

Farmers' Union of Wales Response to the National Assembly Climate Change, Environment and Rural Affairs Committee Consultation 'Rethinking food in Wales'

13th September 2017

Background and current position

1. In 2016, 1.9 million hectares of Wales was categorised as agricultural land, equating to 89% of the country's landmass. This comprised permanent grassland (57%), rough grazing (14%), common land (10%), arable land (5%), woodland (5%), and other land (9%). 57% of Wales is categorised as Severely Disadvantaged Area (SDA), while 23% is Disadvantaged Area (DA).¹
2. Given such a distribution of land types in Wales, and the fact that landscape, soil quality and climate dictate, to a large extent, the sorts of food production which are viable and competitive, the majority Welsh land is restricted to the grazing of sheep and cattle.
3. At present, 9,823 of Wales' agricultural holdings which have standard outputs in excess of €25,000 (an EU threshold for farm categorisation), 68% are Less Favoured Area (LFA) cattle and sheep farms; 15% are dairy enterprises; 12% are non-LFA cattle and sheep enterprises; and 5% are other farm types².
4. Average annual farm business incomes on Welsh dairy, LFA sheep and cattle and non-LFA sheep and cattle areas for the years 2012 to 2016 were £49,920, £22,460 and £24,220 respectively³.
5. Of Wales' estimated 2016 aggregate agricultural output of £1,447 million, sheep, beef and dairy production accounted for 18%, 26% and 29% respectively.⁴
6. Wales' food and drink industry has a turnover of £16.8 billion, and employs 223,100 people, comprising 68,500, 70,300, 62,100 and 22,100 in the retail and wholesale, catering, agriculture and manufacturing industries respectively⁵.

¹ June 2016 Survey of Agriculture and Horticulture: Results for Wales, Welsh Government (2017)

² Farming Facts and Figures; Welsh Government (2017)

³ Forecasts of farm incomes in Wales, 2016-17, Welsh Government (2017)

⁴ Aggregate agricultural output and income, 2016; Welsh Government (2017)

⁵ Welsh Food & Drink Industry, Food and Drink Wales (2016)

7. The population of Wales is 3.063 million, representing just 5% percent of the UK's total population, 84% of which is based in England.

8. As such, Wales' food industry is largely dependent on food exports to England and other parts of the EU, with exports to the EU accounting for 72.4% of all exports⁵.

9. Welsh food can be divided into two broad categories; premium and commodity/lower value products, both of which play an important role in terms of Wales' food sector. Moreover, it is invariably the case that the value of premium products in key sectors are complemented or underpinned by the value of commodity products.

10. For example, the total value of a lamb is related to the value of prime cuts, such as legs, as well as the value of lower value cuts, offal and skins, and the total value is therefore a function of prices in both premium and lower value markets. Similarly, while different dairy farms may sell into commodity (for example mild cheddar) or premium (for example organic) markets, the prices received by processors and farmers in both markets will generally be related to EU and global commodity market prices (as well as other factors).

11. As such, both commodity and premium production and markets play an important and interrelated role in terms of Wales' food and farming industry.

Impact of Brexit

12. The 23rd June 2016 vote to leave the European Union, and the UK Government's decisions and policies following the vote, has led to considerable uncertainty regarding a host of areas, not least in terms of how EU and other markets will be accessed by UK producers post-Brexit, and the terms of access to the UK market for EU and Third Country producers.

13. Queen's University Belfast's Food and Agricultural Policy Research Institute has undertaken detailed modelling of possible impacts of three Brexit trade scenarios for key agricultural products⁶.

⁶ Impacts of Alternative Post-Brexit Trade Agreements on UK Agriculture: Sector Analyses using the FAPRI-UK Model, Agri-food and Biosciences Institutes (2017)

14. The three scenarios looked at were:

i. UK retains tariff and quota free access to the EU and EU retains tariff and quota free access to the UK; UK maintains EU tariff structure to rest of the world; 5% trade facilitation costs on UK-EU27 trade

ii. World Trade Organisation (WTO) Most Favoured Nation (MFN) tariffs applied to imports from the EU; Tariff Rate Quotas (TRQs) from Third Countries retained; MFN tariffs applied to UK exports destined for the EU; No change in tariff structure for exports to the rest of the world; 8% trade facilitation costs on UK-EU27 trade

iii. Zero tariffs applied on imports to the UK from both the EU and the rest of the world; MFN tariffs applied to UK exports destined for the EU; no change in tariff structure for exports to the rest of the world; 8% trade facilitation costs on UK-EU27 trade

