SUBMISSION ON MINIMUM WAGE REVIEW 2022

23 September 2022 To:
MBIE
Name of Submitter: Horticulture New Zealand
Supported By: Tomatoes NZ, Strawberry Growers NZ, NZ Asparagus Council, Summerfruit NZ, Kiwiberry NZ, Pukekohe Vegetable growers Association, Central Otago Fruit Growers.

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Horticulture New Zealand
Ahumāra Kai Aotearoa

OVERVIEW

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Our submission

Horticulture New Zealand (HortNZ) thanks MBIE for the opportunity to submit on the minimum Wage Review Plan Change and welcomes any opportunity to continue to work with MBIE and to discuss our submission.

The details of HortNZ's submission and decisions we are seeking are set out in our submission below.

PART 1

HortNZ’s Role

Background to HortNZ

Horticulture New Zealand (HortNZ) advocates for and represents the interests of approximately 5,500 commercial fruit and vegetable growers in New Zealand. These growers supply fresh and processed fruit and vegetables to domestic consumers, as well as exporting crops to discerning consumers overseas. The horticulture industry is valued at $7b with $4.6b in exports annually.

The national and regional economic benefits associated with horticultural production are important. The industry employs more than 40,000 people and provides critical regional development opportunities in Northland, Auckland, Bay of Plenty, Waikato, Hawke’s Bay, Gisborne, Manawatu, Marlborough, Nelson, Canterbury and Central Otago. The rural economy supports local communities and primary production defines much of the rural landscape.

HortNZ’s purpose is to create an enduring environment where growers thrive. This is done through enabling, promoting and advocating for growers in New Zealand.

PART 2

Executive Summary

Horticulture is vital to New Zealand's domestic food supply as well as being a major export earner. As such, it will be a major contributor to post-Covid economic recovery.

For many horticultural businesses, wage costs are the largest single cost component. For some, wage costs have increased from around 20% to over 40% of business costs in recent years. However, businesses cannot simply increase prices to accommodate imposed extra costs. This is because prices obtainable for produce are significantly influenced domestically by large buyers, such as supermarket chains and in export markets, by the presence of international competition.

Ultimately, increasing productivity is the only sustainable means of absorbing extra costs but increasing wages does not of itself increase worker productivity, i.e. the rate at which food crops are picked and processed.

It's essential as a country that we use market policies to address New Zealand's productivity challenges, for example through education, training and skills building, as well as increased technology and automation adoption.

Many businesses have struggled to make a profit over the past few years given Covid 19 lockdowns, significantly increased input and supply chain costs and adverse weather events.

HortNZ has sought feedback from growers, and 20 survey responses are provided in the appendix of this submission.

- Most survey responses and affiliated groups we consulted with, sought no increases to the minimum wage this year
- Many growers are facing hardship due to impacts from COVID 19, cost of inputs rising and inflationary pressures.
- HortNZ recommends that the legislation governing the minimum wage should be reviewed

Submission

1. Food Supply for Aotearoa

Over 80 percent of vegetables grown in New Zealand are for domestic consumption. Many fruit crops are grown mainly for the domestic supply. For example, nectarines, peaches and plums, oranges, mandarins. feijoas, tamarillos, and strawberries.[1]

For many horticultural businesses, wage costs are the largest single cost component. For some, wage costs have increased from around 20% to over 40% of business costs in recent years. Growers often struggle to pass on all costs to consumers, but as their costs increase, we can expect food prices to increase.

Otago University has recently modelled the potential health impacts of increased vegetable prices. This study found that using the health costs of an increase in vegetable prices of 43 - 58 percent, (Deloitte, 2018) would be a loss of 58,300 – 72,800 Quality Adjusted Life Years and health costs of $490 -$610 million across the population.[1]

2. Horticultural Workforce and Labour Supply

Horticulture is an industry that offers a high proportion of roles that are suited to those starting their careers, offering an entry point to gain experience and skills. These people often move out of these jobs into more skilled roles within or outside of the sector.

The horticultural production workforce has a young profile with 57% of the workforce under 35. The horticulture sector plays an important role in the economy offering work for young people, people with limited qualification and work experience. 73% of people aged 15-29 employed in the sector have education profile of level 1 – 3. The horticulture sector is a training ground for other sectors. Only 21% of new entrants are still working in the sector, after 3 years.

