

To: Senedd Economy, Trade and  
Rural Affairs Committee

Date: May 2022

**The Senedd's Economy, Trade and Rural Affairs Committee – Inquiry into the Economic and Rural Impact of cost-of-living pressures**

NFU Cymru is the voice of Welsh farming, championing, and representing farmers throughout Wales and across all agricultural sectors. NFU Cymru's vision is for a productive, profitable, and progressive farming sector producing world renowned climate friendly food in an environment and landscape that provides habitats for our nature to thrive. Welsh food and farming delivering economic, environmental, cultural, and social benefits for all the people of Wales whilst meeting our own ambition for net zero agriculture by 2040.

We consider it very timely that the Committee is gathering views on cost-of-living pressures, and we are pleased to be able to provide the Committee with the following submission on this issue. We recognise that the enquiry's terms of reference are of course wide ranging, however NFU Cymru's submission will focus primarily on the impacts being felt by farmers and rural communities

1. As consumers, NFU Cymru's members and their households are impacted by very many of the same cost of living pressures felt by individuals and families across the UK. As small business operatives and primary producers our members are also feeling the impacts of cost of production pressures. These costs of production increases are in turn likely to impact on incomes as our members are not well placed to transmit these increased costs through the supply chain.
2. Rural communities often face additional costs in their daily lives, costs which might go over and above those typically faced by those living outside of rural areas. Factors which can contribute to additional costs of living in rural Wales include the higher petrol and diesel costs in rural filling stations coupled with the lack of available public transport in rural Wales. This tends to lead to higher use of private motor vehicles for purposes such as commuting to work, transportation to and from school, shopping for essentials and leisure and social activities.
3. Although the Covid pandemic has opened up options for many people to work from home, the nature of many types of rural employment and factors such as difficulties with rural internet connections may well mean that rural dwellers will disproportionately have to travel to a fixed place of work.

4. The off-grid nature of many rural areas means that there is an increased reliance on oil and LPG fired central heating which is more expensive than networked energy supplies and not subject to energy price caps.
5. Rural housing stock is often less energy efficient than urban housing stock and may prove difficult and costly to improve in terms of energy efficiency particularly when it comes to retrofitting with new energy efficient technologies.
6. Households in rural Wales may well have fewer options available to them in terms of purchasing a range of day-to-day essentials items including food and clothing and will typically end up paying higher prices as a result of this.
7. Disruption caused by covid and the adjustment to the UK's new trading relationship with the EU27 have exerted upward pressure on both the cost of living and the cost of production.
8. The Russian invasion of Ukraine in February represents a humanitarian tragedy whose effects continue to ripple out across world. National and international efforts are rightly focussed on seeking an end to the conflict.
9. Although the priority must be the resolution of the conflict, we cannot ignore the profound implications and risks for our food production, food security, food supply chains and the availability and affordability of food to consumers.
10. The invasion of Ukraine is having significant consequences for Welsh agriculture and has exacerbated existing inflationary and supply chain pressures. The war has also re-focused attention on the importance and fragility of food-security both at home and abroad.
11. Wales and the UK are facing the sort of economy-wide disruption which could last for many years, impacting our food production, our food supply chains and ultimately the availability and affordability of food to consumers. NFU Cymru sees a vital role for Wales' farmers at this critical time to help ensure that we are able to feed ourselves and other parts of the world.
12. As part of an island of nations, being able to grow enough food to feed a substantial proportion of our population is a key measure of food security and national resilience. Despite our good access to global trading networks, shocks can and do expose weaknesses and deficiencies in global food supply chains and the risks inherent in becoming overly reliant on imports. In order to maintain our position as global leaders in climate-friendly food, we must not allow our production levels to drop, we should instead be looking to maintain and increase domestic food production to help sustainably feed the world's growing population and so avoid undue pressure on more vulnerable nations and environments.
13. Wales is home to some of the highest food safety, animal welfare and environmental standards in the world, and has the ideal temperate climate for the production of a range of food products. Our climate is particularly suited for the growing of grass on which to feed livestock.

14. Our domestic food security has fallen from the high-water mark of 78% self-sufficiency in temperate foodstuffs in 1984 to just 60% self sufficiency in 2021. NFU Cymru believes that with the right signals from government, our agriculture can be central to the green recovery from Covid and can confirm Wales' place as a global leader in sustainable food production.
15. Wales' agricultural industry now faces a crisis of confidence which could lead to a minimum of a double-digit drop in production by 2023 across all sectors as multiple compounding factors continue to impact on food production and food security. Maintaining confidence and stability so that Welsh farm businesses can continue to produce food for the months and years ahead must be priority for government.
16. Confidence across all agricultural sectors is being undermined by dramatic inflationary pressure and market volatility arising from the conflict, which are orders of magnitude out of scope of commercial risk management. Amongst the key factors impacting farm businesses and the food supply chain are
- Energy – In particular, the price of diesel and gas which are two key inputs in food production
  - Fertiliser – Gas is a feedstock in the production of fertilisers
  - Grain and oilseeds – Ukraine and Russia account for 30% of world wheat and 50% of world sunflower oil production. This has led to skyrocketing commodity prices impacting both on consumer food prices and the cost of livestock feed.
  - Labour – Ukrainian workers have made up 60% of the seasonal workers scheme since the UK left the EU
17. In addition to these main areas there are a broad range of supply risks which may cause bottlenecks in food chains, these include machinery components, organic feed grains, animal micro-nutrients and plant protection products. All of these supply risks, individually and cumulatively, add to cost of production, to potential food insecurity and to costs paid by consumers.
18. Whilst crop markets are trying to stimulate production (via higher prices), farmers' supply response is constrained by price uncertainty and access to inputs
19. In relation to livestock agriculture, which predominates in Wales, farmers' ability to respond with increased production is limited by the long-term production cycles involve. The high cost of inputs, and ultimately the lack of farmer confidence in the fact that increased costs of production will be reflected in higher market returns.
20. In the poultry sector, producers are having to take critical decisions about whether to stock sheds with young chicks or point-of-lay pullets as the cost of critical inputs soars and labour availability is challenging. For a sector which operates on very tight margins, even small movements in input costs can make the difference between profit and loss. For many the least risky and costly option is to simply decide not to re-stock sheds, a move which will of course impact on the availability of eggs and poultry meat.

