preferential tax treatment under the Regulatory Energy Tax. Small growers pay approximately ten per cent of the tax paid by other industries using similar amounts of gas (Nederhoff, 2006).

4.61 Given that energy costs of horticulture, particularly greenhouse horticulture, are lower in competitor countries with a naturally warmer climate, the competitiveness of Dutch horticulture seems to be maintained, at least in part, by tax relief on energy.

4.4 Conclusions

4.62 Evidence presented in this chapter shows that almost all of the developed countries we have examined operate some form of temporary scheme for the employment of foreign workers in agriculture. One key exception to this was the Netherlands, which relies on workers from inside the EU. The schemes differ from the SAWS in two key respects:

- All of the schemes either require that employers formally show they have taken reasonable steps to recruit local workers, or government assesses the need for migrant labour in the sector (Spain and Italy). These measures are akin to the UK Resident Labour Market Test (RLMT) route within Tier 2 of the Points Based System. The SAWS as it currently exists does not contain any RLMT-type requirement. This form of flow control appears to replace the use of a limit or quota in some of these countries.

- Measures to prevent illegal overstaying are incorporated in some of the schemes. Spain requires non-EU seasonal workers to report to diplomatic missions in the sending country within a certain period of their employment contract ending. In New Zealand, employers must bear the cost of repatriating workers if they become illegal, providing an incentive to hire workers they believe will return.

4.63 Some countries have used a seasonal workers scheme to simultaneously address wider policy objectives, rather than simply providing a labour supply for agriculture. New Zealand, Australia and Spain link their seasonal agricultural worker schemes explicitly to development objectives. For Spain, the operation of the seasonal workers scheme through bilateral agreements with specific countries plays a strategic role in controlling illegal immigration. The agreements secure the co-operation of authorities in the sending country in this regard.

4.64 It is hard to find international evidence of policies that have succeeded in encouraging large numbers of domestic workers to re-enter and take up low-wage agricultural jobs currently done by migrants. The closure of the Bracero programme in the United States in 1964 was followed by an increase in illegal immigration. Attempts to incentivise German workers to take up employment in agriculture using wage subsidies appear to have failed, as the number of foreign seasonal agricultural workers practically doubled between 1994 and 2005.

4.65 There is some evidence that migrant labour use was reduced through mechanisation in the California tomato industry, rather than substitution for domestic workers.

4.66 The Netherlands can be used as an example of where historically, agriculture and particularly horticulture have used technological improvement to improve labour productivity. The rate of labour-saving technological change had slowed markedly by the late 1990s, and yet today the Netherlands is able to operate a large horticulture sector without reliance on labour from outside the EU. There is some evidence that this may be due to the favourable treatment of the sector with respect to carbon taxes.

4.67 This international evidence suggests that attempts to increase the proportion of domestic workers employed in agriculture have not been successful. In developed countries, it appears that the horticulture sector is supported through access to migrant labour or treated as a favoured sector in some other way. Nonetheless, differences in terms of economy and labour market structure among countries mean that lessons learned from international evidence cannot be applied wholesale to the UK in assessing the need for a seasonal agricultural workers scheme. Subsequent chapters set out an overview of the UK agricultural sector and labour market before the potential impacts of removing the SAWS are considered in Chapter 7.

Table 4.2: Seasonal agricultural worker schemes by country, summary table

Country	Volume	Main Nationalities	RLMT	Permit duration	Additional objectives
Sweden	5,700 (2012)	Thailand	Employer must advertise in Sweden and the EU for 10 days	Three months	None
France	896 (2011)	Morocco & Tunisia	Employers must prove they have been unsuccessful in recruiting domestically	Six months	None
Spain	4,148 (2009)	Morocco	Partial	Nine months	Contributes to development objectives and collaboration with sending countries on illegal flow control
Germany	300,000 (annual average over last decade), 8,000 from 2012 (Croatians only)	Romania, Poland, Bulgaria (historically). Croatia	Partial	Six months	None
Italy	35,000 (quota)	India & Morocco	Assessment of labour market need carried out by Ministry of Labour and Social Policies	Minimum of 21 days, maximum of nine months, depending on seasonal activity	None
Canada	25,000 present in Canada (1 December 2012)	Mexico and the Caribbean	Employers must advertise for two weeks in Canada	Eight months	None
US	55,000 (2011)	Mexico	Employers must prove they have been unsuccessful in recruiting domestically	Twelve months (cap on number of times visa can be renewed)	None
New Zealand	8,000 (quota)	Pacific Islands	Employers must prove they have taken reasonable steps to recruit domestically	Seven months out of eleven	Contributes to New Zealand's development objectives in the Pacific Islands.
Australia	12,000 (quota)	Pacific Islands and East Timor	Employers must provide some evidence of labour market testing.	Between 14 weeks and six months	Contributes to Australia's development objectives in the Pacific Islands.

Chapter 5 Overview of the agriculture and horticulture sectors

5.1 Introduction

5.1 In this chapter we provide an overview of the agriculture sector and horticulture sector and discuss recent developments in the context of the UK food supply chain.

5.2 In keeping with the terminology used by the Department for Environment, Food and Rural Affairs (Defra) (Defra, 2010a) we adopt the following definition of agriculture: "*the practice of cultivating the soil, growing crops and raising livestock - as opposed to farming which is the business of agricultural activities and other activities, including agri-environment and diversification activities.*"

5.3 Within agriculture, horticulture is defined to be those farms where fruit, nursery stock, vegetables, bulbs and flowers constitute the primary produce of the enterprise.

5.4 In addition to providing context for the market in which seasonal agricultural workers are employed, the aim of this chapter is to establish a framework in which we consider the extent potential shocks to the supply of labour affect output prices. The chapter is structured as follows:

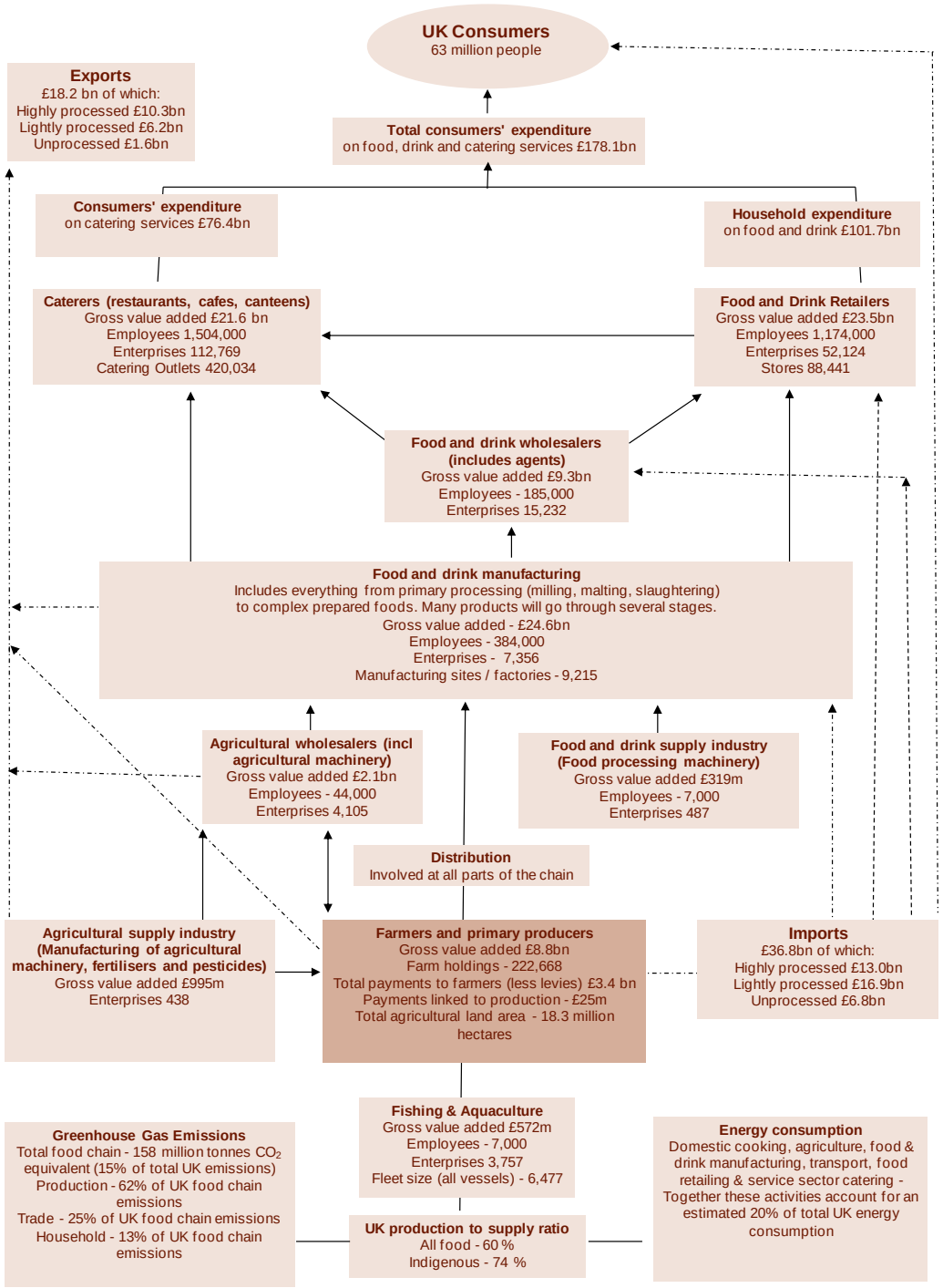
- Section 5.2 sets out the value of agriculture and horticulture in the context of the UK economy and outlines the UK food supply chain;
- Section 5.3 considers factors which affect the sensitivity of demand for agricultural and horticultural production;
- Section 5.4 considers factors which affect the sensitivity of supply of agricultural outputs; and
- Section 5.5 summarises the conclusions from this chapter.

5.5 This chapter focuses on the structure of the food supply chain and alternatives to labour in production. The labour market for agriculture and horticulture is considered in more detail in Chapter 6.

5.2 Agriculture and horticulture in the context of the UK economy

5.6 The UK food supply chain is a web of interlinked producers, processors and consumers, of which the agricultural producers constitute a central feature. Figure 5.1 provides an illustrative summary of the UK food supply chain from Defra (Defra, 2012a), showing total consumers' expenditure on food, drink and catering services amounting to over £178bn in 2011 Q4. Food exports amounted to over £18bn in the same year. Within this food chain, there are a number of enterprises who rely either directly or indirectly on the output of the farmers and primary producers.

Figure 5.1: Summary of the UK food supply chain, 2011 Q4



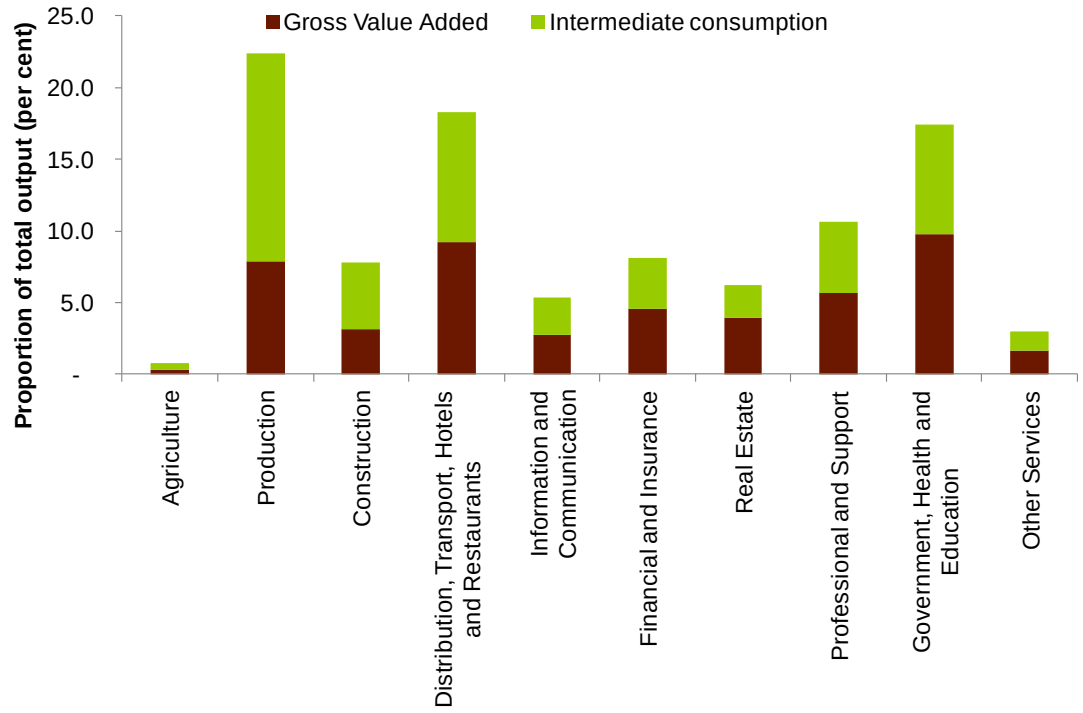
Notes: Overseas Trade data are provisional for the full year 2011 from HM Revenue and Customs. Dashed lines indicate main trade flows. Consumers' expenditure, known in National Accounts as household final consumption expenditure, is provisional from the Office for National Statistics for full year 2011 and is calculated at current prices. GVA figures are from the Annual Business Survey and are provisional data for full year 2010, which is calculated at basic prices. 2010 GVA data for beer manufacturing is unavailable. Employee data for grocery retailers is for Great Britain only and is for Q4 2011 from the Office for National Statistics. Food and drink wholesaling, and agricultural wholesaling includes an estimate of employment by food and drink wholesaling agents, and wholesalers of agricultural machinery from the Annual Business Survey (employee data is rounded). UK Production to Supply Ratio (formerly known as the "Self-Sufficiency" Ratio). The UK sources food from diverse stable countries (with 29 per cent of food coming from the European Free Trade Area), and imports can make up for domestic supply shortages. Energy consumption does not take into account energy embedded in food that the UK imports, nor does it subtract energy that went into producing food that is exported. Therefore the 20 per cent of energy consumption cannot be directly compared to the 15 per cent of GHG emissions. Source: Defra (2012a)

5.7 According to the UK National Accounts (Office for National Statistics (ONS), 2012b), the total value of UK output in 2010 was approximately £2,669 billion, of which agriculture accounted for £21.7 billion (or approximately 0.8 per cent). Figure 5.2 shows the contribution of each industry to total output and, within each industry, the proportion accounted for by Gross Value Added (GVA). GVA accounted for approximately 40 per cent of total output from the agriculture sector in 2010. GVA is the total output less the inputs to production. Further information on the calculation of GVA is provided in Box 2.1.

5.8 Although these provide indicative estimates of the total value of agricultural output, we were told that the Office for National Statistics is revising the methodology for its future estimates of agricultural output to better align with estimates produced by the Department for Environment, Food and Rural Affairs (due to be published in mid-2013).

5.9 Using the data released by Defra (2012a), which adopts the alternative methodology, it was estimated that the gross output of agriculture in market prices was approximately £20.6 billion in 2010, rising to £23.6 billion in 2011. The remainder of this chapter will use Defra as its primary source of information on the sector.

Figure 5.2: Contribution to total UK output by industry and the share of gross value added*, 2010



Note:*See Box 2.1 for more information on the calculation of Gross Value Added. Intermediate consumption for agriculture includes the costs of fertiliser, energy, veterinary expenses, etc.
Source: Office for National Statistics (2012b)

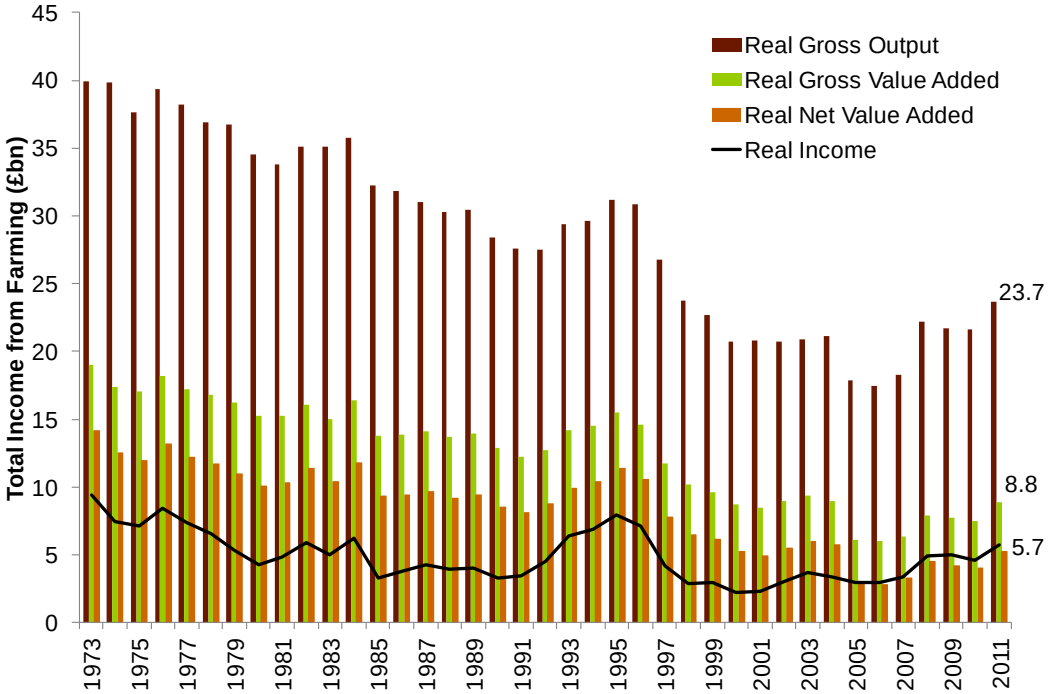
5.10 By removing the costs of intermediate consumption (such as fertilisers, energy, veterinary expenses, etc) from the gross output estimate, the GVA in the agriculture sector in market prices was estimated at approximately

£8.8 billion. By further accounting for the consumption of fixed capital (buildings, equipment, etc), taxes, subsidies and the factor costs of production (rent, compensation to employees and interest), it was possible to estimate the total income (analogous to gross profit) from agriculture in 2011 at £5.7 billion.

5.11 In 2012, Defra (2012a) estimated the agricultural labour market employed approximately 1.6 per cent of the total workforce. Of the 481,000 people employed in the UK agriculture sector, 67,000 (or 14 per cent) were seasonal or casual workers. The quota for the Seasonal Agricultural Workers Scheme for 2012 was 21,250 work cards.

5.12 The contribution of agriculture to the UK economy has declined in recent decades. Figure 5.3 shows the output and real income (or gross profit) from agriculture between 1973 and 2011. It shows a significant decline in the sector from 1973 to 1990 and, following a brief recovery between 1991 and 1995, output continued to decline until 2006. Since 2007, however, the real output of agriculture has shown signs of recovery and is now at its highest level since 1997.

Figure 5.3: Real income and output for the agriculture sector in the UK, £bn, 1973 to 2011, 2011 prices



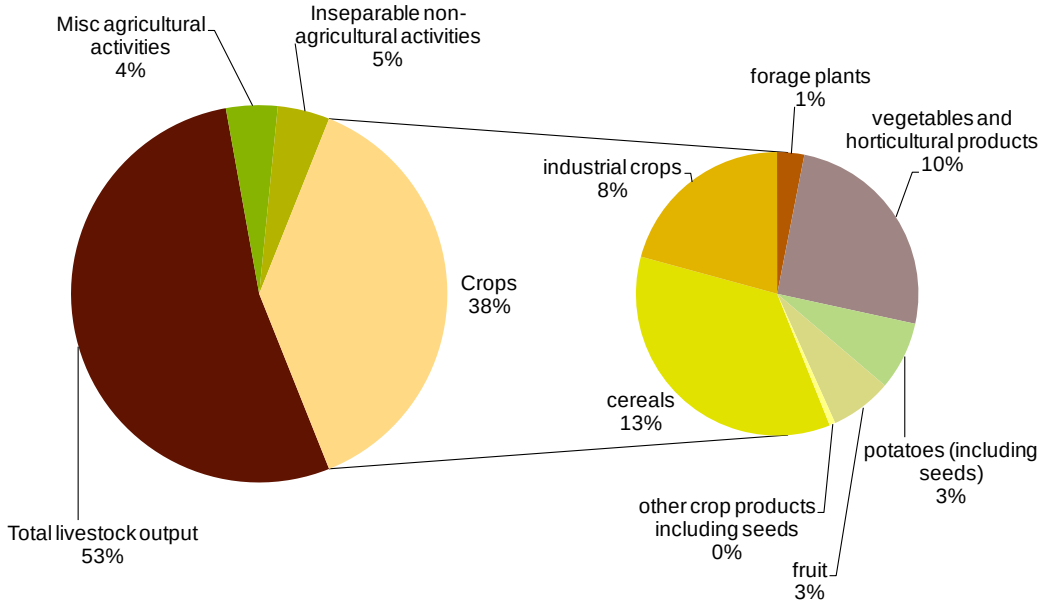
Note: Output is net of VAT collected on the sale of non-edible products. Figures for output at market prices exclude subsidies on products. Nominal values are deflated using the retail price index. Total Income is calculated as gross output *plus* taxes *less* subsidies, intermediate consumption, consumption of fixed capital, compensation to employees, rent and interest. Total income is analogous to gross profit.
Source: Defra (2012a)

5.13 Within agriculture, crop output in 2011 accounted for 38 per cent of total output, with an estimated market price value of £9.0 billion. Figure 5.4 shows the composition of the total agricultural output by type of

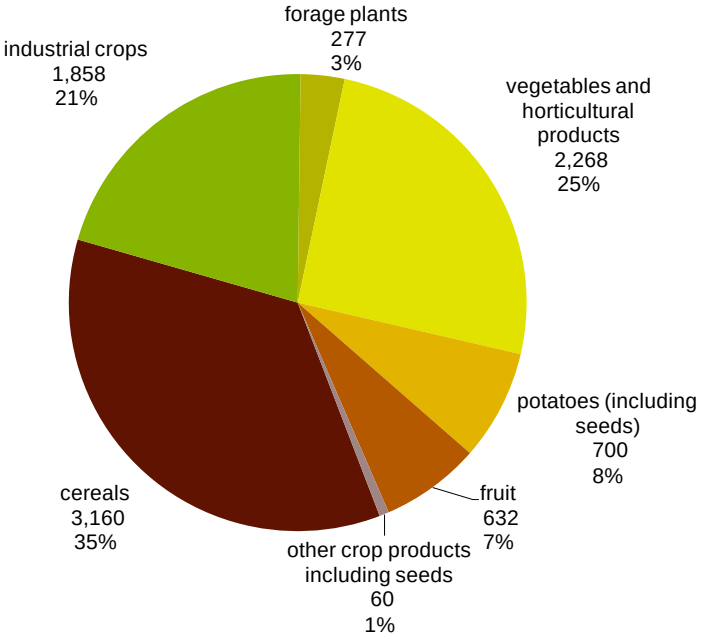
agricultural activity. It shows that vegetables, horticultural products, potatoes and fruit accounted for 40 per cent of crop output in 2011, and about one sixth of total agricultural output, with a combined estimated market value of £3.6 billion.

Figure 5.4: UK agricultural output, 2011

Composition of total agricultural output



Composition of crop output, £m



Note: Output is net of VAT collected on the sale of non-edible products, and excludes taxes and subsidies. The first chart shows the contribution of each type of agriculture to total agricultural output. The second chart concentrates on crop output showing the value of each type of crop.
Source: Defra (2012a)

5.14 When considering policy changes affecting the supply of labour to the producers of these crops, it is important to consider the degree to which

any impacts may be transmitted throughout the food supply chain. This allows us to better understand the stress points where impacts, should they occur, would be most acute.

5.15 Box 5.1 develops an economic framework in which we can consider how a theoretical shock to labour supply might be transmitted through the agricultural chain of production. We then consider the extent to which the UK food supply chain could be characterised by this theoretical framework.

Box 5.1: An economic framework for price and wage shocks to a supply chain

It is important to understand how wages in the agriculture sector will respond to the cessation of the Seasonal Agricultural Worker Scheme; how this will impact on other linked producers and retailers in the food supply chain; and how this will impact on consumers. Here we describe an economic framework which we can use to understand how shocks to a supply chain manifest themselves at the various stages of production.

The Seasonal Agricultural Workers Scheme is primarily a supply of labour to the agriculture sector for the production of agricultural outputs. Labour, together with land and capital, is a key component in production and different firms will use different combinations and different amounts to produce their output.

The amount of labour demanded by the firm will depend on the specific production activities for which they will be employed (the nature of production) and on the level of demand for the output by consumers (including households and firms).

When there is an external influence affecting the supply of labour to a sector, it is expected that the price (i.e. the wage rate) of that labour should respond to reflect the relative scarcity or abundance resulting from that change.

Furthermore, given that labour demanded by the firm is, in part, determined by the consumer demand for the output, it is possible to understand the relationship between price of the output and the labour demanded to produce that output.

The relationship between the quantity of labour demanded and the output prices has come to be explained by the Hicks-Marshall conditions for derived demand. It states that the sensitivity of demand for labour to the wage rate will be greater when:

- the demand for the output is sensitive to changes in the price of the good or service. This may occur if there are sufficiently close substitutes to which the consumer can switch;
- labour costs make up a large proportion of total cost for producers;
- producers are willing and easily able to substitute between labour and other factors of production (alternative labour or capital); and
- the supply of alternative factors of production can easily respond to any increases in their respective demand.

Using the Hicks-Marshall condition, it is then conceptually possible to understand the extent to which the demand for agricultural labour is sensitive to changes in the price of agricultural outputs.

5.16 By understanding the structure of the food supply chain, we can better determine the mechanism by which changes in the wage rate for labour are transmitted to changes in the output price.

5.17 The remainder of the chapter will consider the structure of the food supply chain and the extent to which we think that the elements of the Hicks-Marshall condition, set out in Box 5.1, might apply.

5.3 Demand for horticultural outputs

5.18 This section considers the demand side of the agriculture sector both in terms of household consumers and intermediaries such as retailers, wholesalers and processors. We look at whether the demand for UK horticultural produce is sensitive to prices and the extent to which the structure of the sector impacts on the distribution of margins.

The sensitivity of demand for horticultural outputs

5.19 Table 5.1 shows the supply of fruit, potatoes and vegetables to the UK consumer. In 2011 the value of home-produced vegetables and fruit was £1.2 billion and £0.6 billion respectively. The total supply of vegetables available in the UK amounted to 4.5 million tonnes, of which, 2.6 million tonnes (58 per cent) were produced in the UK. When we consider fruit however, only 0.4 million tonnes of the 3.6 million tonnes available (or 12 per cent) were produced in the UK. These data include all fruit supplied in the UK and will therefore be affected by those crop varieties where no (or very little) domestic production capabilities exist, such as bananas, oranges and pineapples.

5.20 As a proportion of total supply, the volume of home-produced fruit, vegetables and potatoes marketed in the UK, have all declined over the past 15 to 20 years. Home-produced fruit supply as a proportion of total supply available to the UK has declined from 22 per cent in 1989 to 12 per cent in 2011 (see Figure 5.5). An even more dramatic fall can be seen for vegetables where the same proportion has decreased by approximately 20 percentage points between 1993 and 2011.

5.21 It might be expected that the fall in the proportion of supply produced in the UK may be driven by greater demand for fruit and vegetables, which requires imports to meet demand. However, these results coincide with a general downward trend in purchases of fruit and vegetables by UK households since 2006 (Defra, 2013). Apparently, about 7 per cent of people in England included no fruit and vegetables in their diet in 2010[4]. After reaching a peak in the middle of the decade, UK households consumed an average of four portions of fruit and vegetables a day in 2010 – no higher than observed in 2001. The decline in purchases of fruit and vegetables coincided with large rises in food prices in the latter half of the decade.

[4] Based on consumption in a 24 hour period at time of Health Survey for England, 2010.

Table 5.1: Value and volume of home-production marketed in the UK, imports and exports of fruit and vegetables, details for selected crops, 2011

	Value (£m)	Volume (million tonnes)	Home production as a proportion of total volume (value) of home supply of crop type [1] [2]
Vegetables			
Home Production	**1,213**	**2.57**	**58 (40)**
Field	910	2.30	
Roots and onions	312	1.25	
Carrots	118	0.69	98
Brassicas	222	0.45	
Cabbage	81	0.23	94
Cauliflower	45	0.10	42
Legumes	74	0.23	
Other	302	0.37	
Lettuce	132	0.13	49
Protected	303	0.27	
Mushrooms	114	0.07	41
Tomatoes	94	0.09	18
Imports	1,878	1.99	
Exports	73	0.09	
Total Home Supply [1]		4.47	
Potatoes			
Home Production	**700**	**6.12**	**85**
Imports		1.67	
Exports		0.55	
Total Home Supply [1]		7.23	
Fruit			
Home Production	**637**	**0.43***	**12 (19)***
Orchard	157	0.28	
Apples	106	0.23	35
Pears	15	0.03	18
Plums	12	0.01	17
Soft	441	0.14	
Strawberries	279	0.11	70
Raspberries	118	0.02	66
Glasshouse	39		
Imports	2,620	3.32	
Exports	88	0.13	
Total Home Supply [1]		3.61*	

Note: Trade figures relate to fresh produce where distinguishable. Trade figures will include the import of crop types not grown in the UK. All import data for strawberries relates to fresh produce only. Basic Horticultural Statistics include dried vegetables in the import and export figures. This differs to the Agriculture in the United Kingdom publication which does not include dried vegetables in the trade figures. *Does not include glasshouse output. Figures may not sum due to rounding. [1]Total home supply equals home production *less* exports *plus* imports. [2] Proportion of total volume of home supply of crop type equals volume of home production (of the crop) *divided by* the total volume of home supply (of the crop).
Source: Defra (2012a) and Defra (2012b)

5.22 Table 5.1 also shows that while the UK displays a comparable self-sufficiency in vegetables as compared to fruit in terms of the weight of the output, when we consider the value of the output the difference is not as great. Home supply of vegetables appears to be among lower value crops, accounting for 58 per cent of weight but only 40 per cent of value. Home supply of fruit is of comparatively higher value, accounting for 12 per cent of weight but 19 per cent of value (excluding glasshouse fruit).

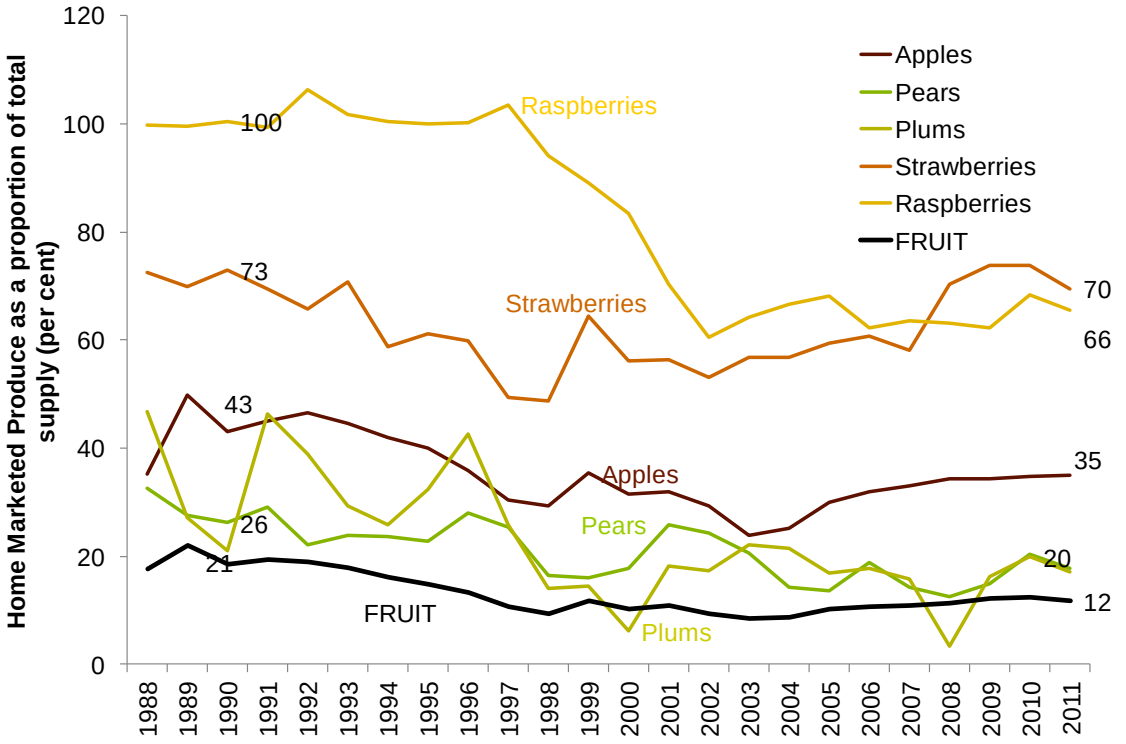
5.23 A more nuanced picture emerges, however, when considering the domestic supply of specific crops in Figure 5.5. The UK remains largely self-sufficient in carrots and cabbages, producing 98 per cent and 94 per cent of home-marketed produce respectively. In other crops, such as tomatoes (18 per cent of supply produced domestically), pears and plums (approximately 20 per cent of supply produced domestically), the UK has a longer-term reliance on imported produce.

