



Welsh Retail Consortium response to the Economy, Trade and Rural Affairs Committee for views into HGV Driver Shortage and Supply Chain Issues

Introduction

1. The WRC's purpose is to make a positive difference to the retail industry and the customers it serves, today and in the future. Retail is an exciting, dynamic and diverse industry which is going through a period of profound change which has been accelerated by the Covid pandemic. The trends are clear - technology is transforming how people shop; costs are increasing; and growth in consumer spending is slow.
2. The WRC is committed to ensuring the industry thrives through this period of transformation. We tell the story of retail, work with our members to drive positive change and use our expertise and influence to create an economic and policy environment that enables retail businesses to thrive and consumers to benefit.
3. The past twenty months of the pandemic have been the most challenging and tumultuous period for Wales' retail industry in decades, with sharp consequences for large swathes of the industry much of which continues to face an uncertain future. Shopper footfall remains 13% below pre-pandemic levels, shop vacancies have spiked with almost one in five stores vacant, and retail sales while recovering have yet to claw their way back to pre-pandemic levels and remain lacklustre. Indeed, stores are still trading at little over 90% of what they did prior to the pandemic, whilst still operating with higher costs as they maintain baseline Covid mitigations. This places a question mark over the viability of some stores and jobs and indeed the tax revenues they generate and underpins the need for continued support for the sector.
4. Our members rely heavily on their UK supply chain. Non-food products which are manufactured outside the UK tend to arrive in the south of England and are then distributed across the country. The majority of food sold in grocery retailers is sourced within the UK. We have been concerned by the impact of labour shortages for some time, but this has become more acute since the reopening of the economy following the lifting of Covid restrictions. As well as a shortage of workers directly employed by our members, particularly HGV drivers we have seen the impact of shortages on our suppliers throughout the chain. We would note that where there are challenges in the supply chain, products will always be equally distributed across the whole of Wales – something which has happened consistently during the last two difficult years.
5. The Welsh retail industry's labour market is heavily entwined into the wider UK market. Consequently, our evidence on the labour market is predicated on a UK analysis more than a Wales specific approach. That needs to recognise that retailers play a large role in bringing products into Wales, but are also a key vehicle for



moving Welsh products across the UK as well.

6. Alongside the specific UK-wide pressures retailers are also having to engage with very significant global pressures on global shipping and commodity prices. That is affecting both food and non-food products and adding significant input costs into retailers operational models. The cumulative impact of these rises, along with the other pressures from covid and the UK supply chain challenges, can be seen in the month-on-month increases in our monthly UK wide shop price index.
7. The WRC welcomes the opportunity to contribute to the call for views on the HGV Driver Shortage and Supply Chain Issues consultation.

Response

Our workforce

8. The retail industry is currently struggling with labour shortages throughout the supply chain. The most acute shortage for retailers is drivers, where there are simply not enough qualified HGV drivers in the economy. This has led to delays throughout the supply chain resulting in small but frequent challenges with availability and shortened shelf life.
9. We estimate across the UK major food retailers are short of over 15,000 drivers, which impacts on problems moving stock from distribution hubs to stores in time. The problem is compounded by the shortage of drivers in our supply chains which means deliveries to those hubs have been delayed, or deliveries are incomplete, which is seriously hampering the efficiency of the just in time model.
10. The reasons for the shortage of drivers is primarily due to a fall in available tests for drivers during the pandemic, which has exacerbated a long running shortage of drivers. A significant factor was stopping testing of new drivers, which meant for a period there were no entrants to replace those who were exiting the industry. We also believe some of those who were furloughed during Covid decided not to return reducing the pool of qualified drivers, in part due to the reported impact to reduced incomes arising from changes to the IR35 tax regime. Finally, some EU nationals returned to Europe during Covid and have decided not to return.
11. The problem of a shortage of drivers was masked to a certain extent whilst much of the economy was closed during Covid as we had access to drivers from other sectors. However, since Spring it has been apparent there is simply a lack of qualified drivers, a situation which can't be entirely remedied by the generous recruitment and retention packages offered by retailers. We believe these problems will persist well into 2022, until we see a sufficient pool of UK qualified drivers. This is a structural issue which has been building up for some years which is why it will take time to correct.



