House of Commons

Welsh Affairs Committee

Oral evidence: Brexit: agriculture, trade and the repatriation of powers, HC 402

Tuesday 9 January 2018

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Watch the meeting

Members present: David T. C. Davies (Chair); Tonia Antoniazzi; Chris Davies; Glyn Davies; Paul Flynn; Ben Lake; Liz Saville Roberts; Thelma Walker.

Questions 180-245

Witnesses

I: David Swales, Head of Strategic Insight, Agriculture and Horticulture Development Board, and Gwyn Howells, Chief Executive, Hybu Cig Cymru.

Examination of witnesses

Witnesses: David Swales and Gwyn Howells.

Q180 **Chair:** Good afternoon, Mr Howells and Mr Swales. Thank you very much for coming along to give evidence this afternoon. I am sorry to hear that somebody has been taken ill; we wish them a speedy recovery. Perhaps I could start by asking Thelma Walker to begin the questioning.

Thelma Walker: Good afternoon. Could I ask you to describe the type of trade arrangements that will be required to enable the Welsh red meat industry to grow once we have left the EU?

Gwyn Howells: It is very difficult to answer that, because we don't know what the trading arrangements will be post EU exit. They could be one of many scenarios. Our hope would certainly be that it would be business as usual in a free trade agreement, given the importance of the export trade to the red meat industry in Wales, particularly to the sheep industry, where it is worth around about £130 million per annum. Any other agreement or deal might mean that the sheep industry, in particular, would be in for a difficult time.

Q181 **Thelma Walker:** You say you hope. Do you feel that uncertainty is having an impact on how optimistic you feel?

Gwyn Howells: Uncertainty is a problem for businesses and for us as well, as a body charged with developing the red meat industry and promoting its products—Welsh lamb and Welsh beef predominantly and some pork from Wales—and therefore there is some uncertainty about what the future might hold. I stress, given the predominance of sheep and its importance to agriculture in Wales, it is pretty exposed to something that won't be business as usual.

Q182 **Thelma Walker:** Do you feel optimistic at this point in time?

Gwyn Howells: I think you always have to be optimistic. There will be challenges and opportunities. Of course, what we have going for us is that we have a brand that is established worldwide in Welsh lamb and Welsh beef and, on the back of that brand, which has been developed over many years, there is a great deal of trade—mostly within the EU27, I admit. For the figures I referred to earlier, 95% of them were trade with the EU and only 5% of the export trade is outwith the EU, in places like the far east, Hong Kong, the middle east, North America and Switzerland. Therefore, the eggs are very much in the EU basket. Obviously, it gives us an opportunity hopefully to expand the portfolio of destinations, but I would caution that that does take a great deal of time between Governments. You do measure them in decades sometimes as opposed to single years and, therefore, a transition period is really important.

David Swales: For me, we do have to separate out the short-term issues and the longer term ones. Certainly, in the short term, I would completely agree that we are very dependent on the EU market for lots of our food exports generally. Wales is particularly dependent for some of the big export products, like lamb, into the EU market. It would be very difficult to replace that market with something that would be as profitable in the short term, so certainly, yes, I think maintaining market access to the EU would be pretty important in terms of priorities.

If we were to look longer term, we have done some work to look at where some of the global opportunities will be for exports in five to 10 years' time. There are very fast-growing markets around the world where there is a big expansion of middle-class consumers. Those tend to be markets where the EU does not already have particularly good market access. There may be opportunities with Brexit for the UK to strike trade deals, to get preferential access to some of those fast-growing markets, particularly in Asia-Pacific, which may offer growing opportunities for us into the future.

Q183 **Liz Saville Roberts:** Is there a scenario that you could describe to us under which Welsh farmers—and particularly Welsh livestock farmers—would be better than being in the single market and the customs union?

Gwyn Howells: I cannot think of a scenario that would make them better. If there was a free trade agreement and there were no tariffs or non-tariff barriers, I guess in terms of trade that would be perpetuating the status quo.

Q184 **Liz Saville Roberts:** In your opinion, what is the likelihood of that scenario?

Gwyn Howells: I would be hopeful that we can achieve that because I think there is a reciprocal need relationship, and you would hope that common sense would prevail in terms of the trade between the EU27 and the UK and vice versa. If there is no trade deal in a free trade deal, then the next option is probably a WTO-type arrangement, which would obviously mean tariffs for exports and, indeed, imports. As a net exporter of sheep meat, that would not be good news for the sheep industry. It might not be such bad news for the pig and beef industry, who are net importers and, therefore, there would be some import substitution that could be undertaken where we produce more of our own product as opposed to relying on imports of beef mainly from Ireland and pig meat from Denmark in particular.

Q185 **Liz Saville Roberts:** None the less, the chief vet of the UK anticipates that, if we were not in the customs union, the need for veterinary certification would increase by 325%. When we have perishable goods on the move, just the sheer logistics of dealing with that sort of regulation does not make life easier, does it?

David Swales: Yes. We did some work to look at different scenarios. I think that is what your initial question was about. In most scenarios, some sectors win, others lose. It just depends on the nature of what the sector is producing and what our trade position is. We have spoken a lot about sheep meat. Sheep meat is a good example because we are a huge net exporter to Europe. The flow tends to be from us to them, but there are sectors where it is the other way around. Dairy would be a good example; beef would be another one.

In the event that we are outside the customs union but we have a pretty comprehensive free trade agreement with the EU, which maybe eliminates tariffs but will not eliminate all costs of trade, in that type of scenario you would see in those sectors where we are net importers—such as beef and dairy—the cost of those imports would probably go up slightly and that will benefit our domestic producers in those sectors. Obviously the flipside is that in sectors like sheep, where we tend to be net exporters, those farmers might lose out on the other side. It really does depend on what we are producing and what our trade position is and what that trade deal does or does not look like.

Q186 **Liz Saville Roberts:** Of course, factoring that into the shape of agriculture in Wales as well.

David Swales: It is. Obviously, in Wales there is a very focused industry. There is a high reliance on producing from grassland. There is a lot of livestock, so, yes, certainly sheep meat, big exporter; on the other hand we are a big importer of beef. It is a different situation for different sectors.

