



Cold Chain Federation response to evidence request for inquiry into labour shortages in the food and farming sector

The Cold Chain Federation is the voice of the UK cold chain. Our 190 members operate more than 450 specialist cold storage facilities and run more than 30,000 temperature-controlled vehicles across England, Wales, Scotland and Northern Ireland. Our members are the critical logistics professionals who deliver the UK's chilled and frozen food supply and our response to this call for evidence is based on the continuing labour and other challenges impacting the way we deliver food to the nation.

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

As has been well documented, the UK food supply chain is currently experiencing severe shortages of labour which are affected all stages of the process, from too few workers to pick produce from our fields to a shortage of butchers to process animals, through to shortages in warehouse workers and perhaps most critically, HGV drivers. The extent of these shortages is comprehensively outlined in the report produced by the Cold Chain Federation in collaboration with 11 other trade bodies including the NFU and RHA, '*Establishing the labour availability issues of the UK Food and Drink Sector*'¹.

The areas directly affecting Cold Chain Federation members are drivers of temperature-controlled vehicles, and warehouse workers in cold stores – both critical to the UK food supply chain.

Drivers

Shortages in drivers for the UK's heavy-duty vehicle (HGV) fleet are well documented. There are around 300,000 HGV drivers currently working on the UK's roads². Estimating the shortfall is complex amidst an ever-changing employment landscape, however estimates which have been attempted have put totals in the range of 70,000 – 100,000 drivers. These figures are for UK's total HGV driver workforce and not specifically those drivers delivering UK food and drink. There is no reliable estimate for the total number of food supply drivers the UK is short of, but evidence from CCF members suggest vacancy rates sit at about 10-20% and have done since around June. It should be noted however that there are significant regional variations depending on local workforce demographics such as unemployment rate and pre-Brexit EU worker concentrations. Significant difficulties are being reported in trying to recruit workers to fill these vacancies, from lack of interest in job advertisements (despite recent substantial pay increases and other preferential terms and conditions being offered), workers agreeing to a role and then pulling out at the last minute, to difficulties obtaining licences for new workers. The sector is also experiencing an increasing rate of drivers

¹ <https://www.nfuonline.com/nfu-online/westminster/labour-availability-final-report-2021-26-august/>

² Driver Require Think Tank (2021) *Updated: the answer to the UK's HGV Driver Shortage*.

leaving the profession due to factors including Covid-19 and working conditions exacerbated by the shortage (overworking). These factors are explored below.

Warehouse workers

The other critical element of food chain logistics are our warehouse workers. Although less documented than drivers, here too businesses are experiencing shortages and difficulties filling vacancies, despite recent increases in wages. The UK warehouse workforce has been estimated by the UK Warehouse Association as around 200,000³, and although there is a lack of figures for shortages in food warehousing, data from CCF members suggests this could be around 10%. We also expect a significant increase in pressure on resource into the Christmas period when a number of logistics businesses (mostly in non-food chain operations like post, parcel and online retail) place significant additional demand on available labour.

Nature and impact of labour shortages

Supply chain

The impacts of worker shortages on supply chains in the UK are well documented⁴. For food logistics the most noticeable impacts include shortages appearing on supermarket shelves and gaps on menus in restaurants.

In recent years, the UK has become accustomed to a highly effective 'just in time' supply chain model, which means we expect a large range of products from all around the world to be available at any time of day. This system has little room for error, when a food establishment somewhere in the UK reports it is running out of a product, it will reasonably expect its suppliers to have new stock ready to pick from a warehouse, on a truck and delivered to them within 24 hours. Worker shortages in key logistics roles have meant that currently this service level cannot be maintained. Instead of <24 hours, deliveries are taking longer, perhaps 2 or 3 days resulting in shelves running empty before they can be restocked. Retailers are having to make choices on which products and lines to prioritise meaning in some areas, choice has also been reduced.

This is not a food shortage, in general food remains in plentiful supply (with some notable exceptions such as meat processing), however getting that food from A to B has been slowed down.

Impact on workers

A less reported, but no less significant, impact of the current shortages in labour across the food chain is the impact it is having on the welfare and morale of the existing workforce. From the beginning of the Covid-19 pandemic in February 2020, those drivers and warehouse workers, classified by the Government as key workers, delivering groceries to our supermarkets and homes have been working flat out to ensure the nation has remained well fed. There has been little let up in this, from lockdown to lockdown via Christmas 2020, Brexit related disruptions and now driver shortages, those who have worked throughout this period now face burn out and these impacts are increasing the rate of workers leaving the sector. Finding a solution as quickly as possible is critical.

