Written evidence submitted by The Agricultural Industries Confederation (AIC) (FS0022)

About the AIC

The Agricultural Industries Confederation (AIC) is the agri-supply industry's leading trade association with over 230 Members in the agri-supply trade and represents over £9 billion turnover at farmgate. AIC represents several sectors within the agri-supply industry including: Animal Feed; Crop Protection and Agronomy; Fertilisers; Grain and Oilseed; Seed.

Consultation Questions

1. What are the key factors affecting the resilience of food supply chains and causing disruption and rising food prices – including input costs, labour shortages and global events? What are the consequences for UK businesses and consumers?

AIC would point the following factors contributing towards supply chain disruption and inflation in commodities in the UK and abroad:

Energy costs and fertiliser

It is well recognised that one of the leading causes of inflation to date has been the unprecedented rise in the cost of energy, more specifically natural gas. This has had an impact across most industries, especially those in manufacturing sectors that rely upon gas as a primary feedstock. Fertiliser is one such commodity that has faced sharp inflationary pressures due to this unprecedented rise in gas prices. Until the recent announcement by the Government on energy intervention, agri-supply businesses were facing increases in their electric costs of up to 728%, gas costs of 294% fuel costs of 144%, compared to 2021.

The impact of high fertiliser prices has been evident in the UK market. Latest AIC data suggests that 40% less compound fertiliser (Nitrogen, Phosphorus and Potassium in combination) and 10% less 'straight' nitrogen fertiliser have been applied in 2022 in comparison to 2021. This reduction has been particularly apparent in Phosphorus and Potassium fertiliser applications.

In addition to an extremely dry 2022, it is likely that the overall productive output of food and feed from the UK will contract, however this will differ from sector to sector. It will remain to be seen what volume of sileage and grassland based feeds will be made available over the winter period, and the AIC would urge the Committee to keep this under review.

Against this backdrop, it is worth noting that the UK is not self-sufficient in nitrogen fertiliser. Around 40% of the UK market has historically been supplied by one primary manufacturer, which in turn provides 60% of the CO_2 supplied to the UK. The rest of the UK's fertiliser and CO_2 supply relies on imports. There is only one current facility in the UK producing nitrogen fertiliser, and the Committee is invited to consider the strategic relevance this has to wider UK food security. It is worth noting that against these serious challenges, other countries have taken bold action to support the fertiliser sector, as well as their farming businesses. The EU, for example, offered significant funding to fertiliser manufacturers to continue to produce fertiliser, as well as allowing individual member states to provide payments to farmers as a partial subsidy for fertiliser purchased. The USA has also made available $250 million to support independent, American fertiliser production, as a means of supporting US farmers and food production.

Aside fertiliser, a rise in costs of other inputs has taken place. The crop protection, animal feed, fertiliser and seed sectors have all faced increases in their costs to food producers as a result of a combination of more increases in manufacturing costs, logistics, global demand, weather events and labour availability issues. More recently, we cannot overlook the role of currency: whilst the recent weakening of the pound against the dollar may assist export competitiveness, it will inevitably impact agri-inputs, which are often purchased in dollars by importers. The Committee is recommended to keep this under review into 2023.

The Ukrainian conflict

Although a rise in inflation and demand was being monitored towards then end of 2021, the conflict in Ukraine has exacerbated this. A key input challenge to UK food security arising from the conflict is the availability and cost of cereals and oilseeds to the UK food and feed market.

Ukraine has historically been a major exporter of cereals, maize and oilseeds to the UK (see below). These products are used in food, animal feed and biofuel markets and are used either in their primary form, or their derivatives. It should be noted that though volumes are not large by conventional commodity standards, Ukraine is a significant supplier of organically certified wheat, maize and sunflower meal, which have helped support the UK organic sector, and providing consumer choice in the market.

The agri-supply chain has taken great steps to ensure that a continuity of these goods have been made available to UK consumers, however we have to accept that we have gone from a position in which Ukraine was able to load 715,000mt of goods per day (pre-war via vessels), to a position where only 70,000mt of goods can be exported via road, rail and river networks. This has meant the supply chain has had to try and source the same product from different countries, or reformulate products with available materials.

Maize

- Ukraine is traditionally a key player in global maize markets accounting for c.15% of global maize exports.
- The UK has relied on maize imports, with a high, consistent demand of approximately 2.7m tonnes. This demand is usually split between the EU and non-EU sources.
- EU-27 countries supply over 42% of the UK's maize imports, with Ukraine supplying a further 27% (2016/17 – 2020/21).
- Maize is used across all livestock sectors in the UK, and is often used instead of wheat or barley that cannot be used for human consumption (due to quality issues for example).

UK Total imports 2020 - 2,560,333t	Ukraine:	32%	806,762t
UK Total imports 2021 - 2,370,298t		27%	649,277t

Wheat

UK Total imports 2020 - 1,990,473t	Ukraine:	12%	24,698t
UK Total imports 2021 - 2,015,640t		16%	32,010t

Rapeseeds, oils and feed meal

UK Total imports 2020 - 1,715,428t	Ukraine:	18%	315,724t
UK Total imports 2021 - 1,931,649t		17%	322,247t

Sunflower seeds, oils, and feed meal

UK Total imports 2020 - 697,019t	Ukraine:	19%	133,372t
UK Total imports 2021 - 574,496t		36%	207,901t

2. What is the outlook for UK food price inflation in the short and medium term? What policy interventions should the Government consider to manage these pressures?

The short and medium term effect price inflation suggests that this is unlikely to change unless there is a serious resolution to the Ukraine conflict, to global gas costs, to demand patterns, or a combination of all three.

Government must be prepared to take quick action as circumstances change. This may mean having to address barriers to trade with the EU or the rest of the world, in order to facilitate the continued supply of animal feed, cereals, seed, fertilisers and crop protection products. The crisis in Ukraine will have considerable longer term impacts, irrespective of how long the conflict continues. Therefore, Government must be prepared to enact the kind of proactive, cross-Whitehall action that we saw during the Covid-19 pandemic. No policy responses or legislative fixes should be considered off the table.

Interventions needed by UK Government

Whilst the Government has limited means to address global issues such as high gas costs or the Ukrainian conflict, there are still a number of issues that are within the Government's control that are adding to supply chain disruption. These are outlined below.

Imports of GMO in animal feeds.

There is a severe lack of a working approval process by the FSA on imports of GMO materials used in animal feed. The UK is badly lagging behind the EU on approval these GM commodities such as soy and maize from North and South America. This is not only causing major uncertainty for buyers in the UK, it would also cause major supply chain difficulties, as the goods would be available in the EU and not the UK. This FSA process must be prioritised as a matter of urgency.

GB REACH Regime

EU Exit offered an opportunity for the development of a GB Plant Protection Product regime which moved from the EU *precautionary* approach to a pragmatic approach based on the risk a plant protection product presents, rather than its intrinsic hazard.

Since EU Exit, the commercial viability of the GB PPP market to PPP manufacturers is less attractive. EU based PPP manufacturers wishing to approve active substances for the GB PPP market are now levied similar fees to those previously levied to access the GB and EU markets. AIC is advised that some active substances will not be supported by the approval holder at GB renewal, as they are not commercially viable in a much-reduced market size. This is a looming issue for the UK horticulture sector in particular, where the area of crops grown, and PPP use, is much lower compared to broadacre crops.

A three-year extension was given