Q187 **Paul Flynn:** Are you aware of reports that the people who produce lamb in Spain and Romania are already eating into markets, taking markets that Welsh lamb provides now, in order to secure their long-term future of supply?

Gwyn Howells: Yes, we are aware of displacement of trade in Italy—by the Romanians in particular, I must add—where the Romanians have increased their production and productive capacity over the last five years and are now selling product into Italy at a lower price than we can supply Italy. Therefore, we have lost some business to Italy but there is still a lucrative trade with Italy, although some of it has been lost recently.

Q188 **Paul Flynn:** You said that you have to be optimistic. I sit on the EFRA Committee, which is far from optimistic, but I believe it is being realistic. A recent witness said that if we end up having to pay tariffs or to pay for access to the EU market, it is going to be devastating for Wales. This is probably the worst case in Wales because, within that, agriculture, food and sheep farming are much more important to the Welsh economy than it is to the English economy. Aren't we facing a bleak future?

Gwyn Howells: If there is no free trade agreement, yes, we probably are, for a lot of sheep farmers and affiliated and allied industries in the supply chain that depend on production for their livelihoods and their product.

Q189 **Paul Flynn:** Because of the EU rules, Wales is allowed to export more animals on the hoof, rather than on the hook, than parts of England because of the set-up there. After we come out, if Brexit happens, do you expect there to be a public outcry against exporting animals on the hoof to places such as the middle east or even China? It is very profitable to export them on the hoof, I understand, so there will be a further threat to the Welsh red meat industry.

Gwyn Howells: Obviously there is a possibility, because the tariff rates are less on live animals than they are on carcasses or cuts of meat. While that is the reality of the situation, I cannot foresee that happening. Indeed, if you go back 18 years ago to 1999-2000, when there were live exports to mainland Europe—I can remember discussing it with you back in those days—we exported 1.1 million lambs per annum to France and Belgium. That has largely ceased over the last 15 years. While it is a theoretical possibility, I cannot see that we are ever going to gear up to send shiploads of animals to the middle east or the far east.

Q190 **Paul Flynn:** It is claimed that the EU are more permissive, which is contrary to the feeling of the general public, who are greatly impassioned about this subject. Isn't this likely to be one of the further disadvantages of Brexit, if it ever happens?

Gwyn Howells: Yes, it would be in that respect, but what we must avoid at all costs is reverting to WTO rules or tariffs on sheep meat because our exports would be decimated. We would have a tariff rate of between 45% and 85% added to the cost of the product and, therefore, we would not be able to export them. We would not be competitive in the export market.

Chair: By all means carry on if you would like, Paul, but I am going to come back to that point in a moment.

Q191 **Paul Flynn:** Michael Gove has claimed that he is going green by coming out of Europe. But isn't he going Welsh, by the sounds of it, by introducing a system of tariffs in which they get rid of £2 million of the ceiling, which they don't have in England but that we have in Wales, and paying subsidies on the basis of production and environmental reasons rather than the fact that they are landowners? Do you regard that as being beneficial and something to be welcomed?

Gwyn Howells: I do not think I will be drawn on my opinion on whether what Michael Gove was saying was right or wrong. What we understand is that there will no doubt be a change to the way that agricultural support will be used to support the industry in the future and, therefore, it will be predicated largely on defining what public goods farmers provide. I would argue, in fact, that there is a wide portfolio of public goods that farmers provide, not least of which is producing food for our nation.

Q192 **Paul Flynn:** It also provides about 1% of the GDP in Wales but takes 40% of the subsidies from the EU. Michael Gove says he intends to continue with that. He has guaranteed the 40% of the subsidies in addition to guaranteeing—and he has recently repeated it—150% of the subsidies to pay for the health service. Do you think it is reasonable, if we are free to take our own decisions, that we should not reorder the subsidies and the money that comes back and instead of paying 190% of the cheque that is expected from Europe, as already declared he would pay to these two industries, that there should be a reassessment to make sure that the other 39% of the amount we pay for farmers should be redistributed among the NHS and to general industry in Wales?

Gwyn Howells: I won't be getting into a debate about the NHS versus the agricultural industry. I am sorry.

Paul Flynn: That is important. That is why we are coming out.

Gwyn Howells: What I would say is that the agricultural industry and politicians need to understand and have evidence of the case for food production, the environment and the fabric of rural life, and make decisions based on the evidence presented to them. The industry needs to work hard at that, I would suspect, and we probably have not done very well over the past few years.

Q193 **Paul Flynn:** In view of the evidence presented on the side of that red bus, don't you think the population—when they know the consequences of Brexit—should be entitled to have second thoughts about it and to vote in full knowledge of what they will know in two years' time, rather than what they voted for on 23 June?

Chair: We are ranging a bit far from agriculture. I think the danger of this is that others might have different views.

Gwyn Howells: I am not going to be drawn.

Q194 **Chair:** Can I go back to this point about the WTO and lamb in Wales, which definitely is an issue? The Farmers Guardian Insight figures suggest that a large proportion of hill farm income has come from the basic payment at the moment. I did not quite get the figure, but they seem to be quoting that basically the majority of hill farm incomes in Wales are coming from some form of subsidy. Is that correct?

Gwyn Howells: It is about 80%. It is probably less in England—it is about 55%—but it is 80% in Wales.

Q195 **Chair:** They were quoting various figures there. If we took 80%, let us just hypothecate this worst-case scenario where we pull out of the single market and revert to WTO rules. You have already suggested that there is a potential for beef, pig and dairy farmers to be better off under that scenario, because obviously we are quite dependent on imports from those countries and they would be paying a tariff. The issue that we have to look at is sheep farmers, particularly hill sheep farmers, is that not correct? Given the fact that a large proportion of their income is coming from subsidies, it surely should be possible to maintain those or even increase those subsidies—perhaps at the expense of sectors that have profited from a WTO scenario—to ensure that incomes don't fall. I am not asking you whether you think that would be a good idea or not, but it would be perfectly reasonable and easy to do that, would it not?

David Swales: The WTO rules are quite complex in this regard, so I think it would be quite difficult for us to support production. In supporting production there are different levels.

Q196 **Chair:** But we would not want to do that, would we, because we would not want to produce more lambs if there wasn't a market for the lambs to be exported? We would be making payments for environmental benefits as we do at the moment.