Because the horticulture sector provides roles to those with limited education, skills and experience there are a proportion of roles that paid at the minimum wage, there are also many role with higher wages and salaries.The horticulture sector salary and wages are competitive, and market based and have progressively increased even for the lower skilled occupations as was reported by NZIER.[2]

As an example, average pay rates for the 2021 kiwifruit season are outlined below – these rates are significantly higher than the minimum wage (of $18.90/hour as it was at the time, or the current minimum wage $21.20).[3]

[1] FreshFacts 2020
[2] NZIER (2019). 'Horticulture labour supply and demand 2019 update'. NZIER report to Horticulture NZ, NZ Kiwifruit Growers, NZ Apples and Pears and NZ Wine.
[3] Information from NZKGI.

Picking		Packhouse	
Green	Gold	Unskilled	Skilled
$ 27.03	$ 29.24	$ 22.35	$ 25.63

The labour shortage is a dynamic that is very much in play in the market. Wages have been addressed naturally, with rates for both unskilled, semi-skilled and skilled workers having increased – and continuing to increase. These market dynamics have changed and lifted wage rates.

3. Covid 19 and the Economic Situation

The Covid 19 pandemic. This has placed severe constraints on many businesses, particularly small to medium sized enterprises. Cashflows remain extremely tight in areas typically employing the highest concentrations of those on or about the minimum wage.

Growers have struggled to make a profit over the past few years given Covid19 lockdowns, significantly increased input and supply chain costs, and adverse weather events.

The prevailing economic view is that Zealand is facing a period of high inflation, limited growth and may face recession. A private sector led economic recovery after the GFC generated relatively higher wage increases in the private sector. This is off the back of increased economic activity, the prerequisite for any sustainable growth in wages. However, all current signals from the private sector suggest that increasing costs now, at the very time that economic conditions are predicted to get worse, will deepen future impacts.

4. Economic Impact of Minimum Wage Increase

New Zealand is in the inflationary cycle and careful management is required to get the sector and the entire business community through.

If wage increases without an increase in productivity, businesses are less able to reward performance with higher wages, ultimately this means that as the minimum wage rate rises so too does the number of people paid the minimum wage.

Like many production costs, an increase in the minimum wage would flow through the supply chain, and ultimately to consumers in the price they pay for goods and services. However, it is increasingly difficult to pass on the full extent of increased costs. This, along with other cost increases, means some businesses are becoming marginal. If costs can't be passed on, increased wages will impact profitability and there will be a limit to how long businesses can accept lower profits.

Increasing wages now given the significant increase in inflation will not only cause issues in the short term given businesses potential inability to pass increased costs on, but if economic activity softens in the future and businesses therefore have lower revenues, their wage budgets may not be able to support the same number of people.

Appendix 1 – Survey Responses

What impacts have you observed because of recent changes to the minimum wage? (You may wish to comment on the April 2022 increase, and/or increases over past years. Please define the time peri...	What gains or positive impacts do you feel are likely from increases in the minimum wage rates, to both businesses and employees? Is the current COVID-19 environment likely to increase or decrease...	What costs or negative impacts do you feel are likely from increases in the minimum wage rates, to both businesses and employees? Is the current COVID-19 environment likely to increase or decrease...	Are there any other issues you would like to raise in relation to changes to the minimum wage rates, or New Zealand's minimum wage legislation?
Higher inflation	*The inflation enables 'sticky' house prices to reduce much greater in real terms than without the inflation. No affect from covid*	*lower pricing certainty, leading to lower efficiency, as well as less investment due to lack of certainty Covid 19 government regulation environment means we are already operating from a low certainty position*	*We raised it much higher than inflation when there was low inflation, trying to match inflation is unlikely to fix the situation, as avoiding everyone getting paid the same, will cause inflation. We only produce so much per hour to increase peoples real wage, increasing minimum wage does not help us produce more per hour.*
It has horticulture more sustainable career for employees	*Keep up with cost of living.*	*Employees who have more cash we have found want to do less hours. Can't understand the reasoning*	*Tighter control on eligibility for add on like accommodation supplement. Family assistance etc*
It has had a negative effect on our cash flow during harvest months and meant we have had to borrow more from the bank to cover this. The flow effect has meant all our onshore supplier costs have risen.	*Zero Covid-19 will decrease any impact*	*It will fuel inflation higher and increase our interest rates*	*Increasing minimum wages in our sector does not increase productivity.*
Since the April 2022 increase it can be hard to get some staff to work a 40-hour week. They are earning very good money and seem to be happy to earn just enough money. After that they don't always want to work a full week. Others on a benefit only work enough so as not jeopardize their benefit. The increases over the last few years are one of the factors that are directly impacting the cost of living.	*The only positive is for the worker. Nothing for the business.*	*Businesses are still trying to recover from the impact of COVID-19 so a further increase to the minimum wage from 1 April 2023 would be unfair. To keep increasing wages will just keep fuelling the increased cost of living. Surely to keep piling costs onto food producing businesses is akin to NZ cutting its own throat. Do we want to be a nation dependent on imported food or would NZ be better to support these businesses?*	*I think I have said it all.*
Lifting the minimum, a couple of weeks into lockdown something that the world has never seen. Then continuing on with the whole campain that that them into power. All I'm seeing is good Hort business questioning the forward and right now wages are the biggest cost and killer	*There are no positive gains only loyal people heading overseas*	*As explained above*	*They have killed us as horticulture unless there is investment from non-horticulture people*
Very hard to deal with in our industry. I would rather use contractors where possible, but this has its problems with Global Gap and NZ Gap costs to them. One wonder is the Govt is really interested in a business which is expected to assist in repaying Debt.	*May assist in encouraging people onto orchards but we must train them at this pay rate, so we definitely don't get value for money for some time.*	*I have my margins squeezed to where my business is no longer viable. I might as well grow Bloody Houses.*	*My comments to past questions cover it. Just give us a break*

