



Environment, Food and Rural Affairs Committee

Oral evidence: [Farmgate prices](#), HC 474 Wednesday 28 October 2015

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Written evidence from witnesses:

- [Phil Bicknell, National Farmers Union](#)
- [Phil Stocker, National Sheep Association](#)
- [Lizzie Wilson, National Pig Association](#)

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Members present: Neil Parish (Chair); Chris Davies; Jim Fitzpatrick; Simon Hart; Dr Paul Monaghan; Rebecca Pow; Ms Margaret Ritchie; David Simpson; Rishi Sunak

Questions 1-95

Witnesses: **Phil Bicknell**, Head of Food and Farming, National Farmers Union, **Phil Stocker**, Chief Executive Officer, National Sheep Association, and **Lizzie Wilson**, Policy Services Officer, National Pig Association, gave evidence.

Q1 Chair: Welcome to you all this afternoon and thank you very much for coming to give evidence for our farmgate price inquiry, something that is very important at the moment, because there is very a big pressure on farmgate prices not rising, unfortunately, as far as farmers are concerned, much in the opposite direction. I am delighted that you are all able to come. We have the National Farmers Union, the Pig Association and the National Sheep Association all represented. Ladies first, would you like to introduce yourselves across the panel, please?

Lizzie Wilson: My name is Lizzie Wilson and I am the Policy Services Officer for the National Pig Association.

Phil Bicknell: I am Phil Bicknell, Head of Food and Farming at the National Farmers Union.

Phil Stocker: I am Phil Stocker and I am the Chief Executive of the National Sheep Association.

Q2 Chair: You are very much welcome this afternoon. We are here really to find out where we can help, what the problems are and where you think perhaps Government and this Committee can help the industry, basically. The first question is really very much to the NFU, but I am sure others can come in as well. How have farmgate prices changed in the last five years?

Phil Bicknell: What we have seen over the last five years is just an unprecedented period of volatility. If we look at the period more recently, that volatility has been very much on a downward trend. Milk has been very well documented through the summer, picked up by the mainstream media. We have had 21 consecutive months of milk price dropping—that is the average milk price in the UK dropping. We have gone from 34p to less than 24p, and it is dropping. What is hidden behind that as well is a big variation for farmers. There will be some guys who will be in the teens or possibly even lower for their milk.

The attention obviously has been on milk, but it is not unique in terms of the agricultural sector. Sugar beet price for next year will be its lowest in nearly a decade. The average wheat price, in the year to date—I was crunching some numbers earlier—is £114 per tonne. In 2014, it was £146 per tonne. In 2013, it was £174 per tonne. When you start to compare where we were to where we are now, it is not a particularly good situation. The other thing on wheat that you throw into the mix is cost of production. If you take the cost of production being £135 to £140 a tonne, a lot of cereal producers right now will find themselves in a loss-making position. Perhaps I will pass over to Phil in terms of some of this, but it is probably fair to say that the other area that has been under pressure has been the sheep sector.

Q3 Chair: What about the beef sector?

Phil Bicknell: In the beef sector, at the moment, year on year, prices have held up relatively well. We saw a dip earlier on in the year, when prices fell pretty dramatically at a time of year when we do not normally see much movement in prices. As supplies of beef tightened as we went through the summer, prices rose a little bit. The short-to-medium-term outlook for beef is okay, because we have relatively tight supplies, which should underpin prices a little bit but, long term, certainly as we get into more beef coming online in other parts of Europe, particularly in terms of Ireland, that will put pressure on prices again.

Q4 Chair: Phil, you could come in on pigs, if, Liz, you would like to deal with the sheep.

Phil Stocker: It is the other way round actually.

Chair: Just testing.

Phil Stocker: As far as sheep are concerned, Phil is right in that volatility is very much the name of the game in the sheep sector. Over the last four years, we have seen the average deadweight prices drop from 423p a kilogram down to 413p a kilogram but, within that

period of time, we have seen costs rise significantly. Even for a grass-based sector that is less reliant on purchased feed, general costs have risen in that period of time.

Q5 Chair: Over this last year, we have seen a lot of pressure on sheep prices. As the price has dropped for the wholesale lamb market, have the prices dropped similarly in the retailers? I am not certain they have passed on those reductions.

Phil Stocker: No, the price has definitely not dropped as much. I do not have any specific figures, but even the best estimate is that there was a very long time gap before there was any price reduction in the retailers. If you look at the producers' share of the total retail price, it would have dropped from around about 58% four years ago to just less than 50% now. The total share going back to the producer has fallen.

Q6 Chair: This is very important, especially with pressures on prices. If the supermarkets and retailers drop the price of lamb as the wholesale price drops, then we should get greater demand theoretically and then the demand gets higher for wholesale and should drive the price back up, but what seems to have been done is that it has been driven down. You may not want to answer this, but do you think there is any unfair practice there or what?

Phil Stocker: There is an issue there with some of the value of the fifth quarter products that would be going into export markets. The value of skins and offal going into China has dropped. There is some justification for why the whole price going back to farmers has dropped a little bit, but still the margin that retailers are taking seems to have increased, in comparison with that which is going to the farmer.

Chair: That is a question we will need to ask the retailers when they come in soon.

Q7 Chris Davies: Thank you very much for giving us the position and forgive me for saying this is probably where we knew we were, but what do you see as the main reasons for why we are in that position?

Phil Stocker: Phil will come in and talk more generally but, in the sheep sector, one of the big reasons has been the value of the currency, the exchange rate and the fact that our sheep sector is very heavily influenced by export values. We still manage to shift volumes into those export markets, but at a much reduced price, because of the value of the currency. Over this last 12 months, we have seen the impact of political volatility with countries like Russia, meaning that there is a lot more meat available in Europe generally. We have seen economic volatility, which has reduced the value of our exports, and we have even seen volatility from weather change in New Zealand, where the effects of the drought drove more lamb onto the world market, over a very short period of time. We are in a very volatile world and our producers are struggling to cope with that, at the moment.

Lizzie Wilson: Just to give you an overview of pig price over the past five years, we have really gone from bust to boom and back to bust again, unfortunately. If you start in 2010, pig prices were around 140p per kilo; then in 2011 they rocketed up to 170p per kilo, 174p at its peak, and we are now back down at around 130p to 133p per kilo, unfortunately.

We are fortunate at the moment that our input costs are also quite low. Our cost of production is low, predominantly because the cost of feed is quite low and that is 60% to 65% of our production costs. Unfortunately, that leaves us really quite vulnerable if feed prices do peak very rapidly. As, again, commodity markets are very volatile, that leaves us in a very vulnerable position. Cost of production at the moment, as I said, although is at a five-year low, is about 139p per kilo but, compared to our pig price of 133p, pig producers are losing between £6 and £7 per pig currently, so it is not just the dairy and lamb sectors unfortunately. The pig sector is also suffering.

Q8 Chair: What percentage is the farmer getting compared to the retailer?

Lizzie Wilson: That again has gone down. That was about 45% at its peak, which was last year. It is now in the low 30s, again because pig price has taken quite a sharp fall recently. Retailers do not generally like to discount too rapidly in store as well, because again the market fluctuates quite a lot. What they do need to do is lower price in store a little bit, because they need to stimulate the demand. They need to focus on promotions and new product development, rather than the export market quite so much, to help facilitate that demand again to help push prices back up.

Q9 Chair: Export markets are very important, but we must never forget our domestic market, which is very big, which is an advantage, but we do not seem to get the full advantage to the farmers because of it.

Lizzie Wilson: The export market at the moment is also one of the main reasons why pig price is so low. Unfortunately, we have improved our productivity, as has the rest of Europe, which has coincided with the Russian import embargo. Supply and demand unfortunately are not in sync at the moment, and there is also the exchange rate to consider.

Q10 Chair: Russia was quite a large market for pork, I suspect.

Lizzie Wilson: It was a very large market, and particularly for what we call the fifth quarter, so particularly fat products and lard as well. A lot of other product has found another home elsewhere, but unfortunately we are really struggling to find a home for the fat and lard, which help with the value of the carcass.

Q11 Rebecca Pow: Thank you very much for coming along. A point you just started to raise was that, I gather, our productivity of lamb is due to increase by 6% and our pork production has increased by 5%. We have not really helped ourselves, but I assume that is because the price dropped, so farmers increased their numbers to try to keep up their income. In the end, it has a negative effect, does it not?

Chair: Also we only eat 30% of our pork, do we not?

Lizzie Wilson: There is an element of that, but we are only 55% self-sufficient in pig meat, so that is 40% domestically and 15% export.

Q12 Rebecca Pow: It does not increase the price; it actually lowers it, so we are sort of our own worst enemy, would you say?

Lizzie Wilson: What we are trying to do is displace cheaper imports, so there is obviously still quite a lot of market for the pig industry to be able to access.

Phil Bicknell: For all agricultural markets, you are talking about time lags involved to be able to respond. One of the questions, when we saw milk prices start to fall, was why we are still producing more. 2013-14 was a record-breaking year or certainly the highest for a decade, in terms of milk output. Why was that? You cannot easily turn on and turn off supplies of milk. We are starting to see milk production fall back. I expect we will see that accelerate through this winter and production will start to drop. We are starting to see those dynamics internationally as well. Particularly when you look at red meat, you need a sustained period of low prices, and people will start to cut back. The same thing happens in reverse: it took a while for sheep numbers, the breeding flock, to start to increase back in 2010-11 when you had stronger prices, because people wanted to know that they were going to be there for a while and it was not just a one-off.

Phil Stocker: In the sheep sector as well, farmers were generally responding to market signals and the prices were fairly strong. The mood among sheep farmers was generally one of optimism, I guess, partly because these general messages were coming through that we have this global population rise; the world needs more food. The general message coming through to farmers is that we need to respond to that.

Chair: We do actually. What we have to be careful of is that, if we reduce our production, we do not let imports in at the same time to replace it.

Q13 Rishi Sunak: Thank you all very much for being here. Just a quick question for Ms Wilson on import substitution: how many of our import-competitive countries have not banned sow-stalls the way we have? I would be interested in whether we are doing enough—whether this Committee and the Government are doing enough, or the European Union is doing enough—to enforce that ban and ensure our pig producers are competing on a level playing field.

Lizzie Wilson: The UK banned sow-stalls, gestation stalls, unilaterally in 1999. For the rest of the European Union, the legislation came into force on 1 January 2013, so ultimately they had that time period to be able to convert their systems and comply with legislation. Many declared to the Commission that they would be compliant. Unfortunately, only 18 were compliant on 1 January 2013 and one or two of those member states will be questionable, as to level of compliance.

We have very recently asked the Commission for an update and we are now at six countries that are non-compliant. We do not know who they are, unfortunately, because obviously there are legal infraction proceedings ongoing currently, but of the 11—we

received the last update six months ago—some of those countries were major importers into the UK: France, Belgium, Denmark, the Netherlands and Germany. Obviously pig producers have been at a competitive disadvantage since 1999 and continue to be, unfortunately.

The Commission, because it is so poorly resourced, has done very little to actually inspect these various countries and compliance. They have very few food veterinary officers, unfortunately. For particular countries, although they state that they are compliant, there is anecdotal evidence to suggest that they are not, but the Commission is doing nothing to confirm that in a robust manner.

Chair: That was a very good question. What we ought to do, if the Committee is in favour, is write to the Commission and see what they are doing, how many countries are complying and what they are doing about the ones that are not. We have waited a long time for this to happen and they should be complying. It is a matter of a single market regulation that is not working, because we are at a disadvantage. We will do that, if that is alright with the Committee.

Rebecca Pow: On that note, Mr Chairman, should the retailers not be made aware of it? Should we be worried that we may purchase from these places?

Chair: I want to move on to other questions, but I think they have been made aware of it. It is something that we should do.

Rishi Sunak: We can couple it with our labelling questions when we get there.

Chair: Yes, we can. I want to move on now, please.

Q14 Dr Monaghan: Thank you for coming. A question for Mr Bicknell: can you explain to the Committee please what the impact has been on farmers and the agricultural industry more generally of the price volatility and the lowering of prices, which you have all spoken about?