5.24 For some crops, for example raspberries, where the UK was entirely self-sufficient until the mid 1990s, consumers have shifted consumption to imports. In 2011 the UK only produced two-thirds of the raspberries consumed.

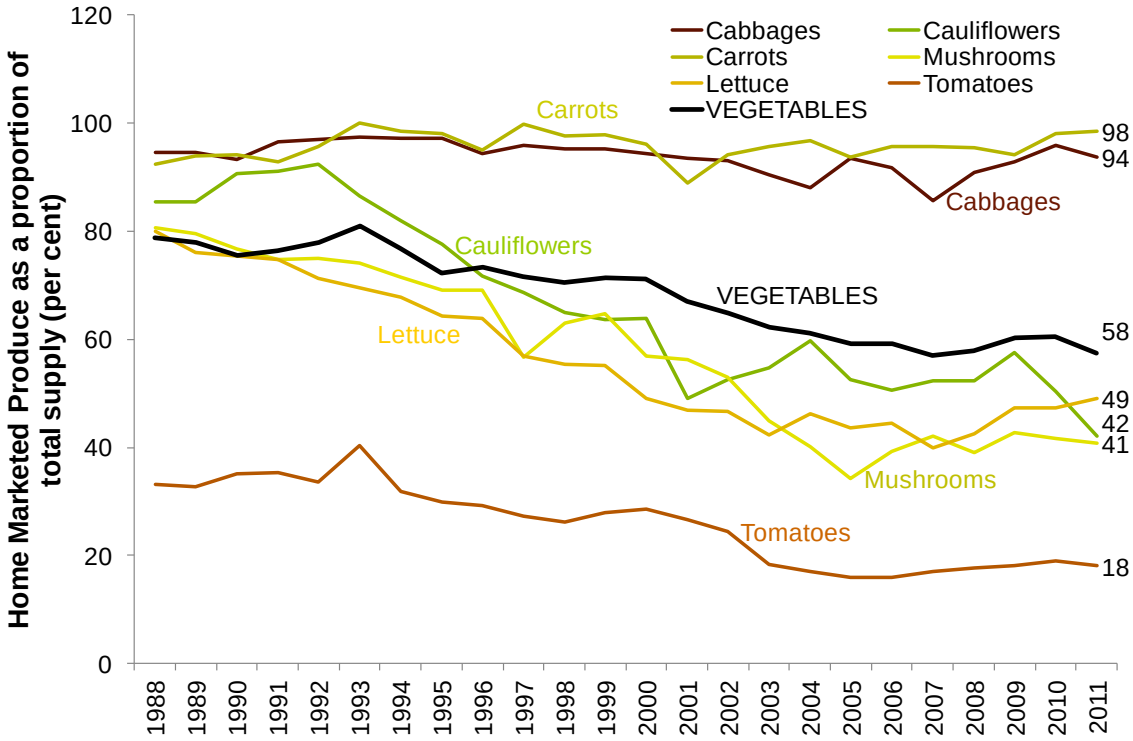
5.25 While it may be expected that the UK will require imported produce to supplement domestic supply when certain crops are not in season (see Chapter 3 for crop seasons), the observed increase in the proportion of imported produce might be considered all the more dramatic in the context of the technological developments to extend the UK horticultural season discussed in Section 5.4.

Figure 5.5: Tonnes of home production of fruit and vegetables as a proportion of total tonnage supply available for use in the UK, 1988 to 2011

Fruit



Vegetables

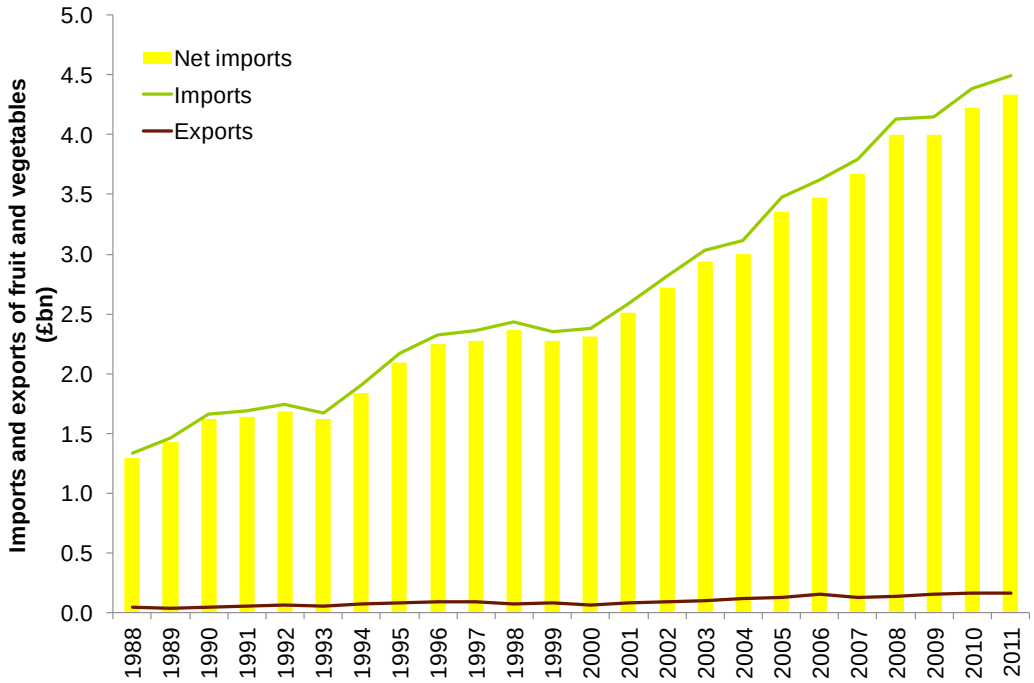


Note: Trade figures relate to fresh produce where distinguishable. Trade figures will include the import of crop types not grown in the UK. All import data for strawberries relates to fresh produce only. Basic Horticultural Statistics include dried vegetables in the import and export figures. This differs to the Agriculture in the United Kingdom publication which does not include dried vegetables in the trade figures. Proportions are calculated as home supply divided by the sum of home supply plus imports less exports. Proportions may therefore exceed 100 per cent during periods that the UK is a net exporter of the crop in question.
Source: Defra (2012b)

5.26 The UK has relied on the imported supply of fruit and vegetables for a number of years. It is important, however, to also consider the extent to which the imported fruit and vegetable supply are offset by the UK exports of fruit and vegetable produce.

5.27 The UK has been a net importer of horticultural produce for many years. Figure 5.6 shows that net imports to the UK of fruit and vegetables increased in the years between 1988 and 2011, with particularly large increases seen since 2000.

Figure 5.6: The balance of payments for fruit and vegetables, 1988 to 2011

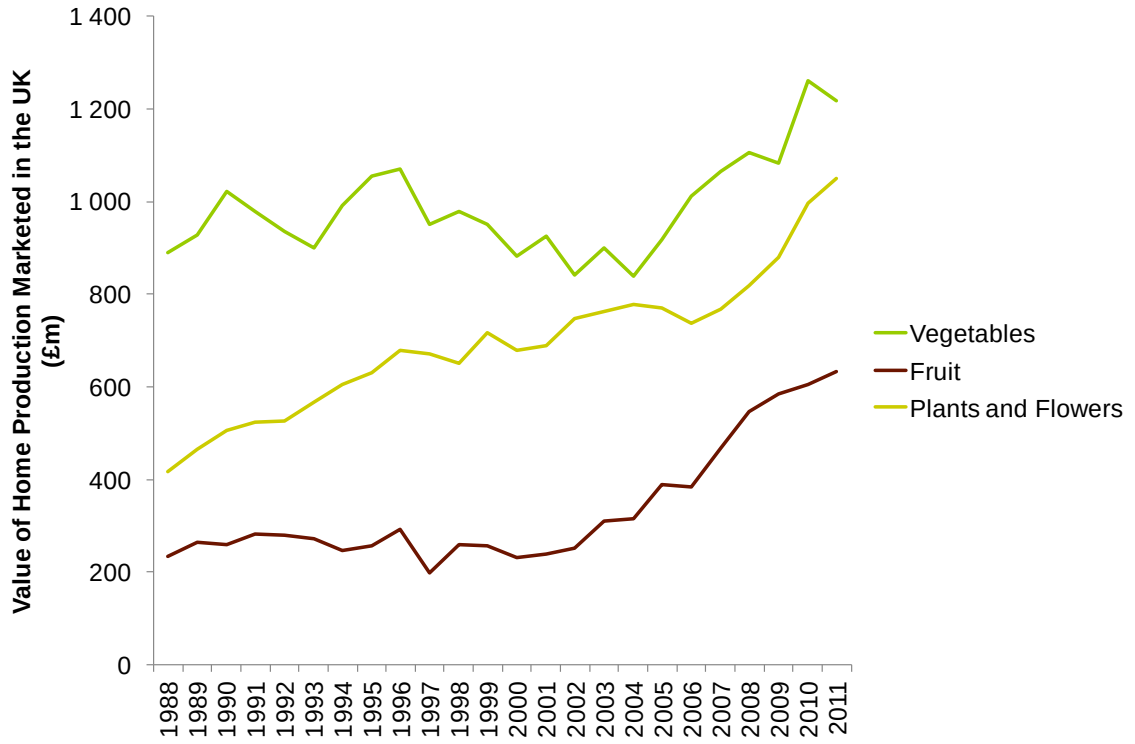


Notes: All figures in 2011 prices. Fruit and vegetables: includes fresh, frozen or prepared fruit (except crystallised) and vegetables, nuts (except groundnuts), vegetable and fruit juices of all kinds except wine, jams, marmalades, fruit or nut puree/paste etc. Excludes mushrooms & potatoes. Basic Horticultural Statistics include dried vegetables in the import and export figures. This differs to the Agriculture in the United Kingdom publication which does not include dried vegetables in the trade figures.
Source: Defra (2012b)

5.28 The increase in the value of net imports shown in Figure 5.6 may be attributed to a general substitution away from home-produced crop output as well as to increases in world food prices (which may be reflected in prices of both home produce and imported produce). The decline in the balance of trade for fruit and vegetables has been accompanied by a rise in the value of home-produced fruit and vegetables in the UK as shown in Figure 5.7.

5.29 However, it is not obvious from these data whether rising net imports of fruit and vegetables to the UK have had an adverse affect on domestic producers. To better understand the environment faced by producers in the UK requires further consideration of prices and margins in the agriculture sector.

Figure 5.7: Value of home production marketed in the UK for fruit, vegetables, plants and flowers, £m, 1988 to 2011



Note: Excluding subsidies and taxes. Including glasshouse fruit.
Source: Defra (2012a)

5.30 There are a number of measures of prices in the agriculture sector. These can essentially be condensed into three key price measures:

- The prices farmers pay for inputs to production, such as energy, raw materials, etc are referred to as agricultural *input prices*.
- The prices farmers charge (and therefore receive) for their output are referred to as producer prices, agricultural output prices or *farm gate prices*.
- The prices charged by retailers (and therefore indicative of the price paid by a large number of consumers) are referred to as *agricultural retail prices*.

5.31 There is evidence that prices in the agriculture sector (of inputs and outputs) have grown substantially over the last decade, outstripping retail price increases, as shown in Figure 5.8. While retail prices increased by 30 per cent between January 2005 and November 2012, agricultural input prices rose by 57 per cent.

5.32 Agricultural output prices (**the price received by producers for agricultural produce**) increased by 85 per cent over the same period, implying that increases in input prices are, at least in part, being passed onto consumers at subsequent stages of the food supply chain. The extent to which increases in producer input prices can be transmitted further

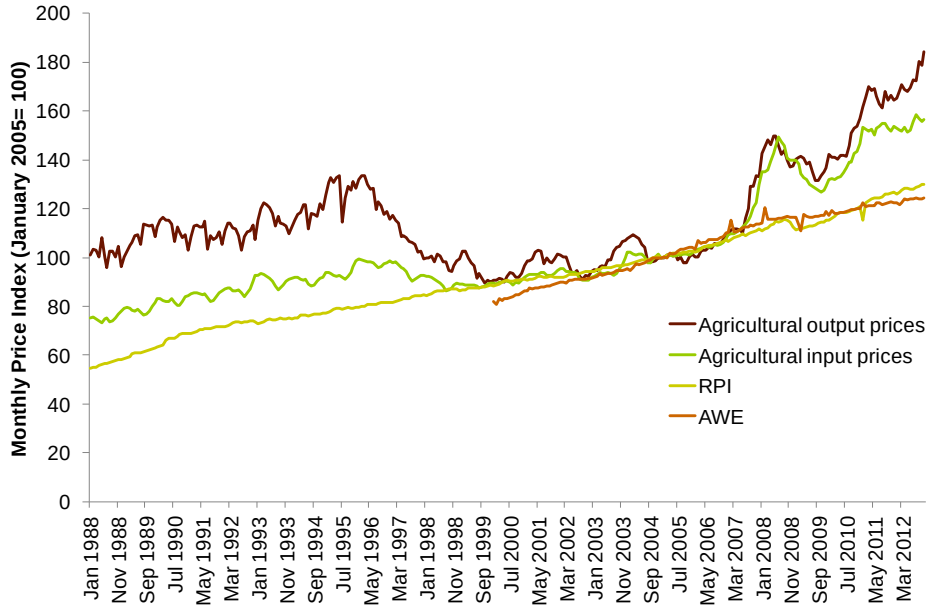
along the food supply chain will be discussed further in a later section of this chapter.

5.33 Figure 5.8 also shows the developments in the producer prices for fruit, vegetables, flowers and plants. In recent years, the price of flowers and plants has seen more rapid increases than fruit, vegetables or retail prices generally.

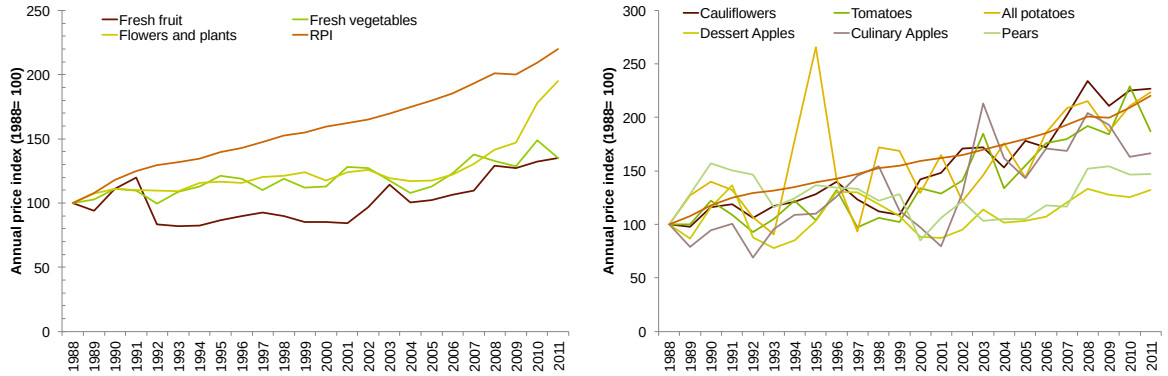
5.34 For specific crops, there is a high degree of fluctuation in price from year to year. Between 2005 and 2011 producer prices for dessert apples and cauliflowers increased by about 28 per cent, while the farm gate price of pears increased by 40 per cent and culinary apples by 17 per cent.

Figure 5.8: Monthly and annual agricultural price indices, retail price index and average weekly earnings, January 1988 to November 2012

Monthly price indices for agriculture, retail prices and average weekly earnings (January 2005 = 100)



Annual price index for selected crop types and the retail price index, 1988 to 2011 (1988=100)



Note: RPI = Retail Price Index. AWE = Average Weekly Earnings. The seasonally adjusted average weekly earnings includes bonuses and excludes arrears. Data for individual crops are based to 1988 and weighted according to 2011 consumption patterns. Source: Defra (2012a), Defra (2012c), Office for National Statistics (2012c) and Office for National Statistics (2013a)

5.35 Although comparable international data at a similar level of detail are not available, between 2005 and 2010 the UK experienced a larger increase in overall agricultural output prices compared with the European Union countries for which data were available. Furthermore, agricultural producer prices rose faster than the world average between 2005 and 2010, as shown in Table 5.2.

5.36 It is important to recognise that increases in the price index could reflect increases in costs of production, including the costs of raw materials and increased margins in the supply chain. However, it could also reflect a change in the composition of goods consumed to include a greater mix of high-value products. Therefore changes in the price indices can indicate changes in consumer preferences as well as increased cost pressures.

Table 5.2: Percentage change in producer price indices of agricultural products, output, EU 15, 2005 to 2010

Country	Percentage change in agricultural producer prices	Country	Percentage change in agricultural producer prices
Austria	22.7	Ireland	10.8
Belgium	6.4	Luxembourg	10.2
Denmark	12.9	Netherlands	7.5
Finland	13.7	Spain	5.8
France	22.7	**United Kingdom**	**48.3**
Germany	26.1	Average EU-15 (exc Sweden, Portugal and Italy)	16.4
Greece	10.2	World average	46.6

Note: Producer prices for all agricultural goods. Average annual change over time in the selling prices received by farmers (prices at the farm-gate or at the first point of sale). The indices are constructed using price data in Standardised Local Currency. A basket of agricultural products will include some amount of non-crop produce, for example cereals, meat, or milk. Therefore indices shown in this table may not reflect the price index for horticultural products. A positive price index will reflect increases in prices due to increased costs of production as well as changes in consumption patterns towards high-value food products.
Source: Food and Agriculture Organisation of the United Nations (2012)

5.37 Consumers and retailers facing a higher domestic price for agricultural outputs might be expected to shift their consumption towards relatively cheaper alternatives – potentially imports. The evidence supports this. As the price of UK agricultural produce has been rising in recent years and at a faster rate than many other countries, there has been an increasing substitution by consumers away from UK domestic produce and towards international alternatives.

5.38 It is useful, at this point, to consider the attitudes of UK resident consumers to British produce, and whether they are willing to pay a premium to preserve the industry. Research presented in Defra (2011b) finds that nearly two-thirds of people considered buying British seasonal produce to be important, with 72 per cent of shoppers saying they actively seek to buy British seasonal produce. However, 38 per cent of those not actively seeking to buy British seasonal produce argued that they wanted a wider choice of foods. A third of people in the survey reported price as

one factor which deters them from buying British seasonal fruit and vegetables. While useful in indicating consumer priorities, these findings do not however provide information on actual spending behaviour.

5.39 A similar study by the Sustainable Consumption Institute in July 2012 found "*the current financial climate also influenced participants views on sustainability, where many participants said that buying locally produced food, is seen as 'a bit of a treat'. … many said that they simply couldn't justify buying such products given the current strain on their shopping budget, as they were considered more expensive than regular products*." (University of Manchester, 2012).

5.40 When considering the **first of the Hicks-Marshall conditions**, the evidence suggests that consumer (and by implication, retailer) **demand for UK agricultural and horticultural produce is sensitive to price** – specifically, the price on the international market for imported produce.

5.41 It is possible, in some cases, to numerically quantify the sensitivity of demand for certain food products to changes in their own price by considering the own-price elasticity of demand. The own-price elasticity of demand measures the percentage change in quantity of the product demanded if the price of that good varies by one per cent. A product with an own-price elasticity less than -1, for example -2, is considered to be "elastic" and therefore more sensitive to price changes than a good with an own-price elasticity greater than -1, for example -0.5.

5.42 Estimates of the own-price elasticity of demand by Tiffin *et al*. (2011) find that "*looking at … own price elasticities for fresh vegetables and fresh fruits, they are both own price elastic or near elastic … suggests that substitutes are available for these food subgroups*."

Table 5.3: Own-price elasticity of demand for potatoes, fresh fruit and fresh vegetables, 2006 to 2009

	2006	2007	2008	2009
Potatoes	-0.356	-0.374	-0.396	-0.319
Fresh vegetables	-1.007	-0.954	-1.003	-1.01
Fresh fruit	-0.977	-1.007	-0.974	-0.982

Note: Elasticities presented are the uncompensated unconditional own price elasticities and are most useful for the purpose of policy simulations because they assume that a price decrease of one food category increases the food expenditure available to all related food categories. They capture both income and substitution effects. Uncompensated elasticities consider the two effects in which a price change on demand can be decomposed: income and substitution effects. The compensated elasticities do not consider the income effect of a price change on demand. Conditional elasticities assume that a price decrease of one of the food groups holds food expenditure available to all other food groups constant. An estimate less than -1 is considered to be elastic, that is to say, demand is sensitive to prices. An estimate between 0 and -1 indicates demand is considered relatively less responsive to changes in price.
Source: Tiffin, R. *et al*.(2011)

5.43 The research by Tiffin *et al.* (2011) found that demand for fruit and nuts was consistently more sensitive to its own price than demand for vegetables (across the period considered). We can reasonably conclude

from these data that a 1 per cent change in the price of a particular fresh fruit or fresh vegetable is likely to lead to an approximately 1 per cent change in the quantity of that fruit or vegetable demanded. Whether or not this is realised then depends on the availability or otherwise of a substitutable food product, be this from imported fresh produce or dried/frozen produce either of the same or a different variety.

The structure of the horticultural food supply chain

5.44 It is important, then, to understand how the UK food supply chain responds to changes in prices (either domestically or abroad) to avoid significant loss of market share to international competitors. Increases in input prices at any stage of the supply chain are required to be absorbed, at least in part, by the supply chain itself, in order that the price change transferred to consumers (and in some cases, retailers) is minimised.

5.45 Variations in the bargaining power of firms in the food supply chain can lead to imbalances in the burden of the price increase borne at each stage. These variations can arise as a result of: differences in market share at different stages of the supply chain; contractual terms between buyers and suppliers; and regulation.

5.46 In theory, the greater the fragmentation of the market at any one stage of the food supply chain, the weaker the bargaining power of the firm in that stage and the more vulnerable they are to shocks. The corollary of this is that the greater the concentration of firms within the food chain, the greater their bargaining power and the greater their ability to respond to a shock.

5.47 In recent years the UK food supply chain has been characterised by increasing levels of integration both along the supply chain and among agents at the same level. A report by Precision Prospecting (2005), drawing on the work of Kaplinsky, R. and Morris, M. (2002), noted that "*the number of enterprises in the sector is declining while turnover is rising, suggesting concentration among larger food processing companies … Contemporary value chains are characterised by … a dynamic framework in which firms secure margins by continual innovation and upgrading … a systematic framework in which firms benefit from inter-firm links – 'a chain is only as strong as its weakest link'*".

5.48 In contrast to the food retail sector, UK agriculture and horticulture have historically been fragmented. The Annual Business Survey (2012b) recorded a reduction in enterprises working in agriculture, forestry and fishing in 2011 to 10,955, down from the 13,407 enterprises recorded in 2008. Specifically considering enterprises engaged in "crop and animal production, hunting and related activities" and "support activities to agriculture and post-harvest crop activities", there was a reduction in enterprises from 12,257 to 7,459 between 2008 and 2011. In the same period, crop output increased by a little under £1 billion. These comparisons show a higher level of concentration in crop-related agriculture than across all agriculture.

5.49 The traditional family farms are increasingly replaced by operations on a larger scale. This development is one result of increasing pressure from higher up the supply chain to hold down costs and maximise economies of scale.

5.50 In addition to up-scaling through natural growth and acquisition of existing enterprises, a number of farms enter into co-operative arrangements with other farms at the same stage of the food supply chain. These co-operatives facilitate coordination of purchasing and marketing activities, potentially enabling farmers to achieve better prices both for inputs to production and for the output to wholesalers and retailers.

5.51 According to Co-operatives UK, a national trade body that campaigns for co-operation, co-operatives are based on the principle of voluntary and open membership. While co-operatives are run democratically towards a common interest, individual enterprises retain autonomy. Profits from the co-operative are then shared amongst the members. Data from Co-operatives UK (2012) shows that there were 450 agricultural co-operatives across the UK, covering approximately half of the farmers in 2011. These co-operatives had a collective turnover of £4.5 billion.

5.52 As well as observing increasing concentration in the farm sector, there have also been developments in the vertical structure of the food supply chain. The horticulture sector has diversified to incorporate many of the downstream activities of the traditional food supply-chain. For example, many farms both in agriculture and horticulture will also have onsite packing and, if necessary, processing facilities. While not directly driving up demand for labour overall, these developments have in turn led to an increase in the demand for labour by farms in post-harvesting activities.

5.53 Considering the data shown in Table 5.4, it can be seen that the output from diversification out of agriculture is greatest among horticultural farms. An average horticultural farm in 2011/12 produced approximately £25,000 of output as a result of non-agricultural activities, of which half was from food processing and retailing.

Table 5.4: Detailed output per farm by farm type, £ per farm, 2011/12

	Output from Agriculture	Output from Agri-environment activities	Output from diversification out of agriculture	*… of which food processing and retailing*	Output from Single Payment Scheme
Cereal	223,732	7,708	18,964	*765*	39,697
General Cropping	379,776	10,772	17,304	*1,355*	50,925
Dairy	414,088	4,242	9,881	*3,194*	28,867
Grazing livestock (lowland)	86,180	5,019	8,671	*1,213*	20,236
Grazing livestock (LFA)	74,803	9,981	2,243	*268*	21,938
Specialist Pig	479,998	2,247	9,355	*4,913*	11,564
Specialist poultry	603,624	1,678	9,133	*3,290*	7,484
Mixed	235,981	7,116	14,523	*1,310*	33,952
Horticulture	366,164	2,444	24,949	*12,508*	9,151
All Farm Types	243,056	6,583	13,016	*2,086*	29,425

Notes: Data are from results of the Farm Business Survey (FBS) in England. Data relate to the samples of farms providing information on their 2011/12 accounts, and are weighted to represent all farms with a total economic Standard Output of 25,000 Euros and above. Data for 2011/12 for Northern Ireland, Scotland and Wales were not available. Not all farms will engage in agri-environment activities and diversification out of agriculture. Average output per farm may therefore be influenced by the propensity of a farm to engage in these activities.
Source: Defra (2012d)

5.54 The developments in the structure of the farm sector have, in part, resulted from UK government and European Union subsidy schemes designed to meet objectives, such as price stability for agricultural production and a reliable source of food supply. These schemes have served to incentivise growth (or decline) in certain sub-sectors of agriculture. Box 5.3 describes the Single Payment Scheme and shows that horticulture receives much lower subsidisation compared to other parts of agriculture.

5.55 At the other end of the food supply chain, the retail sector has experienced a more dramatic history, displaying much greater **horizontal integration** (integration of firms at the same stage of the supply chain). The high degree of commercial concentration in food retail has allowed powerful retailers to use their position in the food supply chain to drive for greater efficiency and eradicate waste in earlier production stages.

5.56 The retail sector has been dominated by large retailers in recent decades. Small independent grocers have been replaced by large food and drink retailers. The Living Costs and Food Survey (2010) showed that the largest four food and drink retailers (Tesco, 23 per cent; Asda, 13 per cent; Sainsburys, 13 per cent; and Morrisons, 12 per cent) accounted for 62 per cent of the combined market for food and non-alcoholic drinks.

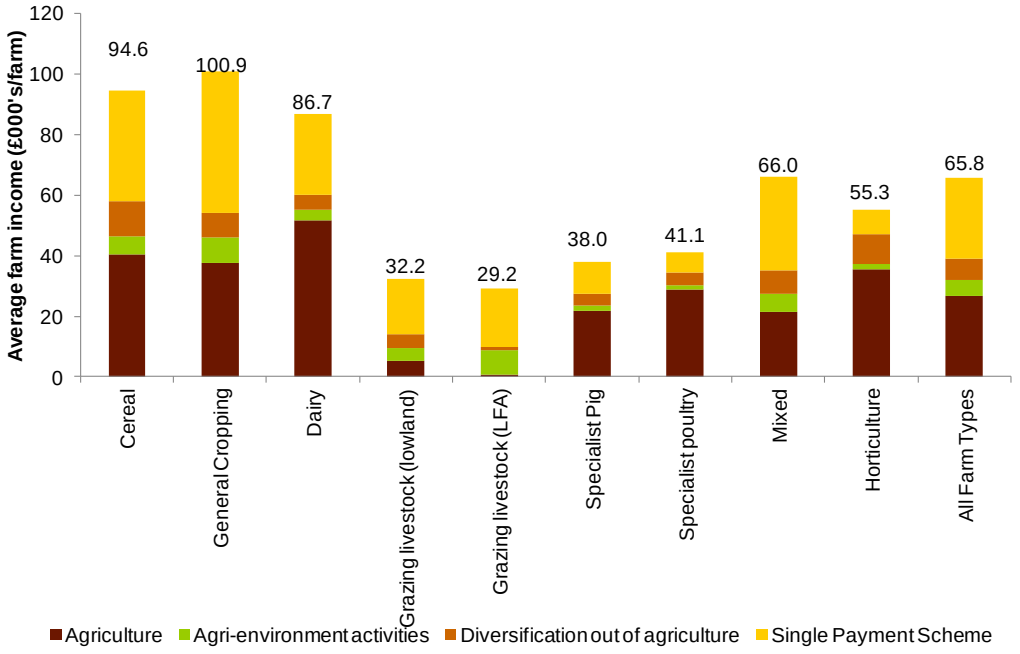
Box 5.2: Horticultural subsidies and the Single Payment Scheme

The Single Payment Scheme (SPS) was introduced in June 2003, following a reform of the Common Agricultural Policy (CAP) as the principal method for providing subsidies to landowners.

The SPS replaced eleven existing schemes that together subsidised the farm according to the crop produced. This favoured the production of certain crops and effectively created premiums on land for arable and dairy use, and resulted in the infamous butter mountains and milk lakes. The new scheme is based on the amount of agricultural land (per hectare) that remains in cultivatable condition, removing the link between the subsidy and the production of specific crops. This allowed for continued support for the agriculture sector whilst enabling farmers to respond to market demands.

Entitlements are valued and paid by a flat rate and an additional amount based on historic reference amounts. The flat rate of SPS varies according to the category of land held. In England these are: severely disadvantaged area (SDA); non-SDA; and SDA moorland, with non-SDA land being paid the highest rate.

Farm business income by cost centre, £000's per farm, 2011/12



Note: Farm business income represents the financial return to all unpaid labour (farmers and spouses, non-principal partners and their spouses and family workers) and on all their capital invested in the farm business, including land and buildings. For corporate businesses it represents the financial return on the shareholders capital invested in the farm business. In essence Farm Business Income is the same as Net Profit.
Source: Defra (2012d)

SPS payments total over £1.5 billion and are paid to over 100,000 farmers in England each year. Horticulture is the least reliant of the agriculture sectors on subsidisation. The Single Payment Scheme makes the lowest contribution in the horticultural sector, accounting for only 15 per cent of average farming income. This compares to over 50 per cent in grazing livestock farming and just over 40 per cent across all farm types.

As well as the SPS, farmers can apply for additional financial support through the CAP and through the Rural Development Programme for England, funded by the EU and UK Government. Northern Ireland, Scotland and Wales apply a similar SPS framework to that used in England; though differ in terms of the rates of payment made to farmers and the criteria by which landowners can apply for subsidies.

5.57 A significant development has been a change in the approach to buying and coordinating output throughout the year. As retailers have concentrated, some have restructured to delegate a category of food products to one supplier (either a single key supplier or a co-operative of suppliers) which provides oversight of the supply chain from production through to consumption. It is the responsibility of these **category managers** to ensure the retailer is guaranteed year-round supply. As a result, some UK producers will become importers, on behalf of the retailer, in order to maintain a consistent supply chain during the off-season.

