

**Cynulliad Cenedlaethol Cymru | National Assembly for Wales**  
**Y Pwyllgor Newid Hinsawdd, Amgylchedd a Materion Gwledig | Climate Change, Environment and Rural Affairs Committee**  
**Ymchwiliad i ddyfodol Polisiâu Amaethyddol a Datblygu Gwledig yng Nghymru | Inquiry into the Future of Agricultural and Rural Development Policies in Wales**  
**AAB 04**  
**Ymateb gan Undeb Amaethwyr Cymru**  
**Evidence from Farmers' Union of Wales**



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Dear Chair

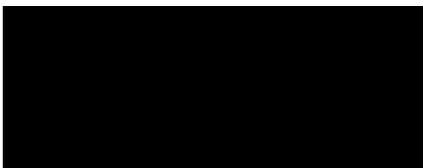
Re Inquiry into the Future of Agricultural and Rural Development Policies in Wales

Please find below the Farmers' Union of Wales' response to the Climate Change, Environment and Rural Affairs Committee's recent call for written evidence on Future of Agricultural and Rural Development Policies in Wales.

Given the fluid nature of developments in relation all aspects of the UK leaving the European Union, you will appreciate that these are initial views, and that the formulation of detailed views regarding a range of policies of relevance to Wales would be premature at this stage.

I would also take this opportunity to highlight the fact that the below views have been established following the circulation amongst FUW members of an internal discussion paper aimed at prompting dialogue, and identifying concerns, opportunities and new ideas in relation to Welsh and UK agriculture, and discussion within each of the FUW's twelve County Executive Committees, Standing Committees, and the Council of the Union.

Yours sincerely



Nicholas I. D. Fenwick  
**Head of Policy**

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**Response to a Statement by the Chair on the Committee's inquiry into the future of agricultural and rural policies in Wales made on the 9<sup>th</sup> November 2016**

1. Given the Committee Chair's statement of the 9<sup>th</sup> November 2016, we believe it pertinent to initially respond to the views outlined in that statement.
2. *"We believe that Wales must continue to receive the level of funding for agriculture, environment and rural development that it currently receives from the European Union."*
3. The FUW supports this position, and also believes that agricultural support post-Brexit should be maintained at levels which at least reflect those levels which would have been in place should the UK have voted to remain in the European Union.
4. Part of the rationale for this position is alluded to in the Chair's statement, in terms of assurances given by lead 'Leave' campaigners, while it is also the case that the absence of such parity with EU farmers post-Brexit would distort agricultural trade and competition between the EU and the UK/Wales in an unacceptable way.
5. *"Decisions on future agriculture, environment and rural development policies should be taken in Wales. After all, responsibility is devolved. Should the case be made for some level of UK-wide policy framework then this should be done on the basis of agreement between the devolved administrations and the UK government. We also support bilateral discussion between the Welsh and UK governments."*
6. Under the current Common Agricultural Policy, EU Member States and devolved regions have flexibility to implement agricultural policies within a set framework aimed at minimising unfair competition and market distortion.
7. Irrespective of what trade deals are in place post-Brexit, within the UK Welsh farmers will compete against their English, Scottish and (notwithstanding different arrangements for Northern Ireland) Northern Irish counterparts.
8. As such, the rationale for having a common policy across the UK which minimises unfair competition and market distortion remains unchanged.
9. 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 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.

10. Given the poor track record of England's Rural Payment Agency (RPA) in terms of delivering funding, and notwithstanding desirable improvements to certain aspects of Rural Payments Wales' payment and penalty systems, the FUW currently supports the administration of all and any funding continuing to be undertaken by the Welsh Government.
11. The FUW fully supports the Committee's position in terms of agriculture, environment and rural development funding being protected, and sitting outside the Barnett Formula.
12. *"We support a continuing shift in financial support away from payments based on acreage and historical production, and towards agreed environmental and land management objectives."*
13. It should be noted that:
  - a. The current movement away from payments based upon historical production will conclude in 2019
  - b. The current area payment system is focussed on land management and other objectives, in that payments are related to Good Agricultural and Environmental Conditions and Statutory Management Requirements, enforced through the Cross Compliance regime
  - c. The current Pillar 1 area based payment system complies with World Trade Organisation (WTO) rules
  - d. The WTO Agreement on Agriculture states *"The amount of [agri-environment] payment shall be limited to the extra costs or loss of income involved in complying with the government programme"* [Annex 2, Paragraph 12. *"Payments under environmental programmes"*], thereby placing significant restrictions on the degree to which agri-environment payments can provide income for farms and related businesses involved in agricultural supply chains
14. As such, and given the risk of market distortion and unfair competition already referred to above should competing countries maintain significantly different levels of direct support, the FUW opposes any further moves towards payments which would be subject to WTO environment programme restrictions and undermine farm incomes and the central role played by agriculture in terms of Wales' rural and wider economies.
15. In terms of the Committee's emphasis on support for more marginal farms, including in upland areas, the FUW fully endorses this position, and members have proposed a number of overarching principles to better focus agricultural support where it is genuinely needed, including:
  - a. A needs-based regional allocation of post-Brexit budgets based upon the proportion of a region which is subject to handicaps such as adverse climatic conditions and poor soil productivity, socio-economic constraints and the proportion of businesses routinely affected by market failure

- b. That a cap be introduced for recipients of all future payments in all regions of the UK (no cap is currently applied in England)