Phil Bicknell: For me, when you are talking about a fall in prices and lower prices, inevitably it means lower revenues. That means lower profitability. The latest farm business income figures come out from DEFRA tomorrow. I expect the majority of sectors will be showing a year-on-year decrease. I am conscious that they only go up until the end of February 2015, so they are only telling part of the picture and part of the decrease.

The bigger thing then is what happens. Certainly from speaking to lots of our members, the bigger concerns come around cash-flow requirements and cash-flow squeezes. I know a regular topic for any farming audience is around the basic payment scheme and CAP support, and that is why there is so much concern about when payments will be made. It is the cash-flow squeeze that many farm businesses are facing.

We are starting to see some of those impacts on some of the indicators. The official tractor sales are running 18% down, year on year. When I talk to people more widely in the supply chain, their businesses are hurting too. I suppose as well, if you start to look at borrowing and lending to farmers, it is positive that farmers are able to get the support of banks and to borrow more, because I am conscious that that is not the case for all businesses or has not been the case in other parts of the economy, but the fact is we are at

record borrowing levels for the industry. My personal opinion is that a chunk of that is driven by cash-flow requirements, rather than investment right now.

Q15 Dr Monaghan: A question for all of you then: would you agree that price volatility is inherent to the agricultural industry?

Lizzie Wilson: It has been for the pig industry for some time and will remain so. While we are so reliant on raw materials and commodities, unfortunately, that will remain. It is when pig prices and input prices move out of sync that we tend to see the boom and bust, particularly for the pig industry. The biggest issue really with regards to volatility is uncertainty and confidence to invest, which is where the British pig industry has been at a severe disadvantage in comparison to our EU competitors for so many years, because there has been that constant uncertainty. Therefore, there has been a lack of investment in buildings, equipment, technology and all the different elements that will enable us to expand and progress.

Phil Bicknell: From my perspective, the volatility is becoming much more pronounced in sectors like cereals, livestock and milk. That relates to the disappearance of some of the policy measures that, at European level, were designed to manage the market and manage supply. As we have seen those removed, it has exposed us to more market pressures. Farm businesses will probably be encountering the extent of this volatility for the first time. Certainly when I was a farm business consultant working with clients, the best part of a decade ago, we were looking at a sensitivity analysis that might be looking at “What if?” scenarios based around a 10% or 20% drop in price. What we have experienced in recent years has been 40% to 50% drops in prices, so there are an awful lot of challenges around budget planning.

In terms of answering your question of whether volatility is inherent in agricultural markets, yes, I think it is now. What we do not have is the right set of tools to manage that volatility. Perhaps in cereals we do, with a functioning futures market. Certainly from a dairy perspective and a red meat perspective, I do not think farmers really have those options as yet.

Q16 Chair: Are you looking at a dairy futures market or what?

Phil Bicknell: Futures and dairy have been flagged as a potential solution. There has been lots of discussion through recent months about how you can start to get that off the ground and what is required. You need good-quality information. For any futures market, you need liquidity. As much as farmers might want to sell on a futures market, you need processors and buyers to come to that market. My gut feeling is that, from a UK perspective, there might be some challenges about trying to get a futures market off the ground, particularly in the short to medium term. I know that that is being looked at on a more European scale. I know Commissioner Hogan is looking at that wider issue of risk management. For me, futures are one element of managing risk.

Phil Stocker: I would agree with both Phil and Lizzie. Volatility is inherent within the sheep sector and it is all about finding the tools to manage that. We are edging more

towards price contracts within the sheep market, but we are still at the very early stages of that and a long way away from any real futures market.

Q17 Chair: With those contracts, would you be looking for them to be a little like the dairy contracts, where you are going for a fixed price? How would they work?

Phil Stocker: Those starts of contracts are just starting to be discussed and they are on the basis that it would be a fixed price for a period of the year. As I say, they are only just starting to be discussed with some retailers. We are likely to see them discussed more openly over the next two months.

Chair: They work better on a rising market than they do on a falling one.

Q18 Dr Monaghan: Thinking about those tools that you are speaking about—futures markets and things like that—are there any steps that you think producers could take to protect themselves from all of these impacts, both immediately and perhaps in the longer term?

Phil Bicknell: One other solution that has come up quite widely, in terms of dairy in particular, has been around producer organisations. These have been touted by quite a few people as offering potential for farmers to get together to co-operate, to collaborate, to give them greater power to enter into more meaningful discussions with processors. Dairy Crest Direct is a producer organisation. There is progress in Scotland with a PO up there, but they do take time. The one live example that we have and the one that is coming close to fruition are based on existing producer representation groups.

Personally, I think POs are a potential win-win. They give farmers a better ability to negotiate as a group. From a processor perspective, you can start to talk about supply, and they also help you manage relationships. It is something that I think has potential. We need to look as an industry at how we can use the information that is already there on POs. There was a lot of interest in 2012, when we had SOS Dairy and prices came under pressure then but, in a rising market, some of that interest dissipated. We have an opportunity in the next six months to look at what we do as an industry to try to reinvigorate some of that interest in POs, but we need processors in the supply chain to be involved in that discussion too.

Phil Stocker: Again on the sheep side, over the last decade, there have been several initiatives to try to get producers to come together and act more collaboratively. Very few of those initiatives remain. Some of them you might suggest were through poor organisation, but you would also say that there has not been the trust or the support from the retailers or the processors to allow them to come to fruition. There is an awful lot of scope for producer organisations within the sheep world. If you think back to Donald Curry's work around the strategy for sustainable food and farming, even then there was a lot of talk about producers coming together to give more equality and equilibrium throughout the supply chain. As Phil has said, maybe with the market where it is at the moment, it is the opportunity to raise this again now.

Q19 Chair: I know the Secretary of State is very keen on producer organisations. Are you getting enough support from DEFRA and the Government over it?

Phil Bicknell: There have been quite a few discussions with DEFRA around a working group on dairy. There are different aspects to that that include futures and POs. I have colleagues who are more closely involved in that. We are probably in the second iteration. There is a lot of work to do between now and Christmas. I know that there is interest from DEFRA, but we also need DEFRA to be strong advocates of this. We need to make sure that, from a political perspective, we get the processors in the room as well. We are talking about it as a supply chain solution. Lizzie talks about the pressures from pigs and a boom-to-bust scenario. We cannot afford to do that as individual farming businesses or sectors, and I do not think the supply chain can. There is shared interest, but we need to be able to sit down and talk about how we start to build relationships.

Q20 Chair: I think the pig sector has some producer organisations. Does it or not?

Lizzie Wilson: Not really, to be honest. A lot of producers have sought to manage the risk by becoming contracted. There are a lot of what we call integrators, and a lot of farmers will now “bed and breakfast” finish pigs or “bed and breakfast” breeding sows. That seems to have worked very well. I would say that probably about 50% of the industry works that way now.

There are other options as well, as has been mentioned by both Phils. One is long-term contracts. About 30% to 35% of our industry will be locked into some sort of long-term contract now, but again it is not appropriate for every business. We have also been working with Morrisons and AHDB Pork on a futures market. Again, that is something that should be a no-brainer for a pig producer. If they can agree their input costs, agree a price that they will sell their pigs at and lock into a margin for a sustained period of time, it removes that volatility and increases confidence to invest. There is a dairy template that is about to come to fruition, so hopefully we will follow and launch some sort of virtual platform soon, so our pig producers can play, as it were, and just see how well it works.

Chair: You could buy the cereals on a futures market, and so therefore you could also sell the pork. Yes, that would work.

Lizzie Wilson: Yes, but again we would probably need it to be European-wide, because you need that volume of pig meat through to provide that liquidity to ensure that it worked. Again, we really need the processors bought into it and committed.

Q21 David Simpson: You are very welcome. Can I declare an interest as being involved in the agri-food sector? Some of the questions I ask might be very poignant. Obviously, coming from a Northern Ireland perspective, you would know the volatility that there has been there for quite some time and yet the prices have fallen over the past—as I think you said, Phil—23 to 24 months in the dairy sector. The lamb sector and pig sector are getting a lot of abuse at this minute in time, yet the figures are showing that production is not coming back. Production seems to be increasing and that has even been with the milk issue, because we get into the mind-set that the more we produce, the better it will get. That is the wrong way to

look at it. Has there been any discussion, among you as organisations, with farmers, to look at how we cap the production to try to alleviate that problem, as regards the volatility in prices?

Phil Bicknell: From our perspective as an organisation, it takes us into a role that is not our remit: to go and manage supply. Indeed, as I mentioned before, we do not advise our members what to do or how to run their businesses. We are here to lobby for them,

That said, producer organisations offer opportunities for milk pools and farmers to come together to understand how to manage their supply for a specific processor, rather than how you control milk production, full stop. You are dead right: milk production has continued to increase. I think we will start to see, as cows go indoors at this time of year, production fall back. We have plenty of supplies of certain dairy products at the moment, but some of that will start to be pegged back.

Q22 David Simpson: When we come to the pig sector—obviously we export a lot of lamb from Northern Ireland—the red meat sector has reduced by about 20% at the moment because of Russia and all the rest of it. There are certain times of the year when there is a lack of product that is required for the industry, whether it be supermarkets or whatever. How can we compete with the rest of the European Union? It is not a level playing field; we have to accept that.

We all get subsidies from Europe. We get single farm payments or whatever the case may be, but I do not know if any inquiry has been done by you into what member states actually subsidise their farmers and the processors in Europe. We are told that there is other subsidisation going on that takes away from that level playing field, which is why products can be produced a lot more cheaply in the European Union than they can in the United Kingdom. That causes a difficulty. When I meet with the processors, Chairman, they are saying to me that it is not a level playing field. The processors and farmers in the rest of Europe are getting extra subsidies from their member states, over and above what they are achieving from normal European subsidies. Has any inquiry been done into that? That in effect would have a big impact on how produce is produced and how cheaply it can be imported.

Phil Stocker: We have certainly not done any analysis like that, but what we would be aware of is the process of CAP reform and modulation. I do not know whether that would be very different in other member states, but in all of our UK nations here we have had fairly high levels of modulation. That money that is modulated is very often lost from the direct farm business. I would imagine that that is not the same in a lot of other member states. There must be ways that we can use that modulated money, through the rural development programmes, to buffer some of the volatility that we have been talking about.

Phil Bicknell: From a rural development perspective, which is part of the common agricultural policy, on a per-hectare basis, the UK is the lowest recipient of any member state by quite a stretch. That means we have a relatively small rural development budget for the UK and for the devolveds within that, certainly compared to some of our major competitors. That means, for the kinds of things that can be funded—and some of it has gone into helping to develop processing, helping to add value and helping to make sectors more productive—we have a relatively small pot of money available in the first place.

Not only that, but historically the focus for us in the UK has been on agri-environment schemes. Even now, around 87% of the current rural development pot will go into funding agri-environment. If you look at other member states, countries like the Netherlands for instance, they will have a much greater focus on the productivity and how they can start to invest. Of course, we look at that from a European perspective and it frustrates me because I think, if we went toe to toe against other farmers on a level playing field, we could more than compete.

The other thing is that, from a global perspective, different countries take different approaches to supporting their agriculture. They might not have direct support, but they have other mechanisms. Support might be there for fertiliser, for instance, in some parts of the world. We have mentioned Russia from a trade perspective, and I am conscious that funding has gone into Russian agriculture to help develop that infrastructure. There are different mechanisms employed to help develop agriculture, which might not necessarily be akin to the direct payments we are used to here.

Lizzie Wilson: Just to emphasise what Phil said, I would also highlight that the pig industry in the UK is completely unsubsidised. The British pig industry is completely unsubsidised, so we have always been at a complete disadvantage. I am not complaining about it; I actually do not think it is a bad thing.

David Simpson: You are putting it on the record.

Lizzie Wilson: Yes, exactly.

Chair: That is pigs and poultry.

Q23 David Simpson: In relation to the point that you have made, Phil—and the other Phil talked about the modulation—do you think that the Government focus is wrong percentage-wise? We know that the environment is important. We know that the keeping of the land, hedgerows, wildlife and all of that are important, but do you think there is too much of a slant towards that and not enough emphasis on helping the farmer in production and the cost of that?