5.58 The Competition Commission (2008) review of the grocery market gave specific consideration to the role of category managers, particularly focussing on the fruit sector. Given category management exists in a number of forms in the sector, the review defined category management broadly as an exchange of information between retailers and suppliers for the purposes of improving retailer sales or performance across a category of products. This would include better communication of upcoming discounting activities in store, harvest difficulties on farms, logistics and storage requirements.

Box 5.3: Competition Commission investigation of the groceries market, 2008

On 9 May 2006, the Office of Fair Trading referred the supply of groceries by retailers in the UK to the Competition Commission for investigation. The final report was published in April 2008.

To a large extent, the investigation found that competition in the UK grocery sector was effective and delivered good outcomes for consumers. There were, however, two areas of concern highlighted:

- the strong position of some retailers in local markets; and
- there was an excessive transfer of risk and cost uncertainty from grocery retailers to their suppliers.

On the first point, it was noted that some lower prices resulting from the grocery retailers' buyer power would be beneficial for consumers. The investigation did not find that the financial viability of food and drink manufacturers was under threat as a result of the exercise of buyer power by grocery retailers.

On the second point, the Competition Commission was concerned that there would be an adverse effect on investment and innovation in the supply chain, and ultimately on consumers.

In response, the Competition Commission report recommended a tightening of the Supermarkets Code of Practice and extending its coverage to include more grocery retailers. The code of practice was established in 2001 to govern the relations between the major supermarkets and their suppliers. In 2009 the Commission completed the new Groceries Supply Code of Practice but recommended that the Government should place an ombudsman (providing oversight of the code) on a statutory basis, as it had proven impossible to reach a voluntary agreement with the supermarkets. On 21 January 2013, the Consumer and Competition Minister announced that the independent Groceries

Box 5.3: Competition Commission investigation of the groceries market, 2008 (cntd)

Code Adjudicator had been appointed.

The Competition Commission's report also noted that consolidation among suppliers to grocery retailers and practices such as category management could facilitate the exchange of information between grocery retailers through their suppliers.

The Competition Commission concluded that, "*based on the size of grocery retailers, wholesalers and buying groups relative to suppliers, together with the evidence on supplier pricing and margins, all large grocery retailers, wholesalers and buying groups have buyer power in relation to at least some of their suppliers.*"

Source: Competition Commission (2008)

5.59 While, in some forms, it might be possible for suppliers to use the category management system to coordinate supply for the purposes of gaining greater bargaining power, and to exploit its position at the expense of the retailer (or other suppliers outside of the agreement), it was recognised that in reality retailers maintain sufficient information to validate and cross-check the information provided by category managers. Therefore, the activity was seen as a means of improving the matching of supply and demand rather than a means of fixing prices in the supply chain.

5.60 The Competition Commission investigation found that category management was a common business strategy in the UK grocery market. The fruit category was found to display highly coordinated supplier activities, suggesting consolidation within the industry. However, this was not found to adversely impact on retailers as a large fruit category manager represents a security of year-round supply.

5.61 The increased concentration in the retail sector, coupled with the need for a year-round co-ordinated food supply, has also coincided with increased use of just-in-time[5] and lean production technologies. According to Precision Prospecting (2005), "*efficiencies are gained through: planning and pre-programming with key suppliers up to a year in advance; the use of innovative systems and advance technology maximise efficiency throughout the value chain; [and] real time ordering and shortening lead times to minimise the time and cost of holding stock in warehouse*."

5.62 **Just-in-time management** is an approach to reduce the amount of stock held in storage. Produce with a short shelf life is particularly at risk of waste if it is not sold to the consumer in time. In the case of perishable produce, just-in-time technology has served to transfer the risk away from the retailer and allows the crop to remain in the field until it is actually needed. While this reduces waste and minimises storage costs, it also

[5] Just-in-time production treats idle stock as a wasteful resource and therefore employs forecasting techniques to minimise the level of produce in storage. The crops are harvested when an order is placed and the order is set so that the retailer minimises storage costs on the produce. The result is that producers are more vulnerable to sudden changes in demand.

means that producers need to be flexible and able to respond to sudden fluctuations in demand. We were told by one employer that orders arrive and need to be dispatched the same day. Others told us they only know their orders on the day or the previous evening and the farm needs to respond to surges in demand during periods of good weather and public holidays.

5.63 Another development has been the use of **open book accounting**, whereby some suppliers grant buyers access to their financial accounts, providing transparency both to the level of profits built in to the pricing (to monitor the distribution of margins throughout the food supply chain), and also allowing identification of inefficiencies. "*The governance of value chains by large retail multiples sees them manage supply through close attention to relations with their suppliers.*" (Geddes, A., 2008). However, our discussion with partners (both among retailers and producers) suggested that while this practice does exist in some areas, it is not as common as category management.

5.64 There is powerful downward pressure on prices from retailers who can easily substitute to imports if the price, quantity and quality conditions of agricultural and horticultural output are not satisfactory. "*These arrangements have the effect that margins are much higher at the top end of the value chain*" (Precision Prospecting, 2005). Figure 5.9 shows the share of the value of a basket of food items (at retail prices) which a farmer would expect to receive. In 1988, a typical farmer would likely receive 47 per cent of the retail price of a basket of food items. By 2011, this share had been pushed down to 39 per cent.

Profits in horticulture

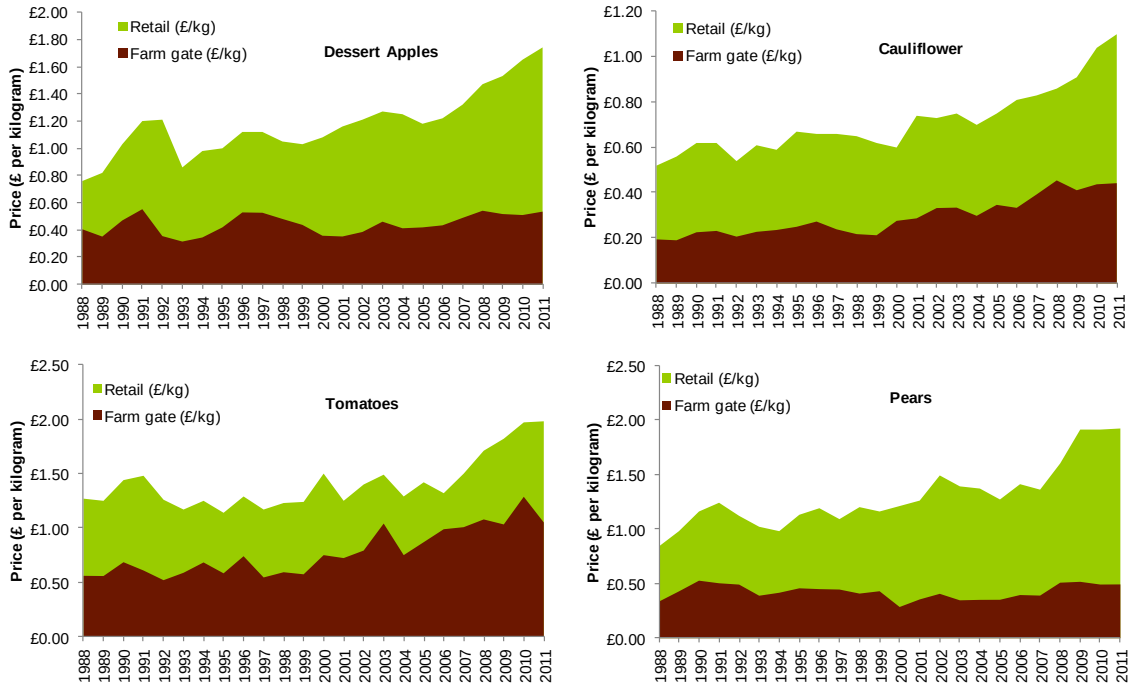
5.65 It is useful at this point to consider the margins of farms in horticulture and other types of farming. This provides an indication of the vulnerability of horticulture to market shocks which might impose additional costs on the farmer. Table 5.5 shows the distribution of farm business incomes for cereal, general cropping and horticultural farms. Farm business income is conceptually equivalent to net profit.

5.66 Table 5.5 shows that the average net profit per farm in horticulture in 2011/12 was £55,300, approximately 55 per cent of the net profit in general cropping and 58 per cent of the net profit from cereal farming. Approximately 17 per cent of horticultural farms reported a loss (compared to 2 per cent and 7 per cent of cereal and general cropping farms respectively). While 31 per cent of cereal farms received a net profit of £100,000 and over in 2011/12, only 13 per cent of horticultural farms could achieve this level of return. However, it can also be seen in Table 5.5 that these results are influenced by the size of the farm. The average net profit for cereal farms varied from £89,800 per farm for small farms to £271,700 per farm for large farms, while the net profit for horticulture farms varied from £12,000 per farm to £107,000 per farm for small and large farms respectively.

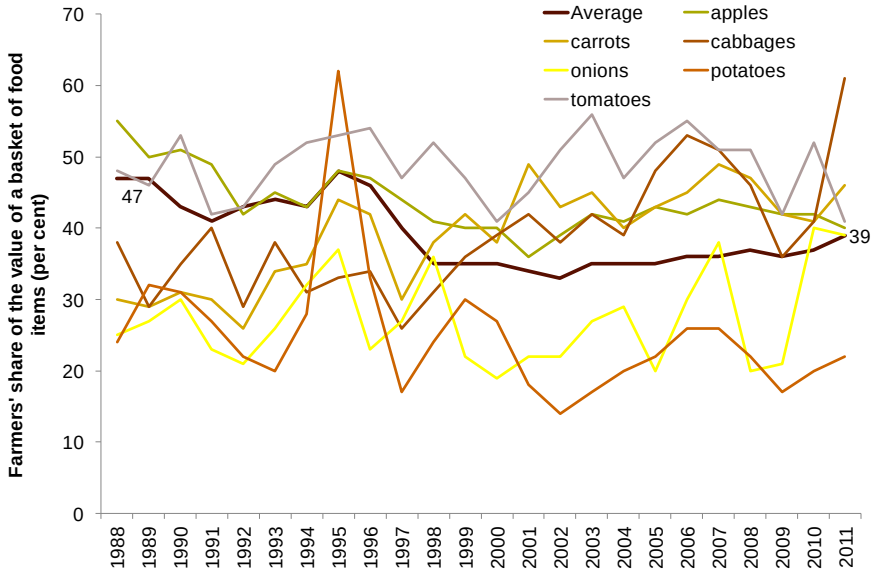
5.67 These relatively narrow profit margins in horticulture suggest that it may be less resilient to increased costs in the future than some other sub-sectors of agriculture. Further, narrow margins mean there may be little in the way of surplus funds for the purposes of investment in new technology or research and development.

Figure 5.9: Comparison of retail price and farm-gate price and the farmers' share of the value of a basket of food items, 1988 to 2011

Comparison of retail price and farm gate price for dessert apples, cauliflower, pears and tomatoes, 1988 to 2011, £ per kg



Farmers' share of a basket of food items, 1988 to 2011



Notes: Farm gate prices represent the price received by the producer. This will include the costs of production (labour, land, machinery, seed, fertiliser, etc). Retail prices include the cost of transport, packaging, branding and storage. Furthermore, in some sectors there will be intermediary organisations such as wholesales or independent category managers. Therefore, the difference between retail prices and farm gate prices may not represent the profit accrued to the retailer. Source: Office for National Statistics (2012d), Defra (2012a)

Table 5.5: Distribution of farm business incomes by farm type, per cent, 2011/12

		Cereal	General Cropping	Horticulture
Less than £0		2	7	17
£0 to less than £10,000		5	5	18
£10,000 to less than £20,000		5	19	12
£20,000 to less then £30,000		7	6	14
£30,000 to less than £40,000		7	5	2
£40,000 to less than £50,000		20	16	9
£50,000 to less than £75,000		13	5	2
£75,000 to less than £100,000		9	6	15
£100,000 and over		31	31	13
Average (£ per farm)	All farms	94,612	100,902	55,287
	Small*	89,755	60,998	11,968
	Medium**	138,634	68,066	24,353
	Large***	271,749	209,135	106,938

Notes: Farm business income for sole traders and partnerships represents the financial return to all unpaid labour (farmers and spouses, non-principal partners and directors and their spouses and family workers) and on all their capital invested in the farm business, including land and buildings. For corporate businesses it represents the financial return on the shareholders capital invested in the farm business. Farm Business Income is equivalent to financial Net Profit and calculated as total output *less* fixed and variable costs *plus* the profit (or loss) on the sale of assets. Data are from results of the Farm Business Survey (FBS) in England. Data relate to the samples of farms providing information on their 2011/12 accounts, and are weighted to represent all farms with a total economic Standard Output of 25,000 Euros and above. Data for 2011/12 for Scotland, Wales and Northern Ireland were not available.*Small farms are defined according to those with standard labour requirement greater than or equal to 1 and less than 2. **Medium farms are defined according to those with standard labour requirement greater than or equal to 2 and less than 3. *** Large farms are defined according to those with standard labour requirement greater than or equal to 3.
Source: Defra (2012d)

5.4 Supply of horticultural outputs

5.68 This section will consider factors which affect the producers' ability to respond to changes in prices in the product market by reallocating the factors of production at their disposal.

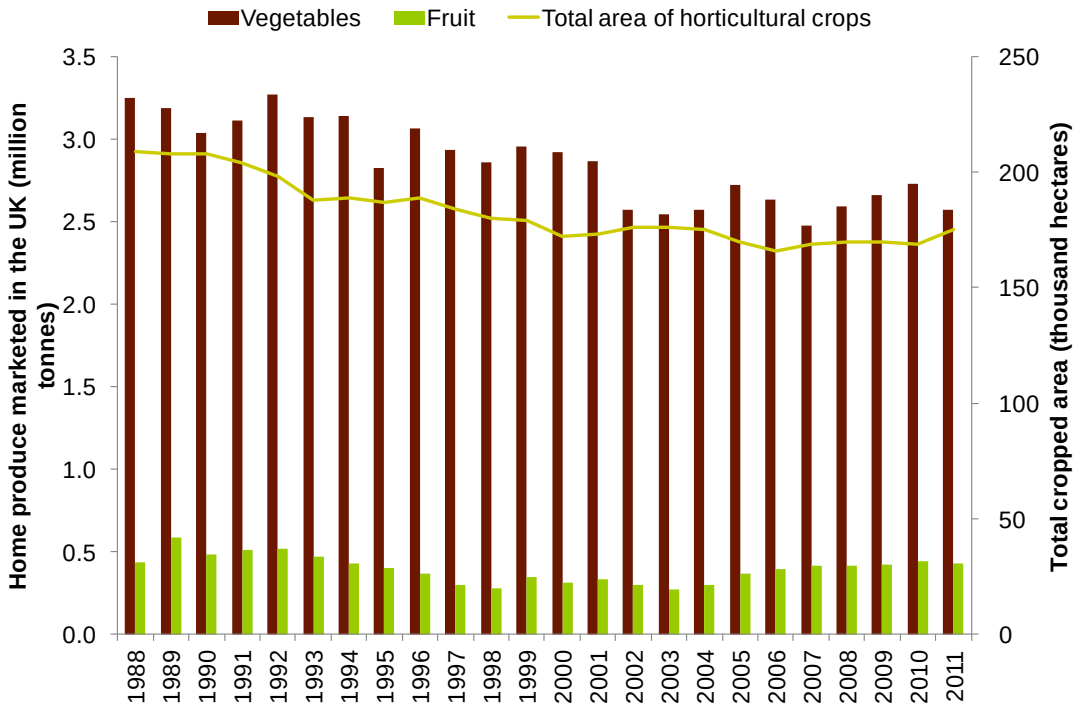
5.69 First, we consider the extent to which labour costs contribute to the final cost charged to consumers. Second, we discuss the capital and technology available to producers and the extent to which they might be willing and able to make such reallocation. Third, we consider the producers' labour resources, with a more detailed discussion presented in Chapter 6.

Factor intensity of production

5.70 As shown in Figure 5.3, real gross agricultural output has decreased in recent decades and in 2011 was almost half of the output in the early 1970s. Considering fruit and vegetables in particular, Figure 5.10 shows declining output when compared to the late 1980s. This has been

accompanied by a decline in the land dedicated to agricultural and horticultural production in the UK.

Figure 5.10: Home produced fruit and vegetables marketed in the UK and total cropped area for horticulture, million tonnes and thousand hectares, 1988 to 2011



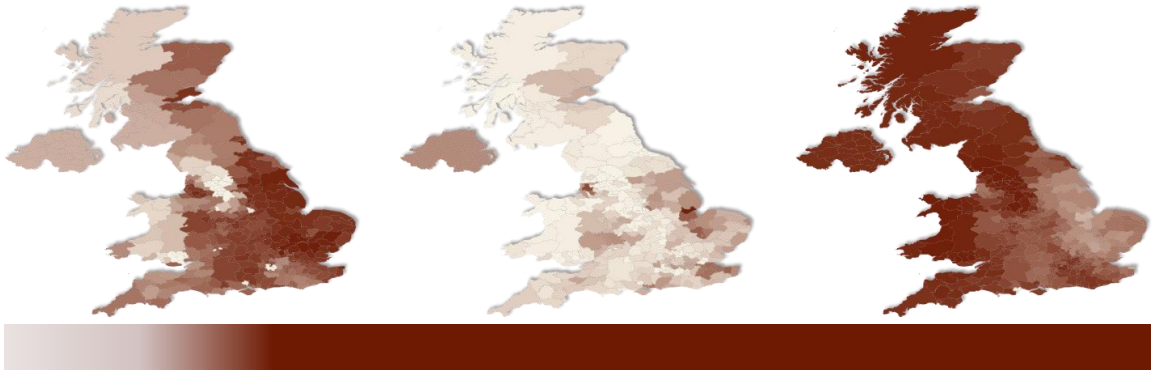
Note: Total area of horticultural crops will include land use for plants and flows, hardy nursery stock, fruit and vegetables.
Source: Defra (2012a), Defra (2012b)

5.71 Table 5.6 shows the geographic distribution of horticulture across the UK where data are available. It can be seen that horticultural activities are more localised than cereal farming and land used for grasslands.

5.72 The table also shows the ten local authorities in England with the largest land area dedicated to horticultural activities in 2010, with particular concentration along the east of the country and in the West Midlands. We were also made aware of some pockets of farms producing plants and flowers in the South West of England and in Eastern Scotland.

Table 5.6: Agricultural land use in the UK, 2010

Cereals	Horticulture	Grasslands



Low land use Medium land use High land use

Top 10 Local Authorities in England by horticultural land use, 2010

Local Authority	Hectares	Local Authority	Hectares
Boston	9,356	County of Herefordshire	6,574
City of Kingston upon Hull and East Riding of Yorkshire	7,609	Kings Lynn and West Norfolk	5,576
South Holland	7,344	West Lancashire	3,612
East Lindsey	6,996	Breckland	3,524
East Cambridgeshire	6,589	Fenland	2,902

Note: Data from Scotland refers to 2011. Data from England, Wales and Northern Ireland refers to 2010. Source: Defra (2010b), The Scottish Government Environment and Forestry Directorate Rural and Environmental Science and Analytical Services (2012), Welsh Government (2012), The Department for Agriculture and Rural Development (2012)

5.73 Thus less land area is employed in horticulture than alternative agricultural enterprises. Analysis by Defra has determined the Standard Labour Requirements for different agricultural enterprises. Table 5.7 provides estimates of the annual number of labour hours required per head of livestock or per hectare of land on a typical farm in the period 2004 to 2008. The standard labour requirement for outdoor vegetables and salad is approximately 280 labour hours per hectare per year. Flowers and plants under glass require 13,000 labour hours per hectare per year, significantly more than any other crop type. Approximately 425 labour hours per hectare per year are required for a typical soft fruit farm, while hardy nursery stock requires 1,900 labour hours per hectare per year.

5.74 In comparison to the large numbers of labour hours required for horticultural farming, industrial crops (sugar beet and hops) require between 33 and 60 labour hours per hectare per year, cereals require 18 labour hours per hectare per year and grasslands require 3.1 labour hours per hectare per year. Based on these estimates, horticulture is significantly more labour intensive than other types of agriculture.

Table 5.7: Standard labour requirements (SLR), 1976 - 2008

Activity		Labour hours per head per hectare per year			Implied Herd (head) Crop size (hectares) *	
		1976	2000	2004-2008	2000	2004-2008
Arable	Cereals**	20	20	18	95	106
	Oilseeds**	20	15	16	125	119
	Hops	240	60	60	30	32
	Sugar Beet	88	33	33	60	58
	Field peas & beans	20	10	16	190	119
	Main crop Potatoes	240	90	110	20	17
	Early Potatoes	200	120	200	15	10
Horticulture	Outdoor Vegetables and salad**		100	280	19	7
	Other peas & beans		500	500	4	4
	Vining Peas		25	12	75	158
	Top and soft fruit	480-1,680	450	425	4	4
	Hardy Nursery Stock	2,400	1,500	1,900	1	1
	Vegetables under glass		5,000	7,000	-	-
	Flowers & plants under glass	21,600	25,000	13,000	-	-
	Mushrooms		7,220	7,220	-	-
Cattle	Dairy cows	56	39	42	50	45
	Beef cows	20	12	26	160	73
	Other cattle	12	9	12	210	158
Sheep	Ewes & rams (lowland)	4	5.2	5.2	365	365
	Ewes & rams (less favourable area)	4	4.2	3.7	450	514
	Other sheep (lowland)		3.3	2.9	575	655
	Other sheep (less favourable area)		2.6	3.1	730	613
Poultry	Table fowl	0.24	0.04	0.09	47,500	21,111
	Laying hens	0.32	0.17	0.36	11,175	5,278
	Other poultry		0.045	0.1	42,000	19,000
Other	Grassland**		4	3.1	475	613
	Set aside		1	2.9	1,900	655
	Rough grazing**		1.5	1.5	1,265	1,267

Notes: ** For Northern Ireland data, the SLRs for these items are multiplied by a factor of 1.5 to take account of different field sizes. For mushroom production in Northern Ireland an SLR of 1,050 per tunnel is used. In the 2004-8 study contractor and overhead labour are included. Previous studies considered direct labour use alone.* Working year = 1,900 hours.
Source: Defra (2010) and Wilson (2009)

5.75 To consider the sector in terms of the Hicks-Marshall condition set out in Box 5.1, it is necessary to determine the intensity of factors of production (land, labour and technology) relative to each other.

5.76 By considering Defra data on the costs to the organisation we can estimate the labour intensity of production in horticulture. Table 5.8 provides a detailed breakdown of the contribution of labour and machinery to the total costs of production for different farm types in 2011/12.

Table 5.8: Contribution of land, labour and machinery to total production costs of a typical farm by farm type, per cent, 2011/12

	Casual Labour *	Regular Labour *	Land	Machinery
Cereal	1	5	10	22
General Cropping	3	10	10	21
Dairy	1	9	8	14
Grazing livestock (lowland)	1	5	9	22
Grazing livestock (Less Favourable Area)	2	4	10	22
Specialist pig	1	10	6	8
Specialist poultry	1	7	6	5
Mixed	1	7	9	19
Horticulture	10	22	4	9
All Farm Types	2	9	9	17

Note: Costs refer to typical farms in England and excludes costs relating to agri-business, diversification out of agriculture and costs relating to the Single Payment Scheme. Includes depreciation of buildings and works, and depreciation of glasshouses and permanent crops. Rows do not sum to 100 per cent as the remaining proportion accounts for raw materials in production, such as seed and fertiliser. *Labour costs do not include the economic cost of unpaid manual labour.
Source: Defra (2012d)

5.77 Table 5.8 shows that, on average, land costs accounted for only 4 per cent of total horticulture costs (compared to an average of 9 per cent across all farm types). Combined labour costs for regular and casual workers accounted for 32 per cent of total costs in horticulture: 10 per cent for casual labour and a further 22 per cent for regular labour. The economic cost of unpaid manual labour, not included in Table 5.8, would account for a further £25,200 labour cost per farm (or 7.6 per cent of agricultural costs). By contrast, machinery costs only accounted for 9 per cent of the farms costs. The remaining 54 per cent of horticultural farms' costs were made up of variable costs (seed, fertiliser, contracts, etc) and general miscellaneous farming costs.

5.78 However, as shown in Table 5.7, the standard labour requirements vary considerably within horticulture, and therefore the average figures shown in Table 5.8 may not fully represent the situation facing farms which use seasonal labour. Evidence submitted by partners showed the contribution of labour costs to total costs varying between 30 and 50 per cent. The evidence we received suggests that for farms relying on SAWS workers, the labour share of total costs is much higher than for the average horticultural farm.

5.79 Furthermore, a report prepared by the National Horticultural Forum (2006), estimated that "*Labour is the single largest input cost for brassica growers today, accounting for 66 per cent of total costs*". Later in the same report it is argued that "*Labour currently accounts for around 50 per cent of total input costs in the [Hardy Nursery Stock] sector and is viewed as making a significant contribution to the UK market's inability to compete on price*". The National Horticultural Forum (2011a) also reports that "*planting and*

harvesting operations … are enormously labour intensive and account for more than half of the costs of production."

5.80 Considering international evidence, the American Farm Bureau Federation (2006) found that in the US agriculture sector "*hired labour costs for operations specialising in production for the fresh [fruit and vegetable] market also range from one-third to over half of the total cost of production*". Calvin and Martin (2010) also consider the US agriculture sector and find that "*labour makes up 42 per cent of the variable production expenses for US fruit and vegetable farms*."

5.81 Therefore the data show that horticulture involves a labour intensive production process, with a substantial proportion of the farm's costs dedicated to compensation of the workforce. Considering then **the second of the Hicks-Marshall conditions** in Box 5.1, we estimate that labour costs contribute between a third and half of total labour costs. **This implies that an increase in labour costs will feed through into farm gate and retail prices, lowering both product and labour demand.**

Technology, capital and process

5.82 Having established the intensity of labour and land in the production process, it is important to recognise the value of technological progress in the sector.

5.83 There have already been considerable technological advances in agriculture and horticulture in recent years, which have allowed the sector to extend the product season and to increase harvest efficiency. The National Horticultural Forum (2011a) highlights two crop types as case studies for the effective translation and exploitation of research: strawberries and brassicas (cabbages, cauliflowers, broccoli and Brussels sprouts).

5.84 Single-span tunnel structures were first adopted in the 1980s for the purpose of strawberry season extension. This was followed by the introduction of multi-span polytunnels in the 1990s. Light-diffusing and heat-retaining films which cover the tunnels have also been developed to improve strawberry crop yields. Various soil-less production systems have also been adopted for tomatoes and strawberries to improve nutrition and disease resistance and minimise water loss. Between 1995 and 2010 these developments served to extend the UK strawberry season to nine months and smoothed the mid-year peaks in production.

5.85 While mechanical solutions for strawberry picking are still in a developmental stage, ergonomic solutions (for example table-top planting[6]) have increased productivity by up to 30 per cent. Picking rigs,

[6] Table-top farming allows the planting of crops in rows of plastic troughs approximately 1½ meters above the ground. Advantages of the technology include: picking is less physically

which can be used for tasks such as picking, de-blossoming, de-crowning and weeding have, in some cases, increased the speed of hand planting by 50 per cent, while reducing the damage to beds from kneeling (Horticultural Development Company, 2010).

5.86 Similarly, although the use of genetics has been limited in strawberry crops (in part due to regulatory barriers), new and improved brassica types have been developed. These resulted in a five percentage point increase in brassica yield between 1995 and 2010 and a 10 percentage point improvement in quality.

5.87 The structure of the industry has also likely minimised any inefficiencies in the production process. One example has been the integrated cool chain for the bagged salad market which developed in response to just-in-time delivery requirements.

5.88 The downward pressure on prices, as a result of falling relative import prices and the concentration of negotiating power among retailers, means that factor productivity in horticulture is already operating close to capacity. To raise labour productivity, further technological developments would be required.

5.89 To understand the extent to which further mechanisation might be possible, we consider vegetables and soft fruit production in the United States. Calvin and Martin (2010) report that 75 per cent of the vegetable and melon production is mechanically harvested. When they look at the more fragile fruits, such as apples and oranges, "*researchers are experimenting with a two-stage approach … a machine using vision technology locates and maps the fruit, and a second … uses robotics to selectively harvest the fruit as it matures … a new wave of mechanical harvesters may be on the horizon*."

5.90 However, as reported in the American Farm Bureau Federation (2006), *"[in the United States] mechanisation of processing tomatoes … took 10-15 years … there were none of the challenges associated with fresh fruits and vegetables where quality and appearance are at a premium."*

5.91 Technological and social developments in the UK over the past twenty years have already led to significant changes in the way in which food is purchased, inventory is managed and food is processed. Furthermore, the structure of the market has evolved in response to both economic pressures and changing consumer habits. These developments, in turn, have affected the relationship between the retailer and the producer, leading to increased use of just-in-time supply methods.

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demanding as less bending is required, the need for soil sterilisation is eliminated and there is greater control over plant growth.

5.92 There has already been some mechanisation in horticulture (we referred earlier to the use of rigs and the internalisation of processing activities) and the food supply chain has structured itself in such a way that efficiency gains are quickly exploited. However, these are only likely to be long-run solutions to price shocks. In the absence of new technology or supply techniques in the short to medium term, we do not see that the sector can turn to technology further than it has already.

5.93 As part of the UK Industrial Strategy announced by the Secretary of State for Business, Innovation and Skills (BIS) in September 2012, the Government is developing a long-term agri-tech strategy focused on knowledge transfer and the application of technology to the agriculture sector. In October 2012 BIS launched a call for evidence in relation to the UK strategy for agri-tech. The call for evidence builds on the findings of the Taylor Report (Defra, 2011c), which highlighted the need to:

- encourage private sector investment in R&D;
- reinvigorate applied research;
- ensure research is translated into practical benefits;
- equip farmers and growers with the skills to succeed; and
- drive scientific advances and technological innovation across the world.

5.94 The call for evidence closed in November 2012 and responses were in the process of being analysed at the time of writing this report.

5.95 The National Horticultural Forum (2011b) reviewed the future of horticultural research and development, concluding that "*it is likely that the broader industry further down the supply chain will need to become much more deeply engaged with the development of strategy, advocacy of research and leveraged research if the relevant innovation and skills are to be maintained.*" In a separate publication, the same organisation noted that "*retailers in particular are not much engaged with research directly and do not contribute to any levy*" (National Horticultural Forum, 2011a).

5.96 Furthermore, although the structure of the sector has evolved in the response to the drive for efficiency and partners report that mechanisation does take place where possible, there are some crops, particularly in horticulture, which may be resistant to mechanisation. In some cases this may be because the seasonal nature of the crop makes it unviable to undertake the initial investment in capital which will sit idle for most of the year. In other cases, such as soft fruits, the tender and perishable nature of the crop is unsuitable for mechanised harvesting. "*Human dexterity and judgement is needed in the picking and packing of produce to meet consumer demand and to address concerns of uniform maturity, incomplete mechanical fruit removal, mechanical bruising, and differences in readiness criteria. Next generation technology that addresses these*

needs is not even on a drawing board at this time." (American Farm Bureau Federation, 2006).

Labour

5.97 It was established earlier in the chapter that horticulture is a labour-intensive production process. In order to understand the sensitivity of supply and demand for labour to the sector, it is important to recognise the different types of labour engaged in production.

5.98 It is sufficient at this point to recognise that a shock to the labour market is unlikely to lead to large-scale substitution with other factors of production. In 2006, the World Bank (World Bank, 2006) considered the Australian horticulture sector, noting that "*in horticulture…many crops are resistant to mechanisation (because of their tender, perishable and highly seasonal nature), leaving production heavily dependent on low-skilled manual labour, particularly in peak seasons such as harvest.*"

5.99 We might similarly conclude that, faced with a change in wages, UK producers will be reluctant (or in some cases, unable) to trade off labour and alternative factors of production, such as capital and technology. In Chapter 6 we provide a more thorough analysis of the labour market engaged in agriculture and horticulture and consider the extent to which different types of labour are substitutable with each other.

5.5 Conclusions

5.100 The evidence presented in this chapter demonstrates that the agriculture sector has experienced a period of relative decline over recent decades. In recent years, however, the value of horticultural production appears to have resisted this trend.

