

## SUMMARY BRIEFING NOTE

### THE SURGE IN APPLE & PEAR PRODUCTION COSTS AN UPDATE FOR THE PERIOD 2015 - 2021

#### Summary

In the six years 2016–2021 UK growers have seen unprecedented increases in their costs of production.

This has been driven mainly by wage inflation, although there have been rises in all cost categories, some significant (e.g. fertilisers and crop protection products).

For both 2020 and 2021 this has been exacerbated by the additional costs arising from Covid-19.

#### Background

For apple and pear growers, expenditure on wages typically represents 35-40% of all production costs.

In 2015 the wage rate for seasonal workers, as set by the National Minimum Wage, was £6.50 per hour.

The National Living Wage (NLW) was introduced in the UK in April 2016. From 1<sup>st</sup> April 2021 the rate is £8.91 per hour.

Over the six years 2016-2021, the statutory wage rate has therefore increased by 37%.

However, for most growers the increase has been higher – often in the range 40-50% – due to issues of labour availability/quality arising from both Brexit and the weakness of Sterling.

These unprecedented increases in employment costs have had a significant impact on the economics and financial viability of UK apple and pear production.

#### What is the increase in costs of production?

For the purpose of illustration, consider the effect of cost inflation in the period 2016-2021 on the economics of a Gala dessert apple orchard planted in 2008 – i.e. was at full production in 2015 and approximately halfway through its working life.

The following table summarises the increases in all costs of production (C.O.P.) as a result of inflation of both employment and other costs, as well as the additional costs of Covid 19 (in the main categories of recruitment/training/accommodation/transport/operations, included at a median increase of 2.2 pence per pack in 2020, a cost which continues to be carried in 2021):

| Year         | COP Increase £/Tonne | COP Increase Pence/Pack* |
|--------------|----------------------|--------------------------|
| 2016         | 32                   | 2.2                      |
| 2017         | 18                   | 1.3                      |
| 2018         | 25                   | 1.7                      |
| 2019         | 27                   | 1.9                      |
| 2020         | 55                   | 4.5                      |
| 2021         | 29                   | 2.0                      |
| <b>Total</b> | <b>186</b>           | <b>13.6</b>              |

\* 700 grams

Assuming no improvements in sale prices, the profitability of this orchard has declined to such a low level that it is forecast to become loss-making within 2 years.

More importantly – for producers, retailers and consumers – this orchard is unlikely to be replaced when it reaches the end of its profitable working life.