HOUSE OF COMMONS

Welsh Affairs Committee

Oral evidence: Agriculture in Wales Post-Brexit, HC 1084

Wednesday 19 April 2017

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Watch the meeting

Members present: David T. C. Davies (Chair); Byron Davies; Chris Davies; Glyn Davies; Dr James Davies; Paul Flynn; Liz Saville Roberts; Mr Mark Williams

Questions 36 - 80

Witnesses

David Swales, Head of Strategic Insight, Agriculture and Horticulture Development Board; and Rebecca Williams, Director, Country Land and Business Association Cymru.

Written evidence from witnesses:

– Country Land and Business Association

Examination of Witnesses

Witnesses: David Swales and Rebecca Williams.

Q36 **Chair:** Good morning, bore da. Thank you very much indeed for coming along, Mr Swales and Ms Williams. I understand, Mr Swales, that you may find it rather difficult to answer some of the questions that have a political slant, so if you are not comfortable just let me know; I understand that you are a bit more limited.

Can I start off then by asking both of you what you feel the contribution of agriculture is to the economy of Wales and how important it is to our economy?

Rebecca Williams: I think the economic contribution is important. Although the GVA itself is quite minor, the contribution to the economy is important, but also the wider contribution it makes to the economy in terms of the knock-on effect. For every pound that farmers spend that is spent within a 25-mile locality, 80% of the spending that farmers have is spent locally, so that is significant. The rural economy is dependent on farming and farming very much is the backbone of the rural economy.

The contribution that farming makes in terms of the social, environmental and cultural benefits it offers as well is also important and cannot be understated. It might not be as easy to measure but once you lose it, it is gone, so it cannot be overlooked.

David Swales: Yes, I would agree. To make the comparison with the rest of the UK as well, the proportion of Welsh GVA that is produced by agriculture is much higher, about 0.7% in Wales, which compares to about 0.4% in the UK as a whole. For Wales in particular, agriculture is particularly significant. The NFU did a study where it looked at some of the multiplier effects and the wider benefits agriculture has, and it estimated that the value was probably five or six times higher than just the basic GVA figure just because of some of the wider benefits agriculture provides in terms of maintaining the environment, supporting tourism, and also purchasing and buying services from other businesses.

Q37 **Chair:** What was that figure you gave me again, the difference between the UK and Wales?

David Swales: That is in terms of GVA. Welsh agricultural GVA is between £350 million and £400 million each year, and that accounts for about 0.7% of gross domestic product in Wales. That is a higher proportion than for the UK as a whole.

Q38 **Liz Saville Roberts:** There is this quantification of the £1 spent is £7.40 in value. Can you do a UK/Wales equivalent on the wider value of agriculture beyond its direct GVA contribution, Wales versus UK?

David Swales: I can't, unfortunately. The study I quoted from where about five and a half times the GVA is that wider benefit, that is a UK-wide study that the NFU completed, which would include Wales. I imagine the proportions would probably be similar for Wales and other parts of the UK.

Q39 **Glyn Davies:** We quite often hear one of the contributions that agriculture makes is the way it supports the Welsh language, because that is quite strong and is maintained in what is usually a fairly stable community, the farming community. Have you made any assessment of how important that is, how significant that is, and whether if farming were to have a lesser role in Wales it would be more damaging to the long-term future?

Rebecca Williams: There were some national survey results last year that showed that Welsh language is more prevalent in rural communities than it is in urban communities. If you also look at the authorities where Welsh is spoken more from the results of the national survey this year, there is clearly a correlation between rurality and Welsh language. From that, you can assume that any changes to the structure of the farming community will have an impact on that language use as well. Also the knock-on effects; it is not just the farmers that speak Welsh; it is the community around them, the schools and the services that they offer. So when you take one element of that out it does have a knock-on effect as well.

Q40 **Glyn Davies:** Is it fair to say that the farming community, simply because of the value of the capital asset, is stable?

Rebecca Williams: Yes.

Glyn Davies: People cannot just jump around and move around. I just do not hear that argued strongly enough that it is that factor really that has enabled the language to stay stronger in areas where the farming industry is particularly strong. I think it is a really important point for us to make.

Rebecca Williams: It is much more settled in rural communities and, like you say, a farm is something you have for generations in many cases and that language often travels down those generations as well. There are certainly stronger ties in rural communities and the evidence is showing that as well at the moment.

Q41 **Dr James Davies:** It is our understanding that a lower percentage of seasonal workers from elsewhere in the EU are employed in agriculture in Wales than in the rest of the UK. With that in mind, how do you feel that the ending of free movement would affect Wales? If you are worried about it, what steps would you see taken to mitigate it?

David Swales: I don't have Welsh-specific figures, but I think you are right. I would expect the proportion to be much lower in Wales. The main reason for that is just the mix of industries and sectors within agriculture being quite different between Wales and other parts of the UK. Where we see really high proportions of migrant workers tends to be in the horticulture sector in particular where there is a high demand for seasonal workers to harvest and process at particular points in the year. What we note is that employers find it particularly difficult to recruit to those seasonal roles and migrant workers play a really key role in filling those vacancies.

In relative size, horticulture is a relatively small sector within Wales, so there is probably not that same seasonal requirement. What there will be is a requirement for permanent workforce, and certainly the evidence we see is the UK Commission for Employment and Skills do some really good, large-scale surveys of employers across all sectors of the economy and they include a good sample within Wales. What they highlight is that the proportion of vacancies that are hard to fill, so employers finding difficulty filling those vacancies, is higher in agriculture than pretty much every other sector of the economy. What the employers say is they find it difficult to recruit people because people do not really want to work in those types of jobs. It is the desirability. It is locations. It is the nature of the work itself rather than necessary skills or wages, those types of factors.