5.101 In order to consider the manner in which potential price shocks might transmit through the food supply chain, this chapter referred to the Hicks-Marshall condition for derived demand which relates the sensitivity of demand for labour in agriculture to the price of the outputs produced, the relative contribution of labour costs to the total costs of production and the alternative factors of production.

5.102 Considering the data available, we conclude that the demand for horticultural output is sensitive to changes in the price of UK produce. The relative price of substitutable imports is a key determinant of this sensitivity. Developments in the structure of the supply chain would suggest that margins will be more resistant to cost increases at the retail end of the chain and that there is an increasing requirement for producers to bear any increases in input costs.

5.103 We find that while horticulture is significantly less land-intensive than alternative crop types, it is heavily labour-intensive. Labour costs account for between 30 and 50 per cent of standard horticultural farms' total costs. While technological advances have made substantial improvements to the

productivity of the sector, we do not see that capital is likely to be substitutable for labour in the short run.

Chapter 6 The labour market in agriculture and horticulture

6.1 Introduction

6.1 In this chapter we turn our attention to the sources of seasonal labour supply and the role of the Seasonal Agricultural Workers Scheme (SAWS) within this. The supply of seasonal labour is driven by the nature and structure of the horticulture sector, which we discussed in Chapter 5, especially through the link between pay in the sector and the prevailing market prices for horticultural produce.

6.2 Our discussion of seasonal labour supply in this chapter should be viewed against the backdrop of the UK labour market performance generally. It is a natural and obvious question to consider just why there is a need to source temporary migrant seasonal labour when UK unemployment remains at 7.8 per cent in Q4 2012, and has been approximately at this level since the recession of the late 2000s. Young and unskilled workers are particularly likely to be unemployed. The proportion of 16 to 24 year olds not in employment, education or training in England increased from 13.2 per cent in 2001 to 16 per cent in 2012. However, as we explain below, the picture is more complex and the location and nature of seasonal work required in the horticulture sector means that these jobs are unlikely to be filled on a sufficient scale by the UK unemployed.

6.3 This chapter is organised as follows: following a brief overview of the current workforce in agriculture and a description of seasonal work in horticulture, we introduce the main sources of seasonal labour supply. We then describe the role of pay and other relevant factors in determining demand and supply of seasonal labour in horticulture.

6.2 The agricultural labour force

6.4 The agricultural labour force is defined by the Department for Environment, Food and Rural Affairs (Defra) as the total number of people working on farms and includes farmers, business partners, directors, spouses, salaried managers and other workers including seasonal and casual workers. When referring to the agricultural labour force in this chapter, we refer only to those people working on commercial agricultural holdings. In the horticulture sector, commercial agricultural holdings are defined as holdings which have more than five hectares of agricultural

land, one hectare of orchards, 0.5 hectares of vegetables or 0.1 hectares of protected crops (Defra, 2012a).

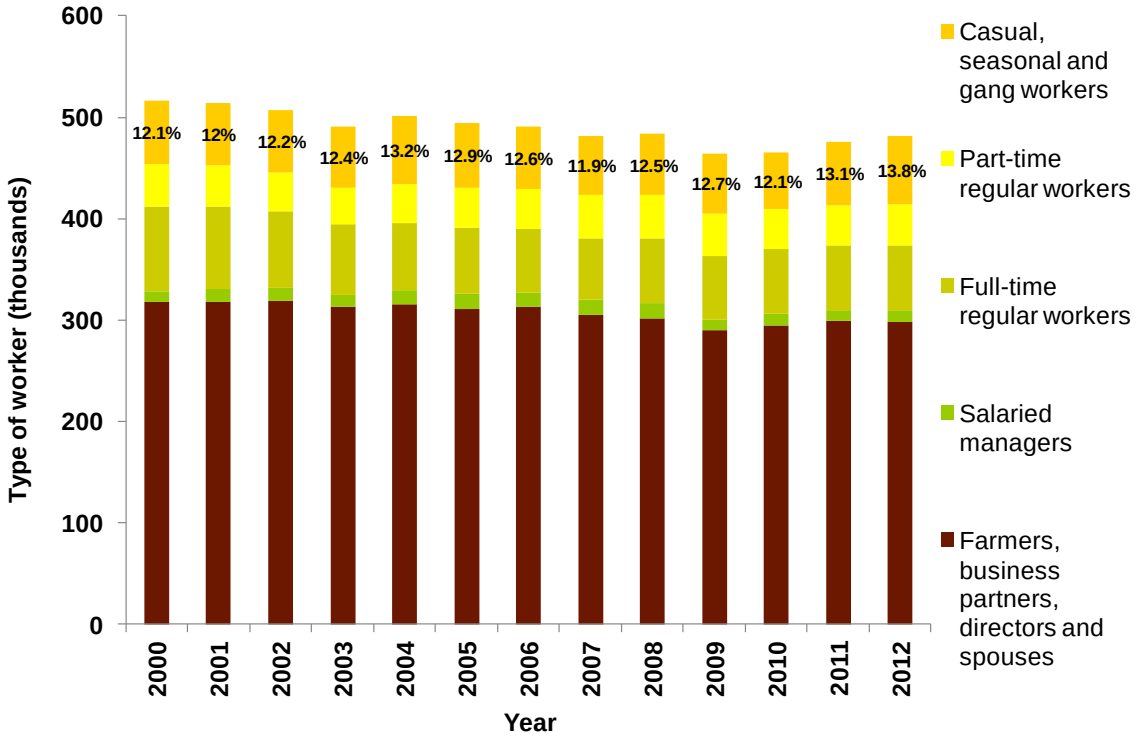
6.5 Agriculture currently employs approximately 1.6 per cent of the total UK workforce. This proportion is higher than this sector's contribution to gross domestic product, but relatively small when compared to the rest of the UK economy. This implies that output per worker in agriculture is relatively low, possibly reflecting the low skill level of many of the jobs in agriculture when compared to other sectors.

6.6 According to Defra (2012c), there were 481,000 people working in agriculture in the UK in 2012. The majority of these – 298,000 – are farmers, business partners, directors and spouses, though half of these are classed as part-time. There are 115,000 permanent employees and 67,000 seasonal, casual or gang workers (see Figure 6.1). Defra (2012a) defines this latter group as "*family and non-family workers who are usually employed for less than 20 weeks of the year and are employed on survey day (1 June). This includes youth trainees on official schemes and Seasonal Agricultural Workers Scheme (SAWS) workers."* Hereafter, for brevity, we refer to this group simply as seasonal workers.

6.7 Over the last sixty years the agricultural work force in England alone has more than halved, declining by 57 per cent. In 1950, 688,000 people were employed in agriculture in England, the majority permanent staff (including all full-time and part-time farmers and their spouses, as well as the Women's Land Army). This had fallen to just 293,000 by 2010. The number of seasonal workers in England has fallen by almost 100,000 since 1950[7]. This reduction of labour has continued, partly due to mechanisation and technological advancements which reduced the labour required in the agriculture sector.

[7] Data for years 2000 and onwards have been updated using a revised methodology. Coincidentally, data prior to 2000 have not been updated and so comparisons with later data should be made with caution.

Figure 6.1: Total employment in UK agriculture by type of worker, 2000 to 2012



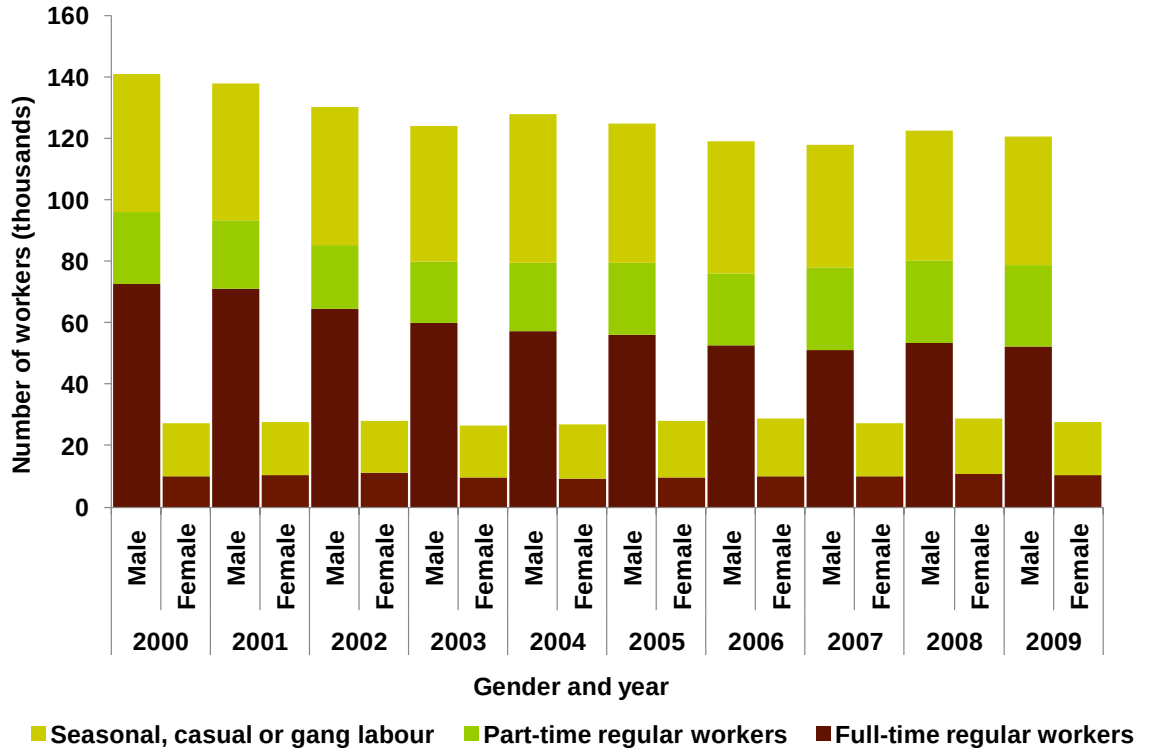
Source: Defra (2012e)

6.8 Over the past decade the agricultural work force has continued to decline, though the volume of seasonal workers has remained broadly stable. There were 63,000 seasonal workers across the UK in 2000. In 2012 there were 67,000: 45,000 seasonal workers in England, approximately 8,300 in Northern Ireland, approximately 6,500 in Scotland and approximately 6,800 in Wales.

6.9 Due to a lack of data we are unable to present a reliable picture of how this seasonal workforce is distributed across the different sub-sectors of agriculture. However, the evidence that was available indicated that the majority of seasonal workers are concentrated in horticulture.

6.10 In terms of demographics, while we do not have a gender breakdown for farm owners, the majority of employees across the three types (permanent full-time, permanent part-time and seasonal) working in agriculture are male (see Figure 6.2).

Figure 6.2: Type of worker in UK agricultural workforce by gender, 2000 to 2009



Notes: Data on the gender of farmers, business partners, directors, spouses and salaried managers was unavailable.
Source: Defra (2012e)

6.11 At present, three-quarters of female farm workers are either part-time or seasonal, whereas a higher proportion (43 per cent) of male farm workers are in full-time permanent roles. A minority (one third) of male farm workers are employed as seasonal labour.

6.12 Another key characteristic of the agricultural labour force is the aging profile of farm owners. In 2010, the median age for farmers in the United Kingdom was 59, ranging across the UK from about 55 years old in England to 60 in Wales. A report from Defra (2012a) explains that in 2000 a quarter of farmers were younger than 45 and a quarter were aged 65 or over. By 2010 only 14 per cent of farmers were younger than 45 and almost a third of farmers were aged 65 or older.

6.3 Characteristics of seasonal horticultural work

6.13 As SAWS workers are primarily engaged in horticulture, we next consider the characteristics of seasonal horticultural work. In Chapter 3 we provided a description of the type of activities undertaken by SAWS workers, which, in this chapter, we supplement by providing more detailed evidence of the requirements of seasonal workers within horticulture. We then examine in greater detail the groups of labour that undertake this work, the underlying pay structures and the motivations driving labour supply.

6.14 As demonstrated in Chapter 5, horticulture remains highly labour intensive, although increased mechanisation and improved agricultural practices have led to significant productivity gains over time.

> *"Horticulture is the most intensive farming of all types and heavily dependent upon casual labour."*
>
> Defra response to MAC call for evidence

6.15 Much of the work in horticulture is seasonal with many of the workers only being required during the picking season. Historically in the UK the horticultural season has been restricted to the spring and summer months. Mechanisation, crop development, the use of polytunnels and other technological changes have served to extend the picking season and means that workers can now be picking as early as March and as late as December. The work over the calendar year is characterised by periods of significant intensity followed by periods of quiet. As referred to in Chapter 3, Scott (2012) states that the demand for farm labour at peak season is about four and a half times the demand at low season.

> *"Every berry we sell is picked by hand – we need lots of hands."*
>
> Hall Hunter Partnership response to MAC call for evidence

6.16 Technology has allowed horticulture to become more productive and relatively less labour intensive, although not to the same extent as in other areas of agriculture. Technological advances such as table-top growing and polytunnels make conditions easier for workers, and allow them to work at a faster rate. One grower told that us that table-top strawberries can be picked at a rate of between 25 to 40 kilograms per hour by an experienced picker, compared to 8 to 11 kilograms per hour when picked in the field. The same grower told us that table-top technology had allowed their picking workforce to be scaled back significantly from 4,600 seasonal staff in 2006 to 800 seasonal staff in 2012 due to the increase in productivity.

6.17 As a result, fewer workers are required or workers can be allocated to other tasks such as on-site packing. These additional activities have, to some extent, served to level out the demand for labour throughout the year.

6.18 Even with this increase in productivity horticulture remains very labour intensive. Many crops such as berries require skilled hand-picking to avoid damaging the fruit and technology has not yet been developed to replace human pickers. Hall Hunter Partnership advised us that blackberries will always need to be expertly hand-picked due to the fragility of the berry and highlighted the limitations of possible technological advancement. We discussed technological advancement in greater detail in Chapter 5.

Seasonal Migrant Labour

"Where commercially and technically feasible, farmers and growers have invested significantly in mechanisation and infrastructure for various stages of husbandry, picking and processing. But some crops are not susceptible to mechanisation, and labour-intensive methods of handling are then indispensable."

Farming and Rural Issues Group for the South East response to the MAC call for evidence

"Our investment in modern infrastructure will help to reduce our historical requirement for labour, but in our view fruit must be picked by hand to ensure quality standards are upheld."

H T Hulme response to MAC call for evidence

6.19 Despite the technological advances in recent years, the nature of seasonal horticultural work continues to be physically demanding and driven by timing. As discussed in Chapter 3, workers are required to begin the day early and work long hours in often unpleasant conditions such as cold and wet fields, hot glasshouses, and noisy and cold packing rooms. Characteristically, the work requires a great deal of physical effort. We spoke to workers who said that they bend down over 4,000 times a shift to cut celery and others who pick 20 kilograms of strawberries an hour.

"...The skill/motivation requirements [of horticultural workers] have increased massively in the last ten years. Strawberry pickers are required to make many different decisions on a minute by minute basis relating to fruit ripeness, shape, size, grade, punnet type, pest damage, etc...Getting these jobs wrong can create costly rejections from the pack house or retailer, damage to trees and reduced crop potential."

Robert Boucher & Son response to MAC call for evidence

6.20 The majority of seasonal workers are required to work and live on-site due to the remote locations of farms and to meet just-in-time ordering from supermarkets. This is particularly crucial during periods of peak demand. Seasonal agricultural workers typically live on-site in caravans, hostels or portacabins which sleep between two and six people within a room. The characteristics of the food supply chain require that the labour supply is readily available, flexible and productive to provide the efficiencies demanded by the industry.

"The need for long and flexible working hours does mean that living on-site is a huge advantage. If the weather is wet or too cold/hot our start times will vary, often only at the very last minute."

Wey Street Farm response to MAC call for evidence

6.21 Increased use of just-in-time ordering by the supermarkets has increased the requirement for a flexible and willing labour force to respond to sudden fluctuations in demand by consumers. Geddes (2008) stated: "*demand for just-in-time delivery requires flexible resources on the part of food processors so that peaks and troughs in demand … can be met. If they cannot meet the demand of the larger supermarkets for the right product at the right time in the right place, then it is likely that other suppliers will be ready to step in.*"

"The key to success is the reliability...Gathering fruit at the right time and in the right condition is key to quality produce that is demanded of us by the supermarkets and this can only be achieved by good quality pickers."

A Hinge & Sons Ltd response to MAC call for evidence

6.22 Seasonal workers are required to be flexible to the shifts in supply and demand. Changes in supply can be caused by the weather necessitating that the crops are picked when they are ready and changes in consumer choice can affect the demand for certain types of produce. As set out earlier, workers living on-site are a source of additional labour at short notice at any time of the day or night.

"On horticultural units the need to harvest during certain windows of the day can be unpredictable (for example, soft fruit ripens very quickly) and workloads can fluctuate in response to retail orders which can vary throughout the course of a day."

National Farmers' Union response to MAC call for evidence

"… workers are willing to work flexibly which is essential when harvesting in unpredictable conditions and where demand for labour fluctuates in response to customer orders, which can vary throughout the day … workers usually live on-site and therefore are able to respond very quickly to peaks and troughs in demands as per the requirements of our customers and the crop."

The Shropshire Group response to MAC call for evidence

6.23 Productivity is also a vital factor in a successful horticulture enterprise. Growers emphasised that seasonal workers need to be reliable. Workers who remain on the farm for the whole season and return to the same farm in subsequent years, help to minimise turnover in the workforce and reduce the costs of training new seasonal workers. We were told during our visits that it usually takes around three weeks to train a new seasonal worker up to the level of productivity at which the grower ceases to subsidise the worker's pay to bring her or him up to the agricultural minimum wage.

6.4 Supply of seasonal horticultural labour

6.24 There are four main sources of the seasonal workforce in horticulture: SAWS workers, A8 nationals hired through a variety of channels, resident UK workers and gang labour.

6.25 The data available on SAWS workers are comparatively robust and allow us to build a picture of this source of seasonal labour. By contrast, data for other sources of seasonal workers are patchy. It is very difficult to capture data on a *"large, floating and often non-English-speaking workforce"* (Geddes and Scott, 2010). We are aware from our discussions with growers and from written evidence we received, that there is considerable variation in the composition of labour used in horticulture across different farms. For instance, at a meeting we held with a dozen Scottish growers, some sourced 90 per cent of their seasonal labour through SAWS and others just 10 per cent. Most of the remainder was from the A8 countries. In this section, we draw therefore on a variety of information to present as complete a picture as possible of the overall seasonal labour force.

6.26 We also found evidence, supported by partner feedback, that some of the seasonal labour supply into horticulture is informal or irregular. For instance a survey in 2007 (Fife Partnership, 2007) of migrant workers (mainly from A8 countries) working in Fife, one of Scotland's major horticulture areas, found that one in seven did not have the required National Insurance number (NINo) registration. Estimating the number of irregular seasonal workers in the UK is difficult. Consequently, estimating the overall labour supply of *all* seasonal workers is even more problematic. For the purposes of this chapter we use the data produced by Defra as our baseline, though recognise that this may well underestimate the true figure.

6.27 What is not in doubt is that the majority of seasonal workers in agriculture are migrants and that this has been the case for some time. A survey of 268 farms carried out by Liverpool University with the National Farmers' Union in 2008 (Scott *et al.*, 2008) found that:

- just under one-third (32 per cent) of seasonal workers were sourced from Bulgaria and Romania, mostly under the SAWS;
- around half of the workers were from the A8 countries;

- one-sixth of workers were from the UK; and
- any additional labour required was recruited directly through labour market intermediaries such as informal networks and gangmasters.

6.28 Rogaly (2006) came to similar conclusions, stating that the majority of intensive agricultural workforces, such as that in horticulture, are made up of migrant workers. Many of the farms we spoke to use SAWS workers and a significant number of A8 nationals to make up the core of their workforce. Resident workers and gang labour are used in smaller numbers. Resident workers tend to be used in greater numbers on farms located close to towns, as there is a more readily available local supply of labour.

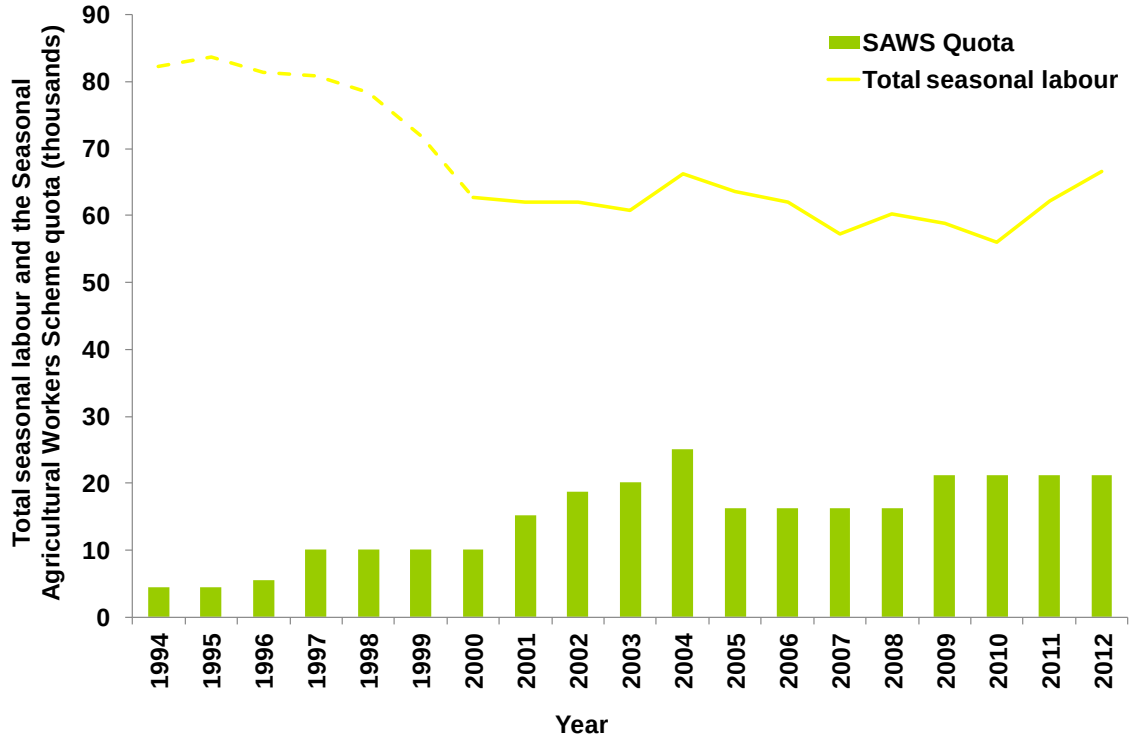
6.29 *How* this labour is recruited is also important. The recruitment network of seasonal horticultural workers is made up of a variety of channels; growers can choose to directly recruit workers themselves, or can use labour providers such as SAWS operators, other labour providers or gangmasters. Findlay and McCollum (2012) suggest that the structure of migrant recruitment channels has evolved over time. For example, following the restriction of the SAWS to A2 workers only, HOPS Labour Solutions Ltd (HOPS) and Concordia (YSV) Ltd, the two largest SAWS labour providers, initiated programmes for recruiting A8 workers.

6.30 Some recruitment channels are more successful than others. For example, labour providers were commonly used during the initial period following the A8 accession, but not enough workers were being recruited and so it is now more common for growers to directly recruit labour from overseas. In many cases workers are recruited through word of mouth, with seasonal workers returning home and telling family and friends about the seasonal work opportunities in UK horticulture.

The Seasonal Agricultural Workers Scheme

6.31 Growers told us that the SAWS is an important source for their labour. It accounts for a third of the total number of seasonal workers (see Figure 6.3). This share has grown over time. In 2000 the SAWS contributed only one in six seasonal workers compared with one in three now.

Figure 6.3: The volume of seasonal workers and SAWS quota, 1994 to 2012



Notes: Data on the total seasonal labour force within agriculture was collected using two different methodologies between 1994 and 2012. Data from 2000 onwards, depicted by the solid yellow line, has been collected using a revised methodology, including a new sampling technique which moved from a full Agricultural Census to a sample survey and the sampling of *all* holdings rather than those above defined thresholds. Data prior to 2000, depicted by the dotted yellow line, has not been updated using this revised methodology and serves only as a guide to pre-2000 trends. The two data series are not directly comparable. See Defra (2012i) for details.
Source: Defra (2012e) and UK Border Agency management information data

6.32 These data do not tell us how SAWS workers are distributed by type of activity on the farm. However, we were told by a number of farmers and growers that SAWS workers tend to be concentrated in picking and harvesting, whereas A8 workers are more likely to work in the pack houses on the farm site.

A8 nationals

6.33 As explained in Chapter 3, temporary migrant workers have been a significant source of seasonal labour in the UK for decades and have come from a wide range of countries. In more recent times there has been greater use of workers from Eastern Europe. Following the A8 accession in 2004, there was a greater focus on sourcing labour from the A8 countries. As set out earlier, some studies have estimated that at least half of the seasonal work force demand is met by A8 temporary migrants.

6.34 Following accession in 2004, HOPS established the Seasonal Workers Programme (SWP) to enable continued recruitment of A8 nationals into agricultural work, and this continues to run alongside its current recruitment of A2 nationals through the SAWS. The programme is largely based on the same principles as the SAWS yet differs in that the work

does not necessarily have to be seasonal and employment can be for longer than six months. The programme has been most successful in recruiting Polish nationals. In 2010, HOPS opened a recruitment branch in Poland to increase the number of applicants and replace capacity lost from the other A8 countries. HOPS told us that, even with the SAWS, they have not been able to recruit sufficient additional workers to meet the labour demand of their client farms.

British resident workers

6.35 Scott *et al*. (2008) found that approximately one-sixth of the demand for agricultural workers on farms was met by UK resident workers. However, the evidence we received suggested that this may well be an upper estimate and may include those employed in permanent positions such as packing. We were consistently told that only a very small number of UK resident workers now participate in seasonal work. This may be a reflection of the fact that we focussed on horticulture rather than agriculture as a whole.

Gang labour

6.36 Gang labour is identified as a group of workers who are organised by an independent gangmaster to undertake agricultural work, shellfish gathering, food and drink processing and packaging. Although agriculture is a major user of gang labour, it is important to note that other sectors, such as food processing also rely considerably on this source of workers (Geddes *et al.*, 2007).

6.37 Gang labour is regulated by the Gangmasters Licensing Authority (GLA). An evaluation of the GLA by Geddes *et al.* (2007) found that there has been a long history of informal recruitment of migrant gang labour in parts of the UK. A more recent study by Balch *et al.* (2008) found that over 1,200 GLA gangmasters are operating in the UK across a range of sectors, most notably distribution, cleaning, construction and non-food manufacturing. Balch *et al.* (2008) refer to an independent survey of the 1,200 gangmasters. This only received a 10 per cent response rate but found that: the 118 gangmasters who responded employed over 65,000 workers, the majority of which were migrants. Of these, 64 per cent originated from A8 countries, and 87 per cent of those workers were Polish.

6.38 Partners told us that the use of gang labour varies considerably between farms but the majority of the growers we spoke to used very little. For example, on a visit to growers in Scotland we were told that of the dozen businesses represented, none used gang labour.

6.5 Earnings in horticulture

6.39 Chapter 5 analysed the agricultural supply chain, in particular the relationship between growers and buyers. Ultimately, the price paid to the grower by the supermarket is heavily influenced by world prices, i.e. the

price and availability of imports. Supermarkets can choose to purchase imported goods should the price of domestic produce be too high or the quality be sub-optimal. Given this, growers face a downward pressure to supply at the import price, or lower, whilst maintaining the quality of their produce. This pressure on price is taken into account by farms when setting the price of labour, imposing tight margins within which to adjust the wage rate. The workers themselves have very little negotiating power largely as a result of this. The Agricultural Minimum Wage (AMW) does however act as a floor for this.

6.40 Given the labour intensive nature of horticultural production, the price of labour contributes substantially to the costs incurred by growers (see Chapter 5). The pay of horticultural workers is normally made up of two elements; a basic rate and an output-related rate. The basic rate is determined by the AMW, which ensures all horticultural workers earn a minimum wage regardless of the amount they pick. In addition to this, workers can earn an output-related rate which is determined by the quantity picked in relation to a target. This rate can be in the form of piece or bonus rates. Furthermore, depending on the employment contract with the grower, SAWS workers can earn an overtime rate when they work more than 39 hours in a week.

6.41 Piece rates must be set at such a rate that a worker's earnings are no lower than the appropriate minimum wage, but aside from this growers are able to set rates as they see fit taking account of factors described in Box 6.1.

Box 6.1: Piece rates

Workers earn a basic hourly rate and then can receive a bonus or earn at a piece rate should they meet a target. Rates and bonuses are determined on an annual basis according to the expected productivity levels. Only in extreme circumstances or if new harvesting machinery or methods were introduced would the bonus or rate be changed before its next due revision. Piece work rates are incremented to reflect overtime and nightshift working.

Targets for picking volumes vary by crop and are set on a daily basis according to conditions such as demand, the weather, crop ripeness and quality assessments. For packing, targets will reflect the pace at which the work is to be done, balancing packing machine demands with worker capability. Targets are reviewed to ensure that they are viable.

Although targets are set, a worker can pick and earn up to their physical limitations. Most workers want to work as much as possible to maximise their pay.

Targets can be varied on a daily basis. Some farms produce tables of targets each morning alongside a league table of picking rates. If workers fall below target then they will be paid the hourly rate. They may also be re-trained. Workers who continue to fail to meet the target will be dismissed.

It is expected that the proposed abolition of the AMW will have a negligible impact on how farms set bonuses and piece rates.

Source: Evidence provided to the MAC by S&A Produce Ltd, Hall Hunter Partnership and The Shropshire Group, 2013

6.42 Pickers typically earn more than packers. Piece rates are adjusted according to the ease or difficulty of picking. The working conditions in the pack houses are very different to those experienced by the pickers. The packers are not exposed to the elements and the work is generally not as physically demanding.

6.43 Table 6.1 provides information on the rates payable under the AMW in England and Wales[8], divided into the different grades of worker and the overtime rate payable to all workers should they work in excess of 39 hours per week. It also sets out the rates payable under the National Minimum Wage (NMW) for comparison.

6.44 The AMW is higher than the NMW for all workers other than those below compulsory school age. The level of difference between the two depends on the job an employee does within the agriculture sector. Workers are paid according to a grade based upon their skills and the responsibilities that their job entails. For example, a worker who is supervised and works on elementary tasks such as harvesting and picking will be classed as Grade 1 – Basic trainee and paid the according AMW rate for that Grade[9]. Grade 1 will apply for the majority of seasonal workers.

6.45 Overtime under the AMW attracts a premium. Workers paid according to the AMW will earn between £9.32 and £14.10 for each hour of overtime. Given that the NMW is £6.19 per hour, there is the possibility for a Grade 1 agricultural worker above compulsory school age to be paid 51 per cent more for an hour of overtime than someone who is paid an overtime rate equal to the NMW. AMW pay rates may therefore act as a disincentive to employ workers for more than 39 hours per week.

[8] The Scottish Government pays two different rates of the AMW under The Agricultural Wages (Scotland) Order (no 60) – as of 1 October 2012, all employees who work up to 26 weeks are paid a minimum hourly rate of £6.22, thereafter the minimum hourly rate is £6.86 (Scottish Government, 2012). The Northern Ireland Executive, under the terms of the Agricultural Wages (Regulation) (Northern Ireland) Order 1977, has an Agricultural Wages Board which has set the minimum rate of hourly pay for the first 40 weeks of cumulative employment to be £6.35. Above this hourly earnings are set by grade, with the rate for the top grade of farm manager reaching a minimum of £8.99 an hour (Northern Ireland Executive, 2013).