### **Agricultural support and the wider rural economy**

- 16. There is much concern about the future commitment to supporting agriculture and the following points offer context:
  - a. Wales currently receives around £300 million annually under the Common Agricultural Policy
  - b. 57% of Wales is Severely Disadvantaged Area (SDA) and 23% is Disadvantaged Area (DA)
  - c. 80 percent of Wales' agricultural land is rough grazing or permanent pasture, with just 5% of land used for crops and horticulture
  - d. In 2014-15, direct payments accounted for an average of 81% of net Welsh farm profit for all Welsh farm types, with average net profit per farm £24,000
  - e. Total farm inputs (which largely equates to expenditure) during the same period (2014-15) ranged from £76,958 for lowland cattle and sheep farms to £353,616 for lowland dairy farms, with the vast majority going to support other local and national businesses such as veterinarians, feed merchants and mechanics; for example, DEFRA and Welsh Government figures suggest around £1.1 billion is spent annually on costs including animal feed (£342 million), agricultural services (£80 million), maintenance (£39 million) and veterinary services (£62 million)
  - f. A third of Wales' population live in rural areas where farming, and businesses which rely on agriculture, play an important role in local economies; in sparsely populated areas, where centres of population have less than 2,000 people, around 10 percent of workers are employed in agriculture – equivalent to 14 percent of those employed outside the public sector
  - g. Agriculture also makes an invaluable contribution to Wales' culture; the per-head contribution of 'Agriculture, energy and water' workers to all Welsh speakers is 78% higher than for all categories, and has the highest percentage of Welsh speakers across Wales at 29.5%
- 17. Given the above, the implications of any reductions in support and changes to support structures would be wide-reaching for Wales' individual farm businesses, rural economies and communities and the environment.
- 18. The current FUW position is that agricultural support post-Brexit should be maintained at levels which at least reflect those levels which would have been in place should the UK have voted to remain in the European Union, and that a transition period of at least 10 years is necessary in order to phase in and allow the industry to adjust to new agricultural policies.

## **Support policies**

19. In terms of how a support framework might look post Brexit, there is general acknowledgement of the need to develop ideas in parallel with decisions made during trade and domestic negotiations, and that identifying specific detailed policies would be premature at this time.
20. However, as already indicated in response to the Committee's comments (paragraph 15), a number of overarching principles have been suggested to better focus agricultural support where it is genuinely needed.

## **Environment**

21. Over three quarters of the Welsh countryside has some environmental or conservation designation, highlighting the important role farming continues to play in maintaining our natural resources.
22. Over recent years, that role has expanded significantly in terms of renewable energy production.
23. Welsh farming has an indispensable part to play in terms of our need to adapt to changing weather patterns, increased environmental pressures, carbon sequestration and greenhouse gas reduction targets.
24. In order to ensure Welsh farming can continue to play such a role:
  - a. Systems must be introduced which ensure farmers are more fairly rewarded for their contributions to water management, carbon sequestration and the delivery of other public goods
  - b. The infrastructure and investment needed to increase on-farm renewable energy production must be increased, and barriers removed
  - c. Support for agri-environment schemes must be continued, while recognising the far-reaching adverse consequences of an inappropriate balance between direct support and agri-environment payments given the limitations set out in Annex 2 of the World Trade Organisation (WTO) Agreement on Agriculture already referred to (paragraph 13d)
  - d. The temptation to abandon areas of countryside advocated by some, and in particular supporters of 'wilding', must be resisted given the severe economic and environmental impacts such policies would have in areas where species, habitats and communities are reliant on agriculture and grazing animals in particular

## Trade

25. Proposals by senior politicians from across the political spectrum to increase imports of cheap food from countries with environmental, animal health, and in some cases human rights standards which fall well short of those legally required of UK farmers are a major concern for FUW members.
26. Such policies would not only have a severe detrimental impact on UK agriculture and rural communities, but would also lead to an overall increase in environmental degradation and a fall in animal welfare standards – both issues regarding which the UK electorate has strong views.
27. In terms of Wales' three key agricultural products, namely milk, beef and lamb, there is significant concern regarding the implications for all three sectors of:
  - a. The loss of nearby and relatively affluent continental markets, and the degree to which these can be realistically replaced by markets which are much further afield, given the costs, logistics and reality of gaining similar access to alternative, by definition more distant markets
  - b. WTO or similar tariffs being applied to UK exports to the EU and elsewhere, given tariffs for some products would markedly reduce the value of sales to Welsh producers. Examples of standard WTO tariffs are: Butter - €1,896/tonne; Cheddar - €1,671/tonne; Beef - 12.8% plus €1,414 to €3,041 (depending on cut); Sheepmeat - 12.8% plus €902 to €3,118/tonne
28. Superficially, trade balance figures suggest that leaving the EU's free trade area may benefit some products through the removal of imported produce from UK markets. However, such benefits could only be realised if there is political support for trade policies which reduce imports from all other countries
29. Complicating such perceived benefits is the seasonality of production, and the degree to which sectors rely on exporting certain types of carcasses and cuts ('quarters') which do not generally appeal to UK consumers in order to balance carcass value. This is a particular concern for the Welsh sheep sector, where production is necessarily extremely seasonal and includes a significant proportion of lighter lambs (around 15%) for which there is little domestic demand, and exports to the continent of certain cuts and offal make up a significant proportion of carcass value for the same reason.
30. As such, there is general agreement amongst FUW members that:
  - a. Tariff-free access to EU markets is essential, particularly for the Welsh sheep sector
  - b. Imports to the UK should be subject to genuine equivalence in terms of environmental and animal health standards
  - c. Any agreement which allows free access to UK markets for EU agricultural produce must be accompanied by financial support for UK producers equivalent to the support received by EU farmers

- d. The EU's New Zealand sheepmeat quota should not be passed back to the UK as this is likely to add significantly to pressures on the sheep sector post-Brexit
- e. Governments should proactively support UK food and farming through their own procurement policies, and by ensuring competition rules favour rather than disadvantage UK industries