Across the permanent workforce, we estimate that probably about 20% of the permanent workforce are migrant workers, so we cannot overlook their importance, but it is probably fair to say it may be less important than it is in other parts of the country but still important if you are a business and you have a chunk of your workforce who are migrant workers.

Rebecca Williams: The added-value end as well may be less in core agriculture but in terms of where added value to agricultural produce comes from, it is an important aspect. Food processing, for example, is highly dependent on it and tourism is another one we often forget where migrant labour and seasonality is key and is a key land use that interacts very, very closely with agriculture and has impact on the agriculture sector as well.

Q42 **Dr James Davies:** How would you deal with the impacts of those risks? How would you alleviate the potential problems? Would you have a visa system, for instance? Have you had any thoughts?

Rebecca Williams: In recent history we have had seasonal agricultural worker schemes and it has worked quite well. For those businesses that used the scheme, they thought highly of it. There may be room to look at some controlled measures in that case. I think it is good to plan for those measures. If you have one person and you are dependent on that person in your business, not having access to that labour can have an impact on your business. I think looking at reviewing some sort of seasonal worker scheme would be beneficial in the long term.

David Swales: We did produce a report on this probably about five or six months ago, which we can share with the Committee. I think we highlighted three or four possible solutions. Certainly, the Government may want to consider introducing some sort of seasonal scheme. That is one option. There are probably some alternatives as well. There may be some opportunities to see more investment in labour-saving technology and efficiency measures, which could reduce requirements for seasonal workers.

The challenge with that at the moment is just the uncertainty. We all know that uncertainty kills investment, so it would be a pretty brave business that would be making those sorts of investments at this moment in time. Then there may be things that can be done to encourage people who are either unemployed or economically inactive in the UK into some of these vacancies as well. There is probably a range of things that could be done, but certainly in the short term a seasonal scheme would appear to be the most logical short-term fix.

Q43 **Liz Saville Roberts:** I know the BVA is particularly concerned about vets from Europe in slaughterhouses and some of the testing schemes and also the wider question of vets in Wales. That particular area, which is a different sort of employment, what would you propose would be the resolution there?

David Swales: I think probably at a UK level at the minute they say there isn't a points-based system, but there is. In the past there has been a system that has favoured certain types of higher skilled jobs. Where we have genuine shortages, we have been able to bring people in from outside the EU to fill those vacancies. Veterinary-type jobs are particularly skilled, and I suspect if there was a genuine shortage it would be possible to bring people in to do those types of roles. The issue I think is slightly different for the quite highly skilled roles and more perhaps what would be seen as more lowly skilled roles, which are picking and planting and things like that, where it is harder to prove that those jobs are vacant because of a lack of skill or a lack of qualifications per se.

Q44 **Liz Saville Roberts:** One particular question: we are looking at a situation in 2020 and I have been speaking about this with farmers in Dwyfor Meirionnydd. There is a real sense that there could be people leaving the industry in 2020. What could we be doing to encourage young entrants into farming in Wales?

Rebecca Williams: I am less worried about the young entrants. If you look at schemes like the mentoring scheme that there is in Wales, there is an oversubscription of young people and fewer people actually looking to exit the industry to give those opportunities. I think it is a balance in terms of how you help those young people into the industry and give them the training and skills and experiences that they need to be successful, but also how you create the opportunities to give them the access to farms that they need.

I think there are opportunities to look wider at share farming, for example, and other types of arrangement that enable people to come into the industry without having that tie of having to be the son of the farmer or the daughter of the farmer. More and more people are looking more innovatively at the arrangements that they have and how they use the assets that they have. I think there are real opportunities there and many, many young people have seen Brexit as an opportunity and are looking forward beyond Brexit where they are not tied into the subsidy system that we have at the moment and seeing it in a positive light. We should be encouraged by that and try to harness that and see how we can help these people into the industry sooner rather than later.

Chris Davies: Good morning to both of you, lovely to see you. Rebecca and I were on a panel together only what seems like a few weeks ago.

Rebecca Williams: Yes.

Chair: You might be on another one quite soon.

Q45 **Chris Davies:** Absolutely. With regard to foreign labour, I sit on another committee that is equal to this, the EFRA Select Committee, and we have already had an inquiry into migrant labour. We had Robert Goodwill sitting where you are, David, who is the Immigration Minister, and he basically gave us all the information that we asked and answered questions that we had had from previous panel members when they had come in front of us.

It seemed to us on the EFRA Select Committee that the Government get it: that there is going to be a need for migrant workers and something will have to be done. Is that getting out to the industry? Do your members still have a fear and a worry that they are not going to have enough migrant workers once we Brexit? Or are they getting the feeling now that the Government are getting it?

David Swales: Yes, I think there is a concern there. I go and speak to lots of groups of farmers about Brexit and talk about how I see some of those impacts playing out and the potential risks and opportunities for them. When it comes to migrant workers, it is quite a visible thing for their business. Either they have migrant workers or they don't, and they are aware of the issues. They know if they have a reliance and it is something that is particularly front and centre of mind. Yes, there is some concern out there because they do not know for sure what is going to happen.

The other area that there is a lot of concern around is regulation and the rules. There is probably some expectation there that there may be some positive change, but some of the bigger things that we look at are around some of the trade issues with Brexit, which potentially could have a much bigger impact on some of their businesses. Many farmers I don't think necessarily see that or realise where those impacts are going to come from or how it will affect their businesses. Part of my role is to try to explain some of these issues and explain where the big risks for them might be going forward.

Rebecca Williams: It is interesting that some people are already feeling the impact of migrant labour with the value of the pound changing. These people who are seasonal workers and are looking for opportunities are already seeing the UK as a less favourable place to come because by the time they have translated the pound back into their currency, they have lost something already. If they are seasonal, they might just as easily go and pick fruit in Italy or other countries, and it is more difficult for farmers to find labour already. This is not a post-Brexit issue; this is an immediate issue that farmers are facing now.