[9] Guidance on how employees are matched to grades is available here: https://www.gov.uk/agricultural-workers-rights/grades-and-categories

Table 6.1: Agricultural Minimum Wage (AMW) rates by grade and the National Minimum Wage (NMW), as of October 2012				
		Weekly pay	Hourly pay	Hourly overtime
Grade 1 – Basic trainee (compulsory school age)		n/a	£3.11	£4.67
Grade 1 – Basic trainee (above compulsory school age)		£242.19	£6.21	£9.32
Grade 2 – Standard worker		£271.44	£6.96	£10.44
Grade 3 – Lead worker		£298.74	£7.66	£11.49
Grade 4 – Craft grade		£320.19	£8.21	£12.32
Grade 5 – Supervisory grade		£339.30	£8.70	£13.05
Grade 6 – Management grade		£366.60	£9.40	£14.10
National Minimum Wage	**Apprentice***	-	**£2.65**	**
	Under 18	-	**£3.68**	**
	18 to 20	**-**	**£4.98**	****
	21 and over	**-**	**£6.19**	****

Notes: * This rate is for apprentices under 19 or those in their first year. **There are no statutory levels of pay for overtime, however average pay rates must not fall below the National Minimum Wage.
Source: Gov.uk (2013a), Gov.uk (2013b)

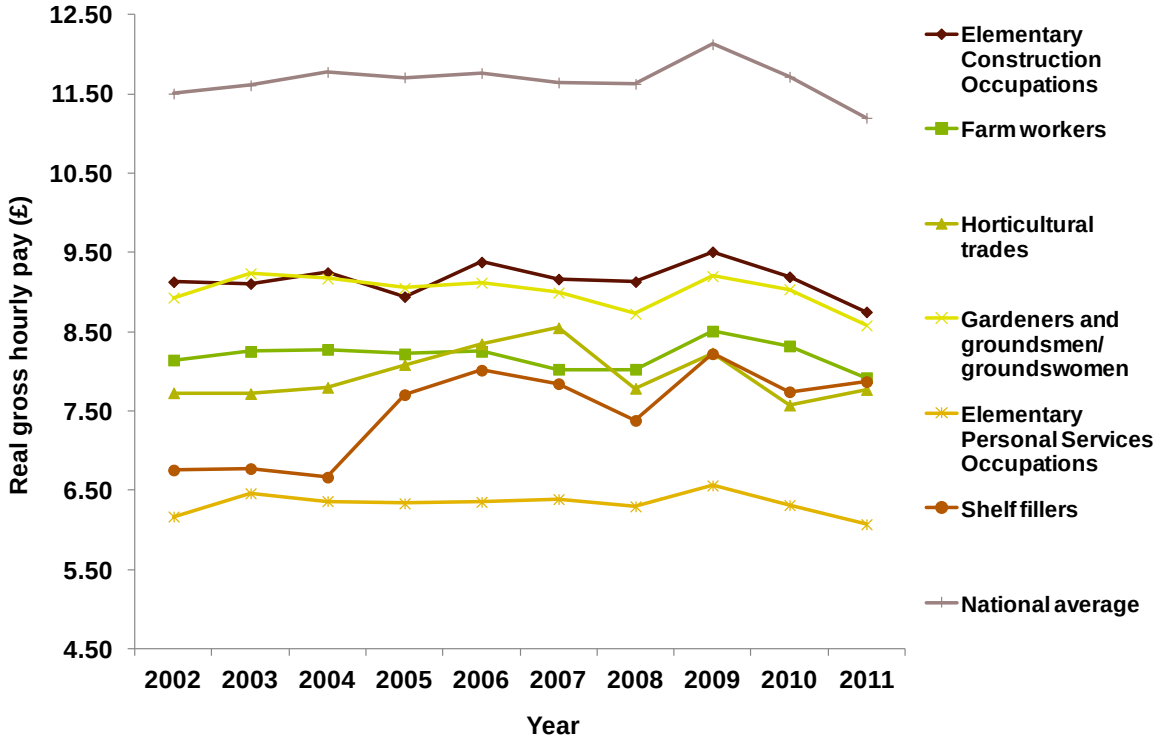
6.46 We were told by partners that the structure of the AMW means agricultural businesses avoid incurring overtime. The Association of Labour Providers (ALP, 2012) suggested that this was the case in their response to Defra's consultation on the abolition of the AMW. The ALP claimed that due to the structure of the AMW "*most agricultural businesses that take labour from labour providers stipulate that workers can work no more than eight hours a day and 39 hours a week. Many, if not most, agricultural workers want to work longer hours than these and have no expectation of being able to be paid 50 per cent more than the minimum wage.*"

6.47 The proposal to replace the AMW with the NMW from October 2013 in England and Wales will remove the current disincentive to offer overtime. As a result, agricultural businesses may be more willing to employ workers for more than 39 hours a week. Growers may be able to achieve the same total number of hours worked with fewer workers.

6.48 Regardless of whether the AMW or NMW is used to determine the level of workers' pay, those workers must be able to work with sufficient productivity to justify being paid this level. Even if the value of the worker's output does not meet the level of the relevant minimum wage the employer must still pay the worker at that rate, meaning that the employer is subsidising the worker's pay. Clearly, this is not sustainable for an employer in the long term but they may accept to do so in the short term while a worker is learning the job.

6.49 In order to attract labour, firms within horticulture must compete not just with each other, but with other sectors. Figure 6.4 shows real median gross hourly pay based on 2011 prices for six manual job titles (SOC 5112 horticultural trades, SOC 5113 gardeners and groundsmen/groundswomen, SOC 9111 farm workers, SOC 912 elementary construction occupations, SOC 922 elementary personal services occupations, and SOC 9251 shelf fillers). These are shown in comparison with the median national gross hourly pay. The chart references the period 2002 to 2011 based on SOC 2000 codes; data for 2012 is available but is based on SOC 2010 so is not used in order to maintain the consistency of the analysis.

Figure 6.4: Real median gross hourly earnings (£) for all employees by type of occupation and the national average in 2011 prices, 2002 to 2011



Notes: SOC codes for the above job titles: SOC 5112 horticultural trades, SOC 5113 gardeners and groundsmen/groundswomen, SOC 9111 farm workers, SOC 912 elementary construction occupations, SOC 922 elementary personal services occupations, and SOC 9251 shelf fillers. SOC 912 elementary construction occupations include labourers in building and wood working trades, and labourers in other construction trades not elsewhere classified. SOC 922 elementary personal services occupations include hospital porters, hotel porters, kitchen and catering assistants, waiters, waitresses, bar staff, leisure and theme park attendants, and all other elementary personal services occupations not elsewhere classified. Hourly pay has been deflated by the Retail Price Index (RPI).
Source: Annual Survey of Hours and Earnings (2012b)

6.50 Earnings across four of the six manual job titles displayed in Figure 6.4 declined in real terms between 2002 and 2011. Only shelf fillers saw a marked increase in real wages. Hourly pay of horticultural trades experienced a minor real increase in gross hourly pay from £7.73 in 2002 to £7.77 in 2011. The real change in hourly pay across five of the six manual job titles is marginal.

Seasonal Migrant Labour

6.51 The median gross hourly pay for horticultural trades and farm workers in 2011 was £7.77 and £7.92 respectively and was not dissimilar to that for the other manual jobs in Figure 6.4. However, pay for horticultural trades and farm workers in 2011 was approximately 30 per cent lower than the national median gross hourly pay of £11.20 for all employees in the same period. Therefore, agricultural workers have a financial incentive to move into higher skilled sectors if they have sufficient skills and ability.

6.52 The piece rates and bonus system enables growers to be efficient and flexible in their management of labour intensive crops. Piece rates and bonuses also encourage productivity and effort amongst the workers, particularly when it is necessary to respond to a sudden increase in demand from the market.

6.6 Factors influencing the supply of seasonal horticultural workers

6.53 Having looked at the nature of work in horticulture, the sources of seasonal workers, and the composition of agricultural wages, we now examine the factors influencing the labour supply in horticulture, taking account of historical developments as well as more recent barriers and drivers.

British resident labour

6.54 Geddes and Scott (2010) note the steep decline since the 1980s in the number of low-wage UK workers willing to work in the food industry: *"*[the] *combination of reduced social and affordable housing, the rise in middle-class 'counter-urbanites' and the growth in university education, has meant that there are simply very few young people available to work in rural areas and market towns; and those who are available have been more attracted to service work. Employers have, therefore, looked to migrant workers out of both choice (they think they can get more for their money abroad) and constraint (the rural working-class is smaller than ever before)".*

6.55 The authors state that a number of factors have driven this decline of the rural working class:

- the rural demography has changed with a shift to an older and more middle-class population as agricultural employment has fallen in both absolute and relative terms;
- the rise of agri-business has meant farmers now have a more distant and bureaucratic role with regard to their employees;
- the shift towards service sector working has seen the loss of women in particular as a source of seasonal labour;
- agriculture has largely lost its local status and the informal social networks that used to exist; and

- there has been general and specific (for instance among gang labour) workforce formalisation.

6.56 We received evidence about previous sources of UK resident labour, including working mothers, students, working holidaymakers and retired people. A number of partners suggested that the move away from cash-in-hand working, the introduction of the national minimum wage, rising child care costs and health and safety measures preventing children from being brought into the fields, acted as a disincentive for this type of labour supply.

"In tandem with employing SAWS workers, we have a long tradition dating back to the early 1960's of employing predominantly retired British Caravanners … they come and do paid work picking fruit. Historically this was a casual arrangement … and was entirely unregimented. The advent of the minimum wage in 1999 has virtually killed this source of labour off entirely … numbers have dropped steadily to less than 40 in 2012."

Wilkin and Sons Ltd response to MAC call for evidence

6.57 However, this type of labour is perhaps not well suited to the more recent, intensive forms of production within horticulture. We have already described the working conditions for seasonal workers, the intensity of the work and the need to be available and able to meet demanding productivity targets. These will not suit the more casual type of seasonal labour.

6.58 Geddes and Scott (2010) suggest that the potential labour supply of non-working UK residents tends to be located in urban areas, rather than the rural areas where seasonal workers are required. According to Defra (2012f), employment rates in rural areas were around 78 per cent in 2010, compared with 71 per cent in urban areas. The rate of unemployment was 5.4 per cent in rural areas and 8.5 per cent in urban areas. In the most sparsely populated areas, unemployment rates were lower still at 3.6 per cent. It should be noted that this measure uses the wider definition of all those seeking work, but not necessarily registered as unemployed. Registered unemployment – otherwise known as the claimant count – is essentially made up of those in receipt of Job Seekers Allowance (JSA). Partner evidence we received supported this point.

"Work is not in the areas of high unemployment. In 2011, Concordia provided 8,884 seasonal workers to 152 of its largest farms. Using ONS JSA Claimant Count by district figures and 3.9% UK average JSA Claimant across the UK: 82.5% of the jobs Concordia filled on its largest farms were in districts with lower than 3.9% JSA Claimant Count. 71.2% of Concordia's placements were in districts with lower than 2.9% JSA Claimant Count"

Concordia (YSV) Ltd response to MAC call for evidence

6.59 To test this claim we examined the tightness of labour markets as measured by the claimant count rate for the regions of the UK in 2011. Figure 6.5 illustrates the regional usage of the SAWS, with each dot referring to a local authority by broad region. The graph shows the density of SAWS workers within a local authority, i.e. the number of SAWS workers to every 100,000 people, and indicates that the majority of users are in regions where the claimant count rate is below the national average.

6.60 Conducting a similar analysis focussed on the four main regions that use SAWS generally confirms this. Within a region/location where SAWS workers are concentrated tend to be areas of relatively low unemployment. In the case of the South East, there does appear to be moderate take-up of SAWS workers in local authorities where unemployment is high relative to the regional average of 2.4 per cent. Nonetheless, this regional average is low in national terms.

6.61 In some local authorities the volume of SAWS workers actually exceeds the volume of registered unemployed, implying that in the absence of SAWS the pool of local unemployed would still be insufficient to fill the gap. This was the case in Herefordshire and East Cambridgeshire, which rank first and third respectively in terms of volumes of SAWS workers and between them accounted for a fifth of all total SAWS labour supply in 2012. For other major local authority users of SAWS workers the ratio between SAWS workers and registered unemployed is still only around 2 to 1.

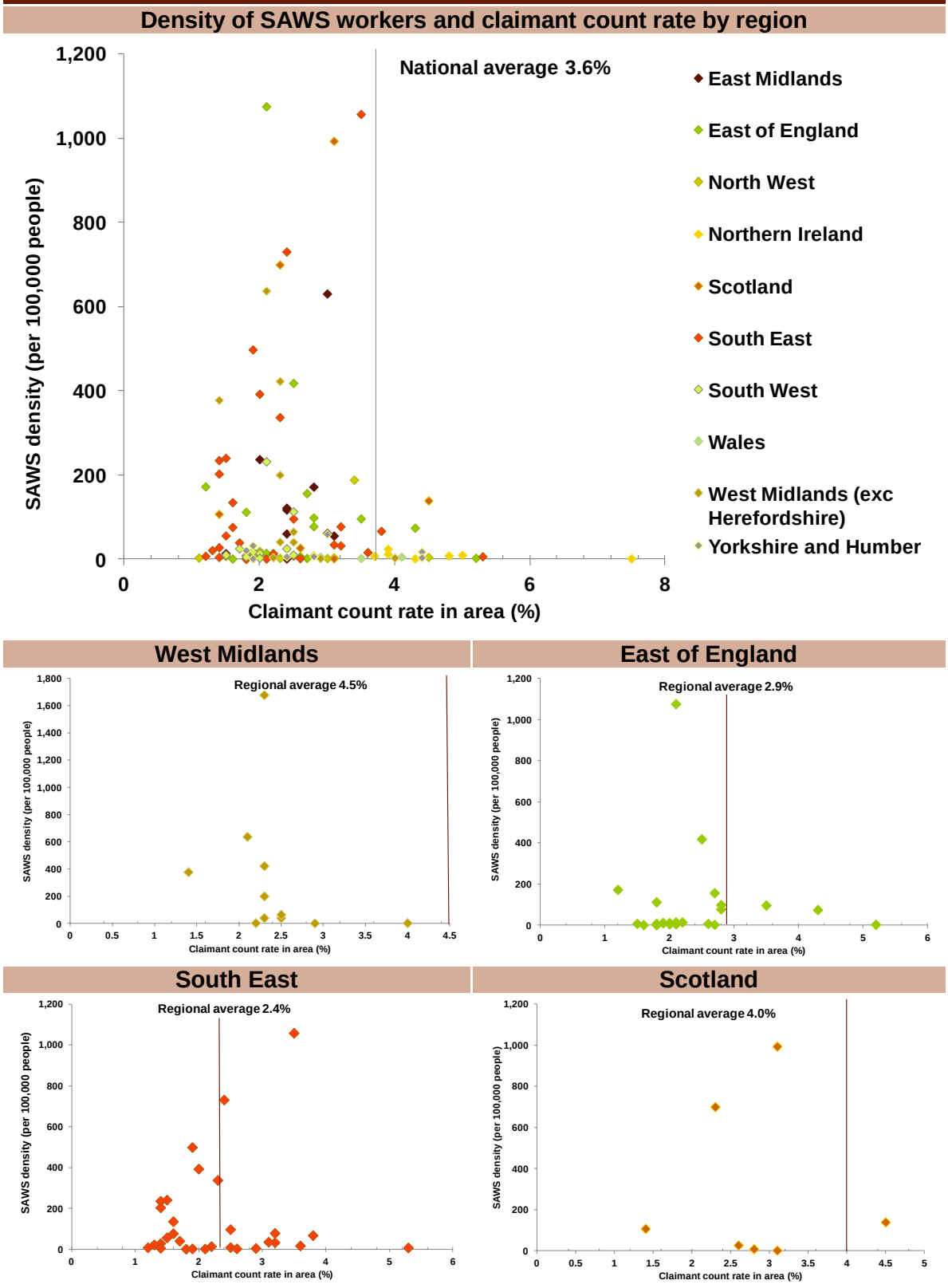
6.62 Such a simple numerical comparison of course takes no account of the quality of the jobseeker, and their suitability for this type of work (or at least their ability to work to the levels of productivity sought by growers), nor of any issues associated with transporting this labour to the farms.

6.63 Furthermore, as partners' confirmed, not all unemployed people in these areas would be suitable for seasonal work, given their age and general fitness.

"Many UK people are simply not physically fit enough to do the work."

Orchard Lodge Farm response to MAC call for evidence

Figure 6.5: Density of SAWS workers and claimant count rate by region, 2011



Notes: The figure presents the SAWS density of a local authority to take into account varying regional population sizes. Each dot refers to a local authority that has been given a regional label.
Source: Nomis (2013) and UK Border Agency management information data

6.64 Partner responses highlighted efforts they had made to employ local labour but said that these had met with little success. We were told that locally placed advertisements had attracted few applicants and that locally recruited seasonal workers often remained on the farm for only short periods rather than a full season. This results in high labour turnover, increasing training and recruitment costs and fails to satisfy the demand for a reliable workforce.

> *"Over the years, we have sought UK based labour continuously, constantly interviewing with very little obvious success – for example, in 2012 we interviewed 18 local residents and offered them work. 3 turned up for 1 day, 10 failed to arrive at all, 2 non-English stayed 1 week, while 3 non-English UK-based people were quite happy to stay. Not one English person interviewed contributed anything to our efforts in 2012."*
>
> H T Hulme response to MAC call for evidence

> *"In 2011 we challenged ourselves to recruit more UK workers and through our web site we received a number of applications, from 20 initial enquiries we selected 5 for a variety of jobs both pack house and field tasks. Within 2 weeks 1 person finished as the job was not suitable for them. After 1 month, 2 more workers finished as the job was too hard for them. Finally after 8 weeks the pack house worker finished, reason given was that they did not like having to work weekends even though it was on a rota system."*
>
> New Farm Produce Ltd response to MAC call for evidence

6.65 Wilkin and Sons Ltd provided evidence showing that the numbers of UK resident workers expressing interest in seasonal employment were small and decreasing. Table 6.2 provides detail on the number of resident workers that expressed an interest, the number that showed up for work and the number that stayed for more than one week.

Table 6.2: Evidence of labour turnover amongst British workers in seasonal agriculture on one large horticultural farm, 2002 to 2012

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Expressed interest	58	65	74	61	53	49	45	40	32	29	32
Showed for work	38	41	43	49	35	30	33	27	18	21	19
Stayed for more than one week	5	5	4	3	4	4	5	3	4	5	4

Source: Wilkin and Sons Ltd, 2013

6.66 We looked at whether rates of pay on offer for seasonal work might serve to discourage UK resident workers. Based on evidence we received seasonal horticultural workers can earn between £8 and £10 an hour. If

the seasonal worker worked 39 hours per week and received an average hourly rate of £9, the gross weekly pay would be £351. The median gross weekly pay for full-time shelf fillers in supermarkets is £335 (ASHE, 2012b). Pay in seasonal horticulture therefore appears to be competitive with similarly skilled occupations and low pay would not seem to be a reason why the UK resident workforce is not attracted to this work.

6.67 Partners told us of perceived barriers preventing recruitment of British workers to meet seasonal labour demand. This included: a lack of transport in rural areas; resident workers' preference for permanent work; and extensions of the growing seasons for some crops that ruled out some sources of local labour such as students. For growers this means not only a shortage of workers at the times they specifically need them to pick the crops, but extra cost pressures while they source and train up replacement workers.

"[British] students would be an ideal source of labour for September and I have employed some over the last few years. However we now grow varieties that ripen later and our picking season now extends for all of October as well as September and therefore students are not available for the second half of the picking season."

North Court Fruit Farm response to MAC call for evidence

"I have not made efforts to recruit UK labour in recent years because when I last tried I couldn't attract people because the work was too heavy, the pay wasn't high enough, they didn't like having to work on Saturdays and those that did start work only stayed a few days and left as soon as the sun stopped shining. Also UK workers did not want to live on farm but when living off farm could not be relied to turn up for work or be on time. There is...no public transport nearby. Also UK workers will not accept not being paid if the weather is too bad to work."

Orchard Lodge Farm response to MAC call for evidence

6.68 We were also told that UK resident workers consider that seasonal horticultural work does not offer good career prospects. This contrasts with the views of migrant workers whose circumstances mean they see such work as an opportunity to earn more than they can in their own country, while gaining valuable experience in the UK labour market. This opportunity allows them to increase their social capital and improve their long-term career prospects in their own country and abroad. Box 6.2 further discusses the issue of how seasonal work is perceived.

Box 6.2: Differing perceptions of seasonal work

Scott (2012) examined hiring practices in the UK food industry and found that the cost pressures on the industry had driven down pay and conditions and created secondary forms of employment. The intensification of work in the food industry, driven by global competition and retailers, meant that labour had become one of the few means through which firms had a degree of control over their profit margins. As Scott puts it, *"The money saved in wages is usually the only money made"*. The result is that the work under current conditions did not attract local labour that had the option of turning to more attractive forms of employment.

However, employers at the bottom of the labour market were able to obtain more with their money by recruiting migrants. Skilled migrants with relatively high levels of human capital, who have previously been excluded or marginalised from the employment market, were more likely than local labour to accept jobs below the level to which they were qualified. For migrants the temporary "brain waste" represented by these secondary jobs was outweighed by the longer term potential for economic and social mobility resulting from working overseas. By contrast, for local labour such work provided low paid, low status, temporary employment. According to Scott, the same low-wage job can mean different things to different people. Migrant workers see these jobs not as a constraint but as an opportunity: *"an escalator rather than a treadmill"*.

Scott argued that these differences between different sources of labour resulted in hiring queues. This refers to how employers order different but competing groups of prospective workers according to employers' perception of their employability. During our conversations with farmers and growers these hiring queues within the horticulture sector were identified as being: SAWS workers then A8 workers then UK resident labour.

Scott concluded that for low-wage employers, the key to maintaining high value workers is the revolving-door style of migrant employment, allowing for migrants to use such work as a temporary stepping stone into medium and longer term social mobility.

6.69 Growers also argued that the welfare system was an additional obstacle to UK resident workers taking up seasonal agricultural work. They said that resident workers either see little financial benefit in working or they fear delays in the process to moving back on to benefits after a period of seasonal work.

> *"the current benefits system provides no incentive for UK unemployed to take seasonal work in agriculture. This is because those on benefits are not allowed to have any income from any other source, or their benefits are stopped. In addition to this it can be hard for people to go back onto benefits after the end of temporary work."*
>
> National Farmers' Union Scotland response to MAC call for evidence

"The UK benefit system as it currently stands heavily dis-incentivises people to work. In our observation people who want to work do; if they are not totally work-orientated, benefits allow them to survive without working, which is where the problem begins – the prevailing mindset is that 'the State will provide.' "

H T Hulme response to MAC call for evidence

Drivers for migrant seasonal agricultural workers from Eastern Europe

6.70 There is an extensive literature examining the drivers for migration in general and more recent migration from the A8 and A2 countries. Although these factors can be complex and multi-layered, it is recognised that economic motivations are key drivers of migration decisions (see Schneider and Holman (2009) for a summary of the literature).

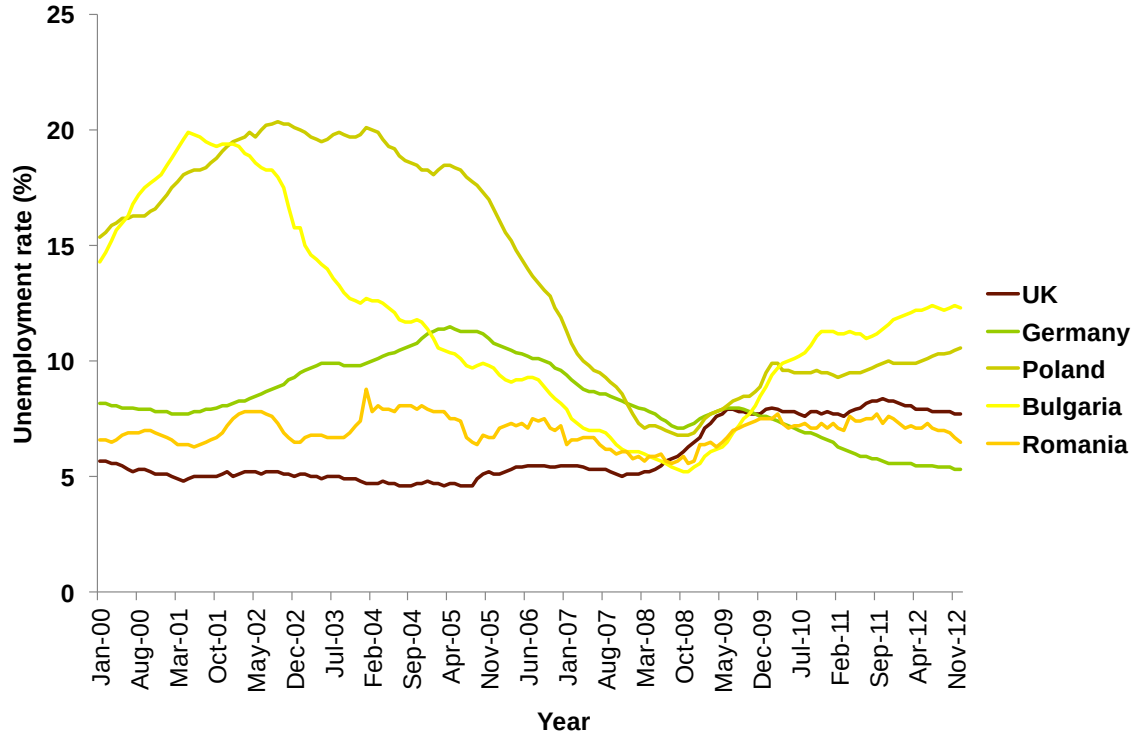
6.71 More recent research focusing on the motivations for Eastern European migrants coming to the UK generally support economic opportunity and financial gain as the principal drivers. Sometimes this is also combined with other factors such as to improving language skills (Fife Partnership, 2007; McKay and Winkelmann-Gleed, 2005; Schneider and Holman, 2009). Across this group different types of Eastern European migrant exist, each with different motivations. Eade *et al.* (2006) proposed a typology identifying four broad migratory strategies, one of which relates to circular migrants often coming to the UK for seasonal jobs, often in low-paid occupations, for between two and six months to maximise earnings in the least possible time. Although that research focused on Polish migrants in London, the Bulgarian and Romanian SAWS workers we spoke to during our farm visits broadly fitted this profile too.

6.72 Two key elements of these economic drivers are the differentials in unemployment rates and average incomes between the UK and migrants' home countries. Figure 6.6 shows the unemployment rate differential between the UK and Poland, Bulgaria and Romania (the main sources of seasonal agricultural workers). At the time of Poland's accession to the EU in 2004 the difference between UK and Polish unemployment rates was approximately 14 percentage points but this had narrowed significantly by early 2008. During this period, inflows of A8 nationals to the UK declined as outflows also increased.

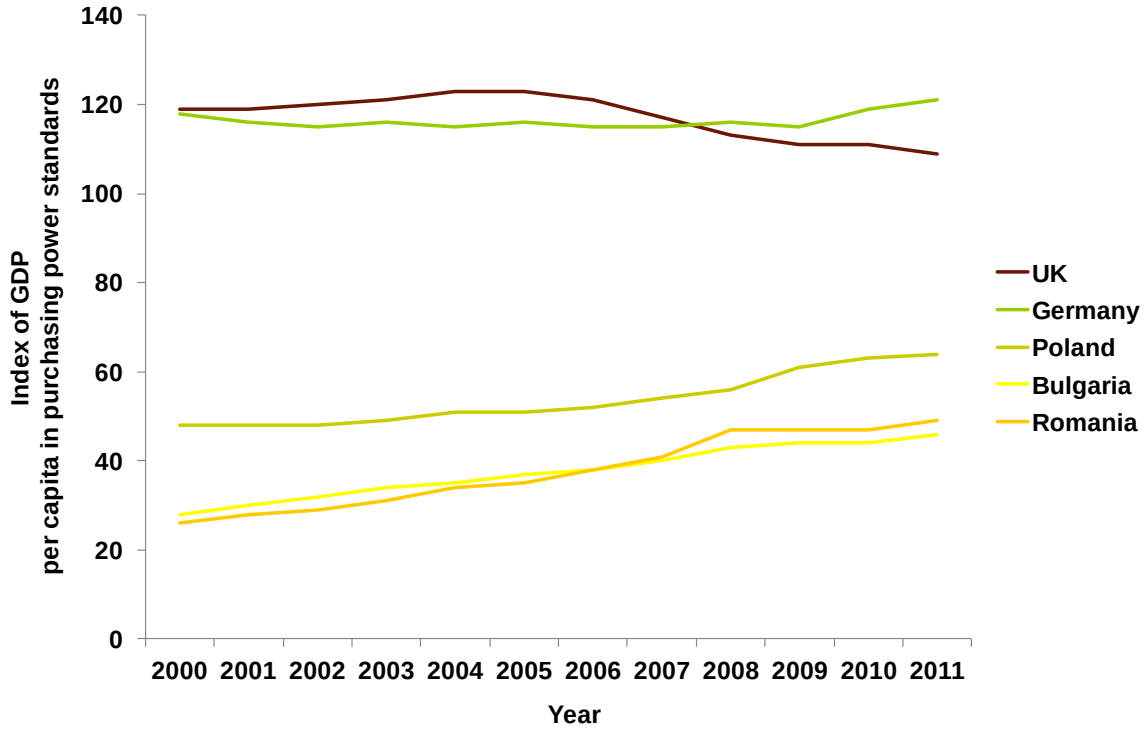
6.73 This might not only be attributable to the narrowing unemployment differential but also to the change in the exchange rate between the Polish Zloty and British Pound Sterling which decreased the relative value of the British Pound. When Bulgaria and Romania acceded to the EU in 2007 the unemployment rate differential with the UK was much narrower. These data suggest there were greater opportunity gains for migrants to the UK from Poland in 2004 than there were for migrants to the UK from the A2 countries in 2007.

Figure 6.6: Unemployment and per capita income comparison between the UK and selected European countries

Unemployment rate by selected EU member states, 2000 to 2012



Index of GDP per capita in purchasing power standards by selected EU member states, 2000 to 2011



Notes: The volume index of GDP per capita in Purchasing Power Standards is expressed relative to the European Union (EU-27) average set to equal 100.
Source: Eurostat (2012a) and Eurostat (2012b)

6.74 However, per capita income gains in Bulgaria and Romania would appear to be markedly higher than those in other countries over the same period. Figure 6.6 also shows per capita incomes (expressed in purchasing power parity terms to reflect the cost of living differential by country) in Bulgaria and Romania compared with Poland, Germany and the UK.

6.75 Whereas per capita incomes in Germany and the UK have either remained flat (Germany) or fallen slightly (UK) over the past decade, those in the A2 countries have risen markedly. Despite this, they still remain well below the EU average and around a third of the level of both Germany and the UK.

6.76 While A8 nationals have continued to be employed in seasonal agricultural work, partners told us that the numbers have been declining and that their length of stay is becoming shorter. The number of A8 workers in seasonal horticultural work was sufficient to meet demand until 2007 and 2008. Partners told us that during these years there was a shortage of available seasonal workers, and this was reflected in our recommendation in 2008 to increase the SAWS quota (Migration Advisory Committee, 2008).

"Currently, given the economic conditions across Europe we have access to available labour sources, however as soon as the economy picks up and the job market becomes more vibrant we are well aware that we could return to the 2008 situation of staff shortages."

The Shropshire Group response to MAC call for evidence

"The interest from A8 nationals to undertake seasonal agricultural work has been decreasing since 2004. Until 2006 there were sufficient A8 people to replace those leaving."