³ <https://www.reuters.com/world/uk/british-warehouse-worker-shortage-triggers-up-30-pay-spike-2021-09-27/>

⁴ <https://www.nfuonline.com/nfu-online/westminster/labour-availability-final-report-2021-26-august/>

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

The reasons behind labour shortages in the food supply chain are complex and multi-faceted. At the heart of the current level of driver shortages is a huge drop off in HGV testing capacity during the worst months of the Covid-19 pandemic impacting the supply of new drivers coupled with increased rates of driver's leaving the sector due to Covid-19, Brexit, IR35 tax changes and a long-term decline in UK workers forging a career as a HGV driver. The reduced output of the economy throughout the pandemic masked the full impacts of these shortages until early summer when the economy and food service outlets opened up fully and this 'perfect storm' of issues over the last 18 months led to rapid escalation of disruption across the supply chain.

Licencing (HGV drivers only)

Perhaps the biggest single factor causing the scale of the driver shortages is the huge drop off in HGV tests conducted by the DVLA during the pandemic. Between April 2019 and March 2020 there were 41,434 passes of HGV tests⁵. In the following financial year when the pandemic was at its height, this reduced to 16,022. From April, testing rate begun to increase although was still below its pre-Covid levels. So, in 2020/21 there were about 25,000 less new HGV drivers entering the workforce. This steady flow of new drivers meant that those leaving the profession (for reasons outlined below) were not being replaced by new drivers and so the total number of those employed fell significantly through the pandemic.

Slow turnaround of licence applications and other paperwork by the DVLA over the pandemic has also increased the impacts.

Covid-19 (all supply chain)

The pandemic has meant a reshaping of the UK workforce, including temporary changes and permanent, which has led to an undetermined number of supply chain workers leaving the profession over the last 18 months. Factors for this include:

- EU and other non-UK nationals entitled to remain and work in the UK returning home to see out the pandemic with family, or in their home countries. Anecdotal evidence from businesses suggest many of these workers have not returned to the UK. It has been estimated that 200,000 EU citizens alone left the UK in 2020⁶.
- During the height of the pandemic, many drivers and warehouse workers employed in the food service sector (eg. those servicing restaurants, bars, schools etc) were placed on furlough as food service collapsed. Many of these workers did not return, perhaps due to finding alternative employment.

Brexit (all supply chain)

New immigration rules as a result of Brexit have caused many EU nationals, not entitled to or not taking up settled status to leave to leave the UK. Estimates for the number of drivers leaving are around 12,500⁷, but many workers in other key roles; warehousing, meat processing, picking, have also left the UK's workforce.

⁵ DfT DRT0501, includes: C1 (medium-sized vehicles), C1E (medium-sized vehicles with a trailer), C (large vehicles), CE (large vehicles with a trailer).

⁶<https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/internationalmigration/bulletins/ukpopulationbycountryofbirthandnationality/2020>

⁷ Driver Require Think Tank (2021) *Updated: the answer to the UK's HGV Driver Shortage*.

IR35 (mainly drivers)

In April 2021, new rules came in for off pay-roll working (IR35). These tax changes ended the practice of some drivers working on a self-employed basis through an agency and required them to become PAYE registered. The impacts on this were that those drivers using this practice being required to pay a greater amount of income tax, effectively reducing their take home pay. Anecdotal evidence suggests many of these drivers subsequently have left the profession.

Historic shortages and workers leaving the sector

There has been a long-term decline in the number of younger workers viewing HGV driving as an attractive and long-term career choice.

The reasons for this are complex and multi-faceted and include:

- Younger generations not viewing HGV driving as a skilled, valued and essential role in society.
- Cost and time associated with obtaining a Class 1 licence.
- Long hours and significant time away from home being less appealing to younger workers with more alternatives available with flexible working conditions.
- Perceived declining treatment afforded to drivers in the form of inadequate rest/break facilities and poor treatment on the road and at depots.

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

Months

The months ahead, through Christmas and beyond are likely to see a continuation of the supply chain disruption currently being experienced. Businesses in the supply chain will continue to strive to deliver the most they can with the resources available, but until labour shortages affecting sectors across the UK can be turned around (and there is no obvious short-term fix for this), some continuing disruption is inevitable.

Factors determining a recovery include the ability of the DVLA to increase and process HGV testing capacity, and for workers to be attracted into the sector by the increasing wages and other incentives currently being offered by businesses. Without long-term access to non-UK workers and a low unemployment rate there is real concern about where these additional workers will come from and that success in attracting HGV drivers could create gaps in other supply chain roles, such as warehousing.

Years

In the long-term, full resumption of our 'just in time' supply chain model depends largely on success of take up of encouraging more workers into supply chain roles. Whilst businesses and Government must work together to try and achieve this, frank conversations are required about how expectations on the supply chain must be managed in the months and years ahead. This is critical to prevent more workers leaving key roles due to overwork/stress.

