

Senedd Cymru
Y Pwyllgor Materion Allanol a Deddfwriaeth
Ychwanegol
Ymadael â'r Undeb Ewropeaidd:
Paratoadau Nghymru ar gyfer diwedd y
cyfnod pontio
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Ymateb gan NFU Cymru

Welsh Parliament
External Affairs and Additional Legislation
Committee
Exiting the European Union: Preparedness
in Wales for the end of the transition period

Evidence from NFU Cymru

Inquiry - Exiting the European Union: Preparedness in Wales for the end of the transition period

1. NFU Cymru is the voice of Welsh farming, championing, and representing farmers throughout Wales and across all agricultural sectors. Our vision is for a productive, profitable, and progressive Welsh agricultural industry, capitalising on global opportunities, contributing to the national economy, and supporting thriving rural communities.
2. On behalf of its members, NFU Cymru welcomes the opportunity to comment on the preparedness in Wales for the end of the Brexit transition period on 31st December 2020. Brexit represents one of the most significant challenges our sector and our country has ever faced. At the same time as seeking to deal with and prepare for the implications of Brexit, we have also had to respond and adapt to the very significant shock caused by the coronavirus pandemic.
3. The need to respond to the very immediate issues posed by the coronavirus situation has diverted significant resource away from Brexit preparations, whilst the lack of progress in talks between the EU and UK on a future trading relationship continues to be a source of considerable frustration and anxiety amongst NFU Cymru's membership.
4. Turning to address those areas which the Committee has identified as being of particular interest, NFU Cymru would offer the following commentary.

Welsh Government action to prepare Wales for the end of the transition period

5. NFU Cymru appreciates the difficult position in which the Welsh Government finds itself with regard to the Brexit negotiations and the end of the transition period. The steps and actions which the Welsh Government can take to prepare for the end of the transition period are limited by the fact that we do not know what sort of future trading relationship we will have with the EU27 after 31st December.
6. Without knowing what sort of future trading relationship we will have with the EU, any steps taken by Welsh Government at this stage could mean the unnecessary and wasteful diversion of resources in preparation for an outcome which may not be realised.
7. Anecdotally, and from statements made by Welsh Ministers it would appear that engagement between Welsh Government and the UK Government has been good in some areas, such as the engagement between Welsh Government and the Department for International Trade and Defra. With other arms of UK Government, such as the Cabinet

Office (which is of course at the heart of the Brexit negotiations), it would appear that engagement has been much poorer, and this is concerning.

8. As stakeholders we do feel that we have had and continue to have good engagement and communication with all the relevant departments of Welsh Government on the issue of Brexit and the end of the transition period.
9. In relation to Welsh Agriculture, NFU Cymru is concerned at the way in which Welsh Government appears to be intent on pressing ahead with the development of future agricultural support policy for Wales. Since the Brexit referendum we have had two consultations on future policy, and a third is expected before the end of 2020.
10. Outside of the Common Agricultural Policy, Welsh Government has the ability to devise and operate its own arrangements for agricultural support, however this does not mean that we have to rush towards devising a Welsh policy, particularly when there are so many unknowns which could have a very profound impact on Welsh agriculture.
11. At the present time, we do not know whether we will be trading with the EU, or nearest and most valuable export market on a WTO basis, or whether a trade deal will be agreed. Similarly, we do not know what trade deals the UK Government may reach with economies with significant offensive agri-food interests, and what impact this could have on Wales' farmers.
12. With so much of our future prosperity bound up in the sort of future trading relationships we have with the EU as well as third countries, we are urging Welsh Government not to press ahead with policy development until a much clearer picture has emerged of the trading environment which will pertain in future.
13. In the event of a no-deal Brexit, we would ask that the Welsh Government be prepared to lobby and work with the UK Treasury to secure the deployment of support packages which are tailored to the sectors of the Welsh farming industry adversely impacted by market disruption.

