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**Minister for Rural Affairs and North Wales, and Trefnydd**



**Llywodraeth Cymru**  
**Welsh Government**

Paul Davies MS  
Chair  
Economy, Trade & Rural Affairs Committee

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Dear Paul,

Thank you for your invitation to give evidence to the Economy, Trade & Rural Affairs Committee on 15 June. In advance, please find the attached evidence paper.

Yours sincerely,



**Lesley Griffiths AS/MS**  
**Y Gweinidog Materion Gwledig a Gogledd Cymru, a'r Trefnydd**  
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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

## **Evidence paper for MRANWT attendance at ETRA Committee on 15 June 2022 re Cost of living**

### **The cost-of-living crisis**

1. People across Wales are facing an unprecedented cost-of-living crisis, fuelled by soaring energy bills. The biggest impact of the current global uncertainty on the public is inflation. This is currently at 9% and forecast to increase during the year. Day-to-day prices – food, fuel, energy, clothes, travel costs, rent – are going up as inflation rises and the war in Ukraine is exacerbating this situation.
2. Since November 2021 the Welsh Government has announced £380m funding to help households manage the rising costs of living. This funding has supported the Winter Fuel Support Scheme which paid £200 to households in receipt of working age means-tested benefits to help with essential housing costs. It will also support a further fuel support scheme to be launched this autumn. We are looking at how the scheme can reach more households so that more people receive the £200 payment which offers such crucial support. It will also help fund a £150 cost-of-living payment for all households in properties in council tax bands A to D and to all households, which receive support from the Council Tax Reduction Scheme in all council tax bands.
3. As part of the 2022/23 final budget, a further £15m has been made available for the Discretionary Assistance Fund to continue flexibilities in the scheme which support an increase in the number and frequency of emergency awards for people experiencing extreme financial difficulty. This figure is in addition to the fund budget uplift of £7m per annum for the next three years.
4. This paper focuses on inflation and rising prices in the context of its impact on the food, farming and fisheries industries.

### **Food**

5. Food and non-alcoholic beverage prices rose approximately 7% in the year to April 2022. This was the highest 12-month rate for food since June 2011 and they are forecast to increase more. Underneath the headline percentage there have been sharper increases for the cheapest product ranges where profit margins are lowest and the supply chain and retailers have much less scope to absorb costs. These are typically the product ranges which people with the least disposable income tend to rely on. Inflation manifests as price increases, a fall in special offers such as 'buy one, get one free', and 'shrinkflation' where less is sold for the old price. Thus, the actual rate of food price inflation for the poorest people is undoubtedly higher than the headline inflation rate.
6. The food industry is dominated by a small number of large retail businesses which exerted strong pressure on suppliers to hold down costs in the run up to Christmas but since are having to agree increases due to the very strong inflationary pressures in the supply chain. Although food retail businesses usually make large profits, profit margins are low and profit arises from selling large volumes. Food

retail is intensely price competitive and no part of the supply chain can absorb increase of the size now being experienced. The main retailers have a tiered product offer, typically a luxury range, a mid-tier range, and a bargain range. After some were criticised for cutbacks to their bargain range, there has been much new activity bringing new products to the market in this price bracket in the last 2-3 months. Nevertheless, prices have increased and will continue to do so.

7. Food is an international industry. The industry in Wales, and how food is supplied to the population, is wholly integrated with the UK. In reality there is no Welsh food system in the sense of a discrete entity which responds to a Welsh context and Welsh policy. Internal UK borders, with the exception of the unique situation of Northern Ireland, are irrelevant for food supply chains within the UK. 98% of food and fast-moving consumer groceries are purchased from the stores of a small number of large food retailers, meaning alternative channels are of negligible relevance. Most of the population buys most of its food on the basis of 'affordable convenience', that is the price is right and it is convenient to buy it at that location and preparing and consuming it fits the person's lifestyle. These are profound socio-economic realities which successful policy must recognise and navigate. To ignore them runs strong risk of wasting effort and public resources.
8. Welsh Government policy is to develop local networks and supply chain clusters where doing so is sustainable in the long term. We are already doing this with food manufacturers. The Community Food Strategy is an opportunity to further this work and facilitate grass roots activity also. There is evident interest and energy in communities about food related projects with myriad initiatives throughout Wales. Often the benefits are things other than the produce itself, and could contribute to a range of Future Generation Well-being goals. The government's intention is to assist these initiatives and we have been engaged in extensive one to one conversations with organisations active in this space to understand challenges and opportunities. It is conceivable public bodies might focus more on some of the structural barriers which exist for community projects such as availability of land, or they might consider how local suppliers can meet their procurement needs. However, it is not the government's goal these community projects can ever take the place of the mainstream agri-food system. We must be realistic about what is achievable. Alternative, food production and supply initiatives are rarely cost competitive and they are also seasonal. There are consumers prepared to pay higher prices, usually for ethical reasons, but most will not or cannot afford these alternative products, or shopping for them is just not convenient enough. Welsh Government investment can assist to pump prime and overcome barriers up to a point, but the government cannot change the fundamental factors driving the food system being international / UK factors of cost and profit margin, economies of scale, where Welsh geography, soil type, climate, and the distance of much land from large urban areas, are disadvantages for large scale, commercial fruit and vegetable growing.
9. Thus, the government's focus is on what direct, short term practical support can it provide to the population. On 11 May, The Minister for Social Justice held a food poverty roundtable to consider how resources can most effectively be directed to reduce and prevent the need for reliance on emergency food provision.

