



11 June 2021

Dear Prime Minister,

We are writing to provide you with a 'Mid-Season Labour Update' for the kiwifruit industry, with a particular focus on the challenges created by ongoing border restrictions.

While the kiwifruit industry has managed the Covid-19 border closures as best as we could, the reduction in access to overseas labour has created significant challenges this season with around half the usual numbers of RSE workers in the country as well as fewer other Working Holiday and Supplementary Seasonal Employment (SSE) visa holders.

Despite running the largest labour attraction campaign in its history, the industry has struggled to source the 23,000 workers required for the three-to-four month seasonal labour peak from Kiwis alone. New Zealanders make up almost all the permanent 10,000 employees and, in pre-Covid years, around 60 percent of the seasonal employees.

Led by New Zealand Kiwifruit Growers Incorporated (NZKGI), the kiwifruit industry is working alongside the Government on practical policy solutions. We acknowledge the leadership of the Minister of Immigration Hon Kris Faafoi in this area.

However we are increasingly concerned about the impact of restricted labour on the industry. While we acknowledge the recent announcement to provide a six-month extension to existing Working Holiday and SSE visa holders, many have already left New Zealand and this still does not provide enough certainty for this season or next. Current policy settings are not allowing a sufficient number of new overseas workers to enter, meaning an even smaller pool of labour would be available next year.

The kiwifruit industry delivers high-value exports in a low-carbon, socially-conscious way and has ambitious growth plans for New Zealand. However, we are genuinely concerned about our ability to continue to grow our New Zealand-based production given the constrained access to labour.

Without the certainty around future policy settings to secure access to reliable labour, the ability of Zespri to meet the global demand from our New Zealand supply would be limited.

To meet our ambitious growth targets we estimate we need around 1000 additional workers per year over the next 5-6 years, yet the pool of available labour is shrinking.

This season has been particularly challenging and the lack of overseas workers has been a contributing factor. Additionally, anecdotal evidence suggests frequent absenteeism rates of up to 50 percent, which reduces productivity and output and has contributed to the extended harvest which will impact fruit loss at the end of the season. The lack of labour will have an ongoing impact as critical seasonal tasks are delayed as the season progresses, impacting on vine management and therefore production for next season.

To ensure the kiwifruit industry can deliver ongoing value to our communities it is critical the industry and New Zealand Government continue to work together to have in place the appropriate labour market and immigration settings to support continued growth.

We recognise the kiwifruit sector has a leading role to play alongside the Government in tackling these challenging labour issues, which is why the industry is doing everything it can

to attract employees. We'd like to thank the Government for its consistent recognition of the work the industry is doing. The vast majority of industry employers have committed to paying at least the living wage this season (and on-orchard harvest wages have typically been much higher). Unfortunately, despite higher wages and the best efforts of all involved, there remains a shortage of labour.

The industry (in particular postharvest operators, who employ two-thirds of all seasonal workers) is investing a significant level of capital toward automation and new technology to lift productivity. However, this investment takes time and cannot solve labour issues right away. Despite many years of investment, automation of many on-orchard tasks (i.e. picking, thinning, pruning) are not yet feasible and a technological solution is many years away.

Zespri and NZKGI are providing this mid-season labour update to clearly outline the challenges and concerns the kiwifruit industry is facing. Our industry will be unable to maximise value for our regional communities next season if the labour situation does not improve. We strongly encourage the Government to work with the industry on more appropriate policy, particularly in light of ongoing border restrictions for critical overseas workers.

We would appreciate the opportunity to discuss this with you further to find constructive ways forward which allows us to continue creating and delivering value for our communities.

Signed:



Colin Bond

CEO

New Zealand Kiwifruit Growers Inc.



Dan Mathieson

CEO

Zespri

KIWIFRUIT MID-SEASON LABOUR UPDATE – JUNE 2021

Summary

- To ensure we can deliver ongoing value to our communities, it is critical that New Zealand has the appropriate labour market and immigration settings to support the strong growth ahead for our sector.
- New Zealanders already make up the majority of our workforce (~60 percent) however overseas workers are necessary to complement them.
- While the kiwifruit industry has managed the Covid-19 border closures as best as we could, the reduction in access to overseas labour has created significant challenges this season with around 50 percent of the usual number of RSE workers and less than 25 percent of the usual working holiday visas in the country.
- This has significantly affected productivity and the value we will return to New Zealand this season. The impact will likely worsen if policy settings are not changed.
- We have responded to the challenge with labour attraction campaigns, training programmes, enforcing compliance, increasing pay rates, investing in people and automation and establishing long-term pathways for permanent employment.
- To meet our ambitious industry growth targets we estimate we need around 1000 additional workers per year over the next 5-6 years, yet the pool of available labour is shrinking.
- Without the policy settings to secure access to reliable labour into the future, the ability of Zespri to meet the global demand from New Zealand supply would be limited.