David Swales: Many businesses will be paying more to attract that migrant labour in as a result of the devaluation of the pound.

Q46 **Mr Mark Williams:** Rebecca touched on this earlier when she talked about the food-processing sector. I am thinking particularly in terms of slaughterhouses. Could you say a little bit more about the particular reliance on migrant labour? I can think of an example in my constituency and in an adjacent constituency where on opening a new plant the proportions of migrant and local labour had to be reversed simply because local people were not applying for those jobs. Is there a particular reliance in that bit of the sector?

Rebecca Williams: Absolutely, food processing and the first point of food processing is particularly dependent on labour from abroad. It is not a very attractive job for many people in our communities at the moment for some reason, and this is where we get into the grey area between the skilled and the unskilled.

While working in an abattoir, for example, may not be hugely skilled in that you need lots of qualifications for it, it is quite technical work that you do need experience and practice at, particularly to get the best results. We have to be cautious when we talk about skilled and unskilled that this area in the middle falls in between the gaps and it is an area we are very dependent on. Without that added value to our lamb, we are in a difficult position as a sector. We are really dependent on that first point of processing.

Q47 **Chris Davies:** Moving on slightly to the position of CAP, there has been a great deal of discussion since Brexit and pre-Brexit. We all know even if we were staying in the EU, the CAP was changing and it has over the last 40 years. It has decreased. Do you feel there has been an overreliance on CAP in the Welsh agricultural sector?

David Swales: From a business support perspective, yes. It varies a lot by different sectors of agriculture. The reliance does vary depending on the type of business a farmer is in. Certainly, if you look at the livestock units, cattle and sheep farms, there is a very high dependence on support payments, so direct payments that farmers receive underpinning their businesses. We get figures for this from something called the Farm Business Survey, which is done each year. For most years, if it were not for those support payments, the average cattle and sheep farm would be losing money. It is the support payments that basically make those businesses profitable.

Defra did a study a few years ago now where they looked at what would happen to the structure of the industry if those payments were removed. I do not see anyone suggesting that is going to happen, but they did look to see what the effect of that dependence was. Basically, around about 35% of all farms either went out of business overnight or had severe immediate financial challenges. That figure rises to about 70% of farms in the livestock sectors, so it is particularly an issue for the livestock sectors. It is obviously important probably for all parts of agriculture but particularly an issue and a challenge for them. Obviously, we know how important the sheep industry is in Wales, so I suspect those challenges will be particularly keenly felt in Wales.

Rebecca Williams: A figure we have seen is that on average 80% of farmers' income comes from the subsidy that they receive.

Q48 **Glyn Davies:** This is one of those issues that causes real concern. I think the biggest one is access to markets, but the second biggest one is the future of the subsidy element. I must say that to me it is not healthy to have an industry completely dependent on subsidy, which is where we have got to. For whatever reason, that is where we have got to.

I must admit I have long advocated that we try to change that by developing a realistic woodland policy so that planting woodland becomes a real option for farmers. It would have to be long term, 40 years, reasonably profitable. It combines with health issues in relation to enforced access you could have. Not only is it a health issue, all that human exercise: it has big environmental policies as well. It is changing the CAP payments to suit British agriculture, not just European agriculture. That is a long-term campaign of mine and this looked as good a spot as anywhere to seek your opinions on it.

David Swales: For me, certainly UK Governments of various colours have been quite critical of direct payments in the past, so I think it is likely that we will move somewhat away from that type of system.

Q49 **Glyn Davies:** We are seeing that, aren't we? We are seeing that gradually now. If you fill in a single farm payment, you can see the changes right the way up to 2020, which is likely to continue.

David Swales: Absolutely, and we do not know yet for certain what will happen, but in my view it is likely that that process will speed up significantly under a UK Government as opposed to a policy set in Europe. I think it is likely we will move more towards a process of public goods for public funding, so environmental aspects and environmental policies such as what you have been discussing, if farmers are delivering goods there that are not rewarded by the market but they deliver benefit for tourism and for the population as a whole, then they should be paid to deliver those outcomes and those benefits, potentially. I think it is likely the nature of our policy will change quite a bit and where farmers do deliver public goods, which undoubtedly they do deliver a range of public goods, they should be paid to deliver those public goods would be my view.

Rebecca Williams: I would take it further than just environmental. If you define public goods as anything that is of benefit to society, it is not just environmental outcomes we may be looking at. Access, for example, is a good for society, which is not necessarily environmental. Cultural: you spoke earlier about the Welsh language. There may be opportunities of looking at how we define public good in a way that enables farmers to deliver a wide range of benefits that are valued by society and members of the public as a whole and Government and be rewarded for delivering what is good for society. Carbon, water management - the list is endless.

Taking your point on forestry, I think for too long we have seen forestry and agriculture as competing land uses. Now may be the opportunity to look at land use as a whole and look at the opportunities to bring forestry and farming closer together. Undoubtedly, for some farmers planting forestry may be an option that produces better outcomes and better returns, but it is not right for everyone right across Wales. Understanding what is right at the right place is important. The new legislation we have in Wales gives us a framework through which we can do that, through the area statement, and we should use that to our advantage to get better forestry policy in Wales, too.

Glyn Davies: Thank you, Chairman, for allowing me to ride one of my hobby horses.

Q50 **Chair:** Of course. Could either of you make a prediction, or do you know anyone who could make a prediction, as to what the likely level of subsidy would be if we were to stay in the European Union after the next funding round ends, which I think is 2026?