We had to increase our pricing to clients to cover the increase The RSE increase to $22.10 (above min wage) created two different rates for us (RSE and Kiwi) which was unfair so we had to increase for all.	*Good for employees - helps to cover inflationary pressure, cost of living Helps our industry to be more competitive for the lower skilled labour*	*Some of our clients are also under cost pressure and therefore an increase in their labour costs (especially at short notice) is hard and stressful. They don't always have the option of increasing their prices.*	*Needs to be communicated 12 months in advance so we have time to prepare budgets etc. increase in wages also comes with an increase in expectation around staff turning up for work, attendance, reliability, skill development etc*
At $21.20 still no one wants to work for minimum wage". We growers get slammed for the rising fit and vegetable costs but we've had HUGE costs imposed on us. We need to survive too.	*Productivity sure hasn't increased with more pay. How come we have the 2nd highest minimum wage in the world?*	*Survival of the business comes under question, is just getting too hard.*	*Stop putting it up so much!!*
Inexperienced people are less cost effective to employ.	*None*	*Less valuable employees are not worth employing. The higher base rate erodes the ability to pay bonus and incentives.*	*The legislation does not take account of jobs where the worker can be at work but not fully giving time to the employer. Sleeping over, studying, or relaxing while waiting etc. Contracts cannot be effectively enforced for the benefit of employers, for example if an employee leaves without notice causing business losses. Costs of being an employer have increased, calculating student loan repayments, explaining eligibility, and calculating kiwi saver, reporting every payday to IRD. Note that working for IRD to collect from others, tax deductions, court fines, overdue tax etc is all unpaid work that employers do for IRD without the benefit of minimum wage.*
Productivity has declined in our minimum wage workforce. As a result of a higher weekly income staff are not doing overtime and are also taking advantage of the increased sickness leave to top up there hours.	*For a business there are no positives as this is a production cost increase, we are unable to pass on. For employees they need the increase to combat cost of living/inflation. A reduction in income tax would achieve the same thing without impacting business bottom line.*	*It is not just the minimum wage for entry level employees that are affected. We in turn need to match the wage increase of 6% for every wage earner on our payroll whether justified or not. This is an expectation that wage earners have. The current COVID 19 environment is irrelevant... we have moved on*	*Incremental increases in minimum wage are acceptable but the 6% jump on top of skyrocketing costs for production makes sustainable business practice questionable. Because of the inability to source labour from overseas due to the chronic Immigration laws we have no choice but to employ unskilled local labour who on the minimum wage are challenging the rates we pay skilled reliable and loyal employees.*
Minimum wage is a joke. I pay the living wage and have done for 4 years	*Little, as its a joke who can survive on that. might be ok for a backpacker enjoying the journey but that's it.*	*There will be cost increases for those still paying min wage I'd say they are few or far between as few will work for min wage*	*Scrap it and push the living wage*
The impact on numbers seeking employment has not been great. I would have expected more uptake of vacancies. interestingly, few ever ask what the wage rate is.	*I do not see any effect from Covid. Numbers of suitable employees and their attendance has not changed*	*Labour is noticeably more expensive and as an employer I am more discerning about who I employ. Our employment and wages history has been about getting suitable employees and paying them accordingly. Covid has not had any real impact.*	*Paying everyone the minimum tends to focus my attention on quality and keeping numbers to a minimum*
	Workers more able to afford rents and cost of living	*None*	*It ends to keep up with the cost of living otherwise workers will be unable to afford rents and will leave area*
Increasing reluctance to take on new staff especially with the uncertainties of recession	*Certainly, everybody should receive a wage comparable with living costs. But it can be a fine line before you kill the goose that lays the golden egg.*	*As a grower, reassessing whether it is worth the risk of investing further in the orchard.*	*Certainly, everyone should have a decent wage, but making businesses uncompetitive will bring about the opposite.*