David Swales: You would, so it would be very difficult to ring-fence that to particular sectors. It may be possible to do it around particular geographies, but doing that on a sectoral basis I think would be quite a challenging thing to do with regard to WTO rules. Although we have left all the rule book of the EU behind, there are rules around how we govern and set up our agricultural policy, which is set by the WTO.

Q197 **Liz Saville Roberts:** There are very stringent rules about, say, paying for environmental benefits with the WTO, aren't there? Could you explain something about those?

David Swales: There are rules around what support farmers can receive and what support they cannot receive.

Q198 **Chair:** But the support they get at the moment would be fine. That is orange or green box stuff, so that is okay.

Gwyn Howells: Yes, amber and green boxes. It is red, amber and green—a traffic light system.

David Swales: The direct payments do not incentivise production; they receive the payment irrespective of what they produce. That is the type of support that I think Michael Gove has been quite critical of, because it is based on land ownership. He has favoured moving towards more support for delivering certain environmental goods and other goods.

Q199 **Chair:** What I am suggesting, though, is that it would not be beyond the wit of man and woman to come up with a system that ensured that hill farmers were receiving approximately the same amount in payments as they are at present, even under a scenario where we lost out on exports to the European Union.

David Swales: There are two factors there. One is the support and certainly. If it was desirable to do so, I am sure that could be done on a geographic basis. I think the trade issues are different. The trade issues and losing access to the market would have quite a strong effect on market prices, so then how desirable would it be to subsidise farmers for that loss of income as well is the question? Would we want farmers to go on producing lamb if there was no market to sell it to?

Q200 **Chair:** No, we would not. Let me keep on this train of thought because I have other figures here that suggest that the amount of lamb we import and export is roughly the same. It is just that the imports are coming in mainly from New Zealand and the exports are going out to Europe.

David Swales: In volume terms, but that could be a little bit misleading. You are right. It comes at different times in the season.

Gwyn Howells: We have 100,000 tonnes in and out, yes.

David Swales: We tend to export at different times of the season from what we are importing. It is about balancing our supply and demand as a country. The other factor is that we tend to import mainly lamb legs from New Zealand. We are importing specific cuts that are in high demand by consumers in the UK and we tend to export whole carcasses. Although the figures suggest that broadly they are in balance—and I would agree that broadly they are in balance—as soon as you pick into the detail we are actually trading slightly different things at different times.

Q201 **Chair:** Okay. If we pull out—we are looking at the worst-case scenario now—and we come down to this WTO system, would we still have to accept the tariff rate quotas that we currently accept for New Zealand and Australian lamb? Or could we simply say, "We are not having any more tariff-free lamb from Australia and New Zealand. You now pay the appropriate tariff"?

David Swales: You have identified the key issue. This is a WTO commitment the UK has made as part of its membership of the EU.

Q202 **Chair:** But is that still valid if we are out of the EU or was that an EU commitment that we signed up to when we were in the EU?

David Swales: The current UK Government position is that it is a commitment we have made. We want to be a good global citizen, so we are not going to walk away from our commitments at a time when we want to go out and strike trade deals with other countries around the world. The current position is: the UK and the EU have negotiated. This is one of the few things we have agreed on trade. We have basically agreed to split those WTO commitments, based on the historic use of those various quotas over the last three years. That is something the UK and the EU have agreed.

In the case of lamb, we use approximately half. There is a quota of around 228,000 tonnes, I think, and the UK uses about half of that quota. Our offer to the WTO membership has been: we split that basically 50:50, so the rest of the EU has half and we have half, because that is the historical usage. That has been challenged by a number of the WTO exporters who feel that is an unfair offer by the EU and the UK, but that is the current position.

Q203 **Chair:** I won't go further on that. Let me just carry on with my questions to you, Mr Swales—but if you know something, Mr Howells, please do come in.

One of the issues I want to raise is the length of time for which sheep meat is kept fresh, which I think is about 100 days with New Zealand lamb when it is frozen and only about 28 days with UK lamb. I am told by some farmers that that is partly because when New Zealand lamb goes to slaughter it can be washed and sheared. The lambs are sheared and washed while they are still alive and this keeps them fresher for a lot longer, and this is having a direct impact on the whole seasonality issue as well. First of all, is this correct? If it is, what can we do to ensure that our lambs are kept fresh on the hook for longer?

Gwyn Howells: It is correct. Probably 100 days is stretching it. You are talking about shelf life, which is the topic we are talking about. New Zealand would have around 70 days' shelf life on their product at the moment but are looking to increase to 90 and 100 days. The reason they are doing that is that if they can get product with a longer shelf life they can use slower ships from New Zealand, with less cost, and therefore they can gain some margin that way.

Back to the UK or the Welsh scene, our average shelf life is around 30 days, which is a big gap when we are looking not only on the UK domestic market but in further destinations abroad where we are in competition, shall we say, in some months of the year. We will come back to seasonality later on, which is a really important point in all of this. If you are a retailer buying Welsh or British and thinking, "30 days as opposed to 70 or 80 days with New Zealand," it does make a difference to choices.

Q204 **Chair:** Is it down to things like shearing and washing and, if so, should we be making recommendations about this or thinking whether we need to change our own rules?

Gwyn Howells: Absolutely. I think it is something that probably the industry has been complacent about for the past 30 years. We have had a market on our doorstep of 60 million in the UK and a further 500 million in the EU, where there has never been a need or an ambition to increase shelf life. It has always been quite easy.

Q205 **Liz Saville Roberts:** Haven't the New Zealand Government invested in this, too? I mean the degree of control. If I understand correctly, they can control the temperature of the containers that are carrying the chilled lamb. It is controlled to a micro degree by satellite. The degree of investment that has gone into shipping the New Zealand product is something that we have never done in Wales or the United Kingdom before, and perhaps we should be looking at some sort of strategic planning. If we are aiming for markets further afield, rather than the market next door, this is not just going to happen on taking sheep on the hoof to Saudi Arabia on a ship.

David Swales: No. I think some of that is probably for industry to do, but you are right to flag it. New Zealand is very well set up to export. It exports the vast bulk of what it is producing, so it is probably a bit of a leader in this area. We have been much more dependent on the domestic market and the EU.