15. Predicted percentage Change in UK Commodity Prices, Production and Value of Output by 2025 for the three scenarios are shown below

		Scenario i	Scenario ii	Scenario iii
Commodity				
Beef:	Price	+3%	+17%	-45%
	Production	0%	+10%	-10%
	Output Value	+3%	+29%	-50%
Sheep:	Price	-1%	-30%	-29%
	Production	0%	-11%	-11%
	Output Value	-1%	-38%	-36%
Pigs:	Price	0%	+18%	-12%
	Production	+1%	+22%	-6%
	Output Value	+1%	+44%	-17%
Poultry:	Price	0%	+15%	-9%
	Production	0%	+11%	-3%
	Output Value	0%	+28%	-12%
Milk & Dairy:	Price	+1%	+30%	-10%
	Production	0%	+7%	-2%
	Output Value	+2%	+37%	-12%
Wheat:	Price	-1%	-4%	-5%
	Production	0%	-1%	-1%
	Output Value	-1%	-4%	-6%
Barley:	Price	-1%	-5%	-7%
	Production	0%	-1%	-2%
	Output Value	-2%	-6%	-8%

16. Predicted impacts of the three scenarios on Welsh production and numbers are given below.

	S1	S2	S3
Milk			
Milk production	0.4%	9.4%	-3.0%
Dairy cows	0.4%	8.1%	-2.6%
Milk yield per cow	0.0%	1.1%	-0.4%
Milk price	1.2%	28.3%	-9.8%

	S1	S2	S3
Cattle			
Beef cows	1.4%	23.8%	-60.3%
Dairy cows	0.4%	8.1%	-2.6%
Total Cattle	0.6%	14.1%	-21.4%
Production	0.2%	11.6%	-10.9%
Sheep			
Ewes	-0.3%	-19.5%	-18.3%
Total Sheep	-0.2%	-19.3%	-18.1%
Production	0.0%	-15.0%	-13.9%
Pig			
Sows	0.5%	19.8%	-8.2%
Total pigs	0.6%	21.6%	-7.6%
Production	0.8%	27.6%	-7.9%
Poultry			
Poultry production (EW)	0.2%	11.2%	-3.5%

	S1	S2	S3
Area			
Wheat	0.0%	-0.4%	-0.5%
Barley	-0.2%	-0.5%	-0.8%
Yield			
Wheat	0.0%	-0.1%	-0.1%
Barley	0.0%	-0.1%	-0.2%
Production			
Wheat	0.0%	-0.4%	-0.6%
Barley	-0.2%	-0.6%	-1.0%

17. While the FAPRI model can only ever provide estimates, the ranges of figures provided highlight and help quantify the degree to which opportunities and adverse impacts will vary depending upon the outcome of the current negotiations with the EU, related negotiations with the WTO and any post-Brexit trade agreements reached with Third Countries.

18. Given such variance (for example, impacts on beef prices in the range -45% to +17%, and beef output value in the range -50% to +29%, depending upon the final Brexit outcome), and uncertainty regarding what trade arrangements will be in place post-Brexit, there is currently no certainty as to whether a detailed policy aimed at a key commodity would turn out to be appropriate or disastrous.

19. As such, policy proposals must be drawn up in a way which ensures, as much as is possible, they do not leave any particular sector or businesses exposed to the dangers inherent to many of the large number of possible Brexit scenarios.

Supporting primary production and the broader supply chain in Wales

20. Primary producers are the keystone in a complex food supply chain, involving upstream businesses such as vets, feed merchants, mechanics and contractors, as well as downstream businesses such as hauliers, markets and food businesses. Agriculture also plays a key role in other areas of direct economic, cultural and social importance to Wales, not least maintaining the landscapes and habitats so cherished by visitors, and preserving the Welsh language.

21. Welsh family farms lie at the centre of such supply chains and wider economic, environmental, social and cultural benefits, and retaining this position should be a priority; any policies which result in an exodus of families from the industry will have dire consequences in these regards, and cause irreparable damage to the image of Wales and the food we produce.

22. As such, ensuring producers receive fair returns for agricultural produce, that farms become more efficient and effective and that systems are in place to make up for market failure must be a priority.

23. The current Pillar 1 and Pillar 2 regimes implemented under the Common Agricultural Policy deliver some £300 million per annum in support for rural communities, and are compliant with both EU and WTO rules.