David Swales: We could do that. Basically, I think it is likely to carry on the current trajectory, so there will be a gradual decline in payments. We see two processes in Europe. There is a process of convergence going on whereby we are moving away from the historical-based payment to a flat rate area payment. That is affecting different farms in different ways. In some cases, farmers will see an increase in the payments they are receiving, but basically they are trying to harmonise the direct payments over a long period of time across the EU as a whole. Over a long period of time, we would expect payments to drop quite significantly in terms of direct payments to farms.

Rebecca Williams: Commissioner Hogan does speak about environmental and social benefits much more openly now as to where CAP might go as well. Even if we were in Europe, we would not know much more than we do now about the future, but the outcome could be very different even if we were still in Europe.

Q51 **Chair:** I suppose the point that I am making is that there are people saying there is uncertainty now over the future because we are leaving the European Union but, of course, my point to you is that there would be an equal amount of uncertainty if we stayed in. Is that a fair comment for me to make?

Rebecca Williams: Yes.

David Swales: I would disagree. I would say it is likely that there will be a decline in payments within the EU. Policies change, but I think you could be surer if we were in the EU than if we were leaving because we can literally decide to start completely afresh and there are relatively few things that are constraining the UK's choice in terms of our agricultural policy, which could be a good thing as well as a bad thing.

Chair: I won't push you on that then.

Q52 **Chris Davies:** It was interesting to hear both your responses. You quite rightly say that we have moved away from historical payments, but we are also moving, with the evidence you have just given, very much away from the historical reason why CAP began. Do you think there is an acceptance of that out there now? I have heard similar from the NFU and other farming organisations. We are moving towards the environmental, the access, the leisure, the—thank goodness—more forestry, but that was not why CAP was brought in.

David Swales: It is a really good point and I think that is one of the reasons why perhaps there have been a lot of challenges with CAP. I think most farmers probably would have a fair degree of dissatisfaction with the CAP if you were to speak to them. Certainly, across different parts of Europe different people would have very different views around what CAP is for. A really key thing we need to decide domestically is what we want our agriculture policy to deliver. What do we want this to achieve? That then governs some of the decisions around what choices you take subsequent to that.

Rebecca Williams: That vision I think is really important and it can be anything, but now we have a clean sheet to decide what kind of agriculture sector we want in this country. Understanding that vision helps people get on board, helps people understand what adaption they might need to make to their businesses to enable them to be profitable in the long term and take difficult decisions. Getting a clear vision in terms of what kind of sector we want for the future is really, really important and an amazing opportunity to do that as we leave Europe.

Q53 **Chris Davies:** Do you think over successive Governments there has been a lack of future because we have been within the EU, so the EU has made the future for us and had that vision, allegedly, but now this is our opportunity? Do you think that CAP has stifled innovation in the agricultural sector?

One thing I noticed that was very interesting, and I still notice now, is—and you have already touched on this—the youth, the young farmers. They see Brexit as an opportunity. A lot of my farmers more senior in age also agree that it perhaps has not helped them over the years but they are quite reliant on it, and it was the ones in the 50 to 60 age group that were very keen to stay in the EU because they were concerned about where agriculture was going outside of the CAP payments. Exiting farming, for example, successive Governments—again I will use this wonderful title—have not had a strategy to exit and that is long overdue and long been called for. Is now the opportunity to get that strategy right?

Rebecca Williams: I think it is something that should be looked at in the round. People farm and farmers are very adaptive people, but they adapt to the rules that they work within. At the moment, CAP is that framework that they comply with. It is not that farmers cannot adapt, but CAP is giving you the framework through which you have to grow your produce so that is what you work to. Without CAP, there are opportunities to do things differently in the long term.

Certainly, it has been very difficult to leave the industry because of the figures and because of the income levels, so a dignified way out of the sector is something that we should possibly look at. In any other industry, exit strategies and succession planning is taken as given, but for our sector we do not seem to have the same mentality around graceful retirement.

How do we support those farmers who have given service to the land and how do we ensure that they can go and live in the village without having to move to the town, build a bungalow at the bottom of the lane if that is the right thing for them? How do we bring the complementary services and the policies that work around agriculture together to enable us to have that package? This is not just about the agriculture policy. It is about your community policies, your planning policies. All sorts of other policies impact on agriculture and how we can make that happen, but there are real opportunities now for us to look at things differently.

Q54 **Chris Davies:** One last one - sorry, Chairman - on agriculture. Would you say that Brexit has delivered this opportunity, but really this problem has been there for some time?

David Swales: Yes.

Q55 **Mr Mark Williams:** We have usefully strayed on to question 7. You talked about a blank sheet of paper and I would be interested to hear you develop your thoughts on what agriculture policy in the UK would look like post the enacting of Article 50 and funding in particular. One of the benefits of arriving late is that you get allocated questions that you perhaps not naturally would ask, but I will nonetheless ask it. It is specifically about funding and you touched on this earlier.

Both of you have talked about the wider impact of farming on the rural economy in all its manifestations, whether that be other businesses or the capacity of schools to be supported or language or whatever, so I think I know what your answer is going to be before I ask the question. The question is: is it fair to presume that sectors of the economy should only get a share of public funding commensurate to their contribution to the economy? Some people have made that point. We are in a land of discussion and opportunity. That has caused some fear in certain sectors of the rural economy and the farming sector. What are your views on that?

Rebecca Williams: It is a really difficult question to answer. The problem with the benefits that farmers deliver on behalf of society is that they are often non-tangible. How much value do you put on public access or how much value do you place on having clean water or having a food supply that is to a very, very high standard or having a landscape that looks as it does because it is a managed landscape that we live in? How much value is society as a whole willing to pay for that?

Obviously, you start moving into the realms of payments for ecosystem services in some places, and that is a very immature market at this point in time. We are developing a policy for the future, so maybe there are things we can learn. Understanding the value of natural capital is important in answering some of these questions, but we are looking at new areas of work where there are no readymade answers and there are conversations to be had around this. I think this is the exciting opportunity that we do have at this point in time is to have these conversations and to understand the value that farmers and landowners can bring and the things that they are uniquely placed to deliver on behalf of society as a whole.

