

What are the main issues facing your sector as a result of the UK's withdrawal from the European Union and how should the Welsh Government respond to these?

EU Trade

1. Around 10,000 of Wales' agricultural holdings have standard outputs in excess of €25,000 (an EU threshold for farm categorisation), of which 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 types.
2. Of Wales' estimated 2016 aggregate agricultural output of £1,447 million, sheep, beef and dairy production accounted for 18%, 26% and 29% respectively.
3. Wales' food and drink industry has a turnover of £16.8 billion, and employs 223,100 people, comprising 76,700, 69,300, 54,000 and 22,400 in the retail and wholesale, catering, agriculture and manufacturing industries respectively.¹
4. In 2016, 72% of Welsh food and drinks were exported to the EU, of which meat and meat preparations were the most significant category, accounting for almost 22%. Around 95% of sheepmeat is exported from Wales, of which around 35% goes to the EU.²

5. 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.
6. 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.
7. As such, both commodity and premium production and markets play an important and interrelated role in terms of Wales' food and farming industry, and the ability to complement the value of a commodity by exporting products or byproducts which have a higher value in EU markets is important.
8. It should also be noted that EU supply chains are highly integrated, with commodities, ingredients, byproducts etc. often crossing many borders.
9. As such, changes to trading arrangements with the EU and the rest of the world would have major impacts on Wales' agricultural industries.

² The value of Welsh Food and Drink, Welsh Government, 2015

10. As expected, the research estimates particularly extreme impacts of a 'hard' Brexit (where easy access to the EU Single Market is lost) for the sheep sector, with a 30% fall in prices and a 20% fall in Welsh production, highlighting our reliance on lamb exports in particular, while the need to make up the current trade deficit in beef and dairy produce leads to 17% and 30% increases in beef and dairy prices respectively, and a consequential 14% increase in Welsh cattle numbers.
11. The model of a more extreme Brexit scenario (where the UK not only loses easy access to the EU Single Market, but also allows tariff-free food imports from around the world) predicts falls in sheep, beef, dairy and pork prices of 29%, 45%, 10% and 12% respectively, leading to consequential falls in production across the board – including acute collapses of 60% and 18% in Welsh beef cattle and sheep numbers respectively.
12. Given such variance (for example, estimated 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, it must be acknowledged that the degree to which the Welsh Government can respond to such risks is extremely limited.
13. The FUW therefore welcomes the Welsh Government's frequent highlighting of the importance of maintaining access to the EU Single Market, and the adverse impacts of losing such access, in documents such as the Securing Wales' Future White Paper.⁴

14. Before the 23rd June 2016, the FUW had urged the Welsh Government to commission research into the possible impacts of Brexit on Wales' agriculture industry and wider economy, and in January 2016 the then Chair of the Strategic Framework for Welsh Agriculture Partnership Group (now called Amaeth Cymru, of which FUW is a founder member) wrote to the then Deputy Minister, Rebecca Evans, asking for such a detailed analyses to be undertaken.
15. A key call in the FUW's May 2016 Welsh Assembly Election Manifesto was for the incoming administration to "Identify, qualitatively and quantitatively, the likely impacts of further reductions in CAP support, market liberalisation and the UK's exit from the EU on Wales' rural and wider economy, including in terms of the incomes and viability of farm businesses and the secondary and tertiary businesses which rely on them."
16. Whilst the delay in undertaking such work is regrettable, the work commissioned by Welsh Government to date is welcome, and the Welsh Government should ensure any gaps in such commissioned work are filled as a matter of urgency.
17. In particular, the FUW has urged the Welsh Government to undertake work to examine and quantify the possible impacts of post-Brexit scenarios on those involved in secondary and tertiary businesses involved with agriculture and the food supply chain, such as vets, hauliers and rural businesses.
18. Such work is essential not only in terms of informing preparations, decisions and contingency plans relating to Brexit, but also in terms of informing other administrations of the challenges and opportunities under different scenarios – in particular the UK Government, including those involved in trade negotiations – and the need for appropriate transition periods.

