

## Background

Hybu Cig Cymru - Meat Promotion Wales (HCC) is the statutory industry-led levy organisation responsible for the development, promotion and marketing of Welsh lamb, beef and pork. It undertakes promotional campaigns at home and abroad, is involved in research and development which benefits the efficiency and sustainability of the whole red meat supply chain, as well as collating and analysing market intelligence. HCC is also the guardian of the PGI Welsh Lamb and PGI Welsh Beef brands and administers the PGI verification scheme.

### 1. The economic importance of agriculture and European trade

1.1 Currently, the Welsh agricultural sector contributes economic activity of £1.447 billion (without counting rural payments), therefore underpinning the economy and society of large areas of Wales.

1.2 223,000 are employed in the overall food and drink supply chain – Wales's largest manufacturing sector – including a large number in red meat processing. The three largest plants are located in areas of socio-economic deprivation and low wages; Merthyr Tydfil, Llanidloes and Llanybydder.

1.3 To this must be added the indirect benefits of the industry; the role of red meat agriculture in maintaining the landscape which benefits tourism, the role of agriculture and processing in maintaining language and culture in rural areas, and the role of the PGI Welsh Lamb and PGI Welsh Beef brands as wider symbols of the premium quality of Welsh produce overseas.

1.4 The export market has become increasingly important to the red meat industry. Wales consumes only 5% of its domestic production of lamb. While the UK market is crucial, a large proportion of Welsh Lamb is also destined for export.

*Figure 1: Where lamb produced in Wales is consumed*

| 1.                   | 2. Consumption |
|----------------------|----------------|
| 3. <b>Wales</b>      | 4. 5%          |
| 5. <b>Rest of UK</b> | 6. 55% - 60%   |
| 7. <b>Exported</b>   | 8. 35% - 40%   |

1.5 A higher proportion of Welsh Beef is consumed in the UK, although there has been a growing EU market for beef exports, with around 15% of production

currently being exported. The Welsh pork industry is small in scale, consisting largely of the production of niche offerings for the home market. Exports of pork from Wales are therefore negligible.

1.6 The value of exports of Welsh Lamb is around £124 million per year (having risen from £57 million in 2004). Welsh Beef exports are worth £61 million annually. Exports are therefore a major contributor to the viability of a £1.45 billion sector, including production, processing and retail.

1.7 In addition to their raw value, exports also help to secure value for the whole carcass, particularly in the case of Welsh Lamb. There exists an imbalance in UK consumer preferences, with strong demand for lamb legs but lower demand for other cuts. Processors help to meet the challenge of achieving carcass balance by selling cuts that have lower domestic demand in export markets which have a different demand profile. Export markets for these cuts are important to increasing the value of the whole carcass, and ultimately to farm gate prices.

1.8 Exports are important to even out price fluctuations caused by seasonality of supply. Production of Welsh and UK lamb peaks in the summer and autumn months. The availability of a wide range of export markets helps to support farm gate prices during the high points of supply, thus any future over-dependence on the UK market could exacerbate price volatility.

1.9 Being a member of the EU has allowed Wales to have free market access to established red meat markets across the continent. Important markets for Welsh Lamb and Welsh Beef include France, Italy, Germany, Spain, the Low Countries and Scandinavia. Welsh Lamb in particular is an established brand which commands consumer loyalty and a price premium in many of these countries.

1.10 Currently, 93% of Welsh Beef exports go to the European Union. In the case of Welsh Lamb, 92% of exports (by value) are destined for the EU.

1.11 HCC has been working with exporting companies to grow markets outside the EU for many years - including Canada, Switzerland, Hong Kong and UAE - however these are much smaller at present than the established EU markets.

1.12 Other countries have potential - e.g. USA, China and Saudi Arabia. However, the UK does not currently have access to these markets, for reasons unrelated to EU membership. Negotiations are proceeding through Defra and the UK Export Certification Partnership (UKECP) to lift these restrictions. There is no certainty regarding the timetable.