Phil Bicknell: From an organisational perspective, we have lots of members who participate in those agri-environment schemes who would be frustrated that they will be dropping out of the old ELS system and they will not have an equivalent system to go into. Countryside Stewardship is very much a live issue right now. Just from a personal perspective, what we have done for our agri-environment is, instead of take the term of the common agricultural policy and look at how we spend in that term, to make commitments for the next budget or the budget after, which then limits the flexibility to alter those programmes as new challenges emerge, through different periods of the CAP.

Phil Stocker: Can I just expand on that point for a moment? Within the sheep world, we have a lot of sheep farmers, particularly in the more marginal and upland regions, who are totally dependent on agri-environment income, and yet there seems to me to be a real contradiction in terms of the way that that income supports the farm business. It is largely calculated on an income-forgone basis, so there is expected to be some income forgone from the farming enterprise to replace it with agri-environment money. It does not necessarily take the farm business any further forward. We need to move to a position

where we are looking at real public good outcomes that can be rewarded, rather than offsetting farm business performance with agri-environment money. The two do not necessarily go hand in hand.

Chair: Also, stocking rates can sometimes be very important for the environment.

Q24 Rishi Sunak: I have a very quick question for Phil. You mentioned that one aspect of diversification is up and down the value chains. Particularly in dairy, we obviously do not process enough. We all know that. We are short of processing capacity; we import butter, yoghurt and cheese, when we shouldn't because we have plenty of milk. What exactly is the barrier to correcting that problem? It seems that it is one we should all try to focus on. We have lots of great farmers producing lots of great milk. We just do not seem to be able to turn it into butter, yoghurt and cheese. Why not? What can we do to try to fix that?

Phil Bicknell: That is probably one for Dairy UK and counterparts in the supply chain. Having met with quite a few of the retailers through the summer months, dairy has come up quite regularly, as you can appreciate. There is definitely an issue around yoghurt and our processing capacity. Some of it is about long-term contracting. We definitely have the supply base here, as you say. Productivity-wise, our yields are among the best in the world when it comes to dairy and similar when it comes to cereal. It is a conundrum about why businesses are not investing in the UK to develop and add value to that food supply chain.

Q25 Chair: We do have Arla coming in, so we will make sure that question is put to them.

Phil Bicknell: Arla, of course, has invested a pretty considerable amount in terms of their liquid milk supply.

Chair: They are pretty successful, but we will pick their brains on that one.

Phil Bicknell: The challenge in the dairy sector is more around why we have not seen regular investment in terms of cheese, milk powders and those products that are traded more globally.

Q26 Chris Davies: I am interested: I have heard quite a lot mentioned about Europe over the last 20 minutes or so. The farmers in my constituency all say to me, with this European question coming up, that it would be bad for agriculture, but from what I have heard today, I would be interested to know your thoughts. Is Europe good or bad for agriculture?

Chair: We are not putting you on the spot.

Phil Bicknell: I appreciate this is not putting NFU on the spot. However, there is a whole host of questions when it comes to Europe and our future relationship with it, and I think the agricultural industry will be asking lots of those questions in the coming months. We have recently launched a document for our members to help them pose the right types of questions to understand some of the issues so, perhaps with your approval, Mr Chair, I will share a copy of that with the Committee.

Q27 Chair: I can understand sitting on the fence is where you want to be, but it can be rather uncomfortable. Eventually, dare I say it, you might have to come off the fence.

Lizzie Wilson: We will, but only when there is a little more detail known. I have to agree with Phil that obviously there are positives and negatives, but until there is a little more detail known as to how it will directly affect farmers and pig producers, it is very difficult to say. We are in a slightly different position, in that we are not part of CAP and are not subsidised, so we do not have that particular barrier. But yes, it would be very difficult to give you an honest and definitive answer currently—apologies.

Q28 Chair: What do you think? It is rather unkind to ask you these questions, but it is probably going to come up, is it not?

Phil Stocker: The sheep side is slightly unique, in that it is one farming sector that is still so integrally linked with the management of the land and landscapes, particularly as you go into more upland areas. I would agree with Phil and Lizzie that we need more information before we can make a decision or come down on any one side, but we would want assurances that, whichever direction we took, we would maintain the level of support or the level of recognition of the importance of those farms in more remote and marginal areas, alongside all the various social, economic, environmental and public goods that they bring with them.

Q29 Chair: I have not seen much from the Better Off Out campaign about how they would manage agricultural policy and environmental policy. That is something farmers would need to see, I think, don't you?

Phil Stocker: Yes. We might come on to it in a moment; I am not sure. If we talk about the Government's 25-year food and farming plan, we are aware that the Government are also working on a 25-year environmental plan. Those two plans are being worked on in relative isolation. From our sector, the sheep sector, we feel very strongly that we need to bring them together.

Q30 Rebecca Pow: Neil always tells me off because he thinks I am too green, but I was saddened to hear you say you thought we should only go down the road of productivity and heartened to hear what our sheep producer gentleman is saying. Do you not think, going forward, this complete mixing of the environment, food production and sustainability is actually the route that we need to take? If our agricultural industry could embrace it, maybe it would help us to sell the products, give a good advert to the retailers and for the public to buy into it for the common good of the land. Wrap it all up.

Phil Stocker: We ought to recognise that, here in the UK, we have a wide spectrum of different agricultural and food production approaches, and a wide spectrum of environmental approaches. We should celebrate that. There is room for everything. We need to recognise that, in some sectors—and I guess maybe the sheep sector more than

some of our other farming enterprises—those two are entirely integrated. So much of the environment of our uplands is dependent on good grazing conditions for both sheep and cattle, to be honest. We ought to celebrate the breadth of different systems we have in the UK. One size will not fit all.

Phil Bicknell: From my perspective, in terms of the environment, it is not an either/or choice. The two have to go hand in hand. The realisation, particularly in recent years, has been that things that can be good for a farming business can be good for the environment as well, precision farming being a really great example. If you can target fertiliser to where it is really needed, that is good all round. Sustainable growth I take almost as a given. In what we do, we need to make sure it is sustainable.

Chair: Chris, perhaps we could get back to the original question.

Q31 Chris Davies: We have already touched on some long-term contracts to avoid volatility in the marketplace, but those of us with rural constituencies and backgrounds in agriculture will know that farmers are very much individualists when it comes to moving forward with their business models. How popular do you think that would be among farmers and can you get everybody on board?

Phil Bicknell: In terms of long-term contracts, personally I think it is about giving them the choice. As you say, there will always be a proportion of farmers who want to take the market and will take the price as it is on the day. You have another group of farmers who want as much transparency and as great an indication of where their price is going to be in future as possible. From a cereals perspective, for instance, some guys will trade, spot and sell corn as it comes off the back of the combine; others will want to have sold it on the futures market before they have even put it in the ground. Different businesses will have different approaches, but it is about broadening out those options.

What I do not like is this. I was speaking to a farmer a couple of weeks ago who had sent a lorry-load of cattle to the abattoir. In between the cattle being loaded up on the lorry and them arriving at the abattoir, he got a phone call saying, “Sorry, the price is going to drop on those.” How can you run a business where you are seeing prices change that quickly? It is trying to give greater transparency and a better indication of where the price is going to be. I said about futures markets that I do not envisage everybody will participate in them, but for me if it starts to give an indication of what the price might be, that helps me to plan my business better.

Phil Stocker: Choice has to be the ultimate aim here. We are starting to see a new generation of sheep farmers coming through who are not necessarily landowners, but are share farmers or farming in partnership with other farmers. Their costs are really very clear and well set. From what I am seeing, they are the sorts of farmers who would be more willing to enter into a price contract, because they know what their outgoings are; they know what their income needs to be. Some of them are already looking at price contracts.

Choice needs to be the key here. Within the sheep world, 60% of finished lambs are being sold through auction markets at the moment, with 40% being sold directly to abattoirs or

retailers. It is those direct suppliers to the supermarkets who will be looking at price contracts, first of all.

Chair: 60% are still trading directly into the market.

Phil Stocker: In 2014, 60% were trading into auction markets. Then again, within the sheep world, we have a wide range of marketing options from our supermarkets to our independent butchers and farm shops, here in the UK. Somewhere in the region of 40% of our production would go into export markets, so a lot of those lambs would be sold through auction markets as well. There is a very wide range of different market outlets and different methods of selling.

Q32 Chair: The pig sector would be much more contracted, would it not?

Lizzie Wilson: Yes, it is much more contracted, because we are more integrated. Again, as Phil has said, it is horses for courses, at the end of the day. It is not appropriate for every single business. Not every producer would want to lock in because, although they are not exposed to the lows of the market, they also do not get the highs of the market, which are obviously very important for some businesses. I think about a mix of contracts and various pricing mechanisms, whether that includes cost of production, some sort of market pricing element or maybe a feed ratchet. Producers have to lock in what is actually feasible for them and what delivers a margin.

Also, for the industry as a whole, it can reduce volatility because, when the EU price drops, it stops retailers from switching out of British product and into EU product just like that, because they have that long-term barrier there. That helps the pig price overall and the entire industry, not just the individual producers locked in.

Phil Bicknell: The longer-term contract discussions also then become about much more than just price. They are about quality and specification. If I was ploughing millions into building a crisp factory, I would want to know that I had long-term supplies of good-quality potatoes that hit the spec; it was not just about price. I am very much an advocate of those longer-term contracts. Everybody in the supply chain benefits.

Q33 Rishi Sunak: The one thing I would add on the futures market, which we have talked a lot about, is who the person would be who is responsible for driving that forward. If we meet here in a year or two years and it has not happened, who should that be? I will ask the same question on producer organisations as well. I know you have talked about it a little bit. Government can only do so much. On producer organisations, they have made sure that the law would allow producer organisations to happen without it being considered anti-competitive. That seems to be the Government's role there but, after that, presumably it is incumbent on the producers themselves. For both, I would love to know who should drive those things.

Phil Bicknell: Partly on POs, I still want Government to do more in terms of simplification and probably in terms of earmarking what is required and making that freely available. As the industry, we probably have a responsibility to look at how some of that support is offered to farmer groups who come together. We all have a responsibility to

bang the drum in terms of it. For futures, it is probably earlier on in terms of some of the discussion. We are trying to get the expertise to try to understand what the issues are.

Certainly one of the hurdles, as I understand it from a futures perspective, is getting good-quality information. To whom do we turn for good quality information at the moment? A lot of that is from DEFRA statistics folks or looking at the levy boards and the kinds of information that they gather. The European Commission would also have a strong role to play in that, and I am conscious that there is a lot of activity going on at Brussels level as well.

Q34 Chair: Can I ask you directly on milk? In a way, milk has been controlled over the years by quota. All right, we have not been hitting quota for the last few years, but what are we going to do? Is there any need to have a steer to dairy farmers on production? It was an artificial quota in many respects, but it was there. That has been taken off now. Is the NFU going to decide to put its head above the parapet as to whether it should send signals to dairy farmers on what their production should be? There will be no controls. At the moment, the price may be controlling it to a degree, but what happens when the lid comes off completely? How do we manage production in the future?

Phil Bicknell: In the normal world, I would expect that to come from the relationship between the farmer suppliers and the business that is processing the milk. It is a supply chain approach. In terms of the NFU talking about a production target or a national market, what we want is a vision where the market functions and where farmers have support. There are different ways of doing that, possibly around longer-term contracts. At the moment, we have contracts that demand exclusivity for milk, so it does not give the option for a farmer, if his milk price is dropping, to say he will sell a proportion elsewhere. He can switch milk buyers if there is a more attractive option out there, but there is a notice period around that, so more flexibility is required.

Q35 Ms Margaret Ritchie: To develop that futures area, producer organisations might provide a means for farmers to increase and develop their market strength in negotiation with supermarkets and the large processors. What progress has been made in this area and what more could DEFRA do to support the establishment of such producer organisations?

Phil Bicknell: The whole area of POs takes time. Dairy Crest Direct, which is the only one currently operating, has taken a number of years to get to where it is today. There are efforts with a supplier in Scotland, which again have taken a number of years. Now is the opportunity. While we have low prices, while we have challenges out there, there is a certain amount of farmer interest.