UK Agricultural Framework

19. Under current devolution arrangements and EU Regulations, Wales has devolved powers over agricultural policies and spending, as well as over a number of areas which impact upon agriculture.
20. However, all policies and spending must conform to overarching EU Regulations, aimed at minimising unfair competition between regions and ensuring equivalent rules are applied in regions and on farms.
21. This arrangement allows devolved administrations to implement payment systems and policies which differ, but comply with the overarching principles of a uniform framework.
22. Where countries, or groups of countries which form trading blocs, trade with each other, similar frameworks are generally in place in order to reduce market distortion, either through bilateral agreement, or (in what are usually significantly less mutually advantageous circumstances) through World Trade Organisation rules.
23. Irrespective of what trade deals are in place post-Brexit, within the UK Welsh farmers will compete against their counterparts in other devolved regions. As such, the rationale for having a common policy across the UK which minimises unfair competition and market distortion will remain unchanged.
24. The FUW therefore believes a UK agricultural framework should be put in place which prevents unfair competition between devolved regions and secures and protects adequate long term funding for agriculture, while

also respecting devolved powers over agriculture and the need for flexibility within that framework which allows devolved governments to make decisions which are appropriate for their regions.

25. Whilst some may argue for greater devolved powers in terms of flexibility within such a framework/frameworks, possibly for patriotic or nationalistic reasons, it must be noted that such flexibility could work against the interests of Wales, as it would also apply to those against whom Welsh producers compete.
26. In a similar context, it is also essential that the Welsh and other Governments do not adopt an inward-looking mentality, given that in most likely post-Brexit scenarios we will continue to compete against producers from outside the UK. A UK framework must therefore be drawn up with the development of other non-UK frameworks in mind – in particular the next EU CAP. Such a framework should also respect WTO rules in order to minimise the risks of trade disputes with other countries and trading blocs.
27. Given this, the FUW welcomes recent – but long overdue – moves by the UK Government to genuinely engage with devolved administrations regarding the development of such a framework, and believes the Welsh Government should work constructively with the other administrations and the agricultural industry to develop such a framework.
28. It is also essential that the Welsh Government takes an outward rather than inward looking view by recognising that any perceived benefits for Wales of an overly liberal agricultural framework could be vastly outweighed by unfair competition from producers in other devolved regions operating under very different policies which distort trade.

What advice, support, or assistance have you received from the Welsh Government to date in preparation for Brexit?

29. It must be recognised that the degree to which appropriate advice can be given by Government to any industry, and in particular agricultural businesses, is extremely limited due to the uncertainty over Brexit and the risk that detailed advice may turn out to be inappropriate.
30. As such, the Welsh Government and FUW has continued to provide appropriate advice about the need for farm businesses to establish and monitor recent and current costs and outputs, such that the likely impacts of any policy changes or trade agreements can be quickly assessed, and appropriate decisions taken in order to maximise opportunities and minimise adverse impacts.

What financial considerations have arisen as a result of UK's future withdrawal from the

European Union and what should be done to prepare for these?

31. Wales receives around £300 million per annum through the EU's Common Agricultural Policy, and would, Brexit notwithstanding, have received €2,245 million and €355 million in Pillar 1 and 2 funding respectively for the current CAP period (2014–2020).
32. Wales' CAP Pillar 1 and 2 allocations are, in simple terms, based upon historical (pre–2013) spending: Wales' receives 9% of the UK's Pillar 1 allocation, reflecting agricultural production before 2005, and 14% of the UK's Pillar 2 allocation, reflecting the proportion of the UK Pillar 2 budget allocated to Wales under the previous (2007–2013) CAP