If that were to change, we may need to make some different decisions and make some investments. A good example would be export certificates. We still operate a paper-based system for export certificates, which is very time consuming. It involves letters moving around the country to get export certificates. In New Zealand they have a completely electronic system and the certificate for the goods arrives before the ship even leaves dock. There are things that we could invest in and make steps to improve our export certification, for example, which would make it easier for our exporters.

Gwyn Howells: We are embarking on hopefully an industry-wide project now to improve this. It is something that everybody can do. There is no magic wand on improving shelf life. It is about cleanliness along the supply chain, from farm all the way to the point of packing and, therefore, it is everybody's problem. It is about cleanliness, nothing else.

Q206 **Chris Davies:** My question has virtually been answered. It was to do with beef.

There are a couple of points I am interested in. The New Zealand lamb agreement, Mr Swales, if I remember correctly that was agreed with this country in about the 1950s and we took that agreement into Europe itself. Are you confident the way we are coming out is the way you suggested, that we are leaving half of it behind?

David Swales: That is the current agreement. That is one of the few things that the EU and the UK had agreed on. Basically, we have agreed to split the EU-wide quota. It may well date back to the 1950s. I do not know if that quota was increased when we joined the EU but, certainly, it is going to be divided based on current usage, or that is the proposal the EU and the UK have made to the WTO membership. We can trade on the basis of that proposal, but what we would hopefully be doing is taking steps to make an agreement with the WTO membership to make that our permanent schedule and our permanent commitment.

Q207 **Chris Davies:** A few other points that were raised as we have gone on, and, forgive me, as you probably gathered, some of my colleagues were totally pessimistic about the way that we are approaching Brexit and the outcomes thereof. I am glad to see that the two of you are looking at the facts, and being very sensible about the way forward, and seeing that there will be a market after Brexit and there will be a future after Brexit.

I was quite interested in what you said, Mr Swales: that you were just starting to look at those further markets over the next five and 10 years. Shouldn't you have started that last year or the year before? You are not only now starting to look into those future markets?

David Swales: No, we have produced a whole range of reports recently to inform our levy payers about issues and things around Brexit. Yes, we thought it would be important to look—from a trade perspective; from a UK agricultural perspective—at where would be the best markets that we would want access to. A lot of the rhetoric from Government was from countries coming to the UK, such as New Zealand, Australia and the US, and seeking a trade deal with the UK. A lot of those countries are big agricultural exporters, so we wanted to look at it from the other side, to say, "If UK agriculture were to identify where it wanted trade deals to be, where would those markets be?"

We have produced two reports, one focused on grains and one focused on livestock products, where we have gone out and looked at all the evidence around parts of the world, what their demand situation is, how factors in those economies are expected to change over the next few years, and also what their domestic agricultural systems are set up to and whether they will be able to meet that demand from their own production.

What we have found from that work is that it is particularly the Asia-Pacific region. China jumps out, which is a huge opportunity for a number of sectors where there are massive increases in demand over the longer period of time. The challenge we have is getting access to those markets because, frankly, lots of other countries will have spotted that and they will all be seeking those trade deals. The EU currently does not have a trade deal with China, but maybe there are opportunities for us to do it.

The challenge is the timescale to negotiate those trade deals. As we know, they tend to take quite a long time, typically five to seven years, so there is a challenge in terms of the timings of all this. We could well lose access to the EU market before we gain access to some of these other markets. There is a bit of a challenge that needs to be navigated there.

Q208 **Chris Davies:** It is interesting that you say China, because I was in Taiwan earlier on last year speaking to the Foreign Minister there. They were saying that lamb, in particular, is virtually not on any menu. It is just not eaten in the country, but in China it evidently is. What other areas are we looking at? Clearly, while we are part of the EU, we have already heard that the Romanians are already muscling in on the Italian market, and that is while we are part of the EU. Once we leave the EU, we will have better opportunities for our lamb market, so where else are we looking in the world?

David Swales: In terms of China, there are two different types of opportunity here. There are opportunities for what I would call commodity product. In the case of pig meat, a lot of our exports to China are in the form of those cuts of the animal that have a relatively low value in our domestic market. Offal is a good example: very low value and in some cases producers and processors have to pay to have product disposed of. Lots of those things are delicacies in China and have a premium price to them. We can ship them to China. The market access there is very profitable. Our exports of pork to China have expanded dramatically over the last five to 10 years. There has been phenomenal growth there, so there are really good opportunities.

In the case of lamb, we don't currently have access for either lamb or beef into China. That is something the Government are working on and AHDB is working on to try to open up and secure market access. That gets us to the stage of being able to send product there. There would be tariffs and barriers that exist in terms of making that trade more difficult, so it would be something the Government would have to do, to strike a Government-to-Government trade deal to remove a lot of those barriers. There are lots of markets around the world where there are opportunities for both the commodity product but also high-end product into restaurants.

Q209 **Chris Davies:** You are looking at it all?

David Swales: Yes. As an industry in Wales, the majority of our sheep meat exports are in the form of carcasses, and perhaps there are more opportunities here to break up the carcass into different products, which would go to different markets. That is something the New Zealanders are very good at. If you can get better market access to a range of countries around the world, you can sell an animal more profitably by breaking its parts up and selling to the most profitable market for each than just sending whole carcasses to one market.

Q210 **Chris Davies:** Okay. You have made your point very clear. Thank you. I would hate to leave Mr Howells out. Mr Howells, Hybu Cig Cymru is a wholly owned subsidiary of the Welsh Government. In the agricultural market, as we have already heard from Mr Swales, everything is changing out there. Your organisation has to market Welsh lamb and Welsh beef that much more around the world. How much extra support are you having from the Welsh Government in financial terms?

Gwyn Howells: Obviously, the core funding that we have is from levies paid by farmers and processors. That is how our bread and butter come in. We have just been awarded £1.5 million from the Welsh Government to develop an export programme over the next three years to enhance what we are doing already. Obviously we would like more but that is the award. That will start in April of this year.

Q211 **Chair:** How much do you think you lose out on as a result of the way the levy is calculated, whereby animals that are slaughtered in England are counted towards the English levy? Do you think that £1.5 million makes up for the relative loss?

Gwyn Howells: No, it does not, because there is probably a loss of just over £1 million in terms of levy, which is captured in England and not returned at the moment to Wales.