The preparedness of key economic sectors in Wales

14. January 31st 2020 saw the UK's departure from the EU in legal and political terms, whilst December 31st 2020 will essentially see our departure from the EU in economic terms as we leave the single market and customs union.
15. Although we now have the certainty that we will completely exit the EU's structures at the end of year, and trade with the EU27 on an entirely different basis, it has to be remembered that our departure from the EU, with or without a deal has been in prospect on two previous occasions. The possibility of Brexit in March 2019 and then again in October 2019 undoubtedly led to the nugatory deployment of money and resources. These false starts, coupled with Brexit negotiations which have so far proved unsuccessful in terms of reaching a deal, means that a strong feeling of Brexit fatigue appears to have set in amongst both business and the public.
16. Overlaid with Brexit fatigue is the fact that since March, so much business and government resource has been re-directed into dealing with the fallout of the coronavirus pandemic.

The co-incidence of the unprecedented upheaval of Brexit and a once in a generation pandemic has created 'the perfect storm' where businesses are at the third time of asking reluctant and/or unable to divert significant resources into preparing for the unknown, when many are already battling for survival in light of the coronavirus situation.

17. In common with all sectors of the economy, the scope of agriculture to prepare for Brexit is limited by the simple fact that we have no idea what sort of trading relationship we will have with the EU27 after 1st January 2021.
18. The long and complex production cycles involved in livestock and crop agriculture mean that our sector will always face a challenge in terms of responding quickly to market signals. This is no less true of Brexit and trying to anticipate the changing demand for our product which may arise under different scenarios. Most of the lambs which are to be born in 2021 have already been conceived and cropping plans for next year are well advanced. For dairy and beef cattle, production cycles can span a number of years, and as living organisms, their output and productivity cannot be stopped or slowed down easily.
19. The practical steps that farmers can take to prepare for Brexit are limited. In 2019, farmers were urged to take steps such as ensuring that they had adequate amounts of commonly used veterinary medicines and vaccines as these products overwhelmingly originate in the EU. The shelf-life of these products is often quite short, and in addition they are often expensive and so would mean tying up working capital.
20. With the ending of free movement from the EU now imminent, there are some real questions about the likely availability of the labour force which is needed in the agricultural and allied industries after Brexit. This includes not only labour on farm, but also labour in the food processing and horticulture sectors. In particular, we are incredibly reliant on EU nationals working as official veterinarians in abattoirs.
21. Wales' organic sector also faces considerable uncertainty. At present the UK is seeking "equivalence" for UK organic certification bodies so they are able to continue to market organic products in EU markets, and to continue using the EU organic logo on packaging. The situation around organic produce is still unresolved, and if a way forward is not found then our organic producers will face the prospect of having to sell their product into the conventional market and will receive a much lower return for it.
22. Ultimately, how Welsh agriculture fares when we leave the EU's single market and customs union will depend on others in the agri-food supply chain. Whilst we have emphasised the importance of being able to access export markets, there are few if any farmers who are themselves involved with supplying directly into export markets. Typically what farmers produce is aggregated by a processor or intermediary and sent for export, if these other actors in the supply chain are unprepared for the new way in which we will have to deal with the EU27 after 1st January, then this will be felt very keenly by primary producers.

The implications for preparedness arising from the negotiation of UK international agreements, including the UK-EU future relationship agreement (or agreements), other significant free trade agreements (e.g. UK-USA, UK-Japan, UK-Australia, UK-New Zealand etc.), and the Continuity Negotiations and Coordination programme (formerly referred to as the Trade Agreement Continuity Programme)