As to the responsibility, there is information already out there on POs that needs to be pulled together. We need advocates from across the supply chain. It cannot just be about farmers; it has to be about win-win situations. We need processors in the supply chain to understand that there are some benefits for them. We need DEFRA to simplify the guidelines. It is not an overnight solution, but now is the best opportunity to progress. We have also talked about POs from the perspective of dairy. Potentially POs could offer a

solution. Certainly more farmer collaboration, better producer groups and representation could offer a wider solution in the red meat sector as well.

Q36 Ms Ritchie: Would there be agreements between pigs and lamb in relation to that?

Phil Stocker: On the sheep side, we are at the very early stages of this. I do not think people generally have the confidence to do very much at the moment. If you spoke to most sheep farmers out on the ground at the moment, they would look at you quite blankly if you started to talk about producer organisations. I do not think it is being talked about generally and there probably needs to be a lot more facilitation and discussion, right throughout the supply chain, before we go anywhere with this, at the moment.

Q37 Chair: The history of producer organisations in this country has not been good, and I speak now as a farmer, because there have been several that have gone by the wayside. How do we get that up and running?

Phil Bicknell: It is producer organisations versus some of the farmer-controlled businesses, and dairy is perhaps a good example of that, with some high-profile situations. I look at where you have got POs operating, and that is in the horticulture sector. Unfortunately, what incentivised them was about access to grants and access to support. I do not think we are in a situation where that sort of level of investment can be channelled through POs from a dairy perspective, but, where we are now, it is an area to pursue. We are now looking for tools and mechanisms that try to reduce our exposure to volatility in the future. The Committee had an inquiry on dairy specifically, earlier in the year. There are some challenges around where the prices are now, but it is also about putting in place the tools and mechanisms to make sure that we are not in this situation again.

Lizzie Wilson: They would be quite novel in the pig industry as well, because there has not been a necessity for them historically. If they would help facilitate access to grants, funding and other beneficial elements, then it is something that we would definitely consider and pursue in the future, as well.

Q38 David Simpson: I do not know if you agree with me or not, but we can look at all the market strategies that we want—we can get a blank piece of paper and go from A to Z of what we think we should do and the strategies—but the industry is very much price-led and orientated. Whether you are dealing with Europe or further afield, it is down to the price. Quality is there as well. Is it not the case that we have to look at some way of getting our costs down? That is easier said than done, because of the highest electricity costs after Japan all over the world, but how can we address that to get our costs down, because price is a big thing?

Rebecca Pow: Mine is a quick one. You referred just then to how the producer organisations will only work if the retail companies play ball. Surely, from their point of view, they would not be so keen on producer groups and contracts, because then they are not free to buy in the lower priced imported products. How are you going to persuade them to join in with your producer organisations?

Chair: The idea is to make them pay more, Rebecca.

Rebecca Pow: I know, but you can see why they are reluctant.

Chair: Well, we are not asking them. We are asking the industry.

Rebecca Pow: How would you build that? You have talked about the farmers, but it is really the other side that has to play ball with you.

Phil Stocker: Farmers have already made big strides towards reducing their costs. It is something they have been aware of. A good chunk of levy money in all of our nations has been invested in trying to encourage farmers to reduce their cost of production, and people are making moves forward, but there are so many costs that are seemingly outside of the direct ability of farmers to control. That is one of the problems.

If you look at the sheep sector, the percentage of carcasses being sold within market specifications is improving and increasing. There is always room to improve further, but they are improving. If you look at the weight of lamb produced per ewe, it is increasing and getting bigger. Again, does that lead to more supply problems later on? I do not know really. We cannot take our eye off that ball, but I do not think we should ignore the fact that we are making a lot of progress in terms of trying to be aware of costs and keeping costs down.

Moving on to Rebecca's question, if I may, on producer organisations, for me, a producer organisation needs the freedom to act on its own behalf. It does need a relationship with retailers and processors; but again, in my experience, if a producer organisation is related directly to one retailer, then it is not a producer organisation; it is a retailer organisation. The whole purpose of producer organisations is to give them a little bit more equity within the supply chain. The developments of these within the sheep industry definitely needs to be with retailers and with the understanding of what we are trying to achieve, but, again, they need their independence. A producer organisation is a producer organisation.

Chair: We need to be a little tighter on the answers and the questions. We are getting a bit short of time. Phil, do you want to make a point before we move on?

Phil Bicknell: I just wanted to concur with the stuff on prices. I suppose a lot of the focus might be on price, but ultimately we are talking about margins. As an industry, because we have seen volatility, we have improved in terms of that cost management. With the focus on lower prices, you see a renewed emphasis, certainly from our farming business at home. It is very cost-conscious.

Lizzie Wilson: If you look at AHDB data and costs, producers are very good at managing fixed costs. It is generally feed that is the predominant impact, but there is lots of work going on, such as home-grown protein, so we are not reliant on imported soya. 15% of the industry feed is co-product, so it is wet-fed. There is also efficiency, but to drive efficiency you need investment in new buildings, technologies, which is where retailers can help as well, and with buying groups, energy, etc. There are lots of different areas.

Q39 Rebecca Pow: My question is specifically about voluntary codes. Mr Bicknell, I will address it to you first. 85% of producers have signed up to the voluntary code in the dairy industry, but that means 15% of people have not. Is it working, given that farmgate prices have continued to decrease? Should it remain voluntary or are there any other comments you would like to make about how you might improve or change it?

Phil Bicknell: Alex Fergusson made some recommendations, as part of his review back at the start of this year, about the voluntary code. He has looked at it in much more detail than I have. From my perspective, the code does need looking at, as you point out. There is more scope for engagement with small and medium-sized processors. You mentioned retailers previously; you also have scope for encouraging retailers to encourage their suppliers to sign up to the code, saying, "If I am going to source from you, I expect you to be code-compliant."

Part of the nub of the issue appears to be that farmer co-ops, as part of the code conditions, have different obligations to other dairy processors. Essentially the nub of the issue is that processors will not look for further changes until those co-ops are more aligned with the code requirements. There are some challenges in terms of how we move forward, but there are still opportunities, particularly from retailers looking at ramping that up.

When we talk about codes, of course, we also need Government support and backing. Whether voluntary or otherwise, we need them to be banging the drum. I am pleased that the Groceries Code Adjudicator is being looked at, about how that can be extended. There are obviously some big resource issues about what it might cover, but I know that colleagues are speaking to Defra about that.

Q40 Rebecca Pow: We do not have codes for lamb and pigs, so are there any comments about whether you ought to have one or some?

Phil Stocker: On the sheep side, we are aware that there are voluntary codes in place and being discussed for other sectors. It is something we are exploring. In fact, we are working closely with the NFU to discuss a voluntary code for sheep meat, and the sorts of things we would like to see within that would be the ending of rounding down prices, where prices are being taken to the nearest half kilogram; consistency of cutting specifications; price reporting; and feedback from the abattoirs to the producers on food chain information and health information relating to carcasses.

From the retailers' side, again, this would be very much a producer/processor/retailer code, with the three partners working together. Again, target some aspirations on UK sourcing, with much clearer labelling and clarity over the origin and those sorts of things, and also consistency in promotion as well. Over the last two years, we have seen price promotions on New Zealand lamb without price promotions on UK lamb. That presents such a differential on the shelf that it is very difficult for consumers to make a choice to buy UK lamb.

Q41 Rebecca Pow: Is there anything DEFRA should be doing to encourage that voluntary code? It sounds like you have lots of good ideas for the sheep sector.

Chair: You are looking for a voluntary code as well.

Phil Stocker: We are talking about a voluntary code at the moment. Whether that became a mandatory or statutory code, I am not sure, but it is a start, where we think we can make some purchase.

Lizzie Wilson: For the pig industry, it is more about transparency than anything. Provided the pricing mechanisms are not being abused—so there is not a lot of retrospective payment being used, where they are paid very infrequently or at the end of a year basically, which is designed to artificially lower the price—which they do not appear to be, the standard pig price and the average pig price, which were introduced very recently, appear to be working quite well. Provided that our producers are happy, as an industry, we try to find market-driven solutions rather than a code of practice. If it was required, there are templates.

Q42 Ms Ritchie: Moving on to the issue of the red meat sector, what concerns, if any, do you have that there is a lack of commitment to the agricultural industry, particularly the red meat sector, within DEFRA?

Chair: Do you think that DEFRA has enough commitment to the red meat sector?

Phil Stocker: We would probably always say it would be nice to see more.

Chair: Feel free to give an honest answer.

Phil Stocker: That has always been the answer. One of our concerns at the moment would be the level of austerity cuts we have seen within DEFRA and we are expecting to see in the future. The ability for DEFRA to maintain its capacity is going to be really crucial for all of us, in the future. The other thing specific to the sheep sector is the issue of a commitment to red meat production in the uplands and the more marginal areas. That takes in the whole debate about re-wilding or giving up on some areas of production, but we would like to see a much stronger commitment to the understanding of red meat production in those more marginal areas, and also the contribution that those upland areas make to the rest of the sheep industry, such as the traits that those sheep in the uplands bring down.

Q43 Ms Ritchie: Particularly to the NFU, your evidence seems to suggest that the Governments of the devolved nations place more importance on the role of farming than DEFRA. Why do you think that DEFRA provides less support to the agricultural industry? Perhaps Mr Stocker has already indicated the answer in that respect, due to the downturn and the amount of resources allocated.

Phil Bicknell: The point I was trying to make with the consultation response was probably about the red meat sector being proportionately more important in Wales, where you have 80% upland area and very minimal arable area. Similarly in Scotland and Northern Ireland, the livestock industry will be proportionately more important than it is in the UK.

The other areas we pointed to were how that would then be reflected in how they channelled some of their rural development expenditure to support the red meat sector.

In terms of the wider levels of support, I am pleased to see DEFRA looking at a 25-year strategy. That was one of our manifesto asks as the NFU. I look forward to red meat being given a prominent part in that. It is a sizable industry. I am from a farming background myself that is beef production. I am passionate about that industry. I think we produce great quality products in the UK. I want to see us make the most of that, not just in the UK. I want to see our lamb continue to grow some of its exports as well.

Q44 Ms Ritchie: Have you met with Government and particularly with DEFRA to discuss all of this in the preparatory stage? That is the 25-year strategy. If you have, what has been the outcome?

Phil Bicknell: We have been advocates of it for quite a while. We have sometimes looked across at elsewhere in the UK, but we have looked at Ireland, the Netherlands and Denmark, all of which have longer-term plans and longer-term visions. We have been talking to them for quite a while about it and encouraging action on it. I have not been personally involved in some of those meetings about where it has got to myself, but I know that an awful lot of work has gone on, engaging with different stakeholders, going out and engaging with farmers as well, at a more local level.

From the NFU perspective, we are pulling together where we think the big areas of potential are for our industry and some of the big hurdles that we think they can focus on. As ever with these plans, as an industry, we are not short of producing the odd strategy document or two. The challenge comes in terms of putting things into action and seeing things happen. I hope that it starts to take us down more of a delivery route as well, saying, "This is what needs to happen, but the first steps will be XYZ."

Q45 Chair: I think this is a fair question. As far as the NFU is concerned in England, how do you balance support for the red meat sector versus the cereals sector? Living in the West Country, there are times when we feel that perhaps the NFU needs to promote red meat and livestock production a little more than it does. That may not be fair, but that is certainly how we see it, because there are competing interests, especially from those very large cereal growers in the east of the country.

Phil Bicknell: You are right, Mr Chairman; it is not a fair question. However, the NFU is a broad church. Among our 47,000 members, we have guys from the east of the country across to the very west of Wales, in NFU England and Wales. As much as you might get that feedback from the South West, we also have feedback from other parts of the country that a lot of our focus might have been on dairy through the summer months, rather than other sectors. It is something we as an organisation balance very well. We have sector specialists, who cover each of the farming sectors. We have seven regional offices. We have 30-odd county advisers, so there is lots of local engagement. I hope that, when we do get those questions from members, we are well placed to explain them, "This is what we are doing for your specific sector."

Q46 Chair: One thing I can assure you, as far as this Committee is concerned, is that we will be very interested, as the reductions in DEFRA budget are made, to ensure we have that support for the meat sector, the export sector and all those issues that will need to be dealt with in order to get fair prices for farming. I apologise for that question.