33. By comparison, the Barnett Formula allocates a budget on the basis of Welsh spending on services comparable with those in England, given Wales' population compared to England's. The population of Wales for 2016–21, expressed as a percentage of the population of England, is 5.7%
34. As such, the incorporation of agricultural and rural development spending within the Barnett Formula post-Brexit would result in a significant reduction in the proportion of such an agricultural budget received by Wales, estimated to be hundreds of millions less. Naturally, the combination of such a policy with any reduction in UK spending on agriculture and rural development would have further severe impacts in terms of funding for Wales.
35. Furthermore, while the annual EU budget must remain within ceilings agreed for a seven-year period, domestic (UK or Welsh) funding arrangements could introduce significant uncertainty, with allocations changing more frequently (for example, at each budget announcement), thereby resulting in financial uncertainty and instability for businesses and Governments alike.
36. Direct support makes up around 80 percent of Welsh farm business income, and in the 2015–16 financial period, 55 percent of farm businesses either made a loss, or would have made a loss without direct support through the Common Agricultural Policy.¹
37. Despite this, average agricultural costs exceeded £111,000 per farm businesses, more than five times the average Basic Payment received, and such costs therefore make a major contribution to the wider rural economy.

¹ Farm incomes in Wales, 2015, Welsh Government, December 2016

38. For each pound paid to farmers under Pillar 1 of the CAP, farm businesses pay out £1.66 for feed, £0.61 in machinery expenses, £0.36 for contract work, £0.29 in veterinary costs, £0.19 in farm maintenance and £1.52 in other farm costs.⁵
39. Agriculture accounts for between 10% and 28% of employment in 68 percent of Wales' most sparsely populated rural communities, and 16% of employment in Powys, which represents a quarter of Wales' landmass.
40. Agriculture and farming families also play an essential role in terms of maintaining Wales' unique habitats and physical and cultural landscapes, all of which are central to the well-being of Wales' people and communities and attracting around 10 million tourists to Wales each year.
41. The impact of drops in farm support alongside changes in trading arrangements has been investigated through modelling work commissioned by the Agricultural and Horticultural Development Board (AHDB).²
43. That work predicts falls in LFA livestock, lowland livestock, and dairy farm incomes of 51%, 81% and 35% respectively under a scenario where agricultural support is cut by 50%, WTO tariffs are applied to UK food exports, but none are applied to imports.
44. Under a scenario where agricultural support is cut by 75%, the UK adopts the same common external schedule of tariffs as the EU and retains a proportion of existing WTO Tariff Rate Quotas, LFA livestock, lowland livestock, and dairy farm incomes fall by 109% and 77%, while dairy farm incomes rise by 33%.

² Horizon - Brexit Scenarios: an impact assessment, AHDB, September 2017

45. As such, there is a real risk that Brexit could bring with it a significant cut in the funding allocated to Wales, and consequences for individuals, businesses and communities which exacerbate other problems caused by, for example, changes to trading arrangements.

46. Scenarios where overall funding is maintained but payments are allocated in different ways may also have adverse consequences for many businesses if they are not thoroughly investigated.

47. As such, the Welsh Government should ensure that it works with the UK Government and other devolved administrations to secure a ring-fenced agriculture and rural affairs budget which is outside the Barnett Formula, and that any changes to the same take place over an appropriate transition period.

48. The Welsh Government should also thoroughly investigate and analyse proposed changes to farm support in order to assess their likely impact.

What advice or support would you like to see from the Welsh Government that will help you and your sector to prepare for Brexit?

49. The most important work which should continue to be undertaken or commissioned by the Welsh Government is that which attempts to quantify the possible impacts of different post-Brexit scenarios, in order to inform Welsh Government policy, other policy makers and individual businesses.

50. This is particularly important given that Brexit has increased the propensity for well-meaning, idealistic and aspirational policies to be developed, sometimes with little or no reference to data and evidence of their possible impact on Welsh people, businesses, supply chains and communities. The

development of such policies without thorough investigation marks a dangerous move away from evidence-based decision making.

51. For similar reasons, it is important that the legal implications of policies, in terms of international trade, WTO rules etc., are thoroughly investigated.

52. Such information and developments should be communicated to industry in clear formats in order to explain policy development and highlight risks and opportunities.