23. The EU27 remains our nearest and most valuable export market. Preserving as much as we can of this market, on the best possible terms is vital for Welsh agriculture. If we fail to agree a trade deal with the EU, then this will mean the loss of an export market which is home to around £200m worth of red meat exports annually, something which could result in the failure of many businesses operating across the Welsh red meat supply chain.
24. Even if our access to this market is lost briefly, it will mean that our customers in the EU27 will look for alternative suppliers which will in turn make it very difficult for us to reclaim these markets at a later date
25. At such a late stage in the Brexit process, we still have no idea what sort of future trading relationship we will have with the EU27, and this is deeply frustrating and highly regrettable.
26. Despite the UK Government's exhortations to business to get ready for the new trading relationship with the EU, it was only earlier this month that a critical piece of information, the UK Border Operating Model, was finally published.
27. Our farmers, and exporters of agri-food produce need to be able to respond quickly to market signals by being able to move swiftly in order to meet demand. We are also very well aware of the perishable nature of our produce (such as red meat and dairy products) which needs to reach its destination in pristine condition. Any delay at an international border will lead to the devaluing of our products as their quality deteriorates and their available shelf-life diminishes, and this will frustrate the efforts of the UK agri-food supply chain to respond to market signals. We need the UK Government to ensure that produce with a limited shelf life is prioritised and able to reach its end destination quickly.
28. NFU Cymru very much wants to see a deal between the UK and EU which is based on zero tariffs and zero quotas. It is of course very well known that tariffs in agri-food products are incredibly high (48% on lamb, 84% on beef, cheddar 57%) and if these tariffs are not eliminated through a comprehensive free-trade agreement, they will effectively price us out of key export markets.
29. Whilst the impact of tariff barriers on our competitive position are readily understood, we must not overlook the corrosive effects that non-tariff barriers such as Export Health Certification, customs checks, and sanitary and phytosanitary controls can have. The fact is that any such trade facilitation cost is almost certain to make our product less competitive in our export markets and can also constrain our ability to respond rapidly to market signals. We therefore also need the UK government to work towards reducing these barriers to trade as far as possible, and for those which cannot be removed or reduced, ensure that the infrastructure and personnel are available to mitigate their effects.
30. In particular, because the issue of an Export Health Certificate, completed and signed by an Official Veterinarian, is needed for the movement of animal products, the ready and timely

availability of sufficient veterinarian to issue EHCs will be critical to keeping exports of agri-food products flowing.

31. Even with a deal with the EU, labelling requirements on UK agri-food produce will also change. The use of the term 'EU' in origin labelling would no longer be correct for food or ingredients from the UK. Additionally, products sold in the UK will need to include the name and a UK address of the food business operator. Similarly, a UK address alone would no longer be valid for the EU market. Businesses will need an EU address to export to the EU which has the potential to create additional cost and delay
32. It is also worth touching briefly on the inbound flow of goods to the UK in the event of a no-deal situation. In such a situation, the UK Government's stated position is that it will waive UK HMRC customs declarations and payment of any applicable duties on imported EU goods for a period up to 6 months. It is not difficult to see how a country which has declared to the world that it is poised to stand down some of the usual controls on agri-food imports could suddenly become a very attractive target for those intent on committing 'food fraud' or finding a home for food of dubious provenance, quality and safety.
33. NFU Cymru broadly welcomed the publication of the UK Global Tariff schedule published back in May 2020, with the UK Government looking to largely maintain tariffs on imports of agri-food products, not covered by an existing trade agreement. We believe that it attains a reasonable accommodation between helping safeguard primary production and consumer interests.
34. The kind of tariff regime operated by the UK after 1st January will have a significant bearing on the prospects for Welsh agriculture, and we have pressed UK Government ministers on a number of occasions as to whether the tariff regime published in May will still pertain in the event of a no-deal Brexit. On each occasion, we have been assured by the UK Government that the May 2020 tariff schedule would be adhered to, however we cannot be certain that in the event of a no-deal with the EU, the UK Government would not simply deploy an alternative tariff schedule which would see tariff barriers relating to agri-food products fully or partially dismantled.
35. We continue to press the UK Government on the publication of the statutory instrument relating to tariffs, which would provide some assurance as to the government's intention in this area.
36. The worst of all worlds scenario as far as tariffs is concerned is that the UK Government fully or partly dismantles tariffs on inbound agri-food products, whilst the EU maintains its common external tariff on UK exports (as it is bound to do under WTO rules). This would mean products from all over the world would enter the UK at low or zero tariffs, whilst we would be priced out of EU export markets.
37. A significant threat to the competitiveness of Welsh agriculture is the prospect that the Government could agree to comprehensive FTAs with countries that have significant offensive interests in agriculture, countries whose standards of animal welfare, environmental protection and labour laws do not meet our own. These lower standards mean that these countries are able to significantly undercut farmers across the UK, who pride themselves on producing food to world leading standards.