Q212 **Chair:** Is that extra money coming out of Pillar II agricultural funding or is it coming out of a separate pot?

Gwyn Howells: No, as I understand, that £1.5 million is domestic money.

Q213 **Chris Davies:** House of Fraser or a department store would think nothing of spending £2 million, £3 million, £4 million, £5 million on a small advertising campaign, so £1.5 million to you over three years, when the world is our oyster, surely that is nowhere near enough. That is just back pocket petty cash. You cannot survive on that to promote Welsh lamb and Welsh beef as we would like.

Gwyn Howells: I think the track record that we have had, from the levy and augmented moneys from elsewhere, has been a good one. Obviously we would like it always to be more, but we are where we are. The onus on our organisations going forward will be even greater.

To answer your earlier question about where the markets for sheep meat are outside the EU, they are the far east, the middle east and North America. Those are the target markets, none of which we have access to at the moment.

Q214 **Chris Davies:** I have one final question, Chairman, and then I will finish; I promise. Because of that, do you think your hands are tied and you are too closely tied to the Welsh Government; you do not have that independence to get on?

Gwyn Howells: No, absolutely not. We are accountable both to our farmers and processors and levy payers on the one hand and to Ministers on governance accountability on another. Therefore, we are literally at arm's length and no, it does not tie our hands.

Chair: Mr Howells and Mr Swales, you can see just how interested we are in this. I hope you will take that as a compliment. This is a very, very important issue for us. None the less, we are hardly getting through these questions and three people want to speak on this, and quite rightly so. I will go to Ben Lake first, but perhaps we should try to be a little bit more concise with these if we can.

Q215 **Ben Lake:** Just quickly, back on the potential markets and the work you have done to identify the potential growth areas for Welsh lamb, in particular, but also beef for the purposes of this question. We have spoken about the need to try to enhance shelf life to be able to compete with these markets further afield. As part of the work you have conducted, how do we compare in terms of not just the ability to trade with some of these potential markets, but considering competitors, so in the far east I would imagine New Zealand and Australia? What kind of access do they enjoy already to these markets? Just to give an idea, because I am thinking that there is a potential that we might pursue the seasonality aspect again so when they are not able.

Gwyn Howells: To give you an example on access, if you look at New Zealand's access portfolio, it is measured at around 110 to 120 destinations that they can access. We are in the mid-50s. Therefore, we have a heck of a lot of catching up to do worldwide.

That is not because we have been sitting on our hands. In fact, for the past five or seven years we have been dipping and seeing where these markets might be elsewhere. We do have markets on a weekly basis in the far east and in the middle east and in North America, but they are very small. That is because our big market is in Europe. We have 500 million consumers in Europe and we have a strong brand, good loyalty, repeat business, and it has made perfect sense for processors to seek those markets out and to develop them. They have become very mature markets for us and we would like to keep those, obviously, and to build on the ones in third countries after we exit.

Q216 **Ben Lake:** But very much in a way to complement the main market?

Gwyn Howells: Absolutely, yes.

Chair: Okay. A quick question from Glyn and then back to Liz.

Q217 **Glyn Davies:** I did not want us to lose the point about the levies. We just touched on that in passing. Our report is a recommendation to Government, isn't it? Would you welcome the Committee making a part of its report saying, "Wait a minute. We need to have the levies coming to Wales on the basis of the livestock we produce, not just on the numbers that are slaughtered"? I know that when I was sending stuff a lot of it was going over the border to be slaughtered in Shrewsbury and the levies were all going to England. They were not coming over. There would be a lot more money coming to help you do your job.

Gwyn Howells: Absolutely.

Glyn Davies: Would you want to see a recommendation in our report to Government that we should get to that position? This has been argued about for years.

Gwyn Howells: I first raised it in 2005 and, therefore, it has been a long time in abeyance, shall we say. Yes, I would welcome that. Let me perhaps bring you up to speed on where we are with the whole debate, which has been a saga.

There is an interim solution in place now, which starts in April 2018, whereby AHDB—which is the English body in terms of red meat—has set aside a ring-fenced amount of circa £2 million for Scotland and Wales on which there is a tripartite collaboration on how that money might be spent. The discussions and conversations have been very positive and I am sure it will work, but it is an interim solution. It falls short of the final solution. That is, to repatriate that money into Wales and Scotland. It is not only about the money in our coffers; it is about the accountability lines for Welsh farmers as well that is really important, I think.

Chair: Thank you for that. I am sure the Committee will have noted your recommendation for a recommendation.

Q218 **Tonia Antoniazzi:** There is not much point me asking question 5, because Mr Davies has covered a lot of it, but I wanted to point out something. We were talking about markets and talking about Asia-Pacific countries for exporting. I find it interesting, because during the summer recess I went to the Royal Welsh Show and met an American gentleman at one of the stalls. Is that a market that you would be looking to take the lamb to as well?

Gwyn Howells: Absolutely. We have done extensive research in North America on where our offering might be. It is important to say that we are never going to compete on price; we are going to compete on our offering of quality. We therefore seek niche markets, premium markets, wherever they are across the globe. America and the eastern seaboard sector, and indeed the western seaboard, have potential.

David Swales: For dairy as well.

Q219 **Tonia Antoniazzi:** I have a particular interest because obviously you are talking about quality. My constituency is at Gower, so you have the salt marshland. You have that unique branding then to take to these markets, so that is great.

Gwyn Howells: But there is a cautionary note again, in terms of America: it does take an enormous amount of time to get Governments to agree and engage and for trade then to commence. You are measuring them in years. For example, I first went to Washington in 2008. I knocked on the door and said, "Could we send some Welsh lamb again, please?" after there had been a halt. After almost 10 years we are almost there now, but we are not quite there yet. Who knows what the future might hold, but it does not happen overnight. That is really important to note.

Q220 **Tonia Antoniazzi:** I was going to mention the sub-question to that. You are talking about the steps, what you have to do and what Ministers need to do, in Westminster and in the Senedd. If we had a list of the three things we need to happen to make this work, to break into these markets, what would those three things be?

Gwyn Howells: It is just one thing really.

David Swales: It is time.