10. The Welsh Government is focusing on providing support to the most vulnerable so that the worst aspects of the cost-of-living crisis are mitigated. This year Welsh Government has allocated £3.9million to support community food organisations to provide emergency food aid and tackle the root causes of food poverty, and £1.1m has been allocated to support and bolster community food organisations to help them meet increased demand.
11. The Minister for Rural Affairs, North Wales and Trefnydd has frequent meetings with the major food retailers and has received assurances that the retailers are ensuring that measures are being taken across ranges to ensure products remain affordable. In addition, Welsh Government Officials are in regular dialogue with these retailers and have received separate assurances that all efforts are being undertaken to keep price increases to a minimum.

## **Agriculture**

12. Input costs such as feed, fuel and fertiliser were already rising but these increases have intensified as a result of the war in Ukraine. The main impact of the war in Ukraine on UK farming sectors continues to be on the price, and to some extent, availability of inputs. Ukraine and Russia are significant producers of cereals and oilseeds globally and exports are disrupted by the conflict.
13. Russia is also one of the main providers of natural gas to Europe and the reductions in gas flow have led to increased prices in continental Europe and the UK. This, in turn, has led to increased costs of producing fertiliser and food grade CO<sub>2</sub>. The threat of disruption to supplies of fertiliser, carbon dioxide and nitric acid has receded now CF Industries has made their commercial position clear. Despite this reassurance, it remains extremely concerning to see the significant increase in input costs faced by our agricultural producers in recent months.
14. We are concerned about the significant price for fertiliser and fuel, and the associated impacts on farmers across Wales. Welsh government officials are working collaboratively with their counterparts in the UK Government and other Devolved Governments to closely monitor the position via the UK Agriculture Market Monitoring Group. The Market Monitoring Group is an internal technical group between the four governments to monitor the agricultural markets and facilitate collaboration under the Agricultural Support Common Framework. The Welsh Government and other UK Administrations are using their established relationships to share intelligence where available. It is vital that continued access to the foresight capabilities to identify likely changes in commodity, energy prices and inputs within Defra continues to be made available to the Devolved Administrations.
15. The Minister for Rural Affairs, North Wales and Trefnydd is in regular contact with the farming unions, farmers, producers, and retailers as well as Ministerial counterparts across the UK to discuss these issues. She has also recently met with representatives of the banks to discuss the impact of the war on agricultural businesses and the supply chain. We have announced schemes, with a total value

of over £100 million, will be opened this year. The Small Grants – Efficiency scheme with a budget of £5.0m opened on 19 May.

16. Rural Payments Wales will process Basic Payment Scheme 2022 claims as quickly as possible to again allow advance payments to be paid on 15 October 2022. These payments will go out before validation is completed and payable to all claimants unless there is a specific problem for example no supporting documents, probate etc.
17. The Welsh Government is developing an information hub to signpost producers to the latest advice and information to help mitigate the current high input costs. This includes adjusting nitrogen application rates and alternative fertiliser management options and fertiliser calculation adjustment tools for grassland, cereals and oilseeds.
18. By supporting farmers, we not only develop resilience in their agricultural enterprises, we also enable investments, which, over time, will result in production efficiencies with a resultant reduction in carbon emissions.

## **Fisheries**

19. Welsh landings were severely impacted in 2020 by the Covid pandemic and again in 2021 due to EU exit. The Welsh fleet has not had the opportunity to recover to 2019 levels, before the hyperinflation of fuel prices. The multiple 'shocks' of Covid, EU Exit and now hyper inflated fuel prices have had a significant effect on the Welsh fleet. Indirect costs are high and rising for inputs to the sector, for example fishing gear, bait, ropes, packaging, oils, parts and logistics with no headroom to pass on increased costs to the consumer.
20. The increased cost of living translates to less disposable income and as a result the domestic demand for seafood has decreased. Orders that would traditionally be higher at this time of year due to tourism have either been reduced significantly or cancelled. The seafood landed by the Welsh fleet is often seen as luxury and is not traditional prepared in the home, such as crab, lobster, oysters, and scallop. With the current cost of living increases out of home eating experiences will inevitably decrease having a further effect on the sector.
21. Welsh Government officials are monitoring closely with other Fisheries Administrations, through the Joint Fisheries Market Monitoring Group, the impacts of recent events on the fishing industry in the UK, and are considering how best to support further support the industry during this period