I agree that the minimum wage should increase over time, but I seriously question the governments wisdom of increasing the min wage during the COVID crisis. It has out severe pressure on businesses at a time when labour is in such short supply. Any increase in April 2023 would be based on political reasoning and not common sense.	*In the current environment the impacts of raising the min wage would be all negative to businesses, all positive to employees. Having said that, there remains a likelihood that businesses would not survive such a rise and employees would suffer from the loss of their job. This is a real possibility because without a boost in the labour market, businesses would be unable to plant, harvest and maintain their crops. Adding cost to this dire situation would be the turning point. The current COVID environment reducing restrictions and freeing up the international market would increase the chance of a positive outcome for both business and employees*	*Without an increase in the labour market, there will be little positive from any situation. Increasing the min wage would have no long-term benefit or positive outcome.*	*Let's take a breather on an increase and let the current labour shortages, increased interest rates and negative outlook wash over.*
no matter when a wage increase happens, it inevitably causes price rises for outputs, particularly in horticulture/agriculture because labour costs are a large part of the production cost but especially in horticulture	*it's possible that increased minimum wages make it easier to attract labour*	*it reduces margins for the producer but necessarily the productivity of the staff*	
The relentless increases in the minimum wage over the last few years have had a terrible effect on our business. The pace of increase far outstrips any increase in returns, no increase. (We are getting the same price for plums on the domestic market we were getting in 2014)	*I see no benefits for businesses and employees. The employees would hardly be better off unemployed and on a government benefit if we are unable to return a profit.* *There is a big increase in sick leave among our staff since the pandemic and vaccination program so Covid19 continues to have a negative effect.*	*See above*	*Given the negative economic outlook in many of our international markets and the domination of the domestic market by a few big supermarkets our ability to cope with continued increases in the minimum wage is doubtful. A nationwide minimum wage is inappropriate given the vast differences in the cost of living in Auckland and Hawkes Bay*
Increases since 2017 have been too steep and the successive annual increases nowhere near offset by slightly increasing wholesale prices in the last year. It also took away our ability to differentiate between what we paid permanent staff vs summer casuals, a source of tension for our otherwise hard working and loyal staff. The 2022 increase combined with our belief that a similar increase is likely next year, was 'the final straw' that led us to decide to close our business for a while, possibly for good.	*Continuing pressure on inflation meaning no real gain for employees and consumers but more added cost to business. And so on for consumers.* *COVID appears no longer a factor.*	*See above.*	*Every base increase also increases the cost of annual leave, sick leave, kiwi saver etc. The cumulative effect is crippling.*
Better remuneration for staff	*Staff feel more valued when they receive a pay rise. This is likely to be even truer when low-income families are struggling with the cost of living.*	*Obviously, a bottom line hit. But good staff are valuable to our organisation so it's a worthy hit to pay them a wage that pays their bills. COVID has no impact on size of this hit.*	*People are an asset. They should be paid a reasonable rate, one that allows them to house and feed themselves and dependents. Products should be priced to the consumer in a way that enables employers to remunerate fairly.*
Changes to minimum wage have led to huge increase in labour costs on orchard. Harvest Contractors are also expecting a lot higher rate as a result.	*The gains are that we have dragged people from other industries to horticulture. This however is providing no net gain for NZ.*	*Higher labour costs. Negative impacts are that industry and business is seeing greater levels of absenteeism. Once employees have earned what they need to for the week (or what they are allowed to, to maintain their benefits) they then become absent later in the week*	*Stop raising the minimum wage. Talk to employers and businesspeople before making any further increases. They have to pass all these costs onto their end products, products becoming more expensive to buy.*