1.13 If and when exports are permitted to new countries, it is likely to take several years to establish new trading relationships and build brand identity. Supplying increased quantities of fresh beef and lamb to markets further afield than Europe will also require the industry to undertake concerted action over a period of years to increase the shelf-life of red meat products.

1.14 Export markets in southern Europe have been particularly important for 'light' lambs, many of which are produced in upland areas and account for about 15% of overall Welsh Lamb production, for which there is a limited demand among UK supermarkets. This trade has declined in recent years, for a number of reasons, but many light Welsh Lamb carcasses are still exported to destinations such as Italy, Portugal and Spain.

## 2. The impact of post-Brexit trade scenarios

2.1 If WTO tariff rules came into force in the absence of free access to the European Single Market, red meat from the UK could potentially face tariffs of between 40-90% (depending on the type of cuts and the extent of processing prior to export).

2.2 Based on analyses using the FAPRI-UK model the negative impacts on net-exporting sectors, particularly sheep, are severe under any scenario other than continued unfettered access to the EU market. This will have a disproportionate impact on Wales, as 30% of the UK sheep industry is located here.

Figure 2: Sectoral analysis of the potential impact of post-Brexit trade scenarios<sup>1</sup>

|                              | Bespoke Free Trade Agreement with the EU   | WTO Default  | Unilateral Trade Liberalisation   |      |
|------------------------------|--|--|---|------|
| <b>Scenario definitions:</b> | <ul style="list-style-type: none"> <li>UK retains tariff and quota free access to the EU and EU retains tariff and quota free access to the UK</li> <li>UK maintains EU tariff structure to rest of the world</li> <li>5% trade facilitation costs on UK-EU27 trade</li> </ul> | <ul style="list-style-type: none"> <li>MFN<sup>1</sup> tariffs applied to imports from the EU</li> <li>TRQs<sup>2</sup> from 3<sup>rd</sup> countries retained</li> <li>MFN tariffs applied to UK exports destined for the EU</li> <li>No change in tariff structure for exports to the rest of the world</li> <li>8% trade facilitation costs on UK-EU27 trade</li> </ul> | <ul style="list-style-type: none"> <li>Zero tariffs applied on imports to the UK from both the EU and the rest of the world</li> <li>MFN tariffs applied to UK exports destined for the EU</li> <li>No change in tariff structure for exports to the rest of the world</li> <li>8% trade facilitation costs on UK-EU27 trade</li> </ul> |      |
| <b>Commodity</b>             |  |  |   |      |
| 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%  |

**Notes:**

<sup>1</sup>Most Favoured Nation

<sup>2</sup>Tariff Rate Quotas

<sup>1</sup> Impacts of Alternative Post-Brexit Trade Agreements on UK Agriculture: Sector Analyses using the FAPRI-UK Model, John Davis, Siyi Feng & Myles Patton (Agri-Food and Biosciences Institute) and Julian Binfield (University of Missouri), August 2017.

### 3. Resolution of current Tariff Rate Quotas

3.1 Currently, the UK is part of EU arrangements with third countries regarding red meat import quotas. Notably, New Zealand and Australia have tariff-free quota arrangements with the EU to export defined annual tonnages of sheepmeat and beef.

3.2 How these quotas will be settled upon the UK's exit from the EU will be decided by negotiation through the WTO. The level of tariff-free imports is extremely important for the competitive position of Welsh red meat in the domestic market; particularly in the case of imports of New Zealand lamb impacting on sheepmeat prices in the UK.

3.3 We would regard a fair basis for the resolution of the TRQ issue to be on recent import volumes rather than historic maximum entitlements. New Zealand in recent years has exported around 65,000 tonnes of sheepmeat annually to the UK.