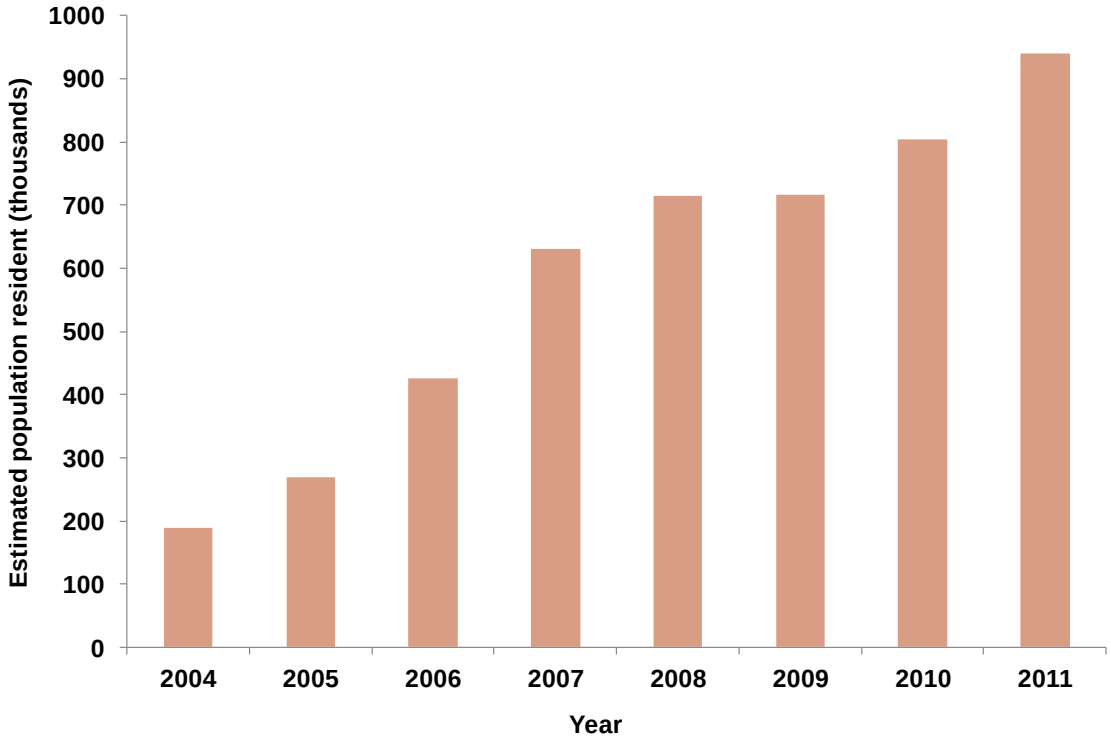
HOPS response to MAC call for evidence

6.77 Growers told us of their concern that from 2014 onwards Bulgarian and Romanian workers coming to the UK will choose to work in other sectors (such as retail and hospitality) as these were seen as more desirable work environments. Their concerns about a potential future shortfall of seasonal workers reflect what they experienced in 2008 when seasonal labour shortages led to marked increases in pay for seasonal workers and difficulties in harvesting crops, both of which had financial consequences for growers. Growers argued that the labour supply problems at that time resulted primarily from A8 workers moving to other sectors. However, analysis shows that the decrease in seasonal labour was not necessarily a result of workers substituting to other sectors but rather that, overall, there was a smaller inflow of available workers.

6.78 Figure 6.7 shows the resident population, or stock, of A8 nationals in the UK between 2004 and 2011. The number of foreign-born A8 migrants

living in the UK increased from 189,000 in 2004 to 940,000 in 2011. The graph shows that the annual change in A8s within the resident population slowed down following 2008, although the stock did continue to grow. Given this, how could there have been a shortage of A8 workers when the available labour supply was increasing?

Figure 6.7: The stock of A8 nationals in the UK, 2004 to 2011



Notes: Migrant populations are likely to be underestimated in the LFS because: it excludes students in halls who do not have a UK resident parent; until 2008, the LFS excluded people who had not been resident in the UK for six months or more; it excludes people in most other types of communal establishments (e.g. hotels, boarding houses, hostels, mobile home sites, etc); and it is grossed to population estimates that only include migrants staying for twelve months or more.
Source: LFS analysis, 2013

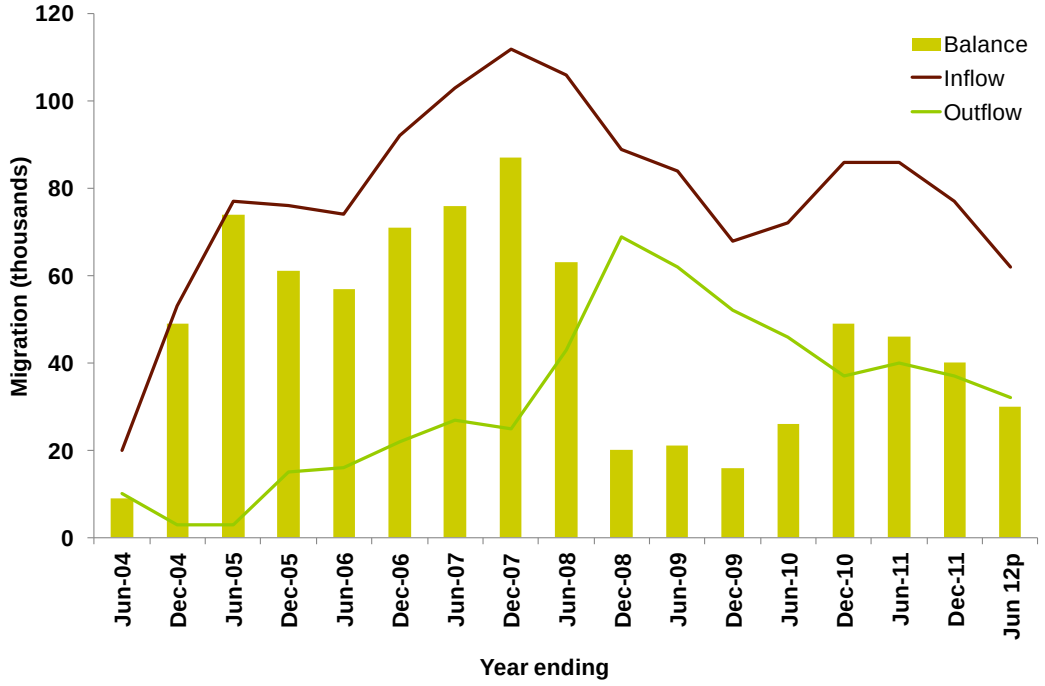
6.79 It is likely that A8 nationals who are already part of the resident population will not want to engage in seasonal work given its temporary nature, but instead will be seeking more permanent work with long-term prospects. Seasonal work is more likely to be undertaken by short-term migrants, who stay for less than a year, or those that have only just entered the UK and are looking for a way to gain access to the labour market. Therefore, the increase in the stock of A8 nationals within the resident population is unlikely to infer a simultaneous increase in the available labour for seasonal work.

6.80 Consequently it is important to consider what was happening to the inflow of A8 workers during the period of shortage, both short-term and long-term. Figure 6.8 shows a decline in net migration of A8 nationals in the UK in 2008, both through fewer A8 nationals coming to the UK and an increase in the numbers leaving. Office for National Statistics (ONS) estimates of long-term migration (defined as migration for a period of at least a year, such that the country of destination effectively becomes the

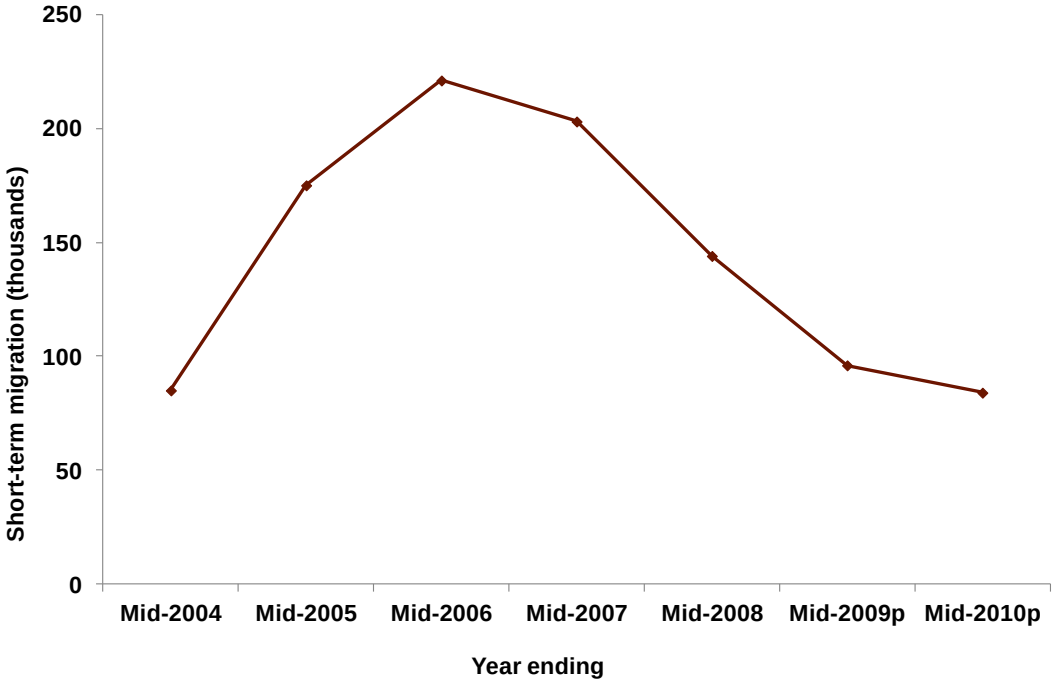
country of usual residence) show that the volume of A8 workers coming into the UK substantially increased following accession in 2004, from 20,000 in the year to June 2004 to approximately 112,000 in the year to December 2007. Outflows of A8 nationals during this period grew at a slower rate resulting in an increase in net A8 migration. In 2008, inflows began to decline, possibly as a consequence of deteriorating economic conditions within the UK. At the same time outflows began to increase, as A8 nationals either returned home or moved to other countries. This caused net migration of A8 nationals to decrease from 87,000 in the year to December 2007 to 16,000 in the year to December 2009.

Figure 6.8: Short-term and long-term migration flows of A8 nationals following accession in 2004

Long-term migration flows of A8 nationals, year ending June 2004 to year ending June 2012



Short-term migration inflows from Poland, year ending mid-2004 to year ending mid-2010



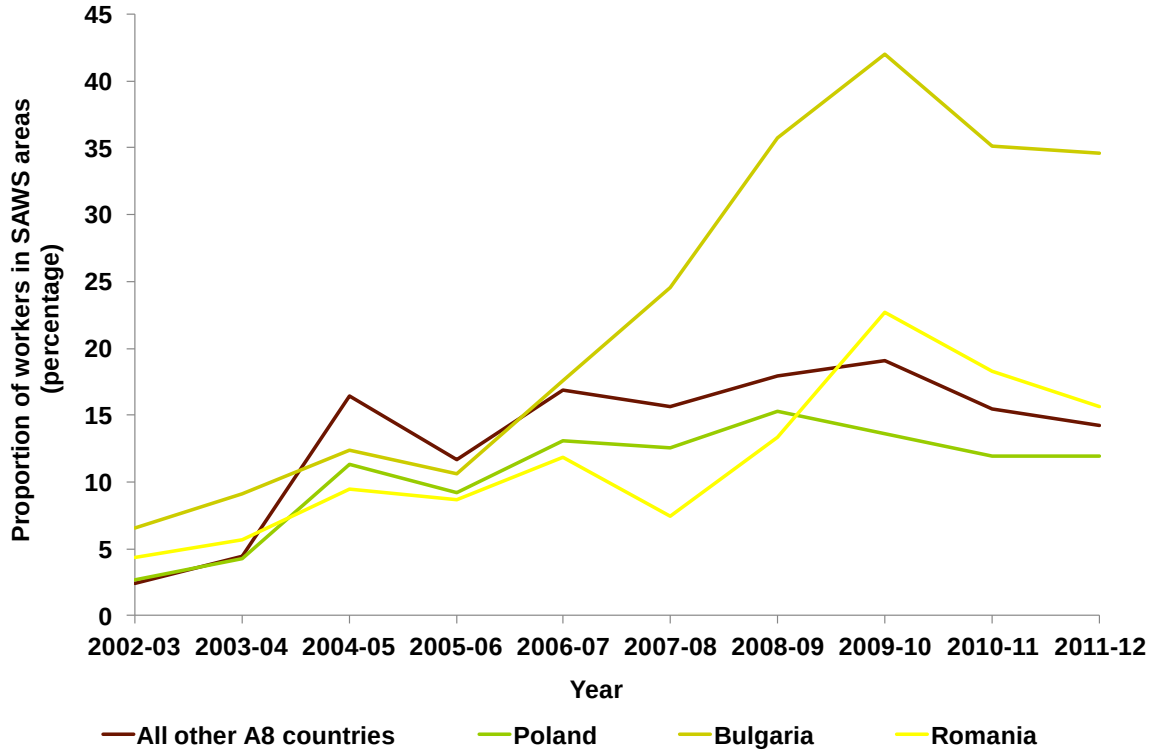
Notes: YE = year ending. P = provisional estimates.
Long-term migration is defined as migration for a period of at least a year, such that the country of destination effectively becomes the country of usual residence. Long-term migration data are based on nationality. Short-term migration is defined as migration for longer than one month but for less than a year. Short-term migration inflows are for England and Wales and are based on the country of last residence.
Source: ONS (2013b) and ONS (2013d)

6.81 Temporary migration for the purpose of taking up seasonal labour will not necessarily be picked up in these data on long term flows. ONS estimates of short-term migration (defined as migration for longer than one month but less than a year) looks at data based on a migrant's previous country of residence rather than nationality and shows a similar pattern among migrants from Poland. This suggests that the shortage of A8 agriculture workers during 2007 and 2008 is likely to have been due to a decline in the number of available A8 migrants in the UK rather than such workers deciding to work in other sectors.

6.82 In order to discover whether there was any variation in the willingness of A8 migrants to work in agriculture in 2008 we would ideally look at whether the proportion of NINos issued to new workers in the agriculture sector declined during the period in question. Unfortunately data on the sectors in which new NINo applicants work do not exist. Instead we proxy agricultural work by considering whether there was any change in the propensity for A8 nationals to register for a NINo in rural areas.

6.83 Figure 6.9 presents the proportion of NINo applicants by nationality in rural areas, with rural areas being defined for these purposes as the top 40 local authorities that use SAWS. While the data do not imply that NINo applicants in rural areas are working in agriculture, or provide information on their length of stay, the figure shows that the proportion of NINos allocated to a rural area remained relatively flat during the period for which partners reported experiencing a shortage of labour. These data suggest therefore that the propensity to work in rural areas, and potentially to work in agriculture, varied little during this period. This indicates that rather than A8 workers moving to work in alternative sectors such as construction or hospitality, all sectors experienced a similar decline in the availability of A8 migrant workers in 2007 and 2008. Again, this points to the shortage being due to a decline in the number of available A8 migrants in the UK.

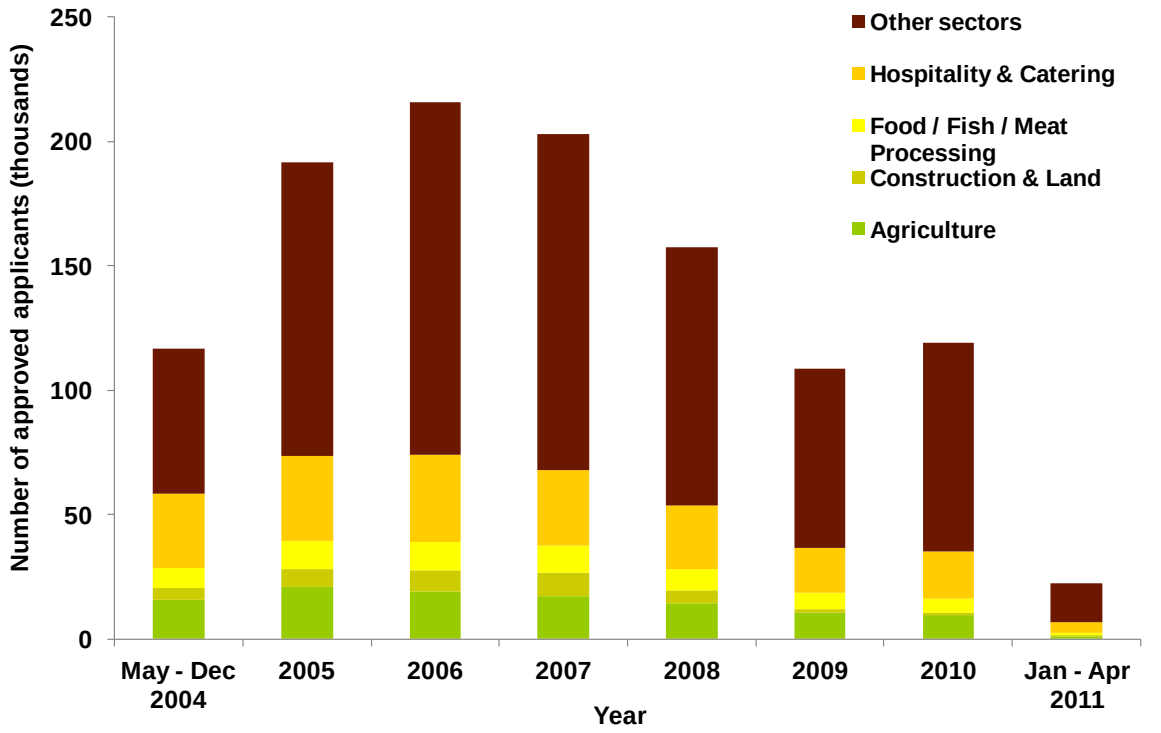
Figure 6.9: The proportion of worker inflows into rural areas by nationality, 2002 to 03 to 2011 to 12



Notes: Workers are defined as a proxy of NINo applicants using data on national insurance number allocations to adult overseas nationals. Rural areas are defined as the top 40 local authorities that use SAWS workers and are re-defined for each year according to volumes of SAWS workers in local authorities during the first year within the reference period; for example, 2006-07 is based on SAWS data for 2006. In years 2002-03, 2003-04 and 2004-05, rural areas are defined using the top 41 local authorities that use SAWS workers due to an equivalent number of workers registering in the 40th and 41st local authority. Rural areas in years 2002-03 and 2003-04 have been defined using the top local authorities that used SAWS workers in 2004.
Source: Department for Work and Pensions (2013)

6.84 This finding is supported by study using data from the Worker Registration Scheme (WRS), a work scheme that operated between 2004 and 2011 under which A8 nationals wishing to work in the UK had to register. As the number of WRS registrations declined during the recession, the decline was smallest in the agriculture and food processing sectors, as well as in rural areas (McCollum and Findlay, 2011). The study stated "*this may reflect the 'core' position of A8 migrants in the agribusiness industry. In agriculture, demand for migrant labour has been less sensitive to changes in the business cycle. Employers in this sector have found it difficult to source domestic labour, regardless of prevailing economic conditions*." Figure 6.10 further shows the decline in applications by A8 workers to the WRS up to the point where the scheme came to an end in April 2011.

Figure 6.10: Number of Worker Registration Scheme (A8) applicants by sector of employment, 2004 to 2011



Source: Home Office Statistics (2013)

6.7 Conclusions

6.85 The numbers employed in agriculture have been in decline for decades, though more recently the demand for seasonal labour has remained steady. The seasonal horticultural workforce is largely made up of SAWS workers and A8 nationals who are driven by economic opportunity caused by the employment and income differentials between the UK and their home countries. There has been a decline in UK resident labour in this sector which partners attribute to a lack of efficiency, availability and flexibility among such workers. Gang labour is not a preferred source of workers for growers.

6.86 Pay for seasonal agricultural work is largely determined as a result of downward pressure flowing from the retail price for horticultural produce, subject to a minimum wage floor. Seasonal workers have little or no bargaining power in wage setting; they either take what is offered or choose not to work in this sector. The decision whether to work in this sector is based on the characteristics of the work but also on the alternative sources of income. In practice this amounts to what they could earn in other sectors or what they can access via state benefits.

6.87 In recent years growers have at times experienced a shortage of seasonal workers, mainly due to a decline in the available number of A8 migrants, but also partly due to these migrants moving to other sectors. Growers fear that labour shortages in horticulture will occur again from 2014 when the SAWS ends. Whether this might be due to A2 migrants taking work in

other sectors or because such workers elect to work in other countries than in the UK is uncertain. We discuss the impacts of the ending of the SAWS in the next chapter.

Chapter 7 Potential impacts of closing the Seasonal Agricultural Workers Scheme

7.1 Introduction

7.1 In the previous chapters of this report we have discussed the policy context of the Seasonal Agricultural Workers Scheme (SAWS) including: international comparisons; an overview of agriculture and horticulture in the UK; an economic framework to consider labour supply shocks to the agriculture sector and the available data on the labour force in the UK within agriculture and horticulture.

7.2 In summary, the previous chapters show that agriculture in the UK has been in decline. However, UK horticulture production has grown in value terms in recent years, indicating a certain resilience compared with agriculture generally. Horticulture is highly labour intensive and reliant on a seasonal workforce, particularly for picking crops. Chapter 6 explains how SAWS workers make up a minority of the seasonal agricultural workforce but are highly valued as a stable, reliable source of labour in horticulture.

7.3 Growers told us the SAWS workers are the bedrock of their labour supply, providing consistent and predictable high quality labour who are tied to the sector. The A8 migrants remain an important element of the workforce but their lengths of stay on the farms and productivity levels have declined since labour market restrictions were removed from the A8 in 2004. Gangmaster labour is also used but is not a preferred option for the growers due to high turnover rates and lack of workers prepared to live *in situ*.

7.4 In this chapter we set out the potential impacts of ending the SAWS. We were asked to consider the impact on the agriculture sector but we have concentrated on horticulture as this is the sector which predominantly uses the SAWS workers.

7.5 The following analysis should not be considered an impact assessment. While we provide illustrative examples and some quantification where possible, we have not attempted to conduct a comprehensive economic analysis.

7.6 In Sections 7.2 to 7.4 we describe the chain of impacts that may result from ending the SAWS. While it is likely that there will still be a supply of labour available from the A8 and A2 countries in the short term, there may

be some reduction in supply in the medium term. Figure 7.1 depicts a potential chain of impacts resulting from ending the SAWS.

Figure 7.1: Potential chain of impacts resulting from ending the SAWS



7.7 Building on Chapter 5, Section 7.5 looks at the potential for technological changes to be made within horticulture to substitute or reduce the reliance on labour. We conclude that it is unlikely that technological solutions can be adopted in the short to medium term to substitute for labour for picking crops.

7.8 Given this, the most likely alternative option is industrial restructuring, i.e. a contraction in horticulture. In Section 7.6 we set out the different mechanisms that could lead to a contraction of the industry and in Section 7.7 and 7.8 we examine the potential economic impacts of a contraction of horticulture, including on employment and local economies.

7.9 In Section 7.9 we discuss other potential non-economic impacts of not having a SAWS, such as declining food self-sufficiency and social impacts. We also set out how the closure of the SAWS may impact on net migration. In Section 7.10 we identify potential positive impacts of ending the SAWS.

7.2 Impacts on labour supply

7.10 In this section we discuss how the seasonal agricultural labour supply may change post-2013 when employment restrictions on A2 nationals are lifted and the current SAWS ends. We have drawn on information from partners at meetings and the written evidence they submitted, examination of the data on the current agricultural labour market, evidence of previous migration and work patterns, international comparisons and academic research.

7.11 Economic circumstances, migration patterns and consumer behaviours are all sensitive to a number of factors and are difficult, if not impossible, to predict with any reasonable degree of certainty.

7.12 As discussed in Chapter 6, there are currently four main sources of seasonal workers in horticulture:

- UK resident workers;
- gangmaster labour (comprised of a mix of nationalities already present within the UK, including A8 nationals);
- workers recruited from the A8 countries either directly by farms or by labour providers; and
- workers from the A2 countries (Bulgaria and Romania) under the SAWS.

7.13 After the ending of the SAWS there are likely to be short-term and medium-term effects on the seasonal labour supply for the horticulture sector. On the basis of the evidence we received, combined with our own analysis, we expect that in the short-term (one to two years) it is likely that sufficient seasonal labour will be available to the sector through a combination of the four categories of workers above (with the A2 workers joining the A8 workers in being directly recruited). However, in the medium-term, there may be a decline in the supply and quality of labour as patterns of migration and employment for A2 nationals change. The following section considers likely future trends of employment in horticulture for each of the four main sources of workers listed above.

7.14 In general, in considering the seasonal agricultural workforce the proportion of **UK resident workers** has decreased over time. Section 6.6 goes into more detail on the reasons for this, including the geographical separation between the farms with seasonal work and the areas with high unemployment, the lack of financial incentives to take on seasonal and unpredictable work, and attitudes towards the horticulture sector and manual work in general.

7.15 We have not seen any evidence to suggest that there will be a significant reversal in any of these factors. It is unlikely that UK resident workers will make up a significant proportion of the seasonal workforce or replace the SAWS workers post-2013. We see no reason to expect a change in attitudes towards low-skilled manual work in horticulture from the resident labour force without a major drive to accomplish this. The nature of the work will not change unless there are technological developments, which look unlikely in the medium term. Growers also prefer to have workers living on the farms, readily available to work different shifts to satisfy immediate demands from suppliers and retailers, and this arrangement is generally unattractive for people already established elsewhere in the UK.

7.16 As discussed in Section 6.6, the benefits system does not create an incentive for people to undertake seasonal work. In their evidence to us, the Department for Work and Pensions (DWP) recognised that the current system does not always support smooth transitions from receipt of out-of-work benefits into seasonal work. However, they state that the new Universal Credit (UC) will be payable in and out of work, which will reduce the risk of losing entitlement to various benefits with moves to employment as exists in the current welfare and tax credits system.

> *"Under Universal Credit claimants will no longer need to access different benefits when working 16 hours a week or more. [They will be] encouraged to increase their earnings, on either a long term or temporary basis. The intention will be that work, including low hours work, should pay."*
>
> Department of Work and Pensions response to MAC call for evidence

7.17 Under the Universal Credit, the main means-tested benefits (except Council Tax Benefit) and Tax Credits will be pooled into one single benefit. Claimants will be able to earn a certain amount each year without losing benefits. This is known as the work allowance (previously known as the earnings disregard). Above this allowance, there will be a single rate of benefit withdrawal against income (taper rate). The current 16-hour eligibility threshold for childcare support will be removed which, in combination with the increased work allowance, will give better incentives for lone parents to work a few hours a week compared to the current system (André *et al*., 2013).

7.18 The work allowances are set to be £111 per month for a single adult, up to £536 per month each for a couple with at least one child and up to £734 per month for a lone parent (UK Statutory Instruments, 2013). In practice this means that a single person claiming the Universal Credit who starts working can earn £111 a month without impacting on the level of benefits they receive. Above this amount, their benefits will be deducted at a rate of 65 per cent of net earnings (i.e. for every £1 earned over the work allowance, after tax and National Insurance is deducted, they lose £0.65 of benefits).

7.19 Although work allowances are higher for lone parents and for couples with children, it is not clear that this will translate into a significant increase in supply of seasonal workers in horticulture. The Universal Credit will begin to be rolled out in April 2013 and will be fully implemented by October 2017.

7.20 Increasing the sanctions applied to those who reject seasonal agricultural work could increase the incentive for UK resident workers to take up this work. However, the growers said that they were reluctant to take on people who were being pressured into the work, as they are unlikely to constitute the efficient, reliable and hard working labour force that is required.

"By closing SAWS scheme, one of the main impacts will be insecurity – will we be able to pick our crop, will we have the right number of people at the right period of time? Will we be able to secure highly reliable, willing to work, and well trained people? Importantly, it is not just about How Many people you have, it is about Who you have – the people must be of the right calibre."

Hugh-Lowe Farms response to MAC call for evidence

7.21 We are aware of a pilot scheme run by DWP, HOPS Labour Solutions Ltd (HOPS), the National Farmers' Union (NFU) and others which aims to get more UK resident workers into the horticulture sector (see Box 7.1). This is a welcome initiative, but while the pilot may succeed at improving the image of these jobs and getting UK resident workers into the industry, this is only on a small scale (the target is 200 people in the first year) and is likely to come at a high cost per worker. In addition, as the scheme is targeted at those with the potential to move into permanent roles, the problem of finding seasonal workers would largely remain.

Box 7.1 Pilot to increase the recruitment of the UK workforce to horticulture

The Minister for Employment asked the DWP to convene a working group to examine the potential for increasing UK labour in horticulture. As a result of this working group, HOPS is heading a pilot programme, along with growers, LANTRA, NFU, Jobcentre Plus and Agricultural Colleges, to attract more people from the UK workforce to horticultural jobs. The pilot launched in early 2013.

In order to overcome the barriers for both employees and employers, HOPS have developed a programme aimed at UK residents to build confidence on both sides. This involves:

- Open day recruitment events to carefully select participants to ensure they are likely to be suitable for jobs within agriculture.
- A mandatory two to three week, full-time, training course at agricultural colleges and HOPS farms.
- Guaranteed placement on a farm at the end of the training course.

The aim is to place 200 people in jobs within horticulture in the first year. The pilot aims to raise awareness that the experience and skills gained in a seasonal role can lead to a permanent position in the industry.

By the end of March 2013, the first group of the pilot had finished their course. Of the 18 people who accepted a place on the course, ten completed it; seven had been allocated to seasonal positions on a farm and three were applying for skilled positions on farms. The second course is due to start in early April.

Source: HOPS Labour Solutions Ltd

7.22 Although efforts to increase participation by the UK resident workforce should continue, they are unlikely to meet the seasonal labour requirements of the sector. The example of Germany, discussed in Chapter 4**,** reflects similar experience. Efforts made there to incentivise the

use of local unemployed labour rather than foreign seasonal workers met with little success.

7.23 We were told by partners that **gangmaster labour** makes up a small proportion of horticultural seasonal labour. This type of labour is generally used as a stop-gap at peak periods, or for specific time-limited tasks such as tree pruning. It is expected that post-2013, gangmaster labour will continue to be used in horticulture. The loss of labour supply resulting from the ending of the SAWS could lead to an increase in the demand for labour from gangmasters.

7.24 Gangmaster labour is viewed by many of the growers we spoke to as a less preferable source of labour both for themselves and retailers.

7.25 Partners expressed concern about the quality of gang labour and the welfare of the workers. There are significant advantages of having workers living on the farm and available at short notice, rather than being provided as and when required by a more distant and possibly less responsive third party. The lack of continuity of the workforce when using gangmasters can lead to increased training costs and reduced productivity for the grower. Retailers are increasingly attempting to ensure that their supply chains avoid any exploitation of workers, and gangmaster labour is more difficult to monitor than a directly employed workforce.

> *"we used approximately 20 pickers from a gangmaster to help us through a peak production period. … 20% achieved an acceptable standard (barely) whilst 80% were happy to do the base minimum at all times and never achieved basic output figures."*
>
> Robert Boucher and Son response to MAC call for evidence

7.26 **A8 workers** currently make up a considerable proportion of the seasonal workforce. However, as discussed in Section 6.6, this supply is experiencing declining quality and quantity due to:

- fluctuating numbers of A8 workers coming to the UK; and,
- a decrease in the productivity of the workforce due to A8 workers on average spending less time in seasonal agricultural work before moving to work in other sectors.

> *"We started our direct recruitment [of A8 workers] in 2004 when labour market restrictions were lifted and during those first 3 years we had a waiting list of suitable workers wanting to come to work on our farm, then when their own economy was growing so quick we were struggling to find people as we could not compete with the wages they were earning back home."*
>
> New Farm Produce Ltd response to MAC call for evidence

7.27 Growers argue that since 2004 the ability of A8 workers to find employment in other sectors means that, on average, the workers do not stay as long on the farms as those working under the SAWS. The length of time workers stay on the farm is important, not only because of the additional recruitment costs of replacing them, but also because it takes time to become skilled and fast at picking. Growers told us it usually takes about three weeks for workers to be able to reach the productivity targets. Until this point, growers are effectively subsidising the workers' wages. Growers told us that they have noticed a decline in the quality of seasonal workers from the A8 countries since the 2004 accession.

7.28 In the short and medium-term, it is likely that the demand for workers from A8 countries will continue and may even increase in the absence of the SAWS. In contrast, it is plausible that the supply of these workers may continue to decline. Improving prospects in their own countries, as well as opportunities to work in other sectors both in the UK and the rest of the European Union (EU) could attract people away from seasonal work in horticulture.

"Currently, given the economic conditions across Europe we have access to available labour sources, however as soon as the economy picks up and the job market becomes more vibrant we are well aware that we could return to the 2008 situation of staff shortages."

The Shropshire Group response to MAC call for evidence

7.29 The Shropshire Group told us that they found that the number of A8 applicants has declined drastically. They typically advertise in A8 countries for 300 seasonal vacancies every year. In 1998 they received around 800 applicants, in 2004 this reduced to 400 and by 2008 they received only 20 applicants for these jobs. They reported that this decline was a symptom of the increased preference for work in sectors other than horticulture. Anecdotal evidence indicated that people were choosing jobs where the working conditions are more comfortable, regular and permanent although not necessarily higher paid.

7.30 In the future, in order to maintain the supply of workers from A8 countries, labour providers may be required to search even more extensively to recruit workers which will increase their costs, or growers may be required to offer better pay and conditions. Several operators told us they are targeting increasingly rural areas in the A8 countries.