The Government have a pledge to allow farmers the ability to average profits over five years for tax purposes, something I thought was a very good idea. What impact is this having on farmers, because it should be happening by now, and what further financial support would you like to see from Government? Can you tell me a little bit about how it is working?

Phil Bicknell: As I understand the current state of play, it was announced earlier in the year in the budget. It went out to consultation through the autumn. We are still waiting to see the rules to pan out how it is going to work in practice. That timeframe is particularly concerning when we continue to see volatility. As you point out, there is a range of different areas when it comes to the tax regime. Farmers are typically sole traders or partnerships. 95% of them would fall into that category, so we are not benefitting from some of the taxation changes to corporation tax.

It is essential that we do have clarity about the tax regime. A lot of farming businesses over the last five or six years will have seen different threshold levels for annual investment allowance. That will have been anywhere between £25,000 and half a million quid. There is some big variation there. As an industry that uses lots of plant and machinery, which tends to be quite expensive, just trying to have some consistency over where that allowance is going to be is pretty important.

Q47 Chair: That answers the second part: what further financial support would you like to see? It is on capital allowances in particular.

Phil Bicknell: Capital allowances are on plant and machinery, but it also needs to go further in terms of farm infrastructure allowance. We need to take a fresh look at how we look at some of the farm infrastructure, particularly thinking about farm reservoirs and buildings. The last time I crunched the numbers on a reservoir, it was marginal in terms of investment, but it is a positive for us for the long-term industry.

It is something that we need to take a look at, particularly when we start talking about our long-term productive potential. The red meat sector may be a case in point, where we have low levels of profitability. We maybe have not seen the levels of investment or reinvestment on farm, in sheds or in buildings, that you might otherwise have expected. It is the kind of thing that makes a step change to a business. If you have new buildings, it starts to have a knock-on impact.

Q48 Chair: As far as the five-year averaging of profits across the industry, would you like to see HMRC act a little more quickly than they are at the moment?

Phil Bicknell: I would like to see that come on stream as soon as possible, to cover an appropriate period as well.

Q49 Chair: The Government told us in March that they had asked both HMRC and banks to take a sympathetic stance towards dairy farming. Has that request borne fruit?

Phil Bicknell: Yes, I think so. It is probably a question to ask the banks directly. I am not hearing of widespread problems, in terms of banks and how they treat farmers. I would hope that, just as the banks have not used the five-year highs in terms of assessing a business and how they lend to it, hopefully they are not using the five-year lows as well.

Q50 Chair: Is HMRC being sympathetic?

Phil Bicknell: At the time of year around payments and altering payments on account, I did not have any negative feedback to say that they were not. It comes around every tax period when a major payment will be due. I hope that a common-sense approach is taken.

On the banking side, we run an annual confidence survey with our members. As part of that, we pick up some of the issues that might emerge with banks, in terms of farmers' perceived levels of support. That is currently being pulled together now so, with your permission again, we will perhaps share that with the Committee, because it hopefully starts to give some numbers to back up the anecdotal evidence that I am picking up.

Q51 Rishi Sunak: I have a couple of questions on your favourite topic of red tape—Phil, I was going to come to you about carcass splitting in a minute. For all of you, to talk about inspections first of all, the Government announced that they want to consolidate all the inspection agencies, of which I think there are six doing over 100,000 inspections, simplify that and bring it under a single unified inspection taskforce. I would be interested in your thoughts as to how helpful and welcome that will be.

Lizzie Wilson: I think that is a very welcome proposition. The resource and the competence to be able to deliver it are of concern. Something we have been becoming increasingly concerned about is the level of experience and competence for specific industries, within DEFRA. We are losing it rapidly, unfortunately. Particularly in a situation of exotic disease outbreak, it is very keenly felt. We would need any assessors to be very well trained. They would need to be very well aware of all the relevant legislation and have a good commercial understanding as well, but it is primarily more of a focus on information sharing and recognition, more than anything. That is where Government and industry will be able to glean the biggest win.

Phil Bicknell: Whenever we ask members about frustrations with the industry, regulation comes out, if not the top, then pretty close to it. No surprise: the DEFRA figures I saw say that there are 125,000 farm visits a year by different inspection groups, across nine different Government bodies, dozens and dozens of different types of inspection. There has to be an opportunity to do that more smartly.

Initially, some of the thinking was that we were going to have a separate inspectorate body that would pull energy together. My understanding more recently is that, rather than one body that undertakes inspections, it is about how they co-ordinate. It is essential that it goes wider than just DEFRA. For instance, I am conscious that 24,000 to 25,000 of those

farm inspection visits are done by local authorities, so you need to wrap it in with DCLG. We need to make sure that it is not just about the DEFRA family, but wider across all Government bodies.

If pushed, I am a bit optimistic, because that concept of earned recognition that Lizzie mentioned is broadly accepted, but the proof will be in the pudding. This is about actually delivering reduced numbers of inspections.

Q52 Chair: Do you think farm assurance schemes are being used enough in order to combine with inspection? Do not forget that farmers are being affected quite often by a farm assurance scheme as well.

Phil Bicknell: That, for me, is an obvious one, where you have commercial groups going in and inspecting as well. You can start to align that to make full use of what is happening.

Lizzie Wilson: You have to be very careful that you do not overload the farm assurance schemes as well. Every industry looks to see what already exists, and it is generally always Red Tractor. The more you put into the scheme, the more cumbersome it becomes and it does not work quite as well. That is something we need to balance very carefully.

Phil Stocker: As far as red tape and regulations are concerned, I do not think many sheep farmers would think that there has been any improvement at all, over recent years. People are still saying that things are getting worse, not better. Whether that is actually the case or not, that is the perception.

Talking about earned recognition, I was speaking to one of our members, about two weeks ago, where we were trying to make the case that a collection centre, which is acting on behalf of a very small number of farmers, is Red Tractor assured and still needs to be approved by the AHVLA to run, and yet their standards are almost identical. If anything, the Red Tractor standards are already higher than AHVLA requires. I still cannot quite understand why there cannot be an agreement between the bodies concerned. If they are Red Tractor and AHVLA accepts and understands those Red Tractor standards, it can negate the other inspection. There is a clear duplication there.

Within the sheep world, there are still major regulatory problems around movement reporting and identification of sheep, and the fact that we still have no tolerance in farmers to make an odd mistake, when you have to accept that the technology is not 100%. All the research and the tests that have been done have shown that electronic identification and recording are around 96% efficient. How there can be a requirement for 100% compliance before farmers get quite serious financial penalties is still beyond me.

Chair: We will make sure that is part of our record and report.

Q53 Rishi Sunak: I fully support those comments. I have lots of sheep farmers in my constituency and I hear exactly the same thing. The other thing I hear about, which I was going to ask you about, is carcass splitting and the impact that has, which it may be helpful for you to put on record. What is the impact of those regulations on our sheep?

Phil Stocker: TSEs in sheep are really a carryover from BSE, back in the mid-1990s.

Sheep were very much caught up in that. We are still having to split carcasses in sheep that are over 12 months of age and remove the spinal cord. There has never been any evidence to demonstrate that there could be a transference across the species—BSE into sheep—and there has never been any evidence that scrapie causes TSEs. Still, we cannot seem to be able to get any relaxation in the regulation within the EU Commission.

More recently, we have taken a look at trying to encourage a move to a different interpretation of when a sheep becomes 12 months of age. At the moment, that interpretation is when the first two permanent incisors erupt. We know from research that has been done across the globe that that can happen at any time, from 12 to 13 months right the way through to 20 months of age. It just leads to an awful lot of uncertainty, in terms of when those teeth are going to erupt. An awful lot of time and effort has been taken in terms of checking sheep, as to teeth eruption. We estimated earlier this year that those TSE controls are costing the industry something in the region of £24.5 million a year.

What we have proposed, again working very closely with the NFU here, is a change from tooth eruption to a set calendar date, so that the whole industry knows what that switchover date is. We are still waiting for FSA and DEFRA approval to move forward on that proposal.

Q54 Rishi Sunak: That is what I was going to ask: where are we in that process? Are you waiting for DEFRA to say that that is okay and then that has to go to the European Commission to say that that is okay?

Phil Stocker: We understand that it is a devolved responsibility, so our Secretary of State can make that decision and then simply justify it to the EU Commission. We are still waiting for the Food Standards Agency to approve to DEFRA that they are happy with that move from tooth eruption to a calendar date.

In regulatory terms, there is already a precedent that has been set for when a lamb becomes 12 months of age through the sheep identification regulations, which allow sheep up to 12 months of age to be identified with one single electronic tag. Again, a date has been set as the indicator of when a lamb is 12 months of age, and that date is 30 June. That is the date that we are seeking for carcass splitting as well.

Q55 Rishi Sunak: I have one last follow-up on carcass splitting. The other thing that we do differently in this country, relative to Europe, is specify the means for removal of the spinal matter. My understanding is that France, for example, uses a suction technique, versus what we do. Is that something where we would like to see that flexibility or not, because it involves incremental cost at the slaughterhouse for that equipment?

Phil Stocker: That is probably a question that needs to go to the meat processing organisations, but my understanding of that situation is that suction has been trialled here in the UK and it was deemed not to be efficient enough to satisfy FSA requirements. Our perception is that it is deemed to be adequate enough in France, Spain and other countries to remove sufficient SRM material to not be of any risk to human health.

Q56 Chair: The preferred option of the industry and the processor would be not to split the carcass.

Phil Stocker: Absolutely.

Chair: I just do not see the justification for it now at all. That is something we should pursue.

Q57 Rishi Sunak: Am I right in thinking, on the Chair's question, that that is set at a European level?

Phil Stocker: It is.

Q58 Rishi Sunak: My sense is, if a country has experienced any form of BSE, at any point, you then have to follow these rules. That would require a different kind of change to the more incremental changes that you are seeking.

Phil Stocker: Changing that regulation at EU level is going to be a very long-term matter. Changing the interpretation of the initial regulation here in the UK is a devolved matter and something we think could happen much more quickly.

Chair: I also think the history of the TSE regulation is very much that they took the BSE regulation and just inserted "TSE". That is largely how we viewed it and that is one of the problems. It has always been treated rather like BSE, and there was never that extent of TSE in sheep. That is where the problem has occurred. We will work on that one for you.

Q59 Rebecca Pow: My question is really about marketing. We have touched on it a little bit. I think everyone would like to see more marketing within our domestic market and indeed abroad. Mr Chairman, do you remember Food from Britain? I do not know whether you want to make any reference to that. As I recall, it was about 20 years okay, was it not? The NFU was right behind it. It was a big promotion for British food. This was in my young days, when I worked for the National Farmers Union and ran the Taste of Somerset organisation. I felt it was a very proactive promoting organisation for British food. Who do you think should be responsible for promoting British food and how do you think we are getting on with it? Mr Bicknell first—you are probably too young to remember all that.

Phil Bicknell: I remember Food from Britain. In the international trade context, in a previous job, I would go to trade shows across Europe and different parts of the world, and you would see the presence of different organisations. Right now, we have that Britain is GREAT banner—that was certainly the branding and merchandising at the Anuga trade show in Germany a couple of weeks ago. Just the meat hall alone covered about 10 football pitches, from what I understand. It was a huge size, a huge show, and certainly, from the guys who were involved and saw the branding, I think the industry was impressed by it.

From a personal perspective, I want to see Government focus their efforts on breaking down trade barriers, building relationships in export markets and properly addressing the regulatory issues at home, not necessarily getting hands-on involved in terms of the marketing and promotion.

Q60 Rebecca Pow: Is that a criticism of what is being planned or do you think they are doing the right thing?

Phil Bicknell: It is about trying to give the strategic insight and the overview, but, in terms of getting hands-on involved, probably less so. I am conscious that the NFU president is in the USA this week. We hosted a trade event at the British embassy there. That is the kind of thing that works well where, particularly in international markets, we are championing Britain and our producers. We are facilitating some of that relationship-building and getting rid of some of those international trade hurdles.

