
TO: Productivity Commission

SUBMISSION ON: Immigration, Productivity and Wellbeing

NAME: NZ Kiwifruit Growers Inc (NZKGI), Zespri, Maori Kiwifruit Growers Inc (MKGI)

CONTACT: Sarah Cameron, Senior Policy Analyst, NZKGI
sarah.cameron@nzkgi.org.nz

DATE: 20 September 2021

1. The kiwifruit industry in New Zealand

The kiwifruit industry is a major contributor to regional New Zealand returning \$2.25 billion directly to rural communities in 2020/21. There are ~2,800 growers, 14,000ha of orchards, 10,000 permanent employees and up to 24,000 jobs during the peak season. Approximately 80% of New Zealand's kiwifruit crop is grown in the Bay of Plenty and the industry is expected to grow its global sales to \$4.5 billion by 2025 which is an increase from \$3.58 billion in 2020/21.

Zespri is a New Zealand company owned by New Zealand kiwifruit growers which exports and markets kiwifruit to more than 50 countries around the world. New Zealand Kiwifruit Growers Inc (NZKGI) is a grower advocacy organisation that advocates, protects and enhances the commercial and political interests of New Zealand kiwifruit growers. NZKGI is independent from Zespri.

Maori Kiwifruit Growers Inc (MKGI) was established in 2016 to achieve leadership at all levels of the industry, increase returns and production and achieve more efficient access to information/better data of Māori profile within the industry.

2. General comments

The industry welcomes the Productivity Commission's review of New Zealand's immigration settings, and we agree that lifting New Zealand's productivity is critical to increasing the living standards of New Zealanders.

The key points in this submission are:

- The kiwifruit industry relies on temporary migrant labour to fill predominantly seasonal (i.e. for a few months) and regional jobs, where there is very few available New Zealand workers, and which complement and enable a significant number of permanent and high skilled jobs for New Zealanders. Without access to temporary migrant labour, the industry would be unable to grow and there would be fewer permanent high-skilled jobs for New Zealanders

- The kiwifruit industry is actively investing in automation and other technologies, as well as in research and development to unlock efficiencies in the supply chain. The major constraints to further investment in automation are primarily: a lack of appropriate technological solutions currently available; and, capital constraints for investment in assets which are only used for a few months a year while significant investment in hard infrastructure is required to meet demand growth)
- Reducing access to a reliable supply of labour term will decrease productivity in the short term and reduce the capital available to invest in labour-displacing technology in the medium to long term
- New Zealand is a world-leading primary product producer and exporter. However labour constraints are limiting growth opportunities, which constrains export-led economic growth. Temporary migrant labour in the kiwifruit industry enables export growth, increasing incomes for New Zealanders
- The wellbeing of temporary migrant workers should not be discounted as the income (and other benefits) provided by seasonal New Zealand horticulture work is often significantly higher than earnings potential in their home countries or in other comparable industries in New Zealand (noting that New Zealanders make up almost all of the permanent workforce).

3. Overview of the Kiwifruit Industry Labour Market

At the peak of harvest, the kiwifruit industry requires around 24,000 workers for three-to-four months of the year from March to June, on top of approximately 10,000 permanent workers. There is also high demand for skilled seasonal workers during other parts of the year, such as for pruning. New Zealanders make up almost all of the 10,000 permanent workforce as well as the majority of the seasonal workforce (~60 percent).

Over the past three years, the industry has employed 3,500 additional New Zealanders in the seasonal workforce. In 2021, 2,250 people on the jobseeker benefit in the Bay of Plenty were employed into the kiwifruit industry (an increase of 30 percent on 2020).

However, overseas workers are necessary to complement New Zealanders in the labour market. In a typical pre-pandemic year, overseas workers on Working Holiday and RSE visas make up around 40% of the seasonal workforce.

To support industry growth, the industry will require an additional 1,000 employees every year (on top of the current 24,000 seasonal workers). This is due to increased production of around 8-10 million trays each year for the next three years from license already released of Zespri's high-value SunGold and Red varieties. Yet the availability of labour is shrinking.