7.31 In order to increase recruitment, HOPS told us that they had moved away from using agencies to recruit seasonal workers in Poland and had opened their own office in the country. They reported that even with this dedicated resource they had only managed to slow the rate of decline in recruitment rather than reverse the trend.

7.32 Recruiting new migrant workers can be a resource intensive process which is one of the reasons returnee workers are highly sought after. For instance, Fruitful Jobs Ltd, a multiple SAWS operator, presented an example of the process required to recruit staff in Poland in order to get workers to travel to the UK. We were told that, of the 80 people who indicated that they would attend a presentation on the programme (usually held at a university campus), 50 people would actually attend, 5 to 10 would leave straight after the presentation, 20 might be accepted by the recruiter but only 10 will actually travel. Once they get to the UK, Fruitful Jobs Ltd reported that about 60 per cent would stay long enough to be productive for the grower, but 40 per cent would use the farm as a stepping stone into other employment.

7.33 Partners told us that the length of stay of A8 seasonal workers has decreased since 2004 when they became able to move to other sectors and that their length of stay is much shorter than that of A2 workers in the same roles. Data from HOPS showed the average length of stay for workers from Poland had decreased from 140 days in 2004 to around 90 days in 2012. The length of stay for Romanian SAWS workers remained between 120 to 150 days for the same time period.

7.34 The Hall Hunter Partnership, a large soft fruit grower based in Berkshire, reported that for the 2012 season, their turnover of non-SAWS (A8) workers was twice that of SAWS workers. In addition, while recruitment costs for a SAWS worker was £65, a non-SAWS worker cost between £95 and £200 to recruit, reflecting the greater resource required.

"When labour market restrictions were lifted in 2004 [A8 workers] tended to stay for shorter periods of time. It become much harder to plan our labour.... Sometimes they stayed for a week… sometimes they stayed a bit more, but normally [not] for the amount of time we needed them…[a] very small percentage stayed for longer (whole season). [Some] were taken on a permanent contract. We experienced a drop in productivity due to this labour turnover and loss of skills. Production costs rose."

Hugh-Lowe Farms response to MAC call for evidence

7.35 Lower Reule Farm, a strawberry business near Stafford, provided detailed data on their seasonal workers for 2011 and 2012. As shown in Table 7.1, they had a core of workers who stayed on the farm but a significant proportion stayed less than five weeks. Of those who left early, a disproportionate number were non-SAWS workers. In the 2012 season, 32 per cent of non-SAWS workers left within five weeks compared to only 6 per cent of the SAWS workers. This is despite the non-SAWS group having a larger proportion of returnees from previous years who presumably are less likely to leave early as they have previously completed a season at the farm. We have been told that it usually takes three weeks for a worker to reach the required productivity levels,

therefore short stays by seasonal workers represent increased costs for the farmers and growers.

Table 7.1 Example of lengths of stay of seasonal workers from Lower Reule Farm

	Seasonal employees	Total number	Returnees (%)	Early leavers (%)
2012	All	266	37	13
	SAWS	197	30	6
	Non-SAWS	69	58	32
2011	All	270	35	12
	SAWS	188	29	7
	Non-SAWS	82	50	23

Notes: Early leavers were classified as those leaving within five weeks.
2012 Non-SAWS were British (5), Latvians (17), Lithuanians (26) and Polish (21).
2011 Non-SAWS were British (6), Latvians (42), Lithuanians (3), Polish (29) and Czech (2).
Source: Lower Reule Farm response to MAC call for evidence

7.36 Shortages of seasonal labour may become more common, particularly:

- during unpopular times of the season when the work is harder or when people would prefer not to work;
- at peak times when an increase in labour is required; and,
- following poor weather when work is not possible and workers leave for other jobs.

7.37 In the absence of a SAWS, we were told that operators may not continue to carry out one of their present functions which is to co-ordinate the movement of labour between farms. A2 workers will be able to look for work in other sectors if their employer cannot provide sufficient hours of work for them, whereas they currently stay within horticulture even as they change employer.

"SAWS provides us with a guarantee that a majority of the seasonal workforce we need will be present on our farms for on average 22 weeks ... We can manage the flexibility and unreliability of A8 nationals and home nationals because we have SAWS."

The Co-operative Group response to MAC call for evidence

7.38 Assuming current pay and working conditions stay as they are, there is no reason to believe that the length of stay and turnover rate of A8 workers would increase in the absence of a SAWS such that the A8 would take the place of the SAWS workers.

"[A8 workers] come here, get bank accounts and NI numbers set up for them and then go and find a different job, in London normally … our average [A8] worker in the 2012 season only stayed for three and a half days (two did ten weeks and one stayed for 22 weeks) while our average SAWS worker stayed for five months."

Wey Street Farm response to MAC call for evidence

7.39 As seen in Chapters 3 and 6, the **A2 nationals** currently working under the SAWS are a reliable and highly valued source of seasonal labour. Post-2013, at least in the short-term, it is likely that A2 workers will continue to be recruited into the seasonal labour force without the SAWS. Indeed, they will no longer be restricted to working for a maximum of six months, nor will there be a quota, which could mean that more A2 workers are recruited and stay for longer. Furthermore, the recruitment market for seasonal workers will no longer be restricted to the licensed SAWS operators which could result in additional recruiting agencies targeting Bulgaria and Romania for seasonal workers for the UK.

7.40 Organisations such as HOPS and Concordia (YSV) Ltd are likely to expand their current recruitment programmes for A8 workers (such as the Seasonal Workers Programme discussed in Section 6.4) to A2 nationals. The competition among agents recruiting seasonal workers may result in lower costs for the employers, thereby encouraging the employment of more A2 workers, although the use of third parties in the recruitment process could also increase the cost migrants could incur to access these jobs in the UK.

7.41 Consequently, in the short term it is possible there may be an increase in the numbers of A2 workers available to take up work in the UK agriculture sector following the ending of the SAWS. On our visits to farms we spoke to groups of seasonal workers, many of whom said their intention was to return to work in the farms after 2013. The NFU Seasonal Labour Survey (2013) found that, amongst the 236 growers who responded, opinion was divided on the likelihood of Romanian and Bulgarian workers returning to undertake seasonal horticultural work after the current SAWS arrangements end; with 50 per cent believing it to be likely and 49 per cent believing it to be unlikely or were unsure.

"Bulgarian officials in discussions with DWP have advised that they do not expect substantial reductions in the numbers of their citizens working in agriculture in the UK when the current SAWS scheme ends and Bulgarian and Romanian nationals gain full access to the UK labour market."

Department for Work and Pensions response to MAC call for evidence

7.42 It is extremely difficult to estimate how the supply of A2 workers to the UK will change once the restrictions are lifted. As discussed in Section 6.6,

there are a number of factors that drive migration, and flows can quickly change, as the decline in A8 immigration and rise of emigration in 2007/2008 demonstrated.

7.43 As we pointed out in our report in 2011 (Migration Advisory Committee 2011), advising on the transitional restrictions for Bulgaria and Romania, there is a wide range of uncertainty around the effects on UK migration inflows of ending restrictions on labour market access for Bulgarian and Romanian citizens. The ending of transitional arrangements for A2 nationals at the end of 2013 will have an impact on all EU member states. As such, predicting the scale of flows in this context becomes even more uncertain. It is equally difficult to predict the sectors in which these migrants will choose to, or be able to, work.

"we are likely to see a shift out of these less attractive and often disparate sectors, into those in cities and towns where such workers can obtain the often more desirable service sector jobs. We may …even see, with the removal of numerical limits, increases in A2 workers into this low paid work, as desperate and often vulnerable Eastern European workers chase whatever work they can find."

Unite response to MAC call for evidence

7.44 Rolfe *et al.* (2013) examined the potential impacts on the UK of future migration from Bulgaria and Romania and found that the UK has a considerably higher employment rate than either Bulgaria or Romania, higher GDP per capita and higher earnings, so is potentially attractive to prospective economic migrants. However, they also found that while surveys in Bulgaria and Romania show some interest in migration to the UK, it is not a favoured destination. Interestingly, they found indications that much of the interest that exists is in temporary stays rather than long term moves which would suggest there may be continued interest in work in the agriculture sector.

7.45 Seasonal agricultural workers are able to earn good wages. As explained in Section 6.6, growers told us that experienced pickers can earn up to £10 an hour depending on the crop and their productivity. Combined with low accommodation costs, workers can earn a significant amount in a few months. It is this ability to earn and save a reasonable sum in a short period and to then return to their home country that may incentivise a number of A2 nationals to continue working in the agriculture sector after the ending of the SAWS.

7.46 However, once the employment restrictions end A2 workers will be able to seek employment in other sectors of the UK economy and the relative wages, opportunities and working conditions in other sectors will play a part in influencing whether these workers decide to change employment. A number of A2 workers who wish to stay in the UK for longer periods may seek more permanent, reliable employment than seasonal agricultural

work. Others may be attracted into other sectors by less demanding working conditions and not having to live on a farm.

"Our research indicates European nationals who have freedom of movement are desperate to come to the UK, but their interest lies in the wider jobs market rather than seasonal labour."

H T Hulme response to MAC call for evidence

7.47 Thus, many growers told us they fear that once the SAWS ends, a proportion of A2 workers could use the employment on farms as a route into the UK but that they would not stay for as long as the farmers needed them and would move into employment in other sectors as quickly as they could. Growers said that they expect this will lead to a reduction in the quality of labour as workers with higher levels of skills and motivation would find it easiest to make the transition to other, more permanent employment, and the shorter average lengths of stay would reduce the overall efficiency of the labour force. This reflects what we were told happened with A8 workers.

7.48 What is clear is that there is considerable uncertainty over the likely outcomes following the ending of the present restrictions on A2 workers and that the timescale for any potential change to have effect will depend on a number of factors which are very difficult to predict. These include the number of A2 workers who come to the UK post-2013; the economic opportunities in the UK relative to the rest of the EU; and the ability of A2 workers to find employment in other sectors of the UK labour market. Partners generally expected that in the medium-term (after one or two years) the supply of A2 workers willing to take up seasonal jobs in the horticulture sector would decrease this way based on their experiences of recruiting from the A8 countries.

"During the years following the end of the current SAWS it is likely that once again the seasonal labour from A2 countries will fall over time albeit not necessarily at the same speed as it did in the case of A8."

Department for Environment, Food and Rural Affairs response to MAC call for evidence

"…we believe that [growers] will see a higher turnover of staff, as A2 nationals use farm work … as a stepping to more regular/factory type work. We have seen this with A8 nationals, but believe this will happen much quicker with A2 because the networks and infrastructure already exists for them to do this."

Fruitful Jobs Ltd response to MAC call for evidence

7.49 It is this uncertainty which causes farmers and growers concern. The lack of certainty as to whether A2 nationals will come to work in the UK, in which sectors will they choose to work, and for how long, means that horticulture employers feel unable to plan ahead with confidence about their labour supply.

> *"The advantages of using SAWS is that as a labour provider you can provide client farms with a very high level of certainty in regard to the supply of labour for their vacancies. … SAWS enables a grower to plant crops with confidence that labour will be available to carry out the harvest."*
>
> HOPS Labour Solutions Ltd response to MAC call for evidence

7.50 To summarise, based on the evidence received from partners, our analysis of the current labour market, and the experiences of other countries, we expect that in the short-term (one to two years) sufficient seasonal labour is likely to be available through a combination of A8, A2 and gangmaster labour although recruiting this labour force may become more resource intensive. However, the situation in the medium and long-term is much less certain and it is possible that after two or three years labour shortages may develop.

> *"[Growers generally perceive] there should be sufficient labour supply within 2014 and 2015 [although] there will be a need to recruit significantly more than 21,250 workers because turnover will be much higher. …The position after 2014 and 2015 is naturally less clear."*
>
> Association of Labour Providers response to MAC call for evidence

7.51 It is likely that a decreased labour supply would impact differently across crop types due to differences in seasonality and working conditions. Feedback from the British Growers Association suggested that the crops that would be particularly affected are soft fruit and top fruit, brassicas, field salad and glasshouse salads. All of these have a short shelf-life.

7.52 However carrots, onions, potatoes, parsnips, vining peas, peppers and cucumbers would be much less affected because of differences in their growing conditions, seasonality and perishability. Tomato growers stated that they were not expecting to experience serious labour shortages. Tomatoes are grown in glasshouses, are at a convenient height for picking, and do not have such acute seasonal peaks as some other crops. Thus, picking tomatoes was seen as a more attractive option for many seasonal agricultural workers.

7.3 Impacts on the cost of labour in horticulture

7.53 The preceding section found that following the closure of the SAWS, the horticulture sector could, in the medium-term, face seasonal labour

shortages. We now look at what may be the impact on the cost of labour in horticulture following the closure of the SAWS.

7.54 If a farm or grower experiences labour shortages, addressing these shortages is likely to translate into an increase in costs, which could manifest themselves via several inter-related mechanisms:

- **Increased wages:** If the sector experiences a decline in the number and quality of workers willing to carry out seasonal work, higher wages could improve recruitment and retention, increasing the pool of workers willing and able to undertake this work. The amount by which wages would have to increase in order to attract sufficient workers is not known.

- **Increased costs of recruitment:** If the lack of a seasonal workers scheme results in a higher staff turnover, this will require that greater numbers of people be recruited and trained. If the quality of worker available also declines, this may require greater training resources per worker. Farmers and growers may also seek to improve their attractiveness to workers by investing in improved accommodation and ancillary facilities. These would all increase labour costs.

- **Increased production costs:** If new opportunities in other sectors for the most skilled and motivated workers leads to a reduction in quality of workers in agriculture, the reduced average length of stay would mean that fewer workers get sufficient experience to become highly efficient and meet the targets for the minimum wage. At any one time, a greater proportion of the workforce could therefore be operating at a lower productivity level, effectively being subsidised by the growers. Also, in times of labour shortage the grower may decide to reduce the number of picking passes made over fields and orchards during the harvest, resulting in wastage and increased costs.

7.55 Many growers related to us their experience of a recent labour shortage and the impacts this had on their costs. During 2007 and 2008, there was a shortage of pickers which appears to have been due to a combination of factors. First, as seen in Section 6.6, fewer A8 migrants came to the UK, due to a more unfavourable exchange rate and the economic situation in the UK relative to their own countries. Second, the A8 workers who did come to the UK had shorter lengths of stay than when they came under the SAWS. Third, the SAWS quota was lower than current levels, at only 15,000.

7.56 As a result of this shortage, many growers found it a challenge to source sufficient workers to pick and process their crops. One grower in Scotland told us that in 2008 he had to increase pay by 40 per cent, and bear all of this cost as he was unable to pass any of it on to the retailer. A neighbouring farmer, at the same meeting, said that he was unable to access any more labour even though he also increased the pay on offer, the available labour having all gone to the first grower. The end result was that he had to leave unpicked crops in the field.

7.57 Similarly, Haygrove Ltd told us that in 2008 they made a loss of over £125,000 on their strawberries because they could not find sufficient labour to pick the crop. The Shropshire group reported that the labour shortage impacted on the cost of produce. For example, they told us the average cost of an iceberg lettuce between 2007 and 2012 was £0.75, but in 2008 it was £0.86.

"…many [A8] workers came to our farms and subsequently found full time positions locally and left. … Recruiting extra workers was possible in 2005 and 2006 but in 2007 and 2008 replacement A8 workers could not be sourced which resulted in fruit not harvested – a situation we are keen to avoid happening again."

The Co-operative Group response to MAC call for evidence

7.58 One thing which may mitigate against potential increases in the costs of labour is the proposed change in the agricultural minimum wage across England and Wales. As discussed in Section 6.5, this change will come into force on 1 October 2013 and means that growers in England and Wales will be able to use overtime more flexibly and, potentially, employ fewer people who would each work longer hours. This may have the effect of reducing the number of individuals who are needed to achieve the required hours of labour. The change may also increase the attractiveness of the work if the worker will be able to increase their level of earnings over the season.

7.4 Impacts on output prices and demand for horticulture products

7.59 An increase in costs of labour may translate into higher prices further along the supply chain which can then impact on the demand for the product. As discussed in Chapter 5, if the supply chain absorbs any cost increase, the majority of the burden will fall on producers.

7.60 We discussed with retailers and other partners the price sensitivity of British produce to the UK consumer, i.e. would UK consumers be prepared to pay a premium for British produce and, if so, how much? This is a question that would enable quantification or modelling of the point at which the UK growers would lose business to their international competitors. However, the data that would be required to develop such a model were not available to us and we have not attempted to quantify these impacts.

"we are already at the tipping point. Any significant increase in labour cost that could not be passed on to customers would directly result in horticultural production moving outside of UK."

British Growers Association response to MAC call for evidence

7.61 We had a detailed discussion with retailers about the pressures that impact on decisions to source British products or to import substitutes. Retailers told us that they have had an increased interest in recent years in sourcing British produce as a consequence of consumer preferences. They told us that they are working with growers and suppliers to ensure that the demand for British produce can be met. They reported that they have considerable investment built into the British horticulture industry through the suppliers and growers and want to continue to help the industry to develop. Switching to imported produce would be a reversal of the current direction and strategy for retailers. However, they acknowledged that there would be a point (determined by the consumer) at which more expensive local produce would be replaced by imports (assuming these were a cheaper and reliable supply).

7.62 According to the retailers we met with, consumers would be willing to pay only a modest additional amount for British produce. This is borne out by the evidence presented in Chapter 5, showing a rising dependence on imported goods in recent years as the UK agricultural price index has been increasing.

7.63 While there is some evidence (presented in Chapter 5) to suggest that retailers are relatively separate from the research and development process in horticulture, they told us that they do have an interest in securing a sustainable British supply chain. For example, the Co-operative group is both a grower and retailer, and therefore has a clear interest in developing efficient and high quality produce in their farms to sell in their shops.

"The Co-operative is committed to farming in the UK but a lack of certainty that our seasonal labour requirements will be fulfilled could undermine the viability of continued investment in this part of our business."

The Co-operative Group response to MAC call for evidence

7.64 With both Sainsbury's and Marks and Spencer we discussed initiatives that they have developed, in partnership with growers and suppliers, to improve practices and actively provide support for research and development projects including grants and awards.

7.65 However, if consumers were unwilling to accept current quantities of British produce at a higher price, then the evidence suggests that retailers and the large growers with annual supply contracts will switch to importing cheaper produce from other countries. Such an outcome would have an adverse impact on British horticulture.

7.5 Sector response: technological change

7.66 As discussed in Chapter 5, one of the options for the growers faced by a labour supply shock, whether through a shortage of available labour or an

increase in costs, is to reduce their labour requirements by increasing the use of capital, i.e. by investing in technology that can replace labour, or by making labour more efficient.

7.67 If the cost of labour per unit of output increases, the substitution to more capital-intensive technology becomes more viable. The extent to which this is then realised depends on whether such technology is available and would have the effect of reducing the cost of labour per unit of output.

7.68 Technology would not need to substitute labour completely. It could make the work easier and thus more attractive to a wider pool of labour. Indeed, the sector has already benefitted from such technological change. As described in Chapter 5, table top technology for strawberries has greatly increased the efficiency of the picking process, as well as improved the environmental control of growing conditions and made it easier for workers. In salads and brassicas, picking rigs have had a similar impact and enable the crops to be picked, washed, processed, packaged, labelled and crated in the field, completely by-passing the pack house. In top fruit and stoned fruit, new dwarf varieties of trees have been developed which have reduced the difficulty of picking. However, the evidence we saw suggested that technological solutions are not yet sufficiently advanced to enable mechanised picking for the fresh produce market.

"…over the last 10 years we have invested approximately £15m. However, … we are still 10 – 15 years away from having the technological advances that will significantly reduce our reliance on seasonal staff. Our crops are difficult to harvest mechanically as they are easily damaged and to date we have not found anything that can replace the accuracy of the human eye."

The Shropshire Group response to MAC call for evidence

7.69 Even once technology is available there are still barriers to its adoption. The financial investment required by growers can be considerable, with long pay-off times, and can be risky. Investment in technology for seasonal produce means that the cost of the technology is spread throughout the year and will therefore include periods when the technology is unproductive. Small farmers could be less able to access the necessary capital, potentially leading to large growers becoming more dominant.

7.70 Some growers, however, have taken steps to maximise their use of technology. For example, The Shropshire Group told us that they transported their picking rigs to their farms in Spain once the British salad season has ended to increase usage.

"In the long-term it would be possible to reduce demand for seasonal labour by investment in infrastructure – mechanization and robotic picking are examples of what might be possible. For crops such as strawberries, however, picking by hand is the only suitable option at the moment if the quality of the fruit is to be maintained to meet consumer demand."

The Co-operative Group response to MAC call for evidence

7.71 The availability of cheap reliable labour can, in some cases, delay the development and adoption of technological solutions as farmers and growers have little incentive to invest in research and development. Conversely, a labour supply shock can encourage innovation and early adoption of technology as producers seek alternative factors of production.

7.72 In this case we have not seen evidence that technological solutions are close to being ready for commercial use. As part of the UK Industrial Strategy launched in September 2012, the Government is developing a strategy for long-term growth in agriculture, with a focus on technologies across the agriculture sector from the research laboratory through the food supply chain. Therefore, the Government may want to consider how its agri-tech strategy could be used to help the sector develop technology further.

7.6 Sector response: industry restructuring

7.73 Based on the discussion presented in Chapter 5, the likely substitution of British grown produce with imports suggests that the premium price for British produce is modest. Retailers are likely to accept only minimal price rises, reflecting the demands of their customers and the highly competitive retail environment. Therefore it is likely that growers will be forced to absorb some, if not the majority, of any labour cost increase.

7.74 Margins in horticulture are already tight, with one-sixth of farms reporting a loss in the financial year 2011 to 2012 (see Table 5.5 in Chapter 5). This means that not all growers may be able to absorb increased labour costs. Technological solutions are some way off being able to substitute the seasonal labour required for picking in particular.

"UK retailers, who operate in a competitive market domestically and have well developed international supply chains, will look to (cheaper) suppliers across the rest of the Europe and beyond. Given that other countries (in the EU and internationally) employ similar/equivalent schemes, they will in all likelihood be able to produce agricultural output at a lower cost and hence gain a competitive advantage over the UK growers."

Department for Environment, Food and Rural Affairs response to MAC call for evidence

7.75 A likely consequence of this chain of events would be industrial restructuring. Effectively this means that horticultural activity in the UK would be reduced to a level which could be sustained by the labour available at new wage rates. The remaining land and other resources currently used by horticulture would then be released for alternative economic activities.

7.76 A contraction in the sector would potentially involve horticultural businesses:

- engaging in other less labour intensive agricultural activities;
- moving labour intensive activities abroad;
- undertaking further horizontal integration to reduce domestic or international competitive pressure on prices;
- undertaking further vertical integration to achieve cost savings elsewhere in the supply chain;
- reducing growth and investment;
- actively shrinking; or,
- ceasing trading.

"Given that the SAWS scheme allows for a reliable and consistent workforce to meet the demands of horticultural production, the removal of this scheme, with no replacement or transitional measure, may have a destabilising effect on medium-term business planning."

Confederation of British Industry response to MAC call for evidence

7.77 If the supply of labour to the sector declines with the closure of the SAWS, current horticultural businesses will likely be unable to diversify into equally labour intensive activities. Rather, they will need to change the nature of their work, perhaps providing more permanent jobs which are of more interest to the resident labour force. We did not receive any evidence telling us what such new business activities might be. It is more likely that less labour intensive activities will be adopted, notably arable farming (i.e. growing crops which can be planted and harvested by machine, such as wheat, barley, oilseed and potatoes).

7.78 The shift from horticulture to arable farming is not a simple switch and would mean a significant change in infrastructure and techniques for the farmers and growers. The change would take time and mean the loss of any money that the farmer or grower had invested in horticulture production and which could not be recouped through selling off machinery

and infrastructure, for instance. It seems likely that small horticultural farms in particular would be subsumed into large arable farms.

"Changing crops means abandoning one market and trying to fit into another already occupied by other growers. Fruit and vegetables are high value crops grown on relatively small areas. Switching to other crops such as cereals or potatoes would require more land and completely different equipment and facilities."

National Farmers' Union response to MAC call for evidence

"Trees have to be ordered 12-18 months in advance. They are planted with a view to producing a crop for 25 years. It takes about 4 years from planting to get a full crop so we cannot change or diversify what we produce in a short space of time."

Orchard Lodge Farm response to MAC call for evidence

"There would be substantial barriers to diversification to other crops. Not all crops are suitable to all types of land. Farmers and growers will have invested heavily in the plant and infrastructure to grow, harvest and process particular types of crops: so, in many cases, there would be significant switching costs associated with diversification, even if that were locally feasible."

The Farming and Rural Issues Group for the South East response to MAC call for evidence

7.79 Some businesses may choose to move parts of their operation abroad, where cheap, reliable labour could be sourced. Indeed some of the larger concerns already have farms or links with farms producing horticulture crops in other countries and they import the produce for the UK market. For instance, The Shropshire Group already manages farms in Spain, the Czech Republic, Senegal and Poland enabling them to supply UK retailers all year round. In addition, they import from farms in other countries such a Chile, Argentina, Mexico, Egypt and New Zealand. In a letter to the Prime Minister in 2012, and passed to us as part of the evidence for this review, John Shropshire, CEO of the Shropshire Group, stated that if the SAWS was scrapped and they could not get the migrant workers, The Shropshire Group may be forced to move their business to the continent. Haygrove Ltd told us they would have a similar response and grow produce abroad for importing into the UK.

7.80 Horizontal integration within the sector could be one way of shrinking to accommodate increased labour costs. Horizontal integration could be a viable option if the increased size of the organisation provided the potential to improve the recruitment or efficiency of the labour available or

if it eased competitive pressures on prices. Larger farms are more able to invest in accommodation and living facilities, for example, which may make it easier to attract workers.

7.81 These larger farms may also be more able and ready to recruit their workers directly rather than through an operator or other agency. The current SAWS sole operators are examples of the type of model which could become more common. Feedback from the UK Border Agency SAWS contract manager was that demand for SAWS places with the sole operators is higher than with the multiple operators. This potentially indicates that it is easier to recruit seasonal staff for a specific farm where the working and living conditions are known, rather than for multiple operators who can not tell a prospective applicant exactly where they would be working.

7.82 Vertical integration could similarly impact on the viability of businesses if they were able to increase their efficiencies by absorbing additional parts of the supply chain. As shown in Chapter 5, vertical integration has already happened within the industry to a certain extent, with growers taking on the packing and transportation of their produce rather than using third parties. There may be scope for further integration but we have not seen evidence that this would make a substantial difference to the sector.

7.83 The increased labour costs and uncertainties of labour supply would probably impact on the level of growth and investment within the sector, resulting in either shrinkage in horticulture or in missed opportunities for growth. During our call for evidence we were told by several growers that they were already delaying investment until they heard about the decision on the SAWS.

> *"…farming requires relatively long-term decisions making – it can take 8-10 years for an investment to payback so it is imperative that reassurance is provided that the seasonal labour required over that period will continue to be available to us."*
>
> The Co-operative Group response to MAC call for evidence

7.84 Place UK (a SAWS multiple operator and grower) told us they have considered diversification into cherry trees. Planting 10 acres would require over £200,000 investment. The project would be expected to produce yields after three years and have a productive life of 20 years. Place UK reported that the project has not yet gone ahead due to uncertainty that suitable labour will be available over this time period.

7.85 Others pointed to investments that they had already made and that they had to maintain for many years in order to breakeven. This would lead some growers to continue with horticulture, even with smaller returns, for a number of years in order to recoup their investment. However, a lack of new investment would result in a smaller horticulture sector over time.

"We have recently planted an additional 30 acres of cherries and this will require an extra 40 pickers in two years time. Recently there has been a surge of interest in rebuilding our cherry industry and a lot of cherry is being planted. This should mean that for our short season of six weeks UK growers will recapture our own market. This is excellent news but it will require a lot of extra pickers at the busiest time of the UK's soft fruit season."

Mount Ephraim Farm response to MAC call for evidence

7.86 For example, Wilkin and Sons Ltd told us about their plans to grow their business, including a £15 million investment in a factory at their current site, which would secure 500 local jobs by 2030. When we visited them, they were completing a new £1.5million International Farm Camp to improve their facilities for seasonal workers in the long term. They told us that they could source their fruit for jam production from China at a substantially lower cost but that their history and the unique selling point of their business was that their products are grown and made in the UK.

"maintaining our existing permanent workforce hinges on our ability to recruit seasonal harvest workers to plant, maintain and pick our fruit crops… With the current uncertainty over the future of SAWS, this investment represents an act of blind faith on our part and one which we hope will not prove to have been misguided."

Wilkin and Sons Ltd response to MAC call for evidence

7.87 If the supply of seasonal labour were reduced when the SAWS closes, some horticulture businesses may structurally adapt to increased labour costs and risk. However, it is very likely that other businesses may cease trading altogether. As shown in Table 5.5, 17 per cent of horticulture farms made a loss in 2011 to 2012 and 18 per cent made less than £10,000 profit. A proportion of the industry is therefore currently economically vulnerable and even a small increase in costs may make the difference for a large number of farmers and growers.

7.88 However, it should be remembered that product and labour markets are constantly adjusting and that most resources will, in time, have alternative uses.

7.7 Impact of a contraction in horticulture

7.89 As seen in Chapters 5 and 6, horticulture is a relatively small sub-sector of agriculture and is spread unevenly across the country. Defra (2012a) estimates that horticulture produce accounted for 40 per cent of crop output in 2011, with a combined estimated market value of £3.6 billion. Although reliable estimates of the volume of the horticulture workforce are not available, we did find that horticulture is labour intensive in comparison to other agriculture sub-sectors.

7.90 Modelling the full economic impact of a reduction in the size of the horticulture sector would be very complex, especially taking into account the potential multiplier and dynamic effects on linked business areas. However, we consider that, in the short term, a reduction in the horticulture sector would be likely to have a small negative impact on the UK economy and UK employment levels.

7.91 The geographical distribution of the horticulture sector suggests that such small national level impacts could be felt more significantly in those local areas where this activity is concentrated.

7.92 Chapter 3 highlighted those local authorities where most SAWS workers are employed. The absence of reliable data on the output of those workers by local authority makes it very difficult to assess the potential financial impact at the local level of ending the SAWS. However, detailed agricultural data are available for the English regions and Scotland. Table 7.2 below sets out the key information.

Table 7.2: Value of agriculture and horticulture by region, England and Scotland, 2011

	Agriculture as % total Gross Value Added by nation or region	Output at basic prices (£m)				Horticulture as share of total agricultural output (%)
			of which Horticulture			
		Total	Fresh vegetables	Plants and flowers	Fruit	
England	**0.64**	**17,772**	**1,068**	**976**	**520**	**14**
North East	0.71	593	8	12	1	4
North West	0.57	1,751	65	86	5	9
Yorkshire and Humber	1.03	2,175	135	76	6	10
East Midlands	1.15	2,575	256	148	6	16
West Midlands	0.89	2,015	96	112	136	17
East of England	1.12	3,404	301	170	70	16
South East (incl. London)	0.19	2,110	125	248	227	28
South West	1.30	3,149	82	125	70	9
Scotland	**0.68**	**2,760**	**109***	**39****	**94**	**9**

Note: Gross Value Added (GVA) is used as a measure of economic activity occurring in an area. It is similar to Gross Domestic Product (GDP) but it excludes taxes and subsidies on products. A detailed definition of GVA is provided in Box 2.1 in Chapter 2.
*Value is for 'vegetables'. **Value is for 'Flowers and nursery stock'
Sources: Defra (2012a) table 2.2. GVA data for Scotland is from: Defra (2013b), Scottish Government Environment and Forestry Directorate Rural and Environment Science and Analytical Services (2013)

7.93 Agriculture as a whole accounts for around 1 per cent or less of Gross Value Added (GVA) (a measure of economic activity, see Box 2.1 for further explanation) though this varies from less than 0.2 per cent in the South East of England to around 1.3 per cent in the South West of England. Hence agriculture makes a relatively small contribution to national and regional income.

7.94 Considering the breakdown by type of agriculture by region, five regions stand out in terms of horticulture production (output). Total fruit production in England is valued at £520 million, 44 per cent of which is grown in the South East and 26 per cent is produced in the West Midlands. In Scotland, fruit production is valued at £94 million. For vegetables, output in England was just over £1 billion in 2011 with the East of England and the East Midlands between them accounting for over half of this.