In terms of ploughing lots of money into promotion activity, that takes us into a whole host of views about what happens with regard to promotion or market development more widely. The Agriculture and Horticulture Development Board takes a levy off producers from different sectors. Some of their activity will go into market development. It has been a hot topic through the summer for various reasons.

Q61 Rebecca Pow: That is the next bit. There was a delay in the use of the money for the promotion of meat, because it has to go through the Cabinet Office. Do you think that really held up the summer promotion of red meat?

Phil Bicknell: From what I understand, there was a hold-up at different points. That has now been approved. That is happening.

Q62 Rebecca Pow: Is it not a bit late, though? You have missed the summer surge.

Phil Bicknell: There was some activity on lamb. Perhaps Phil could mention more, but there were some elements that happened. The frustration from my perspective was that these were plans that had been in the pipeline for quite a while. The activity was scheduled. I am pleased, my understanding is, that the Cabinet Office are saying that they are not going to be involved in the sign-off process in the future, which is a positive. There is a bigger question around market development and what AHDB does. Certainly NFU members want to know what they are going to do on market development and how to have a say. Some concerns are also starting to come through over DEFRA influence, which have been raised because of those delays.

My understanding is that AHDB is going out to the industry; there will be some engagement. Typically at the end of the year, they go out with a consultation period on their plans from industry. I expect that to happen again. There is a lot of noise in the industry right now about it, and certainly our members are having their say. We are feeding all of that into AHDB.

Q63 Chair: As far as the farmers are concerned, this is a levy paid by the farmers and the processors. Is AHDB spending enough on promotion, for a start? We have seen lamb prices drop all summer, and we were going to have a lamb roast promotion that still has not happened. It is partly the fault of Government, but is it also partly the fault of AHDB for not actually pushing hard and strong enough, and spending enough money, the point that Rebecca made, on promoting our good British beef and lamb? What is the situation? We hear all sorts. As far as I can see, AHDB is blaming Government and Government are blaming AHDB, so what is the truth of the matter?

Phil Stocker: First of all, the Government's GREAT British brand is a good initiative. You need to have something global like that, particularly when you are working in export markets, to sell Britain. That has to be a good thing. You probably come down a level from that when you get into AHDB activity. There is a very strong expectation among farmers, specifically those who pay their levy, that some of that money should be spent on promotion of the product. There was a delay. They probably delayed the advertising campaign by a minimum of six weeks.

I agree with Phil that, when we talk about promotional activity, we need to include within that the opening up of new markets, the development of new products, and working with butchers to train butchers on new cutting techniques. All those things are promotional, but we do need advertising as well. No industry would be successful without advertising its wares, so farmers do expect some of that money to be spent on advertising. One of our worries at the moment would be that the coming together of AHDB and all the different sector companies, which is a good thing in terms of us driving efficiencies, must not take away the ability of sectors to be able to market their own products. It is essential that we maintain that ability.

Rebecca Pow: I always remember that advert "Slam in the lamb". I thought that was very good.

Phil Stocker: I would mention as well that we have seen this year, I guess driven by some desperation, a greater number of producer initiatives to try to get more promotion going. One of those would have been the work that Rachel Lumley, a sheep farmer up in Cumbria, kicked off, which was British Lamb Week. We all, as organisations, got behind that and we saw quite a lot of farmer involvement and take-up, just hosting harvest festivals, maybe trying to get local produce in pubs and those sorts of things. It is a collective responsibility. The Government have a role to play. AHDB clearly has a role to play and farmers expect some of their levy money to be spent on this type of activity, but there is a lot more that we as farmers can do as well in terms of promoting our product.

Q64 Chair: My view is that there is something like £60 million in these levies, which is a lot of money. Why is there not a bigger percentage? We have a very good home market, but we are just not promoting enough. All these local initiatives are great, but there could be some national advertising as well. What are you doing as far as the National Sheep Association, the National Pig Association and the NFU to make sure this happens, because something is not happening?

Lizzie Wilson: Obviously the levy has to be directed towards a variety of different areas. There is R and D; there is knowledge transfer. If you ask certain producers, they will tell you that not enough money is spent on marketing. If you ask other producers, they will say that far too much is spent on marketing.

At the end of the day, whatever we do, it has to deliver a successful campaign and value for money. We have been very pleased with the recent pulled pork campaign, which actually increased volume sales of pork shoulder by 19.2%, and we saw a halo effect in sales of fresh pork, which increased by £7.8 million as a direct result. That was signed off before the lamb campaign, but we are concerned that there are increasing restrictions and dictation by Government. We are happy that it has now moved from Cabinet Office approval to ministerial, but our sector boards are appointed by Ministers. Although we appreciate and understand the need for a justification of spend, as long as there is a robust assessment process afterwards, that should demonstrate exactly how successful the campaigns are.

As NPA, we continuously support AHDB. We very much push the British message, as obviously AHDB pork is not legally allowed to, and we also have our own initiatives. We have various social media campaigns, we have various national press campaigns and we ensure that all our producers are 100% bought in to ongoing activity.

Q65 Chair: In the way, the point you made that the promotion actually pushed pork shoulder up by 19% almost proves that we needed the lamb promotion that was held off. When do we expect that? Do we know what then promotion is going to happen? It is like the arrival of the Queen of Sheba; she is taking a very long time to get here.

Phil Stocker: Our expectation was for the last week of October, so we are expecting it to be launched imminently. We have seen campaigns in Wales and Scotland on the television, through social media, through ad vans and those sorts of things. It is a real shame, our producers were seriously let down by the fact that our promotional activities in England have been so delayed, at a time when the seasonal product was coming through.

Rebecca Pow: It was by the Cabinet Office basically. Is that right? Am I allowed to say that, Mr Chairman?

Q66 Chair: My knowledge of it is that the Cabinet Office did get involved, but I also think that there is an issue with AHDB as to how much is spent on promotion. I agree with you that money needs to go into research, but quite a percentage of that money that is paid on those levy boards by farmers and processors should be spent on promotion. That is what I would like to see all of your organisations pushing harder with AHDB, so that a percentage of that money that farmers and processors are paying goes to promoting the product.

Phil Bicknell: Different sectors have different priorities. They are at different stages. They have different groups of levy payers. For some, it is just farmers. For others, it is processors as well. We need to make sure that there is not a one-size-fits-all approach. There is already a different balance of how spending is allocated between market intelligence, R and D, knowledge exchange and the market development aspect. The

important bit is that the levy payers are those who determine the priorities, determine the focus of it and have the final say on how the levy is spent.

Chair: Sorry to labour this, but I do not think the levy payers feel they are getting a fair crack at the moment, because they are actually saying that not enough of this money is being spent on promotion. That is the issue. If you do not come forward with a united front, Governments of all persuasions will divide and rule. The industries need to come forward with what they want to see in the way of promotion. We are missing something that could be really good for our local and national meat production.

Q67 Rebecca Pow: Could I just chip in? We have this worrying red meat health issue that has just hit the fan this week. I am wondering how you are going to address that. We are being told that processed sausages, salami, bacon, ham and everything are health issues. How are you going to deal with that?

Chair: It was put in such a way that it is not necessarily bad to eat, as long as we do not eat too much of it. The way it was all promoted from this research was somewhat dubious in my view, but I do not know what the pig industry has to say about it.

Lizzie Wilson: There is no new evidence, just to make that point initially; it is just existing evidence that has been reviewed. Really, it is hazard versus risk. Whether you talk about red meat or you talk about processed meat, and place it in a certain category of whether it is carcinogenic, it is the risk of that actually happening that people forget. They very much focus on the former—that is, hazard—and forget about the latter, risk.

From our point of view, generally everything should be in moderation. Everything that is perceived to be bad for you should be part of a balanced diet. Red meat has lots of attributes. It is a very good protein source with lots of vitamins and minerals. For processed meat, they were talking about 50 grams, and the average person in the UK consumes 17 grams on a daily basis. You just have to contextualise a lot of the data.

Chair: They were talking about three times the amount of consumption that people are actually consuming. This is the problem when it hits the headlines.

Phil Stocker: Some credit needs to go to AHDB in this area, because AHDB did some really fantastic preparatory work, involving and bringing together all of us as organisations. They were really well prepared in terms of the statements that countered some of the outcomes of the IARC report. It was a good example of some of their good work.

Q68 Rebecca Pow: They did not get much news coverage on the other side though, did they?

Phil Stocker: No, but they managed to dampen down what could have been a more negative story.

Lizzie Wilson: It was not directly AHDB, but the Meat Advisory Panel, which worked in conjunction with AHDB. They provided a lot of balanced comment and quite a few of the news pieces.

Q69 Chair: I have one final question on red meat. The Irish promote a lot of grass-fed red meat, both beef and lamb, which has some really good extra qualities in it. I just wonder whether we ought not to be linking the grassland landscape of production with grass-fed beef and lamb. Should we be doing a bit more on that?

Phil Stocker: Personally, I would say that there is a lot more we could do on that front. It will happen as the months and next year or two roll out. There is increasingly good evidence coming out of various research organisations that grass-fed meat has particular qualities to it, and it allows us to add another brand.

Chair: The vast majority of sheep meat must be grass-fed.

Phil Stocker: Absolutely, it is already.

Q70 Chris Davies: Just picking up on what Phil said earlier to my colleague's question on red tape, the perception of the farmer out there is that nothing is happening. I asked the Secretary of State and her team exactly the same question last week, and the Permanent Secretary the week before, and I do not think they believed me when I said that the perception is that nothing is happening. Can you just confirm, from the industry's perspective, that the perception out there is that we are not doing enough, if anything?

Phil Stocker: Absolutely. I have said it already and I will say it again. The perception on the ground out there of farmers is that things are not getting any better. Some people even think that things are getting worse. *[Interruption.]*

Chair: We will have to stop you there. As long as it is one vote, we will come back within about 15 minutes. Thank you very much. We will come back and finish off. This is democracy, so we will go and do a bit of voting.

Sitting suspended for a Division in the House.

On resuming—

Chair: We were in the middle of the question from Chris so, Phil Stocker, would you like to carry on from where we left off?

Phil Stocker: Could someone remind me where we were?

Chris Davies: We can take it as fully answered, Chair. It was farmers' perception. I was assuming that the NFU and the pig industry think the same. We have not done

away with as much of our red tape as we should have. Perhaps we could pass that back, following on from last week's seminar and the week before.

Chair: Your actual question is slightly different though.

Chris Davies: I thought we had covered it under the last question, Chairman.

Q71 Chair: I suppose we did. It is just directly about the red meat levy arrangements. Are they fit for purpose? Would you like some changes?

Phil Stocker: What we cannot do in the future is see the sorts of delays we saw this year. I am sure, over these next few months, there will be discussions about ministerial sign-off of this money, in this case in the AHDB beef and lamb boards. At the end of the day, what we cannot do is see these sorts of delays. There needs to be much more advanced work in preparation, discussing strategies and actions, to avoid these delays.

Q72 Chair: Further to my previous questions, do you feel that those who are paying the levy—that is, the farmers and the processors—have enough say in what is done with that money, either with Government or AHDB? How do you think it is working at the moment, because it has not worked this summer, has it?

Phil Stocker: In theory, they do, because they have elected beef and lamb boards, as far as beef and lamb are concerned. They have a board there to represent them. Maybe more needs to be learned from this about discussions between levy payers and the board, and discussions between AHDB and the levy payers, with more consultation and discussion.

Phil Bicknell: I would just reiterate that I think those who are paying the levy should be the ones having the say. There are lots of opinions out there about what should be done and the work that is undertaken, but ultimately levy payers should have that final say. As I said, there is lots of feedback and lots of views out there that need to be taken on board. AHDB needs to communicate a little bit better. Some of the NFU members want to have their say. I expect that to happen.

Lizzie Wilson: The boards are there to be listened to, because they are the representatives of the levy payers. That is a very important point.

Q73 Chris Davies: I just have a supplementary. We have a different organisation in Wales. Do you think it is a good idea for it to be cross-border? When it comes to Europe and the rest of the world, should we just have one marketing group and one marketing model?

Phil Bicknell: You start getting into some big issues over repatriation of levy and where it ends up. I am not sure whether the Committee will bring in AHDB in the future, but that might be a question for them. It is a complex issue. Export promotion seems to be something where there could be potential for it to come together. We are producing great products, regardless of whether it is lamb coming from the hills of Wales, the hills of Cumbria or the South West. Brand Britain and that Britain is GREAT banner seem quite appropriate.

