Food, Drink and Tobacco Sector – Industrial Report: Scarborough Conference 2006

Introduction – facts and figures

The food and drink manufacturing industry is the single largest manufacturing sector in the UK, with a turnover of just under £70bn, accounting for 15.5% of the UK's total manufacturing sector.

The industry employs some 500,000 people. This represents 13.7% of the manufacturing workforce in the UK. Amicus represents approximately 20,000 members in the food drink and tobacco industries, predominantly in the engineering and maintenance function with a significant presence in manufacturing/processing, management and research. Amicus recognition agreements exist for distribution and production workers across various sites.

A number of companies in the sector have taken advantage of the new information and consultation regulations to introduce or amend existing information and consultation arrangements.

Total exports in 2004 for food and drink came to £9.7bn of which almost 65% went to EU members.

Total imports in 2004 for food and drink came to £21.9bn of which more than 68% comes from EU member states.

Food and drink remains the biggest spending category in UK family budgets. In 2004 consumers' expenditure on food and drink came to nearly £147.7bn, representing 21.0% of UK national consumer's spending.

There are 6,752 food and drink enterprises in the UK and
the food, drink and tobacco industry buys two-thirds of all the UK's agricultural produce.

Tobacco facts

The tobacco industry employs almost 6,000 people in the UK economy, many of whom enjoy high quality, skilled manufacturing jobs with excellent terms and conditions. Amicus represents a substantial majority of these workers.

There are over 1,200 print and packaging workers employed in companies who supply cartons and packaging to the tobacco industry.

Economically a further 20,000 jobs are dependant on the tobacco industry in the supply chain and over 55,000 in sales and distribution.

The value of manufactured tobacco products exported from the UK in 2004 stood at £738.8 million, down from £898.5 million in 2003. The balance of trade in manufactured products was £515.7 million, down from £674.7 million in 2003.

The European Union loses approximately €6 billion in revenue because of cigarette smuggling Tobacco.

Trends and issues

The food and drink manufacturing industry is intensely competitive. As a result the industry has consolidated in recent years through mergers and acquisitions – the takeover battle within supermarkets demonstrates the process of consolidation.

The constraints on the industry's competitiveness include the price and availability of raw materials, government regulation, public perception on the use of novel technology, the economic environment and the need for environmental conservation and animal welfare.

Consumer pressure on the industry includes the demand for convenience, variety and choice, a growing interest in health and nutrition, clear and informative product labelling, and keen pricing.

Many of the larger food companies have operations in countries around the world, producing a wide range of products under many well-known brand names.

New and proposed regulations on public health, labelling and the tobacco control Directive are all having an impact on the production and sale of tobacco products in the UK.

Food and drink – health concerns

The industry has become the subject of much political debate. In general the food and drink industry is suffering from a lack of consumer trust. Whilst newly introduced regulations and controls have increased the safety of food processing, many manufacturers are perceived as uncaring about the impact that their products and ingredients have on public health. Broadly the food and drink industry has acknowledged and recognised the societal pressures for change and commitments have been made from industry to address public concerns about diet and health.

Most of the industry is now on board with the Government’s aim to improve public health and many have announced their commitment to, for example, clearer nutritional information so that consumers can make informed choices, reducing wherever possible the levels of sugar, salt and fat in products, tackling the issue of portion sizes, action on vending machines in schools and working with government on advertising to children.

Whilst industry is being forthcoming with a voluntary approach towards improving public health, the Government and the Food Standards Agency are consulting on a variety of ways of tightening controls – including legislation. Most recent consultations have centred on nutrient profiling and on proposals to set UK targets for levels of salt. Research on signposting is also being undertaken. The Government is also expected to really start driving forward its health action plan first unveiled in the Public Health White Paper of November 2004. At the Labour Party Conference in September 2005, Ruth Kelly, Secretary of State for Education announced that the department would be publishing proposals for tough new nutritional standards in school meals. Also from September 06, no school will be able to have vending machines selling crisps, chocolate and sugary fizzy drinks.