38. We would also ask the UK Government to be mindful of the piecemeal and cumulative effect that trade deals struck with third countries may have on UK primary production as well. Whilst individual trade deals considered in isolation may not have a huge impact, there is the potential for them to have a pronounced cumulative effect. Extensive and ongoing modelling, analysis and impact assessment are required.
39. The nightmare scenario for Welsh agriculture is the loss of EU markets, coupled with trade liberalisations with markets such as New Zealand, the US and Australia.
40. NFU Cymru welcomed the signing of a UK-Japan trade deal earlier this month, this represents a significant development in the UK's pursuit of an independent trade policy. Although a number of EU bilateral trade agreements have been rolled over to date, a significant portion of our agri-food exports face non-preferential terms from 1st January 2021, and the government must prioritise rolling over trade deals with partners such as Canada, Singapore, Norway and Mexico.

Intra-UK intergovernmental agreements relating to the end of the transition period, including the common frameworks programme

41. NFU Cymru has supported the development of common frameworks as an important component of ensuring we have a functioning internal market after 31st December 2020. This support has always been and remains predicated on such frameworks being arrived at by mutual agreement between the UK and Devolved Governments, and not by imposition from the centre.
42. NFU Cymru fully accepts that upon our departure from the European Union's single market, and the regulatory convergence it imposes, there is genuine potential for new barriers to intra-UK trade to arise as a result of diverging regulation in each of the UK's home nations, as areas previously occupied by Community law revert to the competence of London, Cardiff, Edinburgh and Belfast. One of the natural corollaries of being outside the EU's single market therefore is the need to take steps to preserve the integrity of the UK's internal market
43. Faced with following different regulatory standards, every farm and food business that depends on trade within the UK internal market would be affected should different standards for production methods, labelling or product standard become barriers to trade.
44. We would for example point to the fact that around 60 per cent of Welsh red meat is sold on the UK market, with only 5% of Welsh red meat sold within Wales. When it comes to dairy, in 2018-19 Wales was estimated to have produced 1,971 million litres of milk, but has a current processing capacity estimated at 956m litres per year. As a small country which produces far more milk than it consumes, we are very dependent on being able to send this to other parts of the UK for processing and consumption.
45. Whilst NFU Cymru is very keen to see a functioning UK internal market, we do have some concerns about a number of proposals contained in the UK Government's Internal Market Bill.
46. For example, in theory decisions on matters such as animal health and welfare or hormone treatment of beef rest with devolved governments. Were the UK government to decide to

allow products produced to standards which would be illegal in Wales, onto the market in England as third country imports, or indeed if farmers in England were ever permitted to use such production methods, then the principle of Mutual Recognition as articulated in the draft bill would mean that they would be in free circulation across the UK, with devolved governments powerless to exclude such products from their territories.