There is a need for businesses in the supply chain to come together and reappraise our 'just in time' supply chain model, to ensure we achieve as much continuity in supply as possible with continuing less resource. This could include reviewing consumer expectations for food choice and around the clock availability which drives our supply chains. Changes in the

choice of product consumers expect and a return to more seasonality in UK food could all be a consequence of continued labour shortages and Brexit related trade changes.

4. What other issues are affecting the food supply chain?

Energy prices

Rapidly escalating electricity wholesale prices are causing large increases in electricity costs for those cold storage warehousing businesses who are not on a long-term fixed deal, or whose deal is expiring. As a high energy sector, this is placing further financial strain on businesses already struggling to fulfil customer requirements due to staffing issues. The rapidly rising cost of diesel is also a concern for hauliers.

Red Diesel

The intention to remove Red Diesel entitlement for Transport Refrigeration Units (TRUs) from the April 2022 will have a big financial impact (~£100m) on business in the cold chain who operate temperature-controlled trailers. Following repeated assurance by HMRC and Defra that financial support is coming for affected businesses, the industry feels let down by the recent announcement of a 'red diesel competition' which overlooked transport refrigeration. Without this support, the financial impact of this policy will contribute to already escalating food costs when the proposals come into force in April.

Cyber Crime & Insurance

Several of our members have reported instances of cyber crime – including hacking and ransomware of their computer infrastructure. There is real concern about the increasing prevalence of such attacks and the impacts they have on the business and wider supply chain.

As well as downtime costs and ransom payments, cyber crime is adding to the factors causing insurance premiums for logistics businesses to rise rapidly. Cold stores utilise insulated panels (cladding) to prevent heat ingress and maintain energy efficiency and the Grenfell tragedy has led to increasing caution by insurers of business to provide cover for cold storage businesses, despite other measures being in place to manage fire risk.

All of these factors; wage inflation, energy costs and insurance are creating additional costs to supply chain businesses which will ultimately be reflected in increased food price inflation.

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

Short term (delaying the introduction of import checks to 2022)

The main issues we are experiencing are about labour shortage and cost inflation in areas like energy and fuel – this delay will not improve that situation at all.

However, the decision to delay averted adding significant additional pressure on a market that is already in severe crisis. Enforcing the October and January deadlines in the way they were intended would have significantly discouraged EU based food exporters from selling their goods to the UK (due to additional checks, certifications costs and delays) at a time when we are experiencing shortages.

It wasn't a risk worth taking.

Longer term (should full import checks be introduced to the current timetable)

It is unlikely that the UK will have fully recovered from the current labour shortage crisis by July, due to factors set out above. The introduction of import checks risk exacerbating food supply chain disruption further due to:

- Huge impacts on food availability if loads are held at the border, or in the likely event that EU trade is reduced. 26% of all UK food comes from the EU⁸.
- Concern over whether EU businesses will be prepared for the extra paperwork/cost and will continue to trade with the UK.
- Potential reduced haulage from EU drivers under cabotage as fewer drivers will enter the UK
- More inflationary pressure on food prices due to extra import costs.

There are three longer term consequences of EU import checks and the continued delay of their introduction:

- 1) The timetable for when these checks will 'definitely' come into force suffers a major credibility problem. This latest delay is at least the third major one – there is a growing problem that businesses are either:
 - (a) aware of the requirements and the latest changes, but sceptical that the Government's claim that this time they REALLY mean it is true or;
 - (b) lost track/ interest in 'Brexit', don't realise that they will have to follow new processes to maintain existing trade, and will not change their behaviour or prepare for border checks – so the additional time will make little difference to their level of preparedness when/if the border checks actually come in.

Broadly speaking UK based businesses are (a) and EU based businesses are (b).

- 2) By the time the checks actually come in supply chain businesses will have been living with the asymmetric reality of their current supply chain flows for 18 months and they will have got tired of waiting for the regulatory flux and uncertainties to settle down and so will (in some cases) have made decisions about how to structure production, supply and retail networks based on their real experience not what they are promised will be the situation in the end.

For example - In the single market you could have a network of meat processing plants – where you planned to process a pig in the UK with a mind that you will sell 50% of the cuts from that carcass in UK; 40% in the EU (because they eat different cuts) and 10% to Asia.

In that case you could locate in UK safe in the knowledge that you could trade 'frictionlessly' with whole EU. UK, France, Germany, Poland its largely the same.

Today we have a well-established rhythm, where it is easy to import pork products into UK (with a largely unenforced border) and very hard to export from UK to EU. You can

⁸ <https://www.gov.uk/government/statistics/food-statistics-pocketbook/food-statistics-in-your-pocket-global-and-uk-supply>

also see pretty confidently that whilst it may get a bit harder to trade from EU to UK at some point – it's never going to be as hard going that way as going to EU.