24. Given the danger that even minor changes to current agricultural policies may, given the final outcome of Brexit, turn out to be detrimental to individual sectors or the industry as a whole, and/or be non-WTO compliant, it is essential that short term changes to current policies and funding be kept to a minimum, notwithstanding any need to react to rapid developments.

25. As such, the FUW supports a ten year transition period to any new agricultural and rural development policies aimed at minimising disruption.

26. In terms of such policies, there is a need to examine in detail a wide range of possible options, and to investigate these thoroughly in terms of their legality under WTO rules and through exhaustive modelling of economic impacts, not least to ensure that well meaning aspirational policies will not in fact have severe consequences for Wales.

27. In this context, it is important to note that the positive scenarios revealed through the FAPRI modelling are caused where Welsh produce displaces products from other countries within markets, while the converse is true for the negative scenarios.

28. Given that Brexit may increase economic pressures on UK consumers, leading to a fall in domestic premium product markets and greater consideration of food prices in domestic spending patterns, any increase in regulations or restrictions which add to production costs are likely to reduce the positive or exacerbate the negative impacts estimated in the FAPRI modelling.

29. This should be a key consideration in terms of any enhancement of the existing rules, which are already higher than those in other countries in terms of sustainability and high environmental and animal welfare standards. Moreover, for the reasons given above, and as quantified in the FAPRI modelling results, poorly thought out increases in legal requirements for Welsh producers which undermine Wales' market share would be self-defeating, in that they would result in a net reduction in sustainability, environmental and animal welfare standards, as food production would be exported to countries with far lower standards than those required of Welsh farmers.

30. In many, possibly most post-Brexit scenarios there will be a change in markets which impact on the types of produce produced on Welsh farms. Notwithstanding the need for extreme caution highlighted above, it may be viable for some to diversify into new types of production which are relatively rare in Wales, such as vegetables and fruit. However, policy makers must be realistic about the limited size and economic benefits of local markets; the highly competitive and commercial nature of such industries; and the economic constraints which led to certain types of production being largely abandoned in Wales decades ago.

31. Critical to sustaining existing and creating new supply chains which provide healthy, accessible and affordable food, both locally and in wider markets, is greater engagement and transparency within supply chains, and to this end the FUW has long argued for greater Government intervention to improve the functioning of supply chains, and for the powers of the Groceries Code Adjudicator to be extended to cover all major players within supply chains.

Marketing Wales

32. Brands such as Welsh Lamb are well established internationally, and Wales' landscape and culture lend themselves to the development of a wider 'brand', akin to the Republic of Ireland's 'Origin Green'. However, any such development should not threaten established brands such as Welsh Lamb; nor should it be detrimental to established supply chains, including those for commodity or premium products which may fare better when labelled as 'British'.

33. While it is important to be realistic about the limited room for market growth within Wales, the public sector has an important role to play in promoting Welsh produce through procurement policies; if Welsh public bodies are not loyal to Welsh produce, this severely undermines the reputation of products both in Wales and beyond, and this principle extends to UK procurement policies.

34. Similar arguments can be made in relation to the food provided by those who cater for the millions of visitors to Wales each year, and the positive impact of the current exchange rate on visitor numbers is an ideal opportunity to ensure visitors are provided with the best of Welsh produce, and that positive experiences of Welsh food are kept in mind when they return home.

35. As such, there is a need to step up efforts to encourage those catering for visitors to use quality Welsh produce, and this would also assist in the aspiration that Wales becomes an internationally renowned destination for food lovers.

Welsh food processing

36. In order to maximise economic benefits for Wales' food industry as a whole, an increase in Welsh processing and production of food is needed, as this increases the share of product value which returns to Wales.

37. In terms of Wales' abattoir industry, there is an additional incentive, since levy which can be used by Hybu Cig Cymru to promote Welsh produce and fund Welsh research and development is lost when animals are slaughtered in other countries.

38. Given the high reliance on immigrant labour, skilled or otherwise, of the food and veterinary sectors, changes to immigration rules could represent a significant threat to the food supply chain which would exacerbate existing problems caused by the weakness of the pound making work in the UK less attractive to foreign workers.

39. As such, moves which attract and support Welsh processing and food production, training in relation to the supply chain, and research and development, are desirable in any Brexit scenario, and this would ensure an innovative food industry sustaining Welsh employment, including high quality jobs.