Q74 Chair: We have AHDB coming in next week, so we will carry on the interrogation. It is not just you we interrogate; we interrogate everybody. The next question is: do you believe that export markets have the potential to lift farmers out of their current difficulties? Is DEFRA doing enough to identify and open markets for British goods? If not, where can they improve?

Lizzie Wilson: Absolutely, export markets have a vital role to play. For the pig industry, our export market is now worth £350 million per year, which equates to about 28% of pig meat that we produce, which is vital. Government have been responsible for facilitating a lot of market development with regards to exports and opening new markets.

Indeed, I think the Secretary of State should be signing an extension to our export agreement in Beijing, in November. That will mean that we can now export trotters and stomachs, which we are not overly fond of here in the UK; we are a little bit squeamish. That is worth £12 million to £18 million per annum for the pig industry, so it is very important. Of course, although processors probably will not see a benefit directly, it all feeds into the supply chain for the long-term benefit. It helps with carcass utilisation and it also ensures that processors and retailers are happy to pay more for British product in the long term, so that is very important.

One issue that we can see coming is where the next big export market will be. Although China is very lucrative and positive currently, that is probably going to be only for the short term. In the next 18 months or so, their pig herd will be back up to capacity and they will be increasing production all the time. Russia has an aspiration to be self-sufficient as well. They are currently importing a lot of Brazilian pig meat. Once that is not required anymore, it will also be displaced on to the market and will need to find another home. For Government, that is going to be our main point of focus for support and advice. Where are the next export markets? Where are the next opportunities?

Q75 Chair: Your view would be that we are doing okay. The Secretary of State is promoting meat. Do we have enough people in place, not only in DEFRA but in UKTI in China? I know AHDB sponsors someone in China, but are we doing enough to be able to promote in those markets?

Lizzie Wilson: The sponsored resource in China is very welcome. I am not sure how much of an impact that has had currently. Again, that is probably more of a long-term objective. I do not know if Phil wanted to comment.

Phil Bicknell: For me, it is more about the issue of how we start to join it all up. In a previous job, I used to work for the US Department of Agriculture, based in the American embassy in London. Part of my job was opening up markets and helping American companies come into the UK. We do not have that same resource in British embassies around the world and it is probably unrealistic to have it. However, there needs to be information and the ability to support those individuals who are in those embassies to make sure that they are targeting their efforts in the right way and developing the right relationships, which needs a degree of strategic oversight, in my opinion.

I want the focus of DEFRA and Government to be removing those trade barriers. If you remove those hurdles, then it is for commercial businesses to come in and take advantage of that opportunity. A key thing for me is to start looking wider than the EU for our food exports. 75% of what we export goes to other European Union members; we need to look further afield than that.

Q76 Chair: What about the sheep sector?

Phil Stocker: As I said earlier, the sheep industry in the UK is already reliant on 40% of its product going out to export markets, so it is absolutely crucial for the sheep sector. It is increasingly becoming even more important, because it is about balancing the carcass, as Lizzie was saying. It is making some value out of products that would otherwise impose a cost on the industry, so it is doubly important, I guess.

I was out in China this time last year looking around some sheep farms and sheep processors out there, and what was abundantly clear there was the level and depth of investment that New Zealand had made into developing that market. They said that they had been out there for 15 years, developing political and trade relationships. We need to be talking about making that level of investment. The trade ambassador out in Beijing is very welcome, but it is too early to say whether it has had an impact. We have certainly not seen any impact and it is likely to be another two years plus before we start to see that direct market into China increase for us.

We need to make sure we focus on the right countries, but we need to do more to open up any new export market opportunity, even for small countries like Norway and Belgium. Some of those northern hemisphere countries are really valuable to the sheep meat market. It just increases the basket of opportunities.

Q77 Chair: As far as sheep meat is concerned, I should imagine France is still our biggest market. If you look at Europe as a whole, in my view, they do not eat enough sheep meat. Once you start to move towards Germany, Central and eastern Europe, it is very good for pork, but not necessarily quite so good for lamb. I do not know what more we can do there.

Phil Stocker: Something we ought to do is to get on the back of the new EU marketing campaign for sheep meat. I do not think it has been well enough talked about, but there has recently been a £5 million bid to work on marketing sheep meat across the EU. As organisations, our Government and our own levy bodies should be getting behind that and using those resources to increase sheep meat consumption. One of the big worries for our sector at the moment is that we are still seeing a decline in consumption of what is essentially a highly nutritious and delicious meat, and we need to turn that around.

Q78 Rebecca Pow: Who needs to get involved in that, then? Is that DEFRA? Who joins the EU marketing campaign for sheep meat? Who needs to do that, for us?

Phil Stocker: AHDB is facilitating it and they have helped to draw down that money. As an organisation, they need to be getting behind it more. I do not think we are hearing

enough about the fact that this campaign is in full flow at the moment. I never hear of it within DEFRA circles, and there are not enough retail companies.

Q79 Chair: AHDB is coming in next week, so you have given us some food for thought on questions for them. I have a second question, which is very similar to the first. Are farmers doing enough themselves to identify and tap into export opportunities and how able are they to do that? What impact do delays in the production of export licences by DEFRA have on the ability to exploit overseas markets? At the moment, it seems to be a little better but I know, from time to time, people contact us about export licences and the speed at which we do not do them.

Phil Stocker: There is still an issue about export licences, certainly as far as sheep meat is concerned. The industry is still financially supporting the UK Export Certification Partnership. We are still investing in that partnership to open up these markets. I do not think we should ignore the fact that we are talking largely about meat here today, but there is still a great potential out there for our genetics to be exported, in terms of semen, embryos or breeding stock. There is still quite a lot of potential for those markets to be opened up as well.

Q80 Chair: I would imagine that we probably have the most diverse breeds of sheep of anywhere in the world, I suspect. Have we? I do not know.

Phil Stocker: We would have the most diverse. The NSA actually has 82 breed societies affiliated with us, which is an indication of the breeds, half-breeds and cross-breeds that we have in this country. We have a very wide, broad and valuable genetic base, and our genetics certainly attract an interest from a lot of countries overseas that are unable to make use of those genetics.

Q81 Chair: There is an argument that, in the past, we probably have not used enough of the genetics within our sheep flocks, but I imagine that is getting better. Is it?

Phil Stocker: It is getting better. It is an area where we need to see more research. We have those breeds. There are somewhere in the region of 60 different pure breeds of sheep, here in the UK, and they are all here for a reason: they all contain valuable traits. I do not think we have done very well at measuring those traits, understanding them and then talking about them, so I agree. If we are talking about the marketing, we need to recognise that some of the mainstream market supply chains that we are working in do not necessarily support that diversity of breeds. If anything, they lead towards more homogenisation and you can understand why that is the case. There is definitely a value in that genetic diversity that we need to protect.

Q82 Rebecca Pow: On that note, Mr Chairman, it is interesting that you mentioned this. I attended the Farm to Fashion event in the centre of Taunton. I think the sheep fraternity were involved in it, but also Fox Brothers in Wellington, who are international makers of beautiful cloth, are forging a link with the sheep industry to promote wool again. It is an area that is an

absolute niche market on which we could really build. It came to Savile Row the week before and Taunton the next week. They are working with Cannington college to educate students.

Chair: Taunton would be a lot posher than Savile Row, would it not?

Rebecca Pow: It is much posher. I did a film on our website about it. I would really urge you to promote it and get involved in it. It has big mileage.

Phil Stocker: You are talking about the campaign for wool, which is HRH the Prince of Wales's big campaign.

Rebecca Pow: Yes, he is involved in this.

Phil Stocker: Most of the British Wool Marketing Board's marketing budget would go in the direction of the Campaign for Wool. They have done some phenomenal work in terms of building demand for woollen clothes, but also for upholstery, interior design products and textiles.

Rebecca Pow: It all needs more promotion, like all these things we are talking about, because there is big mileage there.

Chair: There is, and we do not use wool enough. The wholesale price of wool has been low over the year, so it would give some extra income. Chris wants to come in; he probably wants to tell us that Welsh wool is even better than any other wool.

Q83 Chris Davies: I would not dream of it on wool, Chairman, but I would certainly invite you to the Royal Welsh Show, where you will see the best of all the breeds in the country, and indeed the NSA sale is held in Builth Wells, where there is tremendous variety and selection. Could I just ask, Phil, we talk about the export market—and not just the meat market. As we already heard from the pig industry, there are so many associated products that are vital to the carcass, and we seem to have gone back on that at the moment. Can you explain why, which countries are not buying those other products and how we can address that?

Phil Stocker: It is largely about the value of skins, which again is a globally traded product. The Russian situation has not helped there and, for products going to China, with the fact that the Chinese economy has taken a downturn, even our fifth quarter products are struggling to get into that market.

Q84 Chris Davies: Can we do anything to address that or is it just the world situation?

Phil Stocker: It is probably about trying to open up new markets in countries similar to China that would have an interest in buying those products. It would be about opening up the widest range of markets that are available to us.

Q85 Chris Davies: This is mainly to the NFU, really. EU Agriculture Commissioner Hogan has resisted calls for a change to the EU intervention price for milk. What do you make of that?

Phil Bicknell: Hopefully it was picked up when colleagues came to the dairy inquiry, but you will be aware that we called for a review of it. That decision has been made. I still have the perspective that the intervention price gives us a safety net that is so close to the floor as to be ineffective. The Commission have said that there is a range of other activity that they are going to focus on. The providing of information through the Milk Market Observatory, some of which has been going on for a year, really needs to step up.

Some of the wider areas where we need to focus are with regards to futures. I hear words like that coming out of Commissioner Hogan. We need an easier, quicker and more convenient way of reviewing intervention. The other thing that the industry was pretty frustrated by was Commissioner Hogan's reluctance or hesitancy to recognise that we are an industry that is struggling and in crisis. Even though the price has been falling month on month on month, with some big drops, he refused to recognise that there was anything wrong and even talk about some of the issues. That is where some of the concerns came from.

Q86 Chair: He is in denial, is he not? He is just saying, "Crisis, what crisis?", but that does not get away from the fact that we are in crisis. We need to put more pressure on him, because there are more measures they can use. They can use private storage and others, for which they have produced some money but not enough, I do not think.

Phil Bicknell: That has particular relevance for some of the dairy stuff on private storage aid in Northern Ireland.

Q87 Chris Davies: Futures may be more of a long-term prospect. Can anything be done in the short term?

Phil Bicknell: It is just trying to provide some better-quality information. We have talked quite a lot about promotion, but one of the big frustrations is Europe sent €800 million worth of dairy products to Russia. When Russia closed its borders, that obviously dropped to zero. We have failed to find alternative markets for that, so that extra €800 million worth of dairy products is sloshing around Europe, depressing prices. There needs to be much more focus from a European perspective on exports and export strategy. I know it is something that Dairy UK is picking up from a British perspective.

Q88 Chris Davies: The red meat sector has received no support from the EU during the difficult period. What would you like to see done at the EU level—sorry, I am going on about the EU today—to better support your industries? This is basically pigs and sheep.

Phil Stocker: What more would we like to see done at an EU level to better support our industry? One of the big things has to be about addressing a decline in consumption, particularly when we are seeing a decline in consumption of sheep meat generally and

have done over the last few years. Worryingly, if you look at some of the statistics, most of the sheep meat being consumed is through the older population. The concern is how we try to get our younger generation switched on to eating sheep meat, and a lot of that will be about the presentation of new cuts and more innovative cuts that support quicker cooking for people who have less time, and also cuts that are aligned with people's new interests and aspirations for menus and recipes as well. Within the younger population, the demand for a leg of lamb or a shoulder of lamb is probably a worrying problem.

Rebecca Pow: I bought neck of lamb the other day. It was very cheap and made fantastic slow-cooked casserole. It is the simplest thing ever. Things like that need promoting. My 23-year-old daughter would not have thought of buying neck of lamb.

Phil Stocker: Promotion is a big thing. The other thing I would like to see more, with more recognition from this Government, is about the value of sheep farming and its social and environmental influence on our landscape and communities here in the UK.