The chances are you are rethinking where is the best place to put your processing facilities and if these issues are your overriding concern (or all other things are equal) then you will shift to more investment in EU.

The same logic applies to the supply chains that support those networks.

- 3) The way the UK government has handled the whole process for the past three years makes us look chaotic, inconsistent and unreliable. This is undermining business confidence and cutting across investment and growth ambitions.

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

Driver's hours extension

One of the first measures the Government introduced in response to the growing driver shortage crisis was the extension to driver's hours, effectively allowing an extra 1 hour of driving per day.

Much of the haulage industry was against this move due to the additional strain it would place on an already over worked and tired workforce. As a result, many involved in distance trucking have chosen not to use the extension. There were calls for the move from the wholesaling/foodservice sector and some businesses have therefore chosen to implement it. It can be assumed that this measure has supported a small number of businesses, however the impact of this policy on staff welfare remains to be seen.

Short term visa

In September, the Government announced the introduction of a temporary visa scheme for HGV drivers and poultry workers. This was in response to growing calls from industries employing driver's that the quickest way to alleviate the crisis was to temporarily allow EU workers to return to plug gaps in the critical Christmas period. Although this will hopefully help to bring some workers back to the UK there are a number of key reasons why the full 4,700 of HGV drivers may not be filled:

- The scheme is for just 3 months, rather than the 12 months or longer the industry was pushing for. The 3-month period will make it extremely difficult to find workers prepared to come over for such a short period and does not allow enough time to overcome the wider issues preventing the mass recruitment of UK based workers.
- The move came too late. At best under the Government's timescales, workers will not arrive until 'early November' and will still require onboarding, meaning their effectiveness over the Christmas period (which begins in September for logistics businesses) is greatly reduced. The likelihood of delays is significant which could mean a much later arrival, potentially missing the Christmas period altogether.
- To apply, businesses need to know the names of the individuals they would like to bring over to the UK. Having spoken to our members this is not something most have access to. The other option is the expense of looking for an EU-based agency to identify candidates which will result in further cost and delay.

- Businesses must also come up with a package for the employee which includes salary, travel costs, accommodation, service, visa and agency fees – a significant expense.

Licencing changes, training & freeing up testing capacity

Attempts by Government to remove some of the barriers to obtaining an HGV licence are generally welcomed in intent. Freeing up and increasing capacity to process new drivers will hopefully begin to increase the flow of drivers to the sector and longer-term commitments to training drivers of the future are also supported.

It remains too early to assess the success of these measures. There are concerns that there are still considerable delays and unrest at the DVLA which are slowing down the licencing process and it remains unknown if the estimated increased testing capacity for HGV drivers will be met with sufficient applicants.

Whilst we hope these moves will all help to turn the tide of shortages in the medium to long term (it takes several months to fully train a skilled HGV driver), the wider issue of making a career in HGV driving more attractive and accessible to both younger workers considering their career options and older drivers who have recently left the industry still must be resolved. The only way this can be achieved is a long-term collaborative approach.

Letter to 1 million HGV licence holders

The move to appeal to those with an HGV licence, not currently working in haulage to return to the sector was a move welcomed, supported and facilitated by industry.

We wait to see if this will succeed to bring workers back, but the main initial response has been negative reaction from other industries where many of these drivers are actually working, like the bus and coach sector who need these drivers to stay working for them.

Despite this, the letter comes with the right intent. We must work out why people of working age have left the industry and think about what we can do to bring them back. Letters like this are evidence of communication and collaboration between industry and Government and should be welcomed. However, we have to be realistic and know that if you have a Class 1 HGV licence you are aware there is work available in this industry – and the letter alone is unlikely to prompt anyone to decide to switch back to a 'driving life'. It will be other factors like pay, conditions and consultation that will make that happen.

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

There are four additional steps we think Government could take to support the food supply chain:

- Only by reconsidering its red line on a UK/EU alignment or equivalence agreement for Sanitary and Phyto-sanitary (SPS) goods (eg. acting to remove some of the red tape associated with EU trade) will the UK Government stand a genuine chance of preventing the restructuring of food supply chains that is currently taking place. If the reality of current SPS processes is permanent, then all other things being equal, the current rules are/will result in businesses not choosing to move goods over the UK/EU Border which are having severe impacts on exporting and will likely do the same with imports (and food supply) when these rules are introduced.

- Reconsider longer term visas for drivers and other key roles in the supply chain and/or adding drivers to the Skilled Occupation List if other measures taken by industry and Government do not alleviate the problem. Do not blame the industry if the 3-month visa is not fully subscribed due to reasons outlined in Question 6.
- Work with affected industries collaboratively on a long-term plan for introducing measures to promote logistics roles as a career.
- Consider a review into the provision and state of UK's rest areas for truckers, which has been highlighted as a key reason for the negative perception of HGV driving as a career.