Q56 **Mr Mark Williams:** Do you think in the, I guess, limited discussions you have had so far, you as an organisation or both organisations, the Government are mindful of that, the wider impact and, therefore, the need for any future funding regime to factor that in over and above the raw statistics that many of my farmers are concerned about, which is sustaining the immediacy of their businesses, the effect on CAP post-2020?

Rebecca Williams: Yes, and in the work we have done in agriculture and environmental devolved matters we have done a lot of this work with Welsh Government, too, in terms of the conversations. We do have a slightly different legislative framework in Wales that enables us to have these wider conversations.

The Environment Act and the Future Generations Act, while they were not designed to be post-Brexit pieces of legislation, they give you a framework through which we can have quite interesting conversations, which brings us back not just to economic sustainability but economic, social, environmental and cultural sustainability. If we apply some of those principles to developing a post-Brexit framework, that offers a good framework to have that conversation. I know Defra is looking at similar kind of conversations in terms of sustainability, too.

I think there is an understanding that we need to look beyond the hard economics of this. It does not stand up alone just on economics. I think there is also understanding that farming, the way of life, the culture of farming, is something that is worth—preserving is the wrong word because it looks historically when you are preserving something, but something that is worth investing in and can give a return to society in the long term.

Q57 **Mr Mark Williams:** Just very quickly, Mr Chairman, in question 7 I was asking about the blank sheet of paper and agriculture policy in the UK. Given what you have both said about the greater dependence in Wales, particularly on the livestock sector, are you confident that the Welsh voice in developing that UK policy will be loudly and robustly heard?

Rebecca Williams: We are dependent on you to make sure that our Welsh voice is heard here because Westminster has a really important part to play in the future of agriculture in Wales. Agriculture may be a devolved matter, but trade is not. Agriculture is about producing produce to trade, so understanding the links between agriculture and trade policy is essential for the long-term success of our industry. How they dovetail together is essential to get to the right place.

I hope the voice is being heard. The fact that we are talking about it here in Westminster today is a very positive sign of that, and we need to see more Government working across Westminster and Cardiff to ensure that these links are being made. An agriculture policy for Wales is not the right answer. It needs to be within a framework that works for the UK. England is our biggest market in Wales and we cannot be in a position where there are inter-UK trade barriers or restrictions on trade within the UK. We have to be more mindful of that than anything else.

Q58 **Liz Saville Roberts:** Almost seamlessly from that, of course, we are discussing this here today but we are going to go into seven weeks of electioneering as we speak and also as we speak there are questions about the priority that is accorded to agriculture in Brexit negotiations and, over and above that, the priority accorded to the sort of agriculture that we hold in Wales.

I will try to phrase this question slightly more positively than I have it in front of me here. The question here had asked, "Do you think the current political climate will hinder forming policy?" In what degree does it hinder it and where should we be looking for our chances to move ahead with policy? We only have two years, 2020, as it is.

David Swales: Yes, two years is not a long time and I guess the focus will probably be elsewhere in certainly the very short term. That presents a challenge. For me, Rebecca has talked about some of the trade issues and I think those really are key and fundamental. By far and away the most important thing for agriculture from those negotiations I would argue is that trading relationship with the rest of the EU. At the moment, the vast bulk of our agricultural exports for both Wales and the UK as a whole go to elsewhere in the EU and we have completely barrier-free trade, no tariffs, no customs checks. It is very free and open. We are part of the same market.

What we observe is that the EU is quite protectionist of its agricultural sector and when you look at some of the tariff barriers that are out there, they are fundamental. If you look at sheep meat, for example, the barrier for those countries who either do not have a preferential trade deal or are not part of the single market already varies by exactly what you are looking at, but for many cuts of lamb it is over 50% tariff. Now, if Welsh lamb exports into the EU were subject to a 50% tariff, they would not go anymore. It just would not be competitive for Welsh lamb to enter the EU market.

One of two things has to happen. Either we need to find alternative markets for that Welsh lamb that hopefully would be as profitable as the EU market. To be frank, I think that would be incredibly challenging to do in two years, if indeed those markets exist. Secondly, we need to produce a lot less lamb in this country because there would not be the domestic demand to suck up all of that production. We export as the UK as a whole around about 30% of our lamb production every year, so that would present a significant challenge for the Welsh industry.

Q59 **Liz Saville Roberts:** Neither of those scenarios that you have just outlined bodes well for Welsh upland livestock farmers. What would be the best policy outcome that you could propose for them?

David Swales: From where we are now, for the sheep sector tariff-free access to the EU, which I think is something the Government have said it is seeking to achieve by way of a comprehensive free trade agreement. That is the best possible outcome. That is not as good as being in the single market because there will still be a degree of a barrier there. There will have to be customs checks and extra bureaucracy, which will make our lamb a bit less competitive than it is now in those markets. But the alternative of having a 50% tariff on that export would have quite a fundamental effect on our industry.

We have talked about the reliance on subsidy. The effect of Brexit on different sectors of agriculture is quite variable depending on whether we are a net importer from the EU or a net exporter. If you look at the dairy sector, for example, or the pig meat sector, there may well be some benefits to producers in those sectors because it will make our domestic production more competitive and we may be able to displace some imports that we currently get. For sheep meat it does really shine out. We are incredibly dependent on exports to the rest of the EU, and given any sort of barrier or any sort of enhancement in the barrier it will make it incredibly difficult for those sectors.

Rebecca Williams: Going back to your point about timelines and how long this might take, in terms of policy position we understand that the Great Repeal Bill will bring across the legislation as is now. In 2019 when we exit, the obligations and regulations that farmers need to comply with will be the same as they are today. The uncertainty of the market may mean that there is a double whammy in terms of no freedom to look for other markets as well.