Gwyn Howells: It is devoting. Market access is a UK competency and, therefore, Ministers would hopefully devote more time to visiting destinations, making connections, ensuring trade arrangements hopefully are in place and not getting side-tracked. Agricultural trade in these trade agreements is often put to one side and not taken forward because of sensitivities in the country you are trading with. It is not to be put off by that but to devote time and resource to opening up these markets.

David Swales: It is also about maintaining those markets. That is the important thing. This is not a quick, overnight thing; it takes a lot of time. We have inward inspections of plants in the UK with delegations from China coming in. That all has to be managed. We need to go out there frequently. Ministers going more frequently than they have historically done would no doubt help. There are ongoing relationships that have to be managed. At the minute AHDB does a lot of that work. Hopefully the Committee will also recognise that and do it as a UK body. In some areas we are delivering UK services, in terms of trade access, which benefit producers in Wales. Levy patriation is something that needs to be taken into consideration: should English levy payers pay for the UK's market access and Scotland and Wales get that service for free? There are other things that you do need to factor into your consideration there.

Q221 **Tonia Antoniazzi:** Thanks. I will move on then. If the UK is to develop its international markets after we have left the EU, is it realistic to expect that we can limit the import of cheap products from other countries, and how would we do it?

David Swales: Why would we want to limit the import of cheap products from other countries?

Q222 **Tonia Antoniazzi:** We want to be selling our products on the shelves in our markets and supermarkets.

David Swales: The issue is about standards. We don't want to impose certain standards on our producers, yet allow imports to come in—

Tonia Antoniazzi: We already have those kinds of standards, don't we?

David Swales: —from producers with very different standards and have an uneven playing field in terms of trade. By all means, there are mechanisms within the WTO to manage recognising equivalent standards in different markets. That is why I think trade talks often take so long. The reason food and agriculture takes so long within trade talks is because it is quite complicated and you have different standards in different parts of the world.

Q223 **Tonia Antoniazzi:** We were also talking about the meat that has come in from South America.

David Swales: Absolutely. However, there are benefits of trade. One of the benefits is that if there are markets where we are a cheaper producer, or we have a premium offering, there are opportunities for us to sell more of our product in some parts of the world. Likewise, if there are areas where we are not efficient and other parts of the world are more efficient then that will provide competition for our producers. It is important to recognise that it works both ways and there are challenges for our producers as well as opportunities here.

Q224 **Tonia Antoniazzi:** It is also a question of making sure we have the right labelling, isn't it?

David Swales: That is an issue, but the bigger issue is competitiveness. As an industry, can we compete with some of these other markets around the world? Are we as efficient as we need to be? That is an area where, as an industry, we do need to make improvements.

Chair: We are about to come on to labelling—so no questions on labelling.

Q225 **Glyn Davies:** I want to follow up on precisely what you were asking. The obvious things are chlorine-washed chicken and things like that. GM crops are another big example that is easy to define. However, when you have a farm in Brazil with hundreds of thousands of cattle, or whatever they are—what we call "big farms" are miniscule compared to those.

David Swales: A feed lot.

Glyn Davies: A feed lot. There are millions of them without anything like the same requirement to protect against weather and things that we have. They are bound to be able to undercut. Is there any real worry about products being so undercut that we cannot possibly compete simply because of that scale?

Gwyn Howells: As David said earlier, what we would need to impose here is the equivalence test—that the standards are equivalent to what we would have here in terms of how it is produced, welfare and environmental standards—or we might end up exporting all our production to countries that have very low standards.

David Swales: Sorry to cut across you, but the WTO makes the use of welfare as an issue quite difficult. Brazil is not a good example of feed lots as that is probably more the US. It is very difficult for us to say, "We don't like that system and, in our view, the welfare of that system is not as good." These judgments have to be based on scientific evidence and proof, and it is quite difficult to do that. With something like hormone-treated beef or chlorine-washed chicken, where there is a particular production method, that is something that can be more rigorously examined scientifically. It is a real challenge and it takes a long time to sort out in trade talks.

Q226 **Paul Flynn:** We have heard that Welsh red meat cannot compete on price with Romania or America. The great puzzle is that New Zealand has not had any subsidies for the last 33 years for their products. They run to very high standards and have to ship their meat from the far side of the world, yet they still slaughter us on price. Do you think the lesson from this is that the subsidies that have been enjoyed by the farming industry since "Dig for Victory" in 1942 have acted as a disincentive to innovation and have left us in a position where we cannot compete in the world market?

Gwyn Howells: In terms of New Zealand, the facts you are offering there are right. However, if you take the facts a step further and look at how the farming structure has changed in New Zealand over the past 30 years—

Q227 **Paul Flynn:** Because their subsidies stopped overnight in 1985 and they either went to the wall or they introduced things, as we have heard now. It seems astonishing that there is a longer shelf life for New Zealand lamb than there is for Welsh lamb, given that it is produced on the hills around us. However, lo and behold, New Zealand lamb comes in and is cheaper, good quality and will last longer.

Gwyn Howells: What I was going to say is that the rural communities have changed dramatically and you have vast tracks of land with very few people on it. If that is what we want as a country, well, there are some prices to pay. The other thing I would add is that farmers in New Zealand have made no money in the last three or four years. The processing sector has struggled as well. One of the major ones has just been acquired by a Chinese company. Therefore, it is not the Holy Grail in terms of—

Paul Flynn: Everything has to travel miles and yet they can still slaughter us on price.

Chair: Let's have a last point on that and then I will call Liz.

David Swales: Yes. The facts you present are correct. The main reason is that their costs are much lower. Arguably, they have had a great deal of structural change and less efficient producers have got out because they have not been supported. That has taken a long time. Arguably now they have a different type of system to what we have.

Paul Flynn: They had a system like we have before 1985.

Chair: Paul, we need to move on.

Paul Flynn: It is a false argument. They were heavily subsidised for a long period—for over 50 years. The subsidies stopped and they became more efficient.

David Swales: I think we are being moved on.

Q228 **Liz Saville Roberts:** For the communities I represent, to remove the subsidy would effectively be an upland clearance overnight. In our Welsh-speaking communities it would be disastrous.

Chris Davies: A disaster.