In the 2021 season, approximately 50 percent of the usual number of RSE workers (14,400) and less than 25 percent of the usual working holiday visas were in the country. We note that kiwifruit is only eligible for 17 percent of the RSE workers allowed in the country, despite making up 32 percent of New Zealand's horticulture exports.

We estimate the kiwifruit industry experienced a labour shortfall at peak harvest this season (2021) of 4,500 people.

The main impact of the labour shortage this season is higher fruit loss, due in part to delays in picking and packing the fruit. Current estimates are for fruit loss three times higher than last



season for SunGold and four times higher for Green kiwifruit. Combined, this will reduce export returns to New Zealand by \$65m this season alone.

The shortage of seasonal workers next season is expected to be around 6,500 under current policy settings and will still be greater than experienced this year primarily due to the reducing pool of working holiday visas (due to border closures) against a backdrop of industry growth and increased labour demand.

To continue to support the healthy and sustainable growth of our industry, we estimate we will need around 1,000 additional seasonal workers per year over the next 5-6 years, yet the pool of available labour is shrinking. The growth in labour demand is lower than volume growth in the industry due to productivity improvements (particularly in packhouses).

We have responded to the challenge of labour shortages with labour attraction campaigns, training programmes, increasing pay rates, investing in people, enforcing compliance, pastoral care initiatives, accommodation provision and establishing long-term pathways for permanent employment.

As well as lifting productivity and wages over time, kiwifruit is a significant source of income and employment for Māori. Māori-owned kiwifruit orchards generate \$165 million of revenue and approximately 75% of all Māori horticultural revenue is from 1200 hectares of productive kiwifruit land. 47 percent of New Zealand's seasonal workers were Maori in 2021.

4. Industry response to labour shortage

The industry has significantly increased wage rates in recent years, with almost all workers receiving at least the living wage and much higher for the most productive workers on orchards. Average pay on-orchard (where around one third of seasonal workers are employed) was \$24.35/hour in 2020. Indications are that wages are significantly higher in 2021 and there are examples of average orchard wages of more than \$30 per hour. Packhouses (where around two thirds of seasonal workers are employed) now pay at least the living wage of \$22.10, and higher for more skilled roles. As well as significantly lifting wage rates, the industry has improved working conditions such as providing more flexible shift times, days of work, other incentives, free meals and assistance with travel.

Despite the labour attraction campaign and the significant increase in wages, the kiwifruit industry has been unable to fill the gap left by fewer overseas workers (pacific workers and working holiday visas). Pay does not appear to be the reason for labour gaps for New Zealand workers. In some cases, it appears the 'income effect' is overpowering the 'substitution effect' and higher wages are reducing the supply of labour (as workers can earn their target income with fewer hours worked). High housing costs and lack of accommodation also discourage workers from travelling between regions for work.

The kiwifruit industry recognises we must do everything we can to address the worker shortage ourselves and we have a range of efforts and processes in place to do that, but we simply cannot fill the labour shortage under current policy and low unemployment settings.

The peak of the kiwifruit season lasts for only four to six weeks and harvest in total lasts for only twelve weeks. It is unrealistic to expect enough New Zealanders to commit to the kiwifruit industry when there is only twelve weeks (or less) of harvest work available. Migrant workers on the other hand provide flexibility as they can move easily between roles and often are not constrained by location, so can easily relocate to meet the peak, and to support other industries at different times as work becomes available.

5. Recognised Seasonal Workers

This section sets out the industry's response to the Commission's questions relating to the effectiveness of the Recognised Seasonal Employer (RSE) scheme.

RSE scheme provides a significant source of income for Pacific island migrants, their families, and their communities. Numerous studies have shown that the RSE scheme has provided a 'triple win' in so far as it delivers benefits to the migrant worker, the migrant's home country and New Zealand¹. Permanently reducing the flow of migrant labour, especially from the Pacific Islands, will have the effect of lowering living standards and household incomes in the Pacific Islands. The wellbeing and living standards of all stakeholders including migrant workers should be considered. It also provides employment for young holiday makers.

Currently, most employers have an obligation to prioritise the New Zealand labour force before recruiting temporary migrants. Do you agree with this obligation? Why or why not?