Longer term, that is when we will look for a replacement policy to CAP. That may take some time and it obviously depends on how the Great Repeal Bill is set out how long we have to develop that policy and how that aligns to the trade deal that we have as well. This is again back to the point that how agriculture policy and trade policy work together will be essential to the long-term vision in terms of getting that relationship right and ensuring that those farmers who are most dependent on subsidies at the moment either have alternative markets or have alternative ways of securing income that secures that they can stay on the land.

Q60 **Chair:** Can I jump in on the question about lamb and sheep? What is the value of New Zealand lamb imports into the UK, do we know?

David Swales: It will be quite significant. At the minute we have a tariff weight quota, I believe, with New Zealand.

Q61 **Chair:** Is it 228,000 tonnes?

David Swales: You know your figures, so yes.

Q62 **Chair:** The point that I am making is this. I believe that it is around 228,000 tonnes into the EU.

David Swales: For the EU as a whole.

Chair: Yes, into the whole of the EU and I believe most of that comes to the UK. About 76% of it comes into the UK.

David Swales: I thought it was about half of that.

Chair: Okay, you probably know.

David Swales: Yes, it is a really good point to make because there is a lot of concern.

Q63 **Chair:** The point I am getting to, of course, is how much New Zealand lamb is coming in as opposed to how much is going out. Following on from that, we effectively have a free market with New Zealand at the moment because the 76% is the amount of their quota they are fulfilling. In other words, they are not paying any tariff at all at the moment because they are not even exporting as much lamb as they could into the European Union.

David Swales: These are all excellent points. In essence, we are pretty much free trade with New Zealand at the minute and the focus of the debate here is there is some concern about if we have a free trade agreement with New Zealand what effect that would have. My view is New Zealand is not a significant threat in the short to medium term. Even if we were to have a free trade agreement, in terms of its effect on the sheep meat sector we broadly import and export a similar amount of lamb but it happens at different times of the season. The New Zealand imports are coming into our market at a time when our domestic production—lamb production is very seasonal—is quite low.

Our market can absorb those imports, but there are challenges, just to finish off the point. At the minute, Australia is as significant a global exporter as New Zealand in terms of sheep meat, but our quota with Australia at the minute is only 20,000 tonnes. The EU quota is 10% for Australia what it is for New Zealand. If we were to move to a free trade arrangement with Australia at some point in the future there could be scope for Australia to significantly expand its—

Q64 **Chair:** It could, but let me put two points here; perhaps this first one to Ms Williams. We produce lamb using a certain number of breeds. If we wanted to we could produce lamb that could be put on to the market throughout the year—perhaps not right the way throughout the year but we could certainly spread the amount of lamb going on to the market by using different breeds, is that not correct? There are some that can be lambed as early as January, I believe, and there are some that could be lambed much later in the year.

Rebecca Williams: There are certainly opportunities to extend the season, yes.

Q65 **Chair:** We could overcome some of that problem by changing breeds, which might have costs, I presume. But you would go along with that point?

Rebecca Williams: Yes.

Q66 **Chair:** The second point is this: when we pull out of the European Union, if we start trading with WTO rules, yes, that will have an impact on export of lamb into France, in particular. But at the same time we can ensure that it has a big impact in the opposite direction on imports of New Zealand lamb into the UK, if we choose to do so.

David Swales: That is a subject to be negotiated with the EU.

Q67 **Chair:** Yes, but at the moment that lamb is coming into the EU and the UK tariff free. If we pull out of the EU and we are trading under WTO rules, yes, those farmers in Meirionnydd will be trading lamb at a tariff but New Zealand, similarly, will have to pay a tariff because they will no longer be able to export their 220,000 tonnes into the EU and the UK, will they?

David Swales: The New Zealand trade deal is a WTO commitment. There will be a tariff-weight quota, which will be carved up between the

UK and the EU, which will allow New Zealand tariff-free access for a proportion of lamb—probably 220,000 tonnes—after Brexit. Exactly how it is divided we do not know.

Q68 **Chair:** Is it an agreement under WTO rules between the EU and New Zealand or between the UK and New Zealand? Because basically it is between the EU and New Zealand, isn't it?

David Swales: It is and we are a member of the WTO and we inherit a degree of those WTO commitments. It is to be negotiated but I would rank it incredibly unlikely that the UK is able to withdraw from the EU and not inherit any of these tariff-weight quotas. There are discussions going on at the moment in terms of how those quotas are carved up.

Q69 **Chair:** But if we want to inherit them that is fine, but presumably we will ask for a quid pro quo. We do not have to just say, "Okay, we will carry on importing New Zealand lamb but we will accept it if the French want a levy of 50% tariff on our lamb to France", do we? We can turn round and say, "Well, we are not going to take the New Zealand lamb and you, France and other parts of the EU, you can have that", can we not?

David Swales: The particular issue with the New Zealand lamb is it is via a WTO. There is not a formal trade agreement between the EU and New Zealand. So where there is a formal trade agreement in place, the process you outline, we are leaving the EU so we are leaving the EU's trade agreements. We will no longer benefit from the EU's trade deal with South Korea, let's say. That is a likely outcome.

It may well be—as part of the negotiations and subsequent negotiations with South Korea—that we can reach an agreement and have a similar type of deal in the future, given time. But the agreement around lamb is a particular tariff rate process agreed through the WTO. If we want to be a member of the WTO we have to honour our commitments to the WTO as well. So we will not be able to cease importing. That is my understanding anyway. We will not be able to cease or suddenly apply a tariff. There will be an agreement, and exactly how it is carved up will have to be negotiated.