Q229 **Liz Saville Roberts:** I have a role I believe, as many of us do, making sure that those communities are viable into the future. My specific question is to do with public procurement. Gwynedd County Council, for which I used to be a councillor, has managed to find a way for it to be possible to specify that home-grown Welsh meat—I think even from the Gwynedd region in some cases—is used within school dinners, so it is possible to jump through the hoops of procurement at present. Looking into the future, what recommendations would you present to us that we should be making about how public procurement of Welsh meat is used in the public sector and how to facilitate that?

Gwyn Howells: Public procurement is really important. While it is probably not the best-paying outlet for Welsh meat, it can be reconciled with the fact that there are premium cuts and probably not-so-premium cuts. The cuts that go into the public procurement sector are largely minced and diced meat, which is probably at the lower end of the price scale. I would also say that there have been great strides, compared to 20 or 30 years ago when there was hardly any local meat or Welsh meat, or British meat for that matter, going into our schools and hospitals and other institutions, but that has changed.

However, the answer has to be—as you have described there—model clauses. It is to put model clauses in procurement contracts to specify that it must be fresh, it must be local and must be of PGI status or whatever it might be, so that contracts are awarded not solely on cost but on value.

Q230 **Glyn Davies:** You can put local in?

Gwyn Howells: You can put some fresh and local in. In fact, we still have a contract and Welsh lamb is still sold to Rome schools. The Rome City Council wanted to specify the best-quality meat for their schools. They specified PGI lamb and one of our processors won the contract. What I am saying, therefore, is that there were quality criteria specified in the contract that perhaps made it more difficult for others to obtain or to tender.

Q231 **Ben Lake:** On PGI and protected schemes, which we have benefited from in the EU, it would be useful to have your views on its benefits to Welsh meat—red meat in particular—and then also how satisfied you are that any potential replacement scheme would afford just as much benefit for the sector.

Gwyn Howells: We have had protected geographical indication, part of the protected food name scheme in Europe, since 2002 and 2003 for Welsh lamb and Welsh beef. In that time, being a member of that exclusive club has afforded us opportunities to open doors in markets, not necessarily in the UK but certainly in Italy, France, Germany and, indeed, further afield in Hong Kong. When you say we are in the same family as Parma ham or Champagne, it has a certain credential that has helped us enormously to build the value of that brand.

Going forward, in terms of the EU exit, we would like to see those GI schemes protected. My understanding is that the Department for Exiting the European Union is going to make provision in the withdrawal Bill for the GIs to be rolled over on the day we leave the EU, so that we have a scheme that is seamless and will give protection both to GI products coming into the UK market and for the GI products going to Europe. That is my understanding at the moment, which is good news.

Q232 **Thelma Walker:** You have answered my question really. You cannot see the promotion of Welsh produce being better served by being promoted as British produce?

Gwyn Howells: No. There is a place for both but, in terms of the premium offering, the track record of the brands shows that—

Thelma Walker: Yes, we have talked about Welsh lamb being internationally well known.

Gwyn Howells: I would argue it is a world leader, in terms of lamb brand, so why would we want to change that?

Q233 **Chris Davies:** Can I stay on the domestic market for a second? We have talked about the world. We have talked about procurement into the Army and the allocation and so on. How are we changing the products for the domestic market in this country? Sadly, the days are gone, or getting less, when the family would sit down on a Sunday and have a lovely joint of lamb or so on. Now it is what the husband, wife or partner can make in 20 minutes, having come through the door when they get home in the evening. How are you promoting and thinking of products for that market?

Gwyn Howells: Are you talking any particular species?

Chris Davies: We will stick with lamb and beef—lamb primarily. We will stick with lamb.

Gwyn Howells: Lamb primarily has the greatest challenge, shall we say, in terms of cooking time, which has halved in the last 10 years down to 20-odd minutes, and also the versatility it offers both as a warm dish and a cold dish.

Mr Flynn talked about innovation. The sheep and lamb industries and the processing sector need to innovate more. We need to help them to change because consumer profiles are changing, in terms of consumer needs. We need to be competing with other proteins—be they beef, fish or chicken—in a much more versatile and innovative way. That is a challenge that we are taking forward. It certainly needs to be taken very seriously, to ensure that we have retail shelf space going forward, because if it starts shrinking that would be a really retrograde step. Consumption of lamb is static at the moment in the UK and has been for the past three years, which is no different from other mature markets in western Europe.

Q234 **Chris Davies:** You say we have to be talking and thinking about it. This has been happening for 10 years or more, so surely you should be ahead of the game now. The white meat market—chicken—without question is streets ahead of the lamb market, and we know the difficulties there. You are a marketing organisation. Surely you have been coming up with plans over the last 10 years. This is not the fault of Brexit. Brexit is being blamed for everything. However, we have seen this trend in this country for 20 years.

Gwyn Howells: I am not suggesting that it is the fault of Brexit.

Chris Davies: No, you aren’t, but I know some will.

Gwyn Howells: Yes, it is a challenge. We are aware of it. It is something that we need to move on very quickly. Obviously there are price sensitivities with other proteins. Lamb is by far the most expensive protein, averaging just over £8 per kilo at retail. However, there is some good news. At retail the sales are static. That is, in independent butcher shops and supermarkets. In out-of-home eating, in the HORECA sector—hotels, restaurants and catering—lamb is increasing as a choice in that sector where people don’t have to prepare it or cook it. Therefore, the focus must be on the retail offering because out-of-home eating is on the up for lamb.

Q235 **Liz Saville Roberts:** This is a very specific question. I spent the whole of last Thursday with upland farmers in Trawsfynydd—this is 1,000 feet and higher. They were being advised that they should start using continental breeds. There are areas of Wales—far more than just Trawsfynydd—where they will not survive. We have a particular breed, Welsh Mountain lamb, whose market is disappearing as we speak because we are not used to eating it in this country. Romanian lamb is coming in. We don’t know if we have another market. Would there be value, do you think, in identifying specific protected name status moving forward as we have to develop quality brands—quality grass-fed and naturally-reared brands—and specifically identifying our native Welsh breeds?

Gwyn Howells: There is that possibility. Having said that, we conducted a working group looking at the light lamb problem in Wales. Light lambs account for over 15% of the total. For the people who have and produce them it is a real problem. The answer is twofold. The answer is probably doing something on the farm to keep slightly bigger animals.