Reform of the EU sugar regime

The UK sugar industry supports over 20,000 jobs throughout the UK economy, many of which are in rural areas, providing quality rural jobs and Amicus represents a substantial group of these workers. In response to EU consultation papers we have underlined that whilst the Common Agricultural Policy (CAP) must change, as the world has changed, we are also conscious that the European Union does still need a modern CAP, which makes sound economic sense.

The existing EU sugar regime runs out on 30 June 2006 and the Commission's proposals for the future aim to cut production levels and exports from Europe, through a 39% price cut in the EU support price to sugar beet growers. This will be accompanied by compensatory payments to farmers in all 25 Member States. The proposals also include a voluntary restructuring scheme, valid for 4 years, enabling inefficient factories to close with compensation and supportive social measures to help with the redeployment of local workforces. This is to encourage the least efficient producers to leave the industry and cover social and environmental impact of factory closures.

Whilst British Sugar should continue to compete effectively under the new proposals, the future for the UK's sugar beet growers looks uncertain, though they are by no means the least efficient in Europe.

British Sugar has recently announced its intention to build the UK's first bio ethanol plant, which is expected to commence production in early 2007. Bio ethanol, which is extracted from sugar beet and other vegetable matter such as grain, can contribute significantly to reducing our dependence on petroleum and is seen as a major factor in cutting greenhouse gases.

EU enlargement, workers and migration from Poland

On 1 May 2004, the European Union was enlarged to include ten new member states; eight of these countries were from Central and Eastern Europe. Poland is often looked at for examples of both good and bad practice, as it is the largest country in Central and Eastern Europe, with a population of 38 million.

There have been reports of an increase in the number of Polish workers being recruited in some parts of the sector and the terms and conditions of these colleagues are being monitored.

Following EU Enlargement many Polish newspapers have been running adverts from agencies quick to profit from the new situation, offering jobs in a range of industries such as nursing, engineering and general factory work in the UK. You can also find Internet sites, which announce proudly "your access to low cost workers - no hidden costs" and offering "competitive pricing" and “access to cheap Polish labourers". The challenge for Amicus is to ensure that these Polish workers are not disadvantaged or exploited, whilst defending our own members legitimate interests, as well as seizing the recruitment opportunities that the new situation offers.

Tax stamps

From October 1, 2006 all spirits above 30% abv crossing the duty line into the UK retail trade will have to carry a new duty stamp, as part of the crackdown on fraud through unpaid excise duty.

Amicus campaigned against the use of tax stamps because we feared that they would affect products like Scotch Whisky from being able to compete in the global market. Furthermore, overseas experience shows that tax stamps are inefficient and ineffective.

Many in the trade feared there would not be sufficient time for unmarked stock to clear before it was deemed illegal on January 1, 2007. But the Treasury and HM Revenue and Customs have now made it clear that all stock purchased without a duty stamp prior to October 1, 2006 can be sold legally providing retailers keep a record of the purchase.

Smoking in public places

Amicus has participated fully in public consultations on the future of smoking in public places, including most recently the Department of Health Consultation on the smoke free element of the Health Improvement and Protection Bill – June 2005.

A free vote on the Bill took place on 14 February in the House of Commons and MPs voted on three options:

- To extend the ban to licensed premises but not genuine membership clubs
- To extend to both licensed premises and membership clubs
- To exempt non-food serving pubs and membership clubs, as originally proposed

The Commons agreed, by a very large majority, to end smoking in all enclosed public places and workplaces. This of course ran counter to the Labour Manifesto commitment of 2005, which promised Government backing for limited exemptions to a total smoking ban in non-food-serving pubs and private members clubs.

The Commons decision of 14th February will mean every pub, club, membership club, café, restaurant, shopping centre, office and public and work transport will be smoke-free by summer 2007. The Government has stated that they will monitor these changes and there will be a review after three years.

Amicus is disappointed in the Government’s decision to opt for a ban on smoking in all enclosed public places and workplaces in England, as we believe this will represent a severe threat to jobs and have a negative impact on local economies and service industries across the UK that depend on the tobacco industry.