### 4. Brand protection

4.1 Since 2002-3, the Welsh Lamb and Welsh Beef brands have been protected with a PGI (Protected Geographical Indication) designation which is crucial for marketing them as premium products. This designation is supported by EU law, and is widely regarded as being a mark of provenance and quality in the food industry throughout the world.

4.2 It is possible for produce originating outside the EU to have PGI status, Colombian Coffee being a notable example, but legislation giving mutual equivalent protection for European food names must be incorporated into the third country's law.

4.3 HCC, as part of the UK Protected Food Name Association, has been part of discussions with Defra aimed at ensuring UK legislation is passed which establishes an equivalent scheme and will be recognised as such in Europe and beyond when the UK leaves the EU.

4.4 Immediate, seamless protection for the Welsh Lamb and Welsh Beef brands is essential for the red meat industry. It is also important that the scheme recognises the distinctive identity of such produce, rather than being subsumed into a UK brand.

4.5 EU funds have been available in recent years to promote PGI and other protected food brands. These funds have been crucial to supporting promotional campaigns for Welsh Lamb and Welsh Beef in markets such as Germany, Denmark, Sweden, Italy, France and the UK. Currently there has been no information as to how such funds might be available in a post-Brexit environment.

## 5. Support Payments

5.1 80% of the land area of Wales is designated as LFA (Less Favoured Area) or SDA (Severely Disadvantaged Area).

5.2 Based on Farm Business Survey data, a majority of hill and upland cattle and sheep businesses at present rely on support payments – both direct and indirect – for their positive margin.

5.3 There is currently no certainty of the future of agricultural payments systems beyond 2020, and furthermore no clarity on how a UK-framework for such payments might be agreed while protecting the devolution of agriculture to Wales.

5.4 There exists a strong case for continuing payments to agricultural businesses based on the public goods they provide – their support for other local businesses, landscape management which benefits tourism, their cultural and linguistic contribution, and environmental goods.

5.5 In addition to this, the red meat sector is currently based on a critical mass of small enterprises contributing to a greater whole which supports economic activity and employment across large areas of Wales. A significant change in the structure of agricultural payments risks undermining this critical mass and the long-term viability of livestock supply-chains in Wales.

## 6. Regulation

6.1 There are potential risks to the Welsh red meat trade from any proposals to significantly change the legislative and regulatory environment which govern farming and meat processing on leaving the EU.

6.2 Steps to reduce bureaucracy would be commendable but should not lead to any lowering of standards. Maintaining export access requires equivalence in terms of production, health and welfare, and environmental standards. Demonstrating equivalence with a different regulatory system, even though it may deliver the same outcomes, is often difficult and takes time.

6.3 As we compete with others in the world market, being perceived as a country that has lowered standards would make it difficult to maintain trade and establish new markets. Our brands are marketed as premium, and a perceived reduction in standards could have a negative effect on them.

## 7. Free movement of people

7.1 Issues of seasonal on-farm labour are not as significant in the Welsh red meat industry as they may be in other food sectors such as horticulture.

7.2 However, migrant EU labour has been important for the red meat processing industry. Some abattoirs and processors may face additional challenges in recruiting staff if restrictions were placed on free movement.

7.3 The ability to recruit EU workers has helped to alleviate a UK-wide shortage of veterinarians specialising in farm animals in recent years.

## 8. Conclusion

8.1 From the point of view of the red meat sector, tariffs and trade are the foremost concerns relating to the UK's future relationship with the EU. Anything other than a Free Trade Agreement with the EU is likely to result in severe disruption, representing an existential threat to Welsh agriculture and processing as currently constituted. Issues of farm payments, regulation, brand protection and labour are also significant.

8.2 The agri-food industry in Wales is fundamentally different to that of other parts of the UK, with a much greater importance of the sheep sector and of exports, as well as Wales's topography which makes many other forms of agriculture unviable. The distinct needs of Wales would need to be represented in negotiations with the EU, and mechanisms should be created to give Wales full and equal participation in the creation of future UK frameworks for the agricultural industry.