The Labour Situation - 2021

- At the peak of harvest the kiwifruit industry requires around 23,000 workers for three-to-four months on top of the approximately 10,000 permanent workers. The seasonal peak is over March to around the end of June with additional workers needed to pick and pack the crop.
- Typically around 40 percent of our seasonal workforce is made up of overseas workers (a combination of working holiday visa, SSE and RSEs) with the remainder being New Zealanders. Almost all of the permanent workforce are New Zealanders.

RSE Employees

- In a typical year, there are 14,400 RSE workers¹ in New Zealand who work across the horticulture and viticulture sectors and they're assigned regionally. Around 2,400 of those workers were assigned to the Bay of Plenty, where most of them worked in kiwifruit.
- When the borders were closed there were only around 5,800 RSE workers in New Zealand. An additional 2000 RSE workers were allowed into the country in early 2021 and a further 2400 workers will be allowed from June 2021 to March 2022, although this will be offset

¹ RSE workers may come from Fiji, Kiribati, Nauru, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu or Vanuatu.

by attrition/repatriation. Currently there are around 7,300 RSE workers in the country although this is likely to decline unless policy changes are made.

- The requirements of bringing in an RSE worker during Covid-19 border restrictions include providing flights, the cost of MIQ including paying a minimum of 30 hours per week at the living wage (\$22.10 per hour) while in New Zealand.
- This means growers pay around \$8,000 to put each RSE worker through MIQ.

Wage Levels

- The industry has significantly increased wage rates across the board in recent years, with almost all workers receiving at least the living wage and much higher for the most productive workers on orchards.
- The average pay on-orchard was \$24.35 per hour in 2020 (from a comprehensive industry NZKGI annual survey conducted at the end of each season). Indications are that rates have increased significantly this season.
- The average pay in packhouse was \$19.20 per hour in 2020. This will be significantly higher this season as most packhouses are meeting the living wage of \$22.10.
- Despite the significant rise in wage rates there has not been an accompanying rise in productivity - actually the loss of skilled overseas workers has meant productivity has gone backwards and it's making it harder for the industry to operate.
- There is anecdotal evidence that the higher wage rates are actually reducing labour supply through the income effect, as employees are earning their target incomes in fewer hours of work. In these instances higher wages are perversely worsening the labour situation.

Absenteeism

- The key issues faced by the sector due to the reduction in overseas workers are higher rates of absenteeism from New Zealand staff, lower productivity and costs increasing at an unsustainable rate.
- Initial surveys indicate absenteeism rates of up to 50 percent. In comparison, anecdotal evidence is that absenteeism among RSE workers is effectively zero.
- Absenteeism appears to be exacerbated by disincentives in the welfare system. High abatement rates result in New Zealand workers choosing to limit the hours they work.
- If harvest operations are understaffed then production is constrained and impacts the rest of the supply chain.
- There is also the impact on value - the reduction in capacity in packhouses has been a contributing factor to fruit not being picked optimally. As a result, fruit loss is expected to be significantly higher at the end of the season, which means lost value to businesses and workers and lost value for New Zealand.
- We are growing in a way that is positive for New Zealand but labour access is a genuine constraint. Reduced access to labour will limit our ability to grow production in New Zealand to meet growing global demand.

Automation/Technology

- Technological investment is occurring in some parts of the industry, especially in packhouses where tasks are standardised and automation is more viable.
- However, automation of key on-orchard tasks - from picking through to thinning and pruning - is not yet feasible or are beyond existing technological capability and a technological solution would be many years away.
- Kiwifruit is a small industry by international comparison and improvements in technology are domestically led, meaning we aren't seeing the level of international investment in applicable technology and can't use technologies developed overseas for other industries.
- Where there is effective technological alternatives to human labour then the kiwifruit industry would willingly invest in it (and already is in many parts of the supply chain), as a commercially rational investment.
- For example, Zespri has already invested significantly in digital crop estimation using drones. Zespri is also building a prototype autonomous survey robot to automatically collect data to provide growers insights for better decision making on-orchard.
- While it may be true that reducing access to labour and therefore increasing the cost may increase the relative attractiveness of technological alternatives (where they exist) it does not increase actual productivity. Instead these activities will require more resources and productivity will decline.
- Zespri is also investing significantly in the Horizon Programme, a project aimed at ensuring our organisation can become more efficient and effective so we can digitalise the key areas of our mission critical Zespri system across our interdependent supply chain. When complete, this project will improve our ability to collect and analyse data throughout the supply chain and make better decisions around our shipping and market allocation.

Industry Training and Development

- For the last three years NZKGI has undertaken a significant campaign to attract seasonal labour to the kiwifruit industry. The campaign has targeted different groups of New Zealanders (including jobseekers, students, retirees/seniors and backpackers).
- The Bay of Plenty Labour Governance Group (BOPLGG) was established in 2018 and has over 150 members including growers, contractors, postharvest operators, Government organisations and education providers. The group considers issues such as accommodation, labour utilisation, education, training, immigration and employee pastoral care.
- To attract New Zealanders into the industry NZKGI established a number of taster/training courses, including both one-day and one-week courses. Depending on the time of the season, courses cover winter pruning, summer work and harvest.
- The industry is prepared to work with Government on further improving training and development programmes to help encourage people to shift from temporary to permanent employment and find meaningful careers in the kiwifruit industry.

Impact on Kiwifruit Industry Growth

- Demand for Zespri Kiwifruit around the world is incredibly strong and exceeds supply.
- Zespri's current outlook is we can grow sales value by up to 300 percent over the next ten years, market conditions permitting.
- To meet that growth while ensuring we continue to add value by keeping demand in excess of supply, we release licence for our high value SunGold variety every year.
- The amount of additional licence released over time is based on in-depth analysis of market demand and conditions, as well as our ability to increase supply to meet demand.
- We have signalled a phased licence release over time to deliver increasing volume to market while keeping enough headroom between unconstrained demand and supply to extract as much value as possible for New Zealand growers.
- Zespri signals additional licence release years in advance to allow post-harvest operators and growers to make the necessary investments. For post-harvest operators, this includes investment in new capital to increase packhouse capacity. For growers, it includes investment in the acquisition of land, labour and sustainable water consents.
- Certainty of labour is critical as it underpins industry growth (via new license release).
- In 2018, Zespri announced 3,750 hectare release over the next five years (750 hectares of SunGold licence release each year). At the time of this announcement there was already 5,800 hectares of licensed SunGold in New Zealand. Zespri has indicated a further 350-750 hectares of annual release from 2023 to 2026 to meet our targeted 2030 volumes of 200 million trays per year.
- Each 750 hectares of additional licence release equates to around 10 million trays of SunGold Kiwifruit, which currently returns around \$235 million in gross export revenue. This annual additional licence also creates around 1000 new seasonal jobs at harvest time as orchards and packhouses expand in capacity.
- Without the confidence that we can build the capacity onshore to meet high value market demand, our ability to meet that demand out of New Zealand is limited. That is significant lost opportunity to New Zealand.
- A key input to the Climate Change Commission's emissions budgets is a continual conversion from high-emissions land use (i.e. dairy) to low-emissions land use (i.e. kiwifruit). The major barrier to kiwifruit industry growth, and therefore emissions reductions, is access to labour.
- Kiwifruit's domestic emissions make up less than 1 percent of New Zealand's agricultural emissions but the industry earns more than 30 percent of total horticultural export revenue and nearly 5 percent of total primary sector export revenue.
- The current labour situation is adding significant pressure, stress and burnout to the permanent kiwifruit industry employees who are finding it increasingly difficult to manage the uncertainty of an unreliable and insufficient labour force. While the industry is focused on caring for our workers and providing a supportive workplace, the labour restrictions are having an impact on our people.

Proposed Policy Solutions

1. Increased access to RSE workers for the 2022 season and beyond

It is critical the industry is provided certainty over increased availability of RSE workers for next season, preferably in the form of MIQ-free travel for Pacific countries with low or zero Covid-19 risk.

The reduced RSE numbers in New Zealand this season (around half the quota) as well as the cost of putting new RSE workers through MIQ has significantly contributed to the labour issues experienced this season. We ask the Government to prioritise significantly increasing the availability of RSE workers for next season and beyond.

We propose part of this includes assisting these countries with their vaccination programmes as soon as practical.

2. Accelerate the current RSE policy review and increase the RSE cap over time

As a first step we ask the Government to accelerate the current RSE policy review to ensure new policy and RSE numbers meet industry growth and align with strong employment practices and policy. It is critical the level of RSE workers available to industry remains in line with output growth.

3. Reduce MIQ requirements (i.e. 7 days instead of 14) for migrants from low-risk countries

Our strong preference is for MIQ-free travel for low-risk Covid countries. An alternative could be to allow for shorter MIQ stays for critical workers subject to vaccination and negative tests prior to departure and while in MIQ.

4. Increase MIQ capacity for migrant labour

The current limit of 500 critical workers per fortnight could be lifted to at least 1000 or more if MIQ stay requirements are shortened.

5. Explore ways to eliminate disincentives in the welfare system

A cause of absenteeism rates among New Zealand workers appears to be driven by the disincentives created by the welfare system, with abatement rates reducing the reward for working more hours. A possible solution could be to allow for a time period of work before benefit abatement kicks in (e.g. six weeks) and we request government departments investigate and develop policy changes ahead of March 2022 when the next kiwifruit harvest gets underway.

6. Outline a clear criteria for when the border will be gradually opened

For example, the border will return to normal when a certain proportion of the New Zealand population are either vaccinated or have the option of being vaccinated.