Q70 **Chair:** Can I ask you another question then? Sorry, then I will go back to everyone else. At the moment, if we want to use the public sector to buy food we have to put it out to tender across the whole of the European Union. We no longer have to do that when we pull out, would we? We could specify that the public sector—whether it is prisons, schools, the army, anything else—is going to have to buy British lamb, if we wanted to.

Rebecca Williams: There may be opportunities to look at procurement post Brexit. Certainly where we are at the moment we are tied into the European framework for procurement so there will be opportunities to look at that.

But the interesting aspect of this as well is looking at the consumer trends in terms of eating lamb. The long-term trend is that people eat less lamb than they did, and those trends are falling. Yes, we can look at the import and the export but we also need to look at who is eating our lamb and are we preparing the right kind of lamb to the market in the UK. If there are opportunities to add value to that lamb, present it in a way in Britain that makes it more appealing, that bucks the trends that we currently have for reducing the amount of sheep meat that is being eaten.

Q71 **Chris Davies:** I was clear on that. You were about to come in before Rebecca as far as European procurement is concerned.

David Swales: Certainly at the minute there is a whole range of state aid rules, which very much mean there is open competition and we cannot favour a domestic producer or domestic company just because they are based in the UK. There may be opportunities to move away from that system, but I suspect that is something that will be again part of the negotiations. So we cannot say for any degree of certainty what will happen in two years' time.

Q72 **Chris Davies:** Can I just come back to the New Zealand question? Something in the back of my mind tells me that that is an historic agreement and that goes back to about the 1950s.

David Swales: Absolutely. So it is something when the UK joined the EU we insisted on that tariff rate quota being set up. So there could well be scope for the EU side to say, "You brought that quota with you, you can take all of that quota when you go". The New Zealanders would not be happy with that and I have heard New Zealanders argue that at the minute they can send 220,000 tonnes to the EU, they could send all of the 220,000 tonnes to the UK if they wanted to. So the only option for them, which they say preserves their current flexibility, would be to have two quotas: one for 220,000 tonnes to the EU and a second one for 220,000 tonnes to the UK.

Chair: I hope they have something to offer in return for that.

David Swales: That is what they will argue. These are all things—certainly it is unlikely that we will just suddenly have a tariff on New Zealand imports of lamb. The potential impact of that is that the lamb price in the UK would rise quite significantly and I imagine the Government would be keen to ensure that there is not rapid food price inflation.

Q73 **Chair:** Presumably the situation with beef is rather more in our favour because much of that is coming in from Ireland at the moment.

David Swales: That is fair. Ireland is not quite the other way round but it is certainly a net importer and the Republic of Ireland is a key source of supplies. We also export quite a lot of beef from the dairy herd and that goes to Ireland and to the Netherlands, and is processed and imported back into the UK. That trade, in particular, if there is any sort of tariff you would imagine UK processors would look to make those investments and do that process in a product in the UK rather than exporting and reimporting, that probably would not make as much sense.

Chair: I know one or two people have had other commitments and had to come in a bit later. As we come to the end of the session would you like to ask?

Q74 **Paul Flynn:** The difficulty is that questions might well have been asked. Can you tell us something about the reason for differences in the price of Welsh lamb and Australian and New Zealand lamb? Knowing that it has to be transported across the far side of the world and it is produced in New Zealand without subsidy, so how does the price compare?

David Swales: It is market-led, isn't it? It is what the market will return for those products. We certainly import very different products than what we produce and export. If you look at our imports of lamb, predominantly we are importing lamb legs. We are huge consumers of lamb legs in the UK and what we export tends to be whole carcasses of lamb. So there are probably differences in value of different cuts of lamb in a carcass. If we tended to import slightly lower value cuts than what we export there will be a difference in the value of them.

Certainly when you look at the price of New Zealand lamb in the stores it tends to come into our market around this time of year, around Easter, and it tends to be quite deeply promoted in order to sell it. That is a decision a supermarket is taking, to use lamb as a way of getting shoppers into their store and encourage them to buy lamb at Easter because they will buy a whole range of other products when they buy that. They look to build on that willingness of the consumer to buy lamb at Eastertime.

Rebecca Williams: Many farmers will tell you that the reason they cannot produce at the same price is because of the regulatory framework and the additional conditions placed upon British farmers in producing, so that there are higher environmental standards. British farmers produce to very high welfare standards and have more regulation that they follow and more time and investment into those animals, which means that they feel that they cannot compete at the same exact prices as the New Zealand model.

Q75 **Paul Flynn:** Common sense would suggest that a country that has no neighbouring countries—like New Zealand has—that has not had a penny in subsidy since 1984, and has to pay the cost of transportation should not be able to compete with a country like Wales that has had subsidies over the years and has a market on all our borders. Why is it? It was a very complicated answer that you gave us, Mr Swales.

David Swales: I will have a go second time round. If you look at costs of production—if that is the nub of your question—costs of producing lamb in Wales is significantly higher than in New Zealand. So the New Zealand industry is much more efficient, they are a much bigger unit, much more efficient farming systems.

Q76 **Paul Flynn:** Why do you think that is? I am trying to get to this.

David Swales: Certainly there was a removal of subsidies, now the industry has had to get much more competitive. It has been reliant on the marketplace so their industry has become more efficient. There is probably nowhere near the same investment in machinery in New Zealand as there is in Wales. They have stripped their systems back to make them very lean and they can produce lamb at a lower price.

Rebecca Williams: But that has also come at a cost, and the earlier questions we asked about the social, economic and environmental benefit that farmers bring as well as the cost. They have suffered as a result of removing subsidies in New Zealand on the social, environmental and the wider well-being benefit. Again, it is back to the vision. We could go down to that model of farming but that would have knock-on impacts on the rural communities that those farmers are part of—the rural schools, hospitals and so forth—and the environment that is around us in terms of what people benefit from.

Q77 **Paul Flynn:** George Monbiot suggests there would be environmental benefits if there was less sheep farming and a great cost saving. Are you aware of his arguments?