Rebecca Pow: Does that bring us right back to our sustainability issue that we were on at the beginning? It is a massive selling point, I think.

Q89 Chris Davies: I have mentioned the EU several times and we have talked about exports, but what other markets in this country can we improve? I am meeting with the Junior Minister and the Secretary in the Ministry of Defence next week, with representatives of the NFU, to discuss procurement dates. Can we take more on in the defence sector? Can we eat more meat? Can we eat more lamb? Perhaps there are other Departments. Where else can we look to sell more meat?

Phil Stocker: The catering and public procurement market is one that traditionally lamb has struggled with, because it has been at the high end of meat values. With new cutting techniques—and maybe feeding into this message to eat slightly less, but good quality meat—there are ways of getting sheep meat back on the menu.

Then there is this exploration of new products. For too long, we have been selling lamb as lamb, and there is a lot of differentiation we could make. We are working on a mutton project and I am sure there is a lot more we could do to sell quality mutton in small volumes, which would help buffer some of the volatility in prices for farmers. We can add value to wool and add value to new meat through the development of the mutton market. There is a lot more we can do to add value, in any way we can.

Phil Bicknell: I am appreciative of the support that you have for our colleagues at NFU Cymru. I am very passionate about trying to get more British and Welsh product into the public sector. For lamb, it can be something as simple as when that product is going out to tender. If it is at a time of year when British lamb supplies typically are not available or would be highly priced, that is going to be a disadvantage when it is being looked at.

It helps just trying to get more information from the public sector, full stop, of what they buy, when they buy and what their sourcing strategies are, because then we can start to sit down, have that conversation and say, “This is what we can do.” We have a bit more transparency from our retail sector, in terms of what they supply and when. On lamb, which has been an emotive issue, if we know when the supply window is, we can have that conversation about what we need to do as an industry to extend that lamb supply

window or to bring it forward. How can we get lambs to you earlier? Having that information has been really lacking in the public sector.

Chair: Get the contracts right for our market. I want to bring Rishi in before he goes.

Lizzie Wilson: Sorry, can I just come in on the pig industry first? We suggest three areas—specifically, food service and manufacturing, catering. Retailers are generally very supportive with regards to their commitment to British. Food service, manufacturing, catering is a huge opportunity. There are some businesses, such as Elior, which are really good at supporting British and Red Tractor, but there is still a lot of work to do there.

We have mentioned public sector procurement and Government procurement policy, particularly the British Food Plan. There is a specific caveat in that that relates to cost. Although products are supposed to be purchased to British standard or equivalent, if cost savings cannot be made elsewhere, then EU standard or equivalent can be purchased, which completely undermines our industry.

There is also new product development as well. We obviously want to expand as an industry, but to produce more we need to sell more, because we have a carcass imbalance issue. We are driven very much by leg and loin in the UK, so anything that utilises the primals that lack demand—such as shoulder, hence the pulled pork campaign—should obviously be a focus. Korean food, street food, barbecue, pulled pork and anything slightly different is a really good focus.

Chair: We will get that on record, thank you.

Q90 Rishi Sunak: To come back to country-of-origin labelling, obviously there were some changes that happened in April, which I think were a positive step, with the exception of dairy. I would be interested in your thoughts on how European country-of-origin labelling rules are working. Are they too complex? Are they being followed properly? Where could we make improvements if any need to be made?

Phil Bicknell: From my perspective, from travelling around the country meeting NFU members, labelling is an issue that comes up regularly. I am sure that Lizzie and Phil would be in the same boat. I get things emailed to me or packaging thrust into my hands about bad examples or things that members are not happy with.

What do we need? We need clarity rather than confusion. The big challenge, as Lizzie highlighted, is around food service. There is a lack of information there about where food comes from. There is still greater clarity needed around some of the mixed terminology of “British” and “UK”. There is perhaps greater guidance or guidelines needed around use of flags as representation of origin, particularly on dairy products. I have looked at a lot of dairy products in the last six months. It is the health mark. People might look at that, as that is the only thing that is flagging it up. You might think it is British, because you see the UK on it, but the chances are that the milk or the ingredients might have come from somewhere else.

In answer to the question, those changes in labelling that were ramped up are a positive step. It is something that colleagues who specialise in this area are looking at in a bit more

detail. These are still relatively early days but, for me, the bigger opportunity is trying to get better inroads into food service.

Lizzie Wilson: Also, the Commission seemed quite reticent to extend mandatory country-of-origin labelling to meat as an ingredient, or processed meat, because, although the consumer has quite an active interest in it, they are not actually willing to pay for that to be delivered. When you are talking about sausages and fundamentally processed meat, that is absolutely fine. When you are talking about whole-muscle products, such as ham, bacon and gammon, then surely that is quite simple to identify and trace, and so could be included within country-of-origin labelling, which again provides a greater degree of clarity and transparency for the consumer, when they are purchasing the product.

Chair: Labelling must not be confusing either, because it can be.

Lizzie Wilson: Absolutely.

Phil Stocker: For the sheep industry, most of the problems occur between UK-produced or brands within the UK and New Zealand. There would be a lot of concern about a lack of clarity for consumers who just want to go in and pick something off the shelf quickly. It is not easy to determine what the country of origin is. There is still a lot of confusion out there where, at times, there would be no UK product on the shelf whatsoever. If it is questioned, quite often the response from the retail representatives would be that UK lamb is out of season, and that might be in August or September.

Chair: That is clearly not the case.

Phil Stocker: Absolutely. There is not adequate clarity out there at the moment. There is an issue with the way that some of our processors and retailers have to source their product from New Zealand, in that they forward buy certain volumes. At certain times of the year, they will use the UK supply to balance the volumes of New Zealand lamb coming in, which is exactly the opposite to the way it should be, if we really wanted to support our UK producer.

Q91 Chair: There are some more questions for AHDB when they come in. You will be glad to know we have got to the final two questions, which are on retail and the relationship between farmers, processors and retailers. We are in a situation now where the retailers are really having a tough time. They are having a bit of a war with each other and, I believe, they are inclined to drive down the price that the farmer gets paid for his or her product. What improvements would you like to see in the relationship between farmers, processors and retailers? It is quite a big question.

Phil Bicknell: It is a huge question. As if things were not bad enough with what was happening in terms of supply and demand, and some of the global challenges, you then throw in a battle over shopper share and footfall into stores, particularly with some of our mainstream retailers trying to compete against the growth of the discounters. It just creates a perfect storm. Inevitably, what that means is downward pressure. Retailers will be going to the supply chain expecting or asking for lower prices. When we have seen drops in commodity prices, that may be achievable in part, because you can pass those on or they

will be reflected. When we get to a situation of an upwards curve on prices, it starts to create some big challenges.

To me, it comes down to the supply chain looking to ensure that all food comes from producers that have been paid a fair price. It comes down to our supply chains understanding the pressures that farmers are under and understanding some of the costs of production better. Scope for longer-term contracts appears to be a very sensible approach. I would like to see those contracts increasingly accommodate different pricing mechanisms as well, whether that is min or max, whether that is taking into account costs of production or giving a fixed-price element. Anything that starts to give certainty would be positive.

Some of the retailers do some good things. Tesco Sustainable Dairy Group has been a positive. Sainsbury's does similar, and so does Co-op and so does Waitrose. Waitrose has done some really good stuff with its lamb supply chain and some of its red meat producers, but there is scope for all retailers to do more. Wanting to collaborate with the farming industry, trying to make it more of a relationship and less of a confrontational transaction is the ideal world.

Q92 Chair: We had evidence here in the last Parliament, after “horsegate” and the horsemeat scandal, when you had many of the major retailers saying, “We must have British meat.” That is fine, but they must also try to pay a fair price for it. That is what worries us all. Are some of the big retailers using their muscle to drive the price down, especially when there is plenty of product out there? They can do that so much more easily when there is a surplus of supply.

Phil Bicknell: The market dynamics and the supply and demand dynamics will influence different parties' attributes to want to come, join in and sign up to things. We have mentioned voluntary codes through the course of the afternoon. Retailers abiding by those voluntary codes out there and encouraging them would be positive. NFU has worked on a fruit and veg pledge to try to get more equitable or greater shares in the supply chain. We have had one retailer sign up to that so far, but I would love to get more retailers on board to commit to doing the right thing, in terms of their supplier relationships.

Q93 Chair: As far as the sheep and pork sectors are concerned, some of the contracts in place with dairy and direct milk now guarantee a price for milk in many of the large retailers. Could we not see a system a bit more like Waitrose is using across the larger retailers where there are contracts in place? Are you doing work on that?

Lizzie Wilson: You are definitely starting to see more of that. Retailers are focusing far more on their individual producer groups, pricing matrices and contracts, and how else they can support their producers. As I said before, whether that is via help with access to finance or buying groups, at the end of the day, they still need to demonstrate their integrity to ensure that their consumers trust them, particularly after the horsemeat scandal and after the Chris Elliott review. After many years of drumming it into them, again and again and again, they realise that, if they want to source British, then they must secure

their supply chain and they must support their producers. That is more apparent now than ever, to be quite honest.

Phil Stocker: Similarly in the sheep sector, I would agree with everything that Lizzie and Phil have said. We need to remember that this is probably a four-way partnership; it is not a three-way partnership. The processors have a key role to play in this, and we have to recognise that they often get squeezed. The retailers are going through a tough time at the moment, but some processors have been through a really tough time as well. The future of this is about bringing the producer community and producer organisations together, with the processors and the retailers, but somehow we need to turn that into a positive for consumers as well and allow the retailers to turn that into a positive for consumers. Consumers have to be brought along with this as well and recognise the value of the product they are buying.

Lizzie Wilson: That is where new product development comes in. Retailers have a responsibility to help us balance our carcass, and to help stimulate demand as well. They sometimes focus a little too much on export processes particularly, rather than new product development. That is definitely where they can help producers.

Q94 Chair: My final question is: what should retailers do to better promote British produce to consumers in their stores? The other part of it is: should there be a limited number of red meat imports that retailers stock? There are two sides to that. One is how they should promote British products more, and should they be stocking less imported meat?

Phil Bicknell: The first part of that is relatively straightforward. Clear product labelling is something we have picked up, as is shelf space. As Phil will tell you, sheep farmers will point to the diminishing size of the lamb category. I know one retailer worked with their supplier group to get farmers to re-merchandise the layout, which led to an increase in sales. Just try new initiatives, looking at shelf space and how that is merchandised. Some things around red labelling, on pack and in store, we have not really touched on, but some of those things on farm assurance are really what stands UK and British production apart.

In terms of the second part of the question, as much as we are competing against New Zealand coming in, you have already mentioned yourself, Mr Chair, that we export around a third of our lamb typically to France. We are competing in international markets. Yes, there are some challenges.

Q95 Chair: We cannot altogether promote our own exports if we will not accept imports. We just have to try to displace as much of that import as possible.

Lizzie Wilson: We would rather increase demand to the point where it displaces these imports, rather than restrict what is sold in the UK.

Phil Stocker: Again, as both Phil and Lizzie have said, it is about transparency and choice. While we might like to see constraints on New Zealand lamb coming in, it would be unfair and unrealistic, if we are trying to develop our export markets. If there was a question about what the Government could do to help us in this way, it would be to work further in

other Departments, such as possibly the Department for Education and the Department of Health, to try to make a case with the public about the benefits of supporting UK businesses and buying UK products, because that is where it will start: from the marketplace, the consumers.

Chair: I know the Secretary of State was previously in the Department for Education and she is keen to see more education about the food we eat and the way it is cooked being dealt with in schools. That is a real benefit.

Thank you very much. We have put you through lots of questions. You have had nearly two and three quarter hours altogether, or probably more, so thank you very much for that. Like I said, we have all this evidence now. We have the retailers coming in, others to come and all sorts of people to come yet, but thank you for your evidence. It will be very useful to pull our inquiry together. That will then be sent to Government and we will have a debate here in Parliament. Farmgate prices are so important at the moment, because farmers and producers are under huge pressure, so we look forward to doing our very best to promote British food and put the prices up for the farmers and the processors. Thank you very much.