47. It also appears unlikely that devolved governments would be able to use food labelling powers to draw attention to the particular method of production, as this may fall foul of internal market provisions around direct and indirect discrimination contained in the Internal Market Bill.
48. With work on common frameworks as yet incomplete, there are some serious doubts over whether common frameworks across the 160 or so specific policy areas identified, will be operationalised by 1st January 2021. This is concerning as presumably such frameworks have a very important role in setting out those minimum product standards which will in turn be underpinned by the twin principles of mutual recognition and non-discrimination.
49. In the absence of common frameworks establishing minimum standards, it is possible that we could see standards lowered as one home nation seeks to leverage in competitive advantage by lowering its standards, in the knowledge that the other home nations will be obliged to accept its products according to the internal market principles of mutual recognition and non-discrimination.
50. In a worst case scenario, this could lead to a race to the bottom and the home nations placed in the invidious position of having to choose between upholding high standards of production or maintaining the competitiveness of businesses in its own territory, by lowering its own standards. Outside the discipline imposed by trade agreements, this risk is amplified, and our concerns around this point would for example be particularly keenly felt, if for example the UK had not concluded a trade deal with the EU27 to take effect from 1st January 2021, and work on common frameworks was still outstanding
51. NFU Cymru considers the prospect of mutual recognition and non-discrimination principles, not properly anchored to a UK wide baseline of product standards (provided for via a common framework) to be deeply concerning, and something which could risk triggering an intra-UK race to the bottom in terms of standards. For this reason, we consider it vital that common frameworks continue to be progressed and are operationalised from 1st January.

Further comment from NFU Cymru

52. As has been stated previously in this paper, so many of the decisions relating to Brexit lie outside of the control of Welsh Ministers and the Welsh Parliament. For the purposes of completeness it may nonetheless be useful to set out here the key asks that NFU Cymru has of the UK government to help our sector manage the end of the transition.
 - **Markets must be kept open and functional:** Exporters must be supported, the necessary processes involved in exporting are streamlined, sufficient advice and resources, including adequate numbers of vets are guaranteed to be available. All perishable fresh agri-food product should be prioritised at the border to ensure valuable shelf life is not wasted. If and when a comprehensive and ambitious trade deal is struck with the EU, it is clearly and quickly communicated in full to industry.

- **Provide adequate financial support:** The UK Government must commit to fund appropriate levels of compensation for loss of income across all farming sectors adversely affected by market disruption at the end of the transition period. This should be set at the level necessary to provide compensation for loss of income caused by the uncertainty in markets in the months ahead and falls in prices due to any imbalance in EU/UK tariff policy.
- **Ensure adequate import tariffs are in place:** Government should honour the UKGT announcement made in May 2020 to provide safeguards to UK primary production in a no-deal scenario. It will also reinforce the need for the EU to come back to the table to negotiate a trade agreement with the UK to maintain or re-establish the market access it currently enjoys. Additionally it will ensure that cheaper imports produced to lower standards will not suddenly enter the UK market. The impacts of such an approach on consumer prices will be minimal, yet eliminating tariffs as set out in the previous “no-deal” (Temporary Tariff Regime) could have a devastating impact on some farm sectors. Furthermore, the government must guarantee that the UK will not sign up to any new trade agreements that undermine our long term objectives for the industry by failing to protect our standards of production and subjecting UK farmers to unfair competition.
- **Parliamentary Scrutiny for free trade agreement negotiations:** Given the significant impact that trade agreements invariably have on consumers and the economy, including primary producers, the negotiation and ratification of trade agreements should be subject to a high level of democratic input, scrutiny and accountability at all stages, including by the devolved legislatures. We believe that the UK Parliament should also be given an active and formal role in the process, significantly more than is currently provided for by Constitutional Reform and Governance Act 2010.
- **Robust and timely market monitoring:** Government must establish mechanisms immediately to undertake timely and comprehensive monitoring of the market, ensuring this covers all agricultural commodities at the end of the transition period. Relevant, up-to-date market data will be critical to informing the government’s trade policy and other policy interventions, such as the need for financial support.
- **Create a future immigration system that meets the specific requirement of the agri-food sector:** The system must recognise the crucial importance of migration for farmers and growers as well as the wider food manufacturing and retails sectors, and the need to fill jobs at all skill levels. This must include a realistic assessment of the availability of UK workers to fill these positions.
- **Generate new market opportunities:** As the Government pursues the UK’s independent trade policy it must seek out the best export markets and opportunities for our products, and in so doing promote our reputation abroad for high standards in animal welfare, environmental sustainability, traceability and ethical trading.