Q236 **Liz Saville Roberts:** You really cannot do that. I was in two farms where they had those Zwartbles things that stood there like horses, and they were sending them off to slaughter because you cannot cross them. Only Welsh Mountain sheep will do in certain areas of course.

Gwyn Howells: Keeping bigger Welsh Mountain sheep is a possibility. I am a hill farmer myself. It is a challenge that I am used to, so I think there is something that can be done on the farm, which is probably part of the solution. We need to find markets elsewhere, be they in the UK, Europe or further afield.

David Swales: For me this is about consumers. If there is a product that can be developed, and consumers want to buy into that and are willing to pay extra for that, then we should look at that as a possibility. However, there is an issue here with light lambs. Certainly our domestic market does not buy that many light lambs, which is why we export so many.

Liz Saville Roberts: As Chris was saying, we have niche markets there. We have this fantastic natural, welfare, grass-fed product turning grain into protein. We should be looking at opportunities. We have Salt Marsh Lamb already, but we have other breeds that we could be looking at.

Q237 **Chair:** We could be here a long time, and genuinely it is very interesting. I have what is potentially a big question here but I want to try to make it very specific. The question is: how satisfied are you with the approach being taken in Westminster to shape a revised subsidy scheme post-2022? Let me put it very simply because we are well over time now.

David Swales: Neither of us will want to answer that one.

Chair: To what extent do you think we can have the four nation states of the UK all doing their own thing in agriculture, or alternatively all working within a single framework arrangement that is set centrally—if that is not too obviously giving away my own opinion?

David Swales: It is a very difficult question for us to answer because obviously we are both part of government. What I would say is that it is really important that, whatever agricultural policy is put in place, that it is driven by the market. We don't want to distort the marketplace. We don't want to have widely different policies in different countries.

Q238 **Chair:** That is a good answer. We need to maintain a single market in the UK, is that what you are getting at?

David Swales: That is the challenge. At the minute we do have different policies for agriculture in the different member states of the UK. We have different approaches. Therefore, I am not saying that there cannot be different approaches, because there are already different approaches. We have to be careful that we don't perversely alter the market and the economics of production.

Liz Saville Roberts: I will never tell the question I am going to ask to the Chairman again. I told you I should not put my cards on the table.

Chair: I did not mean to steal your question. Fire away; have your own back.

Q239 **Liz Saville Roberts:** Both farming unions have come out and said that devolution of agriculture is a political reality. It reflects the needs of the different nations of the United Kingdom; that there are different environments and different requirements. We will have an agricultural Bill moving ahead with the frameworks. We will have the means for discussion between the Joint Ministerial Council. We do not at present have any sort of dispute resolution mechanism whatsoever. How would you like to see that relationship? Reflecting that devolution of agriculture will continue to exist, how is this going to work most effectively in the future now that we may lose the overarching role of the EU?

Gwyn Howells: I think there is a consensus on a framework, at least in terms of agricultural policy, a financial and regulatory framework, where probably there is common agreement and a collegiate approach. From a pragmatic point of view, given that agriculture is devolved in each of the four countries, it would be perhaps not too much to ask to have a collegiate approach in terms of the four parties agreeing a common framework and to move forward on that basis.

Q240 **Chair:** Is that possible?

Gwyn Howells: It is the art of the possible. That would be a pragmatic approach that I would endorse and probably encourage.

Q241 **Paul Flynn:** A very large proportion of those working in the meat processing industry—in the abattoirs and on some farms, although perhaps not in Wales—are European nationals. Many of them have already gone home because of the collapse in the value of the pound and so on and their view of the future. Is that a major problem for Wales as well?

Gwyn Howells: Absolutely, and it is a problem here and now; it will not wait until we exit the EU. To give you a flavour, in the three massive throughput abattoirs in Wales, 50% to 60% of their workforce are migrant workers from Europe. Over this summer season we have seen those migrant workers leave for currency reasons and possibly for reasons to do with what the future holds. Therefore, there is a challenge for Government to put processes in place to ensure that we have those migrant workers for the year we are in now, next year and years after that, or else we will find it very difficult to run our processing plants in Wales and in the UK.

Q242 **Chair:** What would you say to people who say that there are unemployed people in Britain now? Why are people who are unemployed not taking those jobs if they are available?

Gwyn Howells: Employment is at a very low level statistically and, therefore, one could argue that the numbers are not there. Either they are not there or they don’t want to do the work.

Q243 **Chair:** There are people claiming benefits at the moment because they are out of work. Are you suggesting that there are jobs available if they want them?

Gwyn Howells: There would be jobs. Let us not kid ourselves, in abattoirs some are very highly skilled jobs and some are lesser skilled. The enthusiasm to work is really important.

Q244 **Chair:** Dare I be a bit cheeky? There is a lot of concern at the moment about the number of rough sleepers in Cardiff, for example. The *Western Mail* has been featuring stories about this. Are you saying there would be those skilled jobs for people to walk into if they wanted them?

Gwyn Howells: If somebody wants to work they will find work. It does not get away from the problem that we are talking about literally tens of thousands of people working in the UK processing sector who are migrant workers. You cannot switch from one set of workers to another overnight. It has been a transformation and a slow burn for those people to come and overnight you cannot change that.

Q245 **Paul Flynn:** The reality is that it is Polish fishermen in the north of Scotland who have gone home. It is people collecting fruit in Norfolk and

Anglia. The fruit will be rotting in the fields. The reality is that these are back-breaking jobs that British workers have recently not been willing to take. The awful position is that we are going to have to replace those products that we cannot collect in the fields with more expensive ones from abroad. It is the sense of manic optimism that the Brexiteers have, I am afraid. You have to have a second—

David Swales: Certainly, there is a whole range of issues with horticulture. The big issue here is the desirability of those jobs for domestic people to do. There is also bit of a mismatch here. Some of these jobs are seasonal and people are looking for employment all year round. Maybe there is a geographic mismatch here because it tends to be quite rural areas where there is a lot of this seasonal employment and in those areas employment is really high. There is a whole range of issues that make it difficult for that to work for UK workers, and that is why most employers have gone down the route they have.

Chair: That brings us to the end. It has been quite a long session. Thank you both very much indeed for your forbearance this afternoon. We will have lots more questions for people on this issue soon. Thank you.