At the time of preparing this report the tobacco industry was in consultations with the Government about granting an exemption to the laboratory testing of tobacco products, which includes smoking them, in England. Without such an exemption an estimate 400 important jobs will be lost and transferred abroad.

In Scotland, the Smoking Health and Social Care (Scotland) Act 2005 came into force on 26th March 2006 imposing a smoking ban in public places throughout Scotland. Smoking is no longer allowed in the majority of enclosed public places, including workplaces. There are a few exemptions including residential accommodation, designated rooms in adult care homes, adult hospices, designated rooms in psychiatric hospitals and units, designated hotel bedrooms, designated detention or interview rooms, designated rooms in offender accommodation premises, offshore installations, private vehicles, certain laboratory rooms, submarines and refueling vessels.

Amicus is concerned that the introduction of the ban will lead to job losses both across the sector and in the service industries across Scotland. We intend to monitor this carefully.

Some major closures in the sector

Amicus was saddened and angered by the announcement that BAT was to close its factory in Southampton, with the loss of more than 600 jobs. An important factor in the decision to end production was the impending ban on manufacturing of cigarettes containing more than 10mg of tar for export from the European Union.

Amicus predicted that this ‘export ban’ directive would serve to export members’ jobs, and sadly it is coming true. Many Amicus members play an active part in the Tobacco Workers’ Alliance campaign against the manufacturing clause of the directive, which has been successful in securing a derogation delaying implementation of the ‘export ban’ until 2007.

The Southampton factory closure follows on from the BAT Darlington closure last year. BAT will continue to produce the cigarettes, but not in the UK, where production has been restricted by the European legislation.

Cereal Partners (UK) plc announced the closure of its Welwyn Garden City plant, scheduled for April 2008, after over 80-years of manufacturing in the town; some 370 well-paid union jobs will disappear as a result. Once again the pretext for the closure was over-capacity with the decision having been made to re-locate the WGC production to the company’s other two units at Staverton near Bristol and Bromborough in Cheshire.

CPUK is one of the largest manufacturers of breakfast cereals in the country and is a joint venture company owned by Nestle and General Mills. An excellent exit package, including redundancy pay, bonus, attendance allowance and a 5% pay increase have been negotiated at local level.

Leaf UK Ltd of Southport, the company behind the Chewitts confectionary brand, announced it was transferring the whole of its UK production to Slovakia by the end of 2006 with the loss of almost 150 jobs. The company blamed overcapacity at its aging and logistically unsuitable factory for the decision to pull out. But the well organised and resourceful workforce has fought back through its unions (Amicus and T&G) by coming up with an alternative plan to keep production in the UK on a new site in Southport. The plan has the support of the Sefton Borough Council, the local MP and of course the unions; it was formally presented to the Netherlands based owners of the company in March with high hopes of reversal of the closure decision. (As this report goes to press we have just heard that the company has rejected the rescue plan put forward by the workforce, which has left a bitter taste and a determination to drive a hard bargain on the closure terms.)

Pay in food, drink and tobacco manufacturing 2005/2006

Most pay deals in food, drink and tobacco manufacturings recorded in 2005 ranged from 3 to 4%, and on average were higher than pay increases in 2004 and for the economy as a whole.

IDS monitored 67 pay deals in the food, drink and tobacco manufacturing industry effective from 1 January 2004 to July 2005, covering just over 60,000 employees. The median settlement for the sector is 3.5%, compared with 3% in 2004.

Pay settlements in the tobacco industry, dominated by BAT, Gallaher and Imperial Tobacco, tend to be on average higher than in the sector as a whole. In 2004 Gallaher paid increases worth 3.8% and then 4.1% in 2005. The Gallaher's 2006 settlement produced a further 2-year deal, effective from 1st January; the increase in year 1 was 3.8% plus a 1% increase in nightshift premium; the increase in year 2 will be RPI plus 0.7% or 2.8%, whichever is the greater. Employees at Imperial Tobacco, the world's fourth largest tobacco company, received pay increases worth an average of 4.36% in 2005. New talks with Imperial Tobacco opened at the end of March on a pay deal effective from 1st May 2006; negotiations led to an offer of 4% across the board for a one-year settlement, which is currently subject to a ballot of members with a strong recommendation to accept from the union.