7.95 The purpose of this analysis is not to arrive at an estimate of the direct loss to these regions resulting from the ending of the SAWS but rather to give an indication of the current value of these sectors overall. The analysis shows that agriculture contributes a very small proportion to overall GVA either at the regional or the national level. However, within these regions some smaller areas are much more reliant upon agriculture in supporting the local economy. In these cases, the impact would be felt at the local level if farms close down and other associated businesses are affected by a reduction in the size of the sector. We explore this point in more detail in the next section.

7.8 Impact on local employment and economy

7.96 A contraction of the horticulture sector could result in a loss of employment for some of the UK resident labour force employed in that and related sectors. The NFU 2012 Annual Labour Survey of horticulture producers showed that approximately three and a half seasonal workers support one permanent job.

7.97 While the seasonal workers are mainly migrants, the permanent jobs within the sector are mainly filled by the local resident workforce. These jobs include forklift drivers, permanent packhouse jobs, office administration staff, farm managers, marketing and sales roles, HR positions, maintenance and cleaning staff, horticultural technicians and others. A decline in the sector would mean a reduction in these roles.

7.98 If the horticulture sector were to undergo an industry restructuring as a result of the closure of the SAWS, partners told us that the main alternative to horticulture would be arable farming. As shown in Chapter 5 (Table 5.7) arable farming requires relatively little labour compared to horticultural produce. For instance, one hectare of cereals requires 18 hours of labour per year, while one hectare of top or soft fruit requires 425 hours. Consequently, arable farming employs fewer people and it is therefore unlikely that jobs lost from horticulture would be subsumed within arable farming if the land changed usage. For example, Staples Vegetables, a large brassicas producer near Boston, told us that were they to use their land for crops that were machine-harvested, they would employ 10 to 12 people where they currently employ 200.

"If Hugh Lowe Farms were to stop growing soft fruit 35 local, permanent jobs will be lost, together with an estimated 65 permanent jobs in the associated supply chain, just in this immediate rural area. There would be a consequent loss of £6m which is the farm's contribution to the local rural economy."

Hugh Lowe Farms response to MAC call for evidence

7.99 A reduction in the size of the sector could lead to the loss of some higher-end skills in UK horticulture. Workers with specialist skills could move abroad in the absence of alternative UK-based opportunities in

horticulture. These skills could eventually be lost to UK horticulture leading to a further diminution of the sector.

7.100 In Figure 5.1 (Chapter 5) we showed the inter-connected nature of the UK horticulture sector with the wider UK economy. All businesses linked with horticulture could face a loss of custom and opportunity if the horticulture sector were to contract. For example, The Shropshire Group reported that they spend £3 million a year with a local packaging supplier, £0.9m with a local and national logistics supplier, £1m with a local spray and fertilizer supplier, £0.6 million with a local seed and plant supplier, and £0.3 million with a local tractor repairs company. If they reduced the size of their horticulture business or moved it abroad, all these other local businesses would be adversely affected.

"… packhouse equipment, weighing machines, heat sealers, tractors, tunnels, poly, growing systems, worker accommodation would no longer be required. Transport companies, drivers, contractors etc, there are so many UK companies large and small that rely on the UK commercial horticultural / agricultural industry that many would face closure or huge changes if we lost our growing industry."

Fruitful Jobs Ltd response to MAC call for evidence

7.101 The majority of migrant seasonal workers take a large proportion of their pay back to their home country. Therefore, the multiplier effect on the wider economy is smaller that it would have been if UK resident workers took the seasonal jobs and spent all of their earnings in the UK. However, the seasonal workers do spend a proportion of their earnings within the local economy on food and drink and other essentials. If the horticulture sector contracted, this would reduce consumer spending at the local level. We heard from several partners that the presence of the seasonal workers also helps to maintain some rural services, for example bus and taxi services.

"In 2012 £8.12 million of wages were paid, £2.7 million to full time and £5.5 million to seasonal. The seasonal agricultural workers spend a proportion estimated at greater than 30% of their income within 20 miles of the farm, primarily in the town of Ledbury. This spending makes an important contribution to the sustainability of local services and facilities."

Haygrove Ltd response to MAC call for evidence

7.102 The impact of a contraction in horticulture would be unevenly distributed across the country. Some of the larger horticultural businesses are major local employers, therefore the loss of one would be significant for the local area, particularly as they are in rural areas where there are fewer employment opportunities. For example, S&A Produce (UK) Ltd employs 140 people in permanent jobs and 800 people in seasonal jobs in

Herefordshire and Kent, The Shropshire Group employs 1,200 permanent staff and 2,500 seasonal staff in East Anglia and the West Midlands, and Staples Vegetables near Boston employs 700 people at any one time of whom 400 are SAWS workers. Even where there is not a large horticulture business in the area, there does tend to be a clustering of smaller horticulture businesses, meaning again a significant impact at the local level of a reduction in the size of this sector. Examples of clustering of smaller businesses are: Herefordshire, East Anglia, Kent, the West Midlands and the east coast of Scotland.

"Moving production off shore and importing crops would have a devastating impact on our permanent employees with certain job losses. It would also add costs to production through increased transport costs which would either reduce the viability of production or increase food prices."

The Shropshire Group response to MAC call for evidence

7.103 Herefordshire has the highest number of SAWS workers of any local authority and the County Council told us that a decline in the horticulture sector would have significant impacts on the local economy. Although they said that they could not quantify the specific financial contribution of soft fruit production to the county's economy, they felt that it was a major component and that it constituted an area of economic growth during the previous decade. The Council reported that the amount of land in its area devoted to soft fruit increased by at least two-thirds between 2000 and 2010.

7.104 Similarly, Kent relies heavily on the sector. In its Annual Report 2012, Rural Plc (Kent), a campaign to champion the importance of Kent's food sector, reported that the farming sector in Kent is worth £5.4 billion which would rank 57th on the FTSE All Share Index (Rural Plc (Kent) (2012) p.4). Almost two-thirds of the UK's top fruit (apples, pears etc.) are grown in Kent and around a third of the UK's strawberry production is located in the county. Food production accounts for 15 per cent of Kent's workforce and has been identified as a potential area for growth.

7.9 Other potential impacts

Self-sufficiency in food production

7.105 Contraction of the horticulture sector would result in reduced self-sufficiency in fresh fruit and vegetables.

7.106 In its response to our call for evidence, Defra stated: *"The Government wishes to see an increase in resident food production with, and through, improved competitiveness. Since taking office in September 2012, Defra's new Ministerial team has re-emphasised its commitment to growth through the agri-food sector: the largest manufacturing sector in the UK with an estimated value of £26.4bn in 2011. The Secretary of State has underlined*

his wish to promote both export growth and an increased share for resident production in the UK market."

7.107 Defra believes that there are opportunities to increase production and self-sufficiency in horticulture. Indeed, one of the priorities in Defra's Business Plan for 2012-2015 is to *Support and develop British farming and encourage sustainable food production.* Defra reported to us that Ministers have endorsed the recommendations of the Fruit and Vegetables Task Force set up by the previous Government, which in 2010 stated its aim to:

- *"make domestic produce more competitive on grounds of cost, availability and quality;*
- *over five years [reverse] the decline in indigenous vegetable self-sufficiency."*

7.108 As well as enabling self-sufficiency, partners told us that UK food production facilitates the traceability and effective regulation of food production. Some partners raised concerns about the impact of a reduced horticulture sector on the environment. This was on account of a risk to biodiversity caused by reducing the variety of horticulture and replacing it with a single crop, as well as the harm caused by transporting an increased amount of imported fresh produce.

Social impacts

7.109 Some partners raised concerns about the potential social impacts of an expected initial increase in migrant workers coming to the UK to work in agriculture but who do not stay on the farms or return to their home countries. A smaller number of partners raised concerns about the longer-term social issues for rural areas caused by a decline in a major generator of local incomes.

7.110 In the short-to-medium term, partners were concerned that closing the SAWS could increase demands on services in the area. One of the benefits of the SAWS is that the operators or farms provide housing and other limited support services which can include language and translation support and help with practical matters such as getting a bank account and a National Insurance number. Without a SAWS, the growers told us they will continue to provide these services for the workers who remain on the farm. However, once workers are free to choose where to live they may be no longer be within that structured support network. At that point they could rely more on local services when in need or some may become vulnerable so that local services are required to intervene, for example in the case of overcrowding or homelessness.

7.111 Herefordshire County Council said that they were particularly concerned about the social impacts as their area hosts a large proportion of SAWS workers.

> *"The several thousand workers that currently come to the county each year with jobs and accommodation to go to could continue to come, without the support of an employer that has to provide somewhere to stay. There is a concern that this would lead to an increased demand on local public services, in the same way as was seen after the A8 states joined the EU in 2004 – but in a very different financial climate, with far more limited resources available to public services to provide essential services."*
>
> Herefordshire Council response to MAC call for evidence

7.112 The Council reported they have good links with local farmers and have developed systems to help local services cater for the needs of seasonal workers while minimising their impact on the resident population. For instance, an NHS mobile health bus visits the farms during the picking season to enable seasonal workers to register temporarily with a GP. This service also carries out illness prevention work. The Council stated that this decreased the numbers of seasonal workers accessing Accident and Emergency services at the local hospital. The Council has also developed guidance to prevent rough sleeping amongst seasonal workers. The Council were particularly concerned about the potential demand for housing, both private and social, from workers who move off the farms.

7.113 Without the SAWS there could be an increase in the turnover of seasonal workers, as workers are no longer tied to the farm, and, combined with the ending of monitoring of employers, this could exacerbate the risks attached to the living and working conditions of workers. The higher turnover could also lead to greater health and safety risks as inexperienced staff operate machinery and work in potentially hazardous environments.

7.114 As well as the practical issues and concerns, there was an emotional element to the responses we received during the call for evidence. The history of horticulture in the UK was felt to be important to the identity of the land and its people. There was pride in the quality of produce that is grown in each area, and how this reflected the character and history of the local region.

Impact on net migration to the UK

7.115 We have not specifically been asked to consider the impact of the SAWS in relation to immigration. However, it is possible that changes made to the current operation of the scheme could potentially increase rather than decrease net migration to the UK. This was repeatedly brought up by partners during our meetings with them.

"SAWS is not and never has been a migration issue."

Wilkin and Sons response to MAC call for evidence.

"SAWS is not a source of immigration to UK, it is a well managed scheme of controlled migration."

British Growers Association response to MAC call for evidence.

"SAWS does not go against the UK Government's policy to lower immigration. SAWS is not an immigration scheme and SAWS labour is not included on the UK's net migrations figures."

The Shropshire Group response to MAC call for evidence.

"SAWS is not an immigration scheme but one which actually limits immigration because its temporary nature means people return home to their country."

Concordia (YSV) Ltd. response to MAC call for evidence.

"From an immigration perspective, the return rate of SAWS workers to their country of origin is exceptionally high and SAWS is seen by industry as a useful, largely trouble-free scheme."

Department for Environment, Food and Rural Affairs response to MAC call for evidence.

7.116 The SAWS does not directly add to net migration within the UK. As discussed in Chapter 3, we have seen evidence that it works effectively to bring workers to the UK on a temporary basis. However, once the scheme ends, there is potential for "seasonal migrants" from the A2 to become permanent migrants and this may impact on the Government's objective of reducing net migration to the tens of thousands by the end of this Parliament. There may be a further indirect effect on long-term immigration if they bring family with them. From 2013, Bulgarians and Romanians will have the right to work in the UK without any form of restriction and the growers believe that they may be used as a stepping stone into other employment sectors within the UK, as they believe happened and continues to happen with some A8 workers.

7.117 As discussed earlier in this chapter, farms seeking seasonal workers provide guaranteed work, accommodation and help with practical matters such as obtaining a bank account and National Insurance number. Workers can therefore come to the UK in a relatively risk-free manner. Currently under the SAWS, workers from Bulgaria and Romania are only permitted to work in agriculture for a set period of time. However, post-2013 they will have the option to move out of the horticulture sector for permanent employment in more pleasant environments.

"The absence of a replacement SAWS programme may encourage people from A2 who wish to come to the UK to settle with the intention of using a job in horticulture as a stepping stone but these are not the seasonal workers that the sector requires."

Concordia (YSV) Ltd. response to MAC call for evidence

7.118 Considering the demand for seasonal labour and the potential sources of supply, once the restrictions are lifted farms will most likely continue to target the A2 countries to recruit seasonal workers. In addition, the opening of the recruitment market may lead to an increase in recruitment agencies working in Bulgaria and Romania. Not all workers recruited to agricultural roles will seek to move to other sectors or to stay in the UK permanently, although some may do so. Growers will then face a higher turnover of workers and have to recruit more people in order to avoid a shortfall of labour supply. Depending on the turnover of workers, labour recruiters and growers may therefore be looking to find more than the 21,250 workers currently supplied each year by the SAWS.

7.119 In Section 7.6 we set out how the horticulture sector could decline in the medium-term due to lack of quality seasonal labour. If this were to occur the potential impact on immigration would most likely decline as well. If the sector contracted in line with the decreased labour supply there would be fewer growers looking to recruit seasonal workers. However, it is likely that there would continue to be some turnover of workers.

7.10 Beneficiaries of closing the SAWS

7.120 Assuming that the scenario of labour supply presented above holds true, there could be some parties who will benefit from the ending of the SAWS. In the short-to-medium-term, those who benefit the most will be workers in A2 and A8 countries who may be more actively sought for recruitment into the horticulture sector to replace the workforce currently provided by the SAWS. There may be an improvement in pay and conditions in order to attract workers. The UK resident workforce could also benefit from this sector being more willing to look closer to home for their supply of labour.

7.121 Labour providers both within the UK and abroad may benefit from increased demand for their services as the number of workers required by growers to cover the season increases. Organisations involved in research and development for horticultural technology may also benefit as the costs of labour increase, creating incentives to develop technological solutions. Other sectors in the UK may benefit from an increased source of low-skilled labour as those who are brought into the UK by farms move on to search for more permanent and less demanding work.

7.122 In the medium-to long-term, if the horticulture sector contracts, the main beneficiaries are likely to be horticulture sectors in competing countries and freight transport companies benefitting from increased imports.

7.123 In the UK, additional high quality land could become available for arable farming, housing or other uses, potentially creating some benefit for other industries.

7.11 Conclusions

7.124 In this chapter we discussed the potential impacts that might result from closing the SAWS. Although there is a significant amount of uncertainty, we expect that post-2013 the horticulture sector may have sufficient labour in the short-term (one to two years). However, in the medium-term A2 migrants may increasingly move to employment within other sectors where they can find permanent, less demanding jobs. In addition, migrant flows are variable and fewer EU nationals may choose to come to work in the UK at all if there are changes in the economic and employment circumstances both in their home countries and in the UK. There is no evidence to suggest that many of the UK resident workforce will start to take up seasonal work in agriculture. The A8 sources of labour appear to be in decline.

7.125 Any decrease in the supply of seasonal labour could increase the price of production as the result of increased pay, increased recruitment costs and decreased efficiency of production. The retailers we spoke to were all of the view that there was little flexibility on price for consumers in relation to British grown produce. Therefore, assuming there was an available and cheaper international source, at some point the retailers would switch to imported goods.

7.126 This could result in damage to the horticulture sector. The impacts at a national level are likely to be small. Local level impacts are likely to be concentrated in areas such as Herefordshire, East Anglia, Kent, the West Midlands and the east coast of Scotland where horticulture businesses are clustered. These areas may see a loss of permanent employment (mostly among the UK resident population) and a reduction in economic activity as this labour-intensive industry experiences a decline. The interlinked nature of the food supply chain means it is likely that connected businesses in other sectors will also be impacted by shrinkage in the horticulture sector. This said, the land and resources currently used for horticulture will be put to alternative use, which in some instances might lead to greater economic efficiency.

7.127 A decline in the horticulture sector could mean a decline in self-sufficiency of food production, going against current policy aims. The move away from horticulture may have environmental impacts.

7.128 Growers may have to intensify their recruitment efforts for seasonal workers in the A2 and A8 countries. If they were successful at targeting the workers who wish to come on a seasonal basis only, this could provide a reliable replacement for SAWS workers. However, these efforts could potentially contribute to longer term immigration from these countries. If this occurs, there could be some social impacts including an increased demand for services. It may also impact on net migration.

7.129 Chapter 8 summarises our conclusions on the review of the impacts on agriculture and food-processing sectors of closing the sector-based schemes at the end of 2013.

Chapter 8 Conclusions

8.1 Introduction

8.1 In this report we have addressed the following commission from the Minister for Immigration:

"The current restrictions on A2 workers will be removed at the end of 2013 and the current sector-based schemes for A2 workers (covering agriculture and food processing) will then close. What impact across the whole of the UK will this have on the sectors currently covered by the sector-based schemes?"

8.2 We have reviewed the potential impacts across the UK on the food-processing and agriculture (mainly horticulture) sectors of closing the Sectors Based Scheme (SBS) and the Seasonal Agricultural Workers Scheme (SAWS). In this chapter we summarise our main conclusions although, on this occasion, we do not make formal recommendations to the Government as we have not been asked to do so.

8.3 We are very grateful to all partners who engaged with us and provided evidence and data to support our review.

8.2 Assessment of the impact of the current sector-based schemes

8.4 In this section we briefly summarise our assessment, predominantly based on evidence received from partners, of the impact of the SBS and the SAWS.

8.5 The SBS is a relatively small scheme for three sub-sectors within the food-processing industry. It has an annual quota of 3,500 which has been consistently under-used in the last six years. Employers in these sub-sectors highlighted the potential benefits of closing the scheme once the labour restrictions on Bulgarian and Romanian nationals are lifted at the end of 2013. Contrary to what we observed with the SAWS, users of this scheme have recently experienced increased bureaucracy and delays in the processing of applications. Due, in part, to issues associated with the administration of the scheme, partners told us that closing the SBS would be unlikely to have any negative impact on the relevant food-processing sub-sectors across the UK.

Seasonal Migrant Labour

8.6 Some sort of seasonal worker scheme pre-dating the present SAWS has been in place for more than sixty years. The SAWS currently has an annual quota of 21,250 workers and is managed by nine operators, who are approved by the UK Border Agency. The operators monitor the growers, and the UK Border Agency monitors both the operators and the growers to ensure the standards and working requirements of the SAWS workers stipulated in the contracts are met. Bulgarian and Romanian migrants coming to work under the SAWS are mostly employed in the horticulture sector and provide the labour required during the picking season.

8.7 We found that the current SAWS works efficiently in providing suitable workers to the growers that need them. Growers expressed satisfaction with the quality of their work. Many workers return to the scheme year after year, and the scheme as a whole appears to be well managed by the UK Border Agency with very high rates of return to Bulgaria and Romania at the end of each season. There appear to be several beneficiaries of the current SAWS:

- growers get a consistent, dependable, efficient labour supply that maintains their business viability;
- retailers get a reliable source of produce, can maintain their just-in-time delivery systems, are able to keep prices down for consumers and, therefore, remain competitive;
- migrants get access to work from which they would otherwise be excluded, in a well-managed scheme with regulated conditions, and can earn relatively high wages compared to similar opportunities in their own countries;
- consumers have the choice of British produce; and
- the seasonal workforce supports permanent jobs in the sector and in related industries, the majority of which are taken up by the resident labour force.

8.8 There are no groups in the UK who are obviously disadvantaged by the scheme. The resident labour force is not displaced as UK workers are generally unwilling or unable to take up seasonal farm work.

8.9 As discussed in Chapter 4, most countries, including Australia, Germany, the Netherlands, New Zealand, Spain, and the US have similar schemes for seasonal labour, or have some mechanism for subsidising an agriculture sector which would otherwise not be sufficiently competitive to survive. The lack of resident labour willing to engage in agricultural work, particularly seasonal work, is an international issue.

8.3 The potential impacts of closing the Seasonal Agricultural Workers Scheme

8.10 We presented an overview of the agriculture sector and its labour market in Chapters 5 and 6 respectively. SAWS workers are currently concentrated in the labour-intensive horticulture sector and therefore, in considering the potential impacts of closing the scheme in Chapter 7, we focussed our review on this sector.

8.11 When the current restrictions on labour market access on A2 nationals are lifted at the end of 2013, nationals of Bulgaria and Romania will gain full access to labour markets across the European Union (EU). Bulgarian and Romanian nationals will be able to work in the UK (as well in the other EU countries) in skilled or unskilled occupations in any sector, including agriculture and horticulture. According to the Organisation for Economic Co-operation and Development (OECD, 2012), Bulgarian and Romanian nationals are among the most mobile EU citizens. However, as we pointed out in Migration Advisory Committee (2011), there is a wide range of uncertainty around the effects on migration inflows to the UK of ending restrictions on labour market access for Bulgarian and Romanian nationals. It is even more difficult to reliably estimate the numbers of those willing to take seasonal work in agriculture, whether from Bulgaria or Romania or elsewhere, in the absence of a regulated scheme such as the SAWS.

8.12 Growers were in general agreement that, at least **in the short term** (one to two years), they will be able to find the required supply of seasonal labour from Bulgaria and Romania. However, based on their experience following the EU accession of eight Eastern European countries (A8) in 2004**,** growers expressed strong concerns that they will find it increasingly difficult to recruit workers from Bulgaria and Romania, who will likely seek employment in other sectors with less physically demanding work and more permanent employment. In addition, because SAWS workers predominantly live *in situ* on the farms, and thus provide a flexible and quick response to peaks and troughs in filling orders, farmers are concerned that, without a scheme, workers will be less flexible and reliable.

8.13 Farmers and operators will increase their effort in both A2 and A8 countries to recruit seasonal workers. And, whether directly recruited by farmers or through gangmasters, A8 and A2 nationals are likely to continue to play a sizeable role in the supply of seasonal labour in the horticulture sector in the coming years. However, over time, employers in horticulture are likely to face increasing recruitment difficulties.

8.14 As outlined in Chapters 6 and 7, there is little evidence to suggest that UK resident workers, who currently account for a minor proportion of the seasonal workforce in agriculture, will replace SAWS workers. Nevertheless, recent efforts in the agriculture sector to attract UK-resident workers should be encouraged and these efforts may be boosted to some extent by the introduction of the Universal Credit, though this will only be

fully rolled out in 2017. Although the Department for Work and Pension estimates that the introduction of the Universal Credit will incentivise a further 170,000 people into work, there are no sectoral analyses to suggest how many of these may end up in seasonal work. We believe the earnings disregard for single adults is unlikely to induce many to come off benefits and take seasonal work.

8.15 In Chapter 7 we considered a range of potential scenarios and the likely consequences for the horticulture sector. If the labour supply from UK resident and EU workers experiences a contraction in the short-term, following the closure of SAWS, it is likely that pay in horticulture will increase and this will have an impact on prices and demand for horticulture produce. If increased labour costs cannot be absorbed by the growers, suppliers, retailers or consumers, then the following outcomes are possible:

- Growers could diversify production, switching to less labour-intensive methods.
- The horticulture sector could contract and this could have a negative impact on permanent (mainly resident) local employment both in this and ancillary sectors. At national level the impact would be minimal, but at local level it could be much greater.
- Over time, land and other resources will find alternative and possibly more productive use.

8.16 Alternatively, the Government might choose to play an active role in protecting British horticulture. The uncertainty of an available and reliable supply of seasonal workers **in the medium and long term** might have a destabilising impact on investment planning in the sector. Several growers told us that they are delaying major investment decisions until there is more certainty on whether or not the current SAWS will be replaced with a new scheme.

8.17 It is for the Government to decide whether or not to treat horticulture as a favoured sector and, if so, how best to intervene. It could, for example, continue to provide this sector with preferential access to relatively cheap migrant labour by piloting a new seasonal worker scheme. The quota for any new scheme would not necessarily have to be the same as the current SAWS. It could be smaller. Although we have noted that the current quota is fully utilised, the proposed replacement of the agriculture minimum wage (AMW) with the national minimum wage (NMW) – and the resulting loss of premium overtime rates - could incentivise employers to increase overtime hours such that fewer workers might be required.

8.18 Beyond the size of the quota, any new scheme would need to consider three other key issues: the source countries for the labour, the type of worker (i.e. any potential workers or a particular group such as students) and the scheme's overall operation. The National Farmers' Union's proposal (described in Chapter 3) suggests targeting agricultural students

from the Ukraine, excluding those in their final year of study to ensure they would have a strong incentive to return home.

8.19 Alternatively, a new scheme could be established which is restricted to nationals of Croatia, the next EU accession country. However, as Croatia's population is small (some 4 million), links are traditionally stronger with Germany and GDP per head is higher than in Bulgaria and Romania, it is unlikely that a scheme restricted exclusively to Croatian nationals would provide a sufficient supply of seasonal labour.

8.20 Finally, the success of the current SAWS should not be underestimated. By transferring responsibility for the scheme's operation, enforcement and worker welfare to the nine SAWS operators, the Government has established an efficient and well-functioning model.

8.21 The Government could promote and facilitate more investment in technology and mechanisation to make the sector less reliant on labour over time. However, this is **a longer-term solution**. As part of the UK Industrial Strategy, the Department for Business, Innovation and Skills is currently developing a long-term agri-tech strategy focussed on knowledge transfer and the application of technology to the agriculture sector. Given the time-scales required to develop labour-saving technology, there would still be a need for labour supply assistance to the agricultural sector in the medium term, but with a view to phasing out such assistance as the relevant advances take effect.

8.4 Our conclusions

Sectors Based Scheme

8.22 Based on the evidence we received and our assessment of the current take-up of migrant labour in the food-processing sector through the SBS, we consider that the closure of this scheme at the end of 2013 is unlikely to have negative impacts on employers' ability to meet their labour needs through the UK and EU labour markets.

Seasonal Agricultural Workers Scheme

8.23 Seasonal migrants workers recruited through the SAWS are mainly employed in horticulture. Although, numerically, they represent only around one-third of the entire seasonal agriculture workforce, they play a crucial role in providing a flexible and reliable source of labour for farmers and growers. We found little evidence that the supply of workers from Bulgaria and Romania will decline in the short-term following the closure of the current scheme at the end of 2013. However, in the medium- and longer-term, farmers are likely to experience increasing difficulties in sourcing the required level of seasonal labour from the EU (including the UK) labour market. A new source of seasonal labour is likely to be required or the horticulture sector will need to consider alternatives. It is for the Government to decide whether and how to support the horticulture sector. However, to secure long-term investments in horticulture, it would

be helpful for farmers to know what the Government will do post-2013 as soon as is practicable.

Annex A Consultation

A.1 List of organisations/individuals that responded to the call for evidence

Active Immigration

A Hinge & Sons Ltd

Association of Labour Providers

Beech Farm

British Embassy in Bucharest

British Growers Association Ltd

British Meat Processors Association

Concordia (YSV) Ltd

Confederation of British Industry

Department for Environment, Food and Rural Affairs

Department for Work and Pensions

East Kent (mixed farmers response)

Edward Vinson Ltd

Farming & Rural Issues Group for the South East (FRIGSE)

Fiddleford Mushrooms

Foreign & Commonwealth Office

Fruitful Jobs Ltd

Ham Farm

Haygrove Ltd

Herefordshire Council

HOPS Labour Solutions Limited

H T Hulme

Hugh Lowe Farms

J & A Growers Ltd

J L Baxter & Son

Laurence Gould Partnership Limited

Little Peterstow Orchards

Lower Reule Farm

FW Mansfields & Son

Mount Ephraim Farms

National Farmers' Union

National Farmers' Union Scotland

New Farm Produce Ltd

Newmafruit Farms Ltd

North Court Fruit Farm

Orchard Lodge Farm

Orchard World Ltd

Peake Fruit Limited and Boxford (Suffolk) Farms Limited (joint response)

Robert Boucher & Son

Salmans Ltd

Scallop Association

Scottish Seafood Association

Spey Fish Ltd

STM-Acord SRL

Suffolk Mushrooms Ltd

Tesco (combined supplier response)

The Asplins Producer Organisation Ltd

The Co-operative Group

The Shropshire Group

Unite The Union

Wey Street Farm

Wilkin & Sons Limited

+ one response from a private individual

A.2 Indicative list of organisations we met with/visited

50 Club

A C Goatham & Son

A Hinge & Sons Ltd

AJ & CI Snell

A J Bray

Asplins PO

Bardsley Farms

BH Savage & Son

Beech Farm

British Asparagus Growers Association

British Growers Association

Bruce Farms

C E Murch Ltd

Cleveland Nurseries

Competition Commission

Concordia (YSV) Ltd

Cornerways Nursery

Cruachan Farm

Department for Business, Innovation & Skills

Department for Environment, Food and Rural Affairs

Department for Work and Pensions

D G Long

Easter Grangemuir Farm

Embassy of Romania

English Apples & Pears Ltd

Eric Wall Ltd

Fruitful Jobs Ltd

F W Mansfield & Son

Fruition PO

Gangmasters Licensing Authority

G H Dean & Co Ltd

Hall Hunter Partnership

Haygrove Ltd

Herefordshire Council

HOPS Labour Solutions Limited

J & A Price Ltd

J W Allen & Sons, Portwood Farm

Kirkenel Orchards

Langdon Manor Farm

Lavender Farm

Leadketty Farm

Loddington Farm Ltd

Marks & Spencer

Mount Ephraim Farms

Rt. Hon Harriet Baldwin MP

National Farmers' Union

National Farmers' Union Scotland

New Farm Produce

Newmafruit Farms Ltd

North Bank Growers

Northiam Farm

Nynehead Fruit

Place UK Ltd

R & L Holt

R C Boucher & Son

Red Roofs Nursery

S & A Produce (UK) Ltd

Sainsbury's

Sastak Ltd

S W Highwood (Pluckley) Ltd

Scottish Government

Staples Vegetables

Starkey's Fruit Ltd

The Co-operative Group

The Shropshire Group

Tomato Working Party

Wey St. Farm

Wilkin & Sons Limited

Windyhills Farm (P J Stirling)

Worldwide Fruit

Abbreviations

A2	Bulgaria and Romania
A8	Estonia, Latvia, Lithuania, Poland, the Czech Republic, Slovakia, Hungary and Slovenia
ABS	Annual Business Survey
A & E	Accident and Emergency
ALP	Association of Labour Providers
AMW	Agricultural Minimum Wage
ASHE	Annual Survey of Hours and Earnings
AWE	Average Weekly Earnings
BIS	Department for Business, Innovation and Skills
BRES	Business Register and Employment Survey
CAP	Common Agricultural Policy
CASCOT	Computer Assisted Structured Coding Tool
CEO	Chief Executive Officer
CMRCO	Collective Management of Recruitment in Country of Origin
CPI	Consumer Price Index
DM	Deutsch Marks
DWP	Department for Work and Pensions
EEA	European Economic Area
ERM	Exchange Rate Mechanism

EURES	European Employment Services
EU	European Union
FBS	Farm Business Survey
FTSE	Financial Times Stock Exchange
GDP	Gross Domestic Product
GLA	Gangmasters Licensing Authority
GVA	Gross Value Added
HMRC	Her Majesty's Revenue & Customs
HO	Home Office
HR	Human Resources
HSCIC	Health and Social Care Information Centre
ILO	International Labour Organization
JSA	Jobseeker's Allowance
LFA	Less Favoured Area
LFS	Labour Force Survey
Ltd	Limited Company
MAC	Migration Advisory Committee
MI	Management Information
NEET	Not in Employment, Education or Training
NFU	National Farmers' Union
NFUS	National Farmers' Union Scotland
NHS	National Health Service
NMW	National Minimum Wage
NI	Northern Ireland
NINo	National Insurance Number
NZ	New Zealand
OECD	Organisation for Economic Co-operation and Development

ONS	Office for National Statistics
PBS	Points Based System
PES	Public Employment Service
RPI	Retail Price Index
RLMT	Resident Labour Market Test
RSE	Regional Seasonal Employer
SAWP	Seasonal Agricultural Workers Programme
SAWS	Seasonal Agricultural Workers Scheme
SWP	Seasonal Workers Program
SBS	Sectors Based Scheme
SDA	Severely Disadvantaged Area
SLR	Standard Labour Requirements
SOC	Standard Occupational Classification
SOL	Shortage Occupation List
SPS	Single Payment Scheme
UC	Universal Credit
UK	United Kingdom
UKBA	UK Border Agency
UKCES	UK Commission for Employment and Skills
US	United States
VAS	Voluntary Agricultural Scheme
VAT	Value Added Tax

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