12. We are also conscious of the long-standing shortage of workers in food production and manufacturing. The recent report by the NFU, FDF and others highlighted the shortage of 500,000 workers in food supply chains. This is stretching the supply chain further, affecting confidence in UK supply chains and leading to shortages where demand is above normal levels or where specific factories reduce output.
13. Retailers source the vast majority of their food here in the UK and are becoming increasingly concerned that persistent labour shortages are making our supply chain more volatile.
14. The problems in the supply chain are longer standing. Despite attempts by UK food producers it has proved impossible to recruit sufficient workers from the British workforce. That applies to both skilled workers, such as butchers, and unskilled workers in food processing. That shortfall was made up primarily by EU workers who have been working in the food supply chain for decades. The change in immigration policy in recent years has removed the flexibility of workers to come to the UK as required; many, for example, were seasonal workers who would not have applied for settled status. Similarly, many EU workers returned to their home countries during Covid and have not returned to the UK.
15. We are starting to see an increased problem with retaining, and replacing, retail shop workers. This is unlikely to be directly related to EU exit, research conducted by the WRC three years ago found only four percent of retail workers were EU nationals. The biggest challenge has been the continued work in store to maintain baseline covid measures throughout the past 18 months and the friction this has caused with shoppers, and which is immensely challenging. This has caused some shop staff to consider their career in the industry. At the same time the reduction in labour availability in other sectors has led to increased competition where the conditions are currently more appealing. That is particularly felt in more rural communities where there is a more limited labour pool, but is an issue across the country.
16. With regards to policy solutions. There is a difference between the current problem with HGV drivers and the wider food supply chain workforce. For drivers we believe the increased level of testing coupled with the increased pay and rewards will build a sufficient pool of qualified UK drivers, and the UK Government's recent Budget announcement of funding for better truck stops and lorry parking ought to provide some longer term assistance to retaining drivers. Retailers recognise the importance of qualified drivers and have been clear they will do whatever it takes to secure enough drivers. This includes supporting their own colleagues who wish to become drivers and maintaining competitive pay and reward levels.
17. We believe the recently announced temporary visas for EU HGV drivers will make some difference. However, we believe it is too small in number and for too limited a period to bridge us to the position where we have sufficient qualified UK drivers. It was disappointing to discover visas wouldn't be available until early November as



the supply chain begins preparing for increased Christmas volumes well before that. As a consequence of this limited intervention we believe we will see continued tension and disruption in the supply chain into 2022.

18. Similarly, we were pleased to see the release of additional visas within the SAWS scheme for poultry workers. UK poultry producers had made it clear without additional labour supplies in the run up to Christmas, particularly turkeys, would have been significantly disrupted so we welcomed the decision by Government. However, it remains a short-term solution to wider labour shortages in food production, and other meat supply chains such as pork are similarly affected and require support.
19. The additional support for poultry producers is a short-term measure and in wider food production it is difficult currently to see a long term solution to labour shortages. UK companies have been trying to recruit workers from local communities for many years unsuccessfully. Unfortunately, insufficient UK workers want to work in food production, including training for skilled jobs such as butchers. We do not believe this is simply due to pay and rewards, rather in a full UK economy they can choose to work for other businesses where the work and environment is less challenging.
20. In our view the UK Government needs to consider the structural issues underlying employment and the interaction with its immigration policy. We believe it has a choice, to accept a proportion of migrant workers is required to maintain production at its current level or allow an element of our food production to be outsourced to countries where labour is available and then import that into our supply chain. There is also a risk of increasing food waste in future years while the supply chain copes with persistent labour shortages leading to significant food waste in the supply chain.
21. There is limited room for the Welsh Government to influence this issue with both immigration and employment policy reserved issues. We would note the Welsh Government should consider how to make Wales an attractive destination for internal UK migration, especially to rural communities, in order to widen the workforce. We would also note that policy measures which put up the cost of employment without concurrent benefit, for example the current inequality around the revenues from the Apprenticeship Levy (many retailers in Wales pay the apprenticeship levy but get little in return), are not helpful for businesses hoping to recruit, retain, and upskill, their workforce.