Yes, if New Zealanders have the skills and expertise to carry out vacant roles then they should be given priority. However, it should be noted that there is a real labour shortage of reliable skilled workers to work in the Horticulture sector. Some of this is driven through the choice individuals looking for work have, with multiple options available.

Kiwifruit is not always seen as an industry of choice due to the seasonal peaks, the reliance on the weather and fruit maturity in peak times and the need for flexibility to work different days and hours to support harvesting and packing the fruit when it is ready for picking. This can result in overseas workers often being the more available and suitable to fill the employment gaps.

If not, are there alternative obligations employers should have if they wish to recruit temporary migrant workers?

Migrant workers should be seen as one source of labour. There is already an obligation on employers to provide proof of evidence to employ New Zealanders first. With the introduction of the new "Employer Accreditation", this should provide proof and evidence that recruiting migrants is seen as a step taken once other avenues for local employment has been tested and exhausted.

What evidence, if any, should employers have to provide to prove they have made sufficient efforts to recruit New Zealanders?

Local advertising, list of participants applying for the role, structured interview questions, documented selection criteria. Engagement with local Ministry of Social Development office to explore any potential candidates.

Previously, ANZSCO has been used to define "high" and "low"-skilled jobs. Should immigration policy differentiate between "high" and "low"-skilled jobs? Is there a better way of defining skill levels?

Skill level should be about ability to recruit locally for that role. Medium to low skill roles sometimes can be incredibly hard to recruit. A system where there is an obvious need for

¹ The Development Impact of New Zealand's RSE Seasonal Worker Policy, Gibson & McKenzie (2010)

workers with a skill set can be matched against available New Zealanders then if there is not availability it should be an easy process to get overseas workers.

What is the best way to identify workforce or skills shortages?

Review from an industry perspective:

- The shortage of labour
- The efforts and availability to recruit locally and the growth predicted longer term
- Take into account any automation that is underway
- Map roles 10 years out, this will provide an indicative figure of the required labour force and the skill shortage locally
- Plan for the gaps – they can be filled by migrant labour and RSE workers
- Future focus the labour require

Prior to the pandemic, was the current system working effectively to address skills shortages while prioritising the employment of New Zealanders and ensuring the wages and conditions of New Zealand workers were not undermined? What evidence can you provide?

The current systems were not keeping pace with industry growth and the required increased number of workers needed for seasonal labour brought about by the increase in fruit volume. An area that needs real consideration with the future increased trajectory of fruit volume for the next ten years:

- It will not be possible to source all the required labour locally for 2021 and beyond.
- New Zealanders have long been prioritised for work and thousands of workers are taken off benefits each year and into paid work.
- Industry have worked hard to address the challenges faced by New Zealand workers. Transportation is provided from cities/towns outside of the growing regions or packhouses, buddy systems in place to align skilled workers with unskilled/new to industry, the hourly rate has increased significantly over the last 5 years with a minimum of \$22.10 per hour now being paid. Incentives are paid for attendance at work, food is regularly provided, and New Zealanders are given priority for work outside of the main peak season.
- RSE workers make up only 17% of the kiwifruit sector and are seen as critical to support more tradition gaps such as nightshift and higher physical jobs such as stacking. New Zealanders make up over 50% of the workforce.

NZKGI is currently working with government on RSE policy and the key points from our RSE proposal are set out below:

- **No government Cap** – employers should have to justify the number of RSE workers required for seasonal work
- **Proof of employing New Zealanders first** – percentage of New Zealanders in the workforce vs other labour supply
- **Workforce planning** – each employer should be able to provide a workforce plan 5 years out that details the make-up of their workforce, increase in number of permanent roles, New Zealanders employed, automation that is being introduced, pastoral care of both New Zealanders and RSE workers.
- **Purpose-built accommodation** - employers need to have or partnership with accommodation providers to ensure they are not taking housing from New Zealanders.

- **Payrates** - are above minimum wage and continue to be reviewed each year.
- MSD will have final sign off of number of workers for each employer.

NZKGI is analysing costs of employing an RSE worker vs a New Zealand worker and these results will be available in the submission once the official consultation opens.