Long-term pay agreements are common in the sector, with just over one quarter of pay increases recorded by IDS between January 2004 and July 2005, provided by long-term deals. Several organisations have improved their benefits package over the past year.

There was a prolonged dispute with Coca Cola Enterprises Ltd in 2005 over an imposed 2.5% ceiling on pay increases. Preparations were made for an industrial action ballot, but this was called off when at a late stage the company was able to accept deals for its bottling/canning plants based on productivity improvements and the consolidation of some bonus earnings; this resulted in increased earning of 4% on average. Whilst this satisfied the majority of Amicus members it left two small groups, Field Engineers and craftsmen at the company's cold drinks centre in Milton Keynes, aggrieved and certain to carry forward their claims in the coming pay round.

Changes to pension scheme benefits have featured prominently on the industrial agenda throughout the sector over the past 12-months. Some major companies, including RHM, Northern Foods, Nestle, Grampian Foods, Coca Cola, United Biscuits, Dairy Crest, Burtons Foods, Greencore and others have all run into difficulty because of unsustainable deficits in their scheme funds. On the whole we have worked constructively with the employers to find mutually acceptable solutions to these problems, but at the time of writing it looks probable that the situation at Greencore could prove the exception to the rule.

Employment market

Demand for workers, both skilled and unskilled exceeds supply in many areas, with the replacement of highly skilled workers a key concern. However the take-up rate of apprentices remains low throughout the industry. We are pressing this issue strongly in our dialogue with the industry's major players.

Outsourcing of production to Eastern Europe

The power of British supermarkets to force price cuts on the food and drink manufacturers and hence squeeze the profit out of the industry is forcing a number of the bigger players to look to the new EU accession states in central and eastern Europe for future manufacturing capacity. Cadburys, Nestle, Burton's Foods are each at different stages of planning such moves and, as seen above, Leaf has already taken the decision to pull out of the UK in favour of Slovakia. There can be little doubt that others will follow down this path in due course.

The factors driving the situation are not difficult to fathom, i.e. very significantly reduced wage costs and a much lighter regulatory framework. In some cases these factors are tempting UK manufacturers into setting up new production capacity abroad at the expense of UK operations whilst in others they are contracting production out to central or eastern European manufacturers when domestic capacity is overstretched.

For the time being it appears that it is the 'own brand' market that is most susceptible to the outsourcing approach; as one major manufacturer has put it to the union, "We have a gun to our head, our biggest customer has told us that if we don't outsource to cheaper territories they will. That would simply kill our business."

The inability and unwillingness of FD&T manufacturers to publicly raise their voices in protest at the destruction to the industry perpetrated by the multiple retail supermarkets is legend. Commercially this may be understandable but morally it is inexcusable and cowardly. Meanwhile it appears that there is little appetite within Government to take the supermarkets on – if anything the contrary seems to be the case, which would be consistent with the Government's record of neglect towards UK manufacturing industry.

Currently the Office of Fair Trading is conducting a fresh enquiry into the power of the big supermarkets, it is obvious that the manufacturers in our sector will be too timid to raise their voices and speak out against damage being done by the retail multiples, but an opportunity exists for the unions in the sector to do so and Amicus should be in the lead in this endeavour. There are few if any more pressing issues on our agenda.

Membership growth

Amicus membership in the sector has increased a little below the union's 1% net growth plan and now stands at 19887 on the most recent figures available – this represents net growth of almost 0.8% on the position at the beginning of 2005.

We intend to give greater priority to recruitment and organisation going forward. The potential for recruitment amongst clerical and management employees, women, migrant workers and research technicians in companies where we are already recognised appears strong and will therefore be the focus of attention. There is also some scope for consolidation within our present spheres of influence, particularly in regard to our craft membership. Whilst greenfield sites are always more challenging, we will also be looking for opportunities to extend our existing coverage in the industry.

Iain MacLean
National Officer – FD&T Sector
31st March 2006