Infrastructure

22. The retail industry operates on a pan-UK basis, with products shipped across the country between different distribution hubs. Consequently, any approach for Wales needs to remain cognisant of the UK market.



23. In that context investment in the major freight routes, both road and rail, connecting Wales and the UK, and those across Wales remains crucial to ensure products can be easily moved around the country. We are aware that the Welsh Government is freezing new road-building projects as part of its plans to tackle the climate emergency. In light of this we need to ensure the correct infrastructure is in place to allow low, and eventually zero carbon logistics can operate. Retailers need to understand what the policy direction on logistics is to ensure they can make the correct investment now, whether that is for electric vehicles or other approaches, as we ensure we meet our own challenging targets for net zero.
24. With regards to supply infrastructure, there should be caution around significant changes to the current lean approach to food supply chains. Extra time in warehouses or the system increases the risk of waste and creates inefficiencies. These make supply chains less economically and environmentally sustainable. In the case of economic costs those are likely to be felt by consumers.
25. The Welsh Government can present a clear picture to businesses on the benefits of investment in Wales against other parts of the UK. Much of the new infrastructure for more digital retail – such as warehousing - does not need to be based in Wales, and businesses will assess both the investment climate and costs before making long-term decisions. The Welsh Government has taken a positive approach to non-domestic rates during the Covid pandemic, providing 100% relief for the majority of retailers until April 2021. We are seeking urgent clarity on NDR as part of the forthcoming budget. We are also seeking more frequent business rate revaluations to bring Wales in line with Scotland and England, and to better reflect the current economic climate. Long term we need to discuss fundamental reform, and what can be done to create a more attractive investment environment.

Availability of products

26. There are short term issues which are impacting the chain and consumers, noticeably rising commodity and farm gate prices. Covid and the reopening of global economies has pushed up prices for many key commodities, including oil. How long this persists for is debatable, but we are seeing increased price pressure on food prices from both rising global food prices and rising labour costs. So far, grocery retailers have absorbed increasing produce and labour costs to keep prices stable in 2021, however this has now reached its limit. As a result, we have begun to see food inflation rising for the first time in years (as reported in our Shop Price Index) and expect to see this trend continue into early 2022.
27. In the medium term there are questions on the impact the timetable for introducing physical checks at the border on food and live animal imports from the EU will have on the supply chain. In our view it depends on how the time before July 2022 when full checks come in is used to ensure EU exporters and UK ports and customs authorities are prepared. Certainly, our members who have stores in the EU experienced major disruption in the early days of 2021 when the EU imposed full border checks which have persisted in a low-level fashion.



28. Our view, from discussions with European suppliers and assessment of UK ports was the UK was right to postpone the checks which were planned to come into force in October 2021 and January 2022. European suppliers were not all prepared, in terms of the specialist staff to support export. Nor were all EU countries ready in terms of their support for their exporters, in terms of the infrastructure to issue export health certificates. Finally, several of the key UK ports for the importing of fresh food, including Dover and the Welsh ports do not currently have facilities to hold lorries for physical checks which risks backlogs and disruption. This is particularly important as these are key routes for the most perishable food where delays can have a significant impact.
29. It is important, therefore, these issues are rectified by July 2022. That requires continuing liaison between the UK Government, EU Member States and European exporters to ensure they understand our import requirements and have sufficient support and infrastructure in place to support exports. It is equally important our ports, particularly covering key routes such as Wales and the Channel ports, are ready to administer necessary checks.
30. One positive result of the revised timetable for imports is full checks will begin in July when imports of fresh produce are at their lowest, meaning there is a short window to adapt and refine import processes before the peak import period from late Autumn onwards. There is also the opportunity to reduce the burden of checks, for example by using e-certification.