Rebecca Williams: I am aware of his arguments, yes.

Paul Flynn: How would you disagree with them? Or do you agree?

Rebecca Williams: It is a specific argument and there is a wider social benefit as well, which is not just environmental. We talked earlier about public benefit and public benefit is not just environment against agriculture. It needs to be looked at in the round. The landscape looks, as it does in the UK at the moment, because it is a farmed landscape. Yes, you could save money by not investing in the landscape but people value that landscape. Our tourist industry is dependent on the landscape looking as it does. If the farmers were to farm that we would lose in other ways in the wider economic value of the rural community, not just in farming.

Q78 **Paul Flynn:** If subsidies are stopped the rivers and lakes are not going to run dry, the mountains will not become flat and the landscape will continue as it has been for thousands of years. In New Zealand, what you seem to be suggesting in your answers, is that the enforced increasing their competitiveness and their efficiency in New Zealand was caused by the withdrawal of subsidies made them a more efficient and competitive industry now. Is that the case?

Rebecca Williams: They became much more focused on just the economic benefit without taking account of the social, environmental and the wider benefit. It is an option for the future—

Q79 **Paul Flynn:** These are rather nebulous. Can I ask you a final question because it is one that was a European priority? Part of the support for small farmers in Europe included areas where there were minority languages spoken and where the character of a nation was at its purest form, in its historical form. It is rolling down the generations and the place where it flowers, at its best, is in small farming communities. This goes right throughout the European Union. This is a high priority for Wales. Where should it be seen, do you think, the necessity of ensuring the prosperity of small Welsh-speaking communities should be, and is it a factor worth major financial investment?

Rebecca Williams: Like we were saying earlier, there is something very unique about the culture of Wales and the language associated with that. The national surveys show that the Welsh language is more prevalent in rural communities. Do you invest in that? Governments have invested in Welsh language for many years and there are quite ambitious targets for the number of Welsh speakers that the Welsh Government would like to see in Wales. Do you use that out of an agricultural budget? I am not so sure that is the right answer because if you are supporting the industry to be productive and efficient, and all those things that you were suggesting, I am not sure how speaking Welsh makes you more productive directly and how that all fits together.

Again, going back to the Welsh policy that we have; we now have legislation in Wales, which means that decisions have to be taken against the well-being goals that offer cultural, social, environmental and economic benefit as equally important. So in that case maybe there is a legislative requirement to support the language at the same time as ensuring economic outcomes. I do not know the answer.

Chair: Sorry, Glyn, do you have a—

Q80 **Glyn Davies:** I only have one question and tell me straightaway—I missed a bit of the meeting—whether it has been asked before. A lot of the concern I hear is about the impact of New Zealand and how the new regime may enable more New Zealand lamb to come in. Then other people tell me New Zealand cannot even fill their current contracts and that the real threat is not New Zealand at all it is Australia because the capacity of Australia to deliver lamb is far greater. Can you give us some facts on that because although I have had this debate with people who have accepted the point that I make—Australia is the real long-term threat—it still seems to be keeping on being reported and reported that New Zealand is the long-term threat to us. I am not at all sure that is right.

Rebecca Williams: I cannot give you any direct facts, maybe that you can.

David Swales: I can. So, yes, we have discussed that so I will give you a report at the end, and you are right in your analysis.

Rebecca Williams: But to add to that, over the Easter weekend, going to one of the major supermarkets it was full of Australian legs of lamb, not New Zealand.

Glyn Davies: As it happened I went to Australia for a week soon after the huge decision by the New Zealand Government and what of course happened is an awful lot of farms when out of business, land was picked up pretty cheap, so big farms then became far more competitive and the whole industry became much more efficient and influenced the rest of the world. But the CAP in Europe has protected us from the ruthlessness of the change in New Zealand.

David Swales: Yes. That is to do with EU's role in terms of not just the common agricultural policy but the trade deals it strikes. It is fair to say the EU has been very protectionist. There are quite detailed impact assessments conducted as a result of all the trade talks that go on and there is lots of modelling work to undertake to understand if we were to open up access to this market what would the impact be.

For me a really critical thing, which the UK Government needs to do, is to do that type of work. It is a competency that has been done by the EU. Once we start to do these trade deals and discuss them will we be doing that type of work? We will be looking to understand what the impact on different sectors of our economy will be? I would hope we would do it. There may well be justifiable reasons why a government could decide to open up more cheap meat imports from Australia. It could be a valid decision to do but it would be a shame to do that without understanding what the knock-on effects will be. It is fine to do it if you have done the analysis and you understand what is going to happen as a result.

Rebecca Williams: That is for the longer term as well. Australia and New Zealand we talk about quite often from our sector and the impact on lamb, but trade deals are like multiplayer chess. You have to understand what is coming in from one country and what your deal with the next country is going to be. So having a global picture of what our trading ambition is going to be and our vision for what kind of trading nation we want to be is important overall.

There is precedent for agricultural produce to be put aside in trade deals because it is complicated for some of the reasons that we have discussed today. The fear is not so much how it will be dealt with, but when or if it is dealt with at all and whether it is put into the too difficult box because of the conversations we have had today. It is very easy to move cars about, and services, and because it is quite a small percentage of the GVA my concern, more than anything, is that it is ignored as part of these deals and these conversations just never take place.

Chair: Thank you very much indeed for that. Obviously, we are about to move into an election period, to our surprise, and as a result of that the Committee will not be able to take any further evidence on this and it will be up to a successor Committee to decide whether or not they wish to continue looking into Wales and agriculture.

Clearly, if I am fortunate enough to be re-elected and back here on this Committee, then I would certainly see this as a priority and I would imagine any other MP would. But it is for the next Committee to decide but thank you very much indeed for coming and putting your evidence on the record today.