21. Farmers' confidence in their sector has been tested by inflationary pressures for some time. Defra's agricultural price index showed farm input costs had increased by 18.3% year-on-year to December 2021.
22. Confidence is now being further eroded by truly dramatic inflationary pressures and market volatility arising from the conflict, examples include
- Natural gas – This now stands at 145p/therm compared to 60p/therm this time last year and having peaked at 619p/therm on 7<sup>th</sup> March
  - Red diesel which was 58ppl in July 2021 reached a high of 151ppl in early March. During week commencing 2<sup>nd</sup> May it was at an average price of 103.9ppl, although members report wide variations in price with some being quoted as much as 130ppl.
  - Fertiliser – Ammonium nitrate stands at £950-£1000/tonne compared to £283/tonne one year ago.
  - Feed wheat has risen by 57% over the last 12 months to reach a high of £191/tonne. The Russian invasion of Ukraine has cut off international shipments of wheat, destroyed many Ukrainian grain stores disrupted spring planting, and is almost certain to disrupt harvesting. All these factors are pushing price ever higher.
23. Whilst these impacts are being felt at the present time and into the short term, NFU Cymru and its members are very much of the view that some of the most serious implications are to be felt in the medium term, particularly in relation to livestock agriculture, as these impacts work their way through the production cycle.
24. In order to manage cash-flow, or in anticipation of not being unable to recover the additional outlay from the marketplace, many farm businesses have already scaled back or will be scaling back on their use of inputs. Such decisions will inevitably manifest as reduced yields of crops, milk, and meat. Decisions made now regarding cropping are likely to impact on livestock farms in a few months' time.
25. Many farmers are therefore in the invidious position of scaling back on expensive inputs now in order to ease cash-flow pressures in the short term, only to find themselves with lower stocks of feed and fodder going into the winter as a result. This means that they either have to offload livestock ahead of the winter, or purchase in additional feed and fodder over the winter months when, owing to reduced levels of production and poor availability, prices are likely to be very high.
26. NFU Cymru therefore anticipates that the winter of 2022/23 will be particularly difficult as supplies of animal feed and farm conserved fodder will be limited, in high demand and therefore costly.
27. Policy factors which are exacerbating the difficulties and uncertainties faced by farmers include uncertainty over future support schemes, the long-term impact of future trade policy and immigration and the availability of labour. These are factors which are within the control of the Welsh and UK Governments.

28. Whilst we fully recognise that many of the factors impacting on farmers' ability to produce food are outside of the control of the Welsh and UK Governments, in relation to what the Welsh Government can do, we would suggest the following policy interventions
29. The Basic Payment Scheme to be maintained at current funding levels for the period 2022-2024 (in line with the indicative Welsh budget). This will help provide stability and certainty for farmers facing cash flow issues as a result of input cost inflation
30. At this difficult time, we need clear signals from the UK and Welsh Government that food security and the continued supply of affordable, high-quality food is a strategic priority for the nation.
31. We believe a Minister-led mandatory food-production impact assessment of all new legislation and policy changes across Welsh Government is needed, with a moratorium on adverse regulation. This should include a review of the planning regime where it leads to increases in the cost of food production, stifles investment or otherwise presents barriers to efficient and sustainable food production and renewable energy production.
32. A review of the direction of travel with regard to the Agriculture (Wales) Bill and future food and farming scheme policy design to ensure that it can still meet the needs of Welsh agriculture and consumers in light of the implications of Russia's invasion of Ukraine which include dramatically increasing inflationary pressures in relation to energy, fertiliser and feed costs, and disruption to supply chains which has impacted consumers and primary producers alike.
33. Welsh Government to ensure that food production is properly recognised and rewarded in future agricultural support policy and that future support includes a stability payment to help farmers manage the volatility which is an ongoing and increasing feature of food production.
34. Make full use of the current Wales Rural Development Programme and Rural Economy and Sustainability programme to fast-track interventions and investments which assist with resource use efficiency.
35. Many farm businesses will have borrowed money to invest in infrastructure and equipment. We would like to see Welsh Government and the UK Government working together to encourage and support the banks to take a flexible approach to repayments, including the deferral of repayments without penalty in order to free up cashflow to manage extreme volatility.