6. Productivity Commission Framework – Migration and Productivity

Zespri, NZKGI and Maori Kiwifruit Growers Inc have considered the Commission’s framework for how migration can impact upon productivity. Specifically, the Commission argues migration can impact through the following channels: skills, innovation, international linkages, capital deepening and specialisation. Below we specifically address each channel in the context of the kiwifruit industry. As we show, in the context of the kiwifruit industry, temporary migrant workers generally have a productivity enhancing impact (or no discernible impact at all) through each of these channels.

Channel	Impact NZ Kiwifruit Industry
Skills	Temporary migrant labour contributes to higher skills for New Zealand workers by enabling industry growth and a larger, higher paid, higher skilled permanent New Zealand workforce.
Innovation	The key focus for innovation in the kiwifruit industry is new varieties, with around \$23m invested annually in the breeding programme. The breeding programme aims to develop new varieties which are agronomic, attractive to consumers and optimise supply chain performance. Reducing certainty over the industry’s access to labour supply reduces overall confidence in the industry’s ability to grow and invest in new varieties. Temporary migrant labour underpins increased investment in new varieties and innovation.
International linkages	Demand for Zespri Kiwifruit continues to exceed supply and the industry is growing in a controlled manner to meet that while continuing to invest increasing demand to return value to New Zealand. Reduced access to temporary labour may lead to more offshoring of new supply, reducing New Zealand exports against the counterfactual of a secure labour supply. Growth in the supply of New Zealand kiwifruit – which is only possible with a reliable labour supply - has provided the industry with the confidence to enable global supply which involves the growth of Zespri kiwifruit in markets such as Italy, Greece, Korea and Japan.
Capital deepening	The industry needs strong returns to produce necessary cashflows for investment in new technology. A lower labour supply in the short to medium term will reduce free cash flows and reduce the industry’s ability to invest.
Specialisation	We are specialised by legislation kiwifruit/kiwi berry only. Specialisation is a risk and an impediment to over-investing capital in infrastructure.

7. Conclusion

Reducing the inflow of migrant labour, despite there being no effective alternative in the form of either domestic labour or technology, would reduce productivity, not improve it. There will be a significant increase in the cost of production and less output. We note that there are a range of other factors which are already driving up costs for orchard owners and the wider industry (i.e. environmental regulations, supply chain disruption etc.) and further barriers or costs will have significant impacts on growth and the industry’s economic sustainability. There

is also considerable uncertainty over the short to medium term caused by the global pandemic, including serious supply chain disruption and cost increases.

In summary, alternatives to migrant labour in the kiwifruit sector are not yet available through the industry is investing to develop them. Specifically, domestic labour is not available in sufficient quantity and alternative technologies do not yet exist. Restricting migrant labour will therefore reduce productivity, not increase it.

The kiwifruit industry is a key pillar in the government's primary sector-led road to COVID recovery and is needed to support the Climate Change Commission's recommendation to transition high emissions land use to horticulture for relatively improved environmental standards and emissions reductions.

To achieve these ambitious and real opportunities, the industry must have the confidence to continue to invest for the future. Labour shortages will erode the confidence to invest in continued growth in the industry.

This is not a problem of demand but of supply capacity. Zespri has confidence in the growth in market demand for kiwifruit globally; with healthy whole fruit in trend with consumers as part of healthy diets, increased plant-based food consumption, and high vitamin C products capturing market share and value. Forgoing this export potential due to labour constraints would be disappointing and reduce the income and wellbeing of New Zealand communities, particularly in rural New Zealand.

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 a significant lost opportunity to New Zealand. Labour shortages will reduce investor confidence in the short term which in turn will impact on the confidence to invest in the long-term plan of industry growth and technological/automation transformation.

For all the reasons outlined above, the industry strongly believes that permanently reducing the flow of migrant labour would reduce productivity, reduce incomes for New Zealand growers, reduce incomes for migrants and their families, and reduce the production and export levels of the horticultural/primary sector. It would also have a negative impact on those migrant workers who are no longer able to earn income levels that are significantly higher than what they typically earn.

Colin Bond
Chief Executive
NZKGI



Michael Fox
Zespri Director of External Relations



Anaru Timutimu
Chair
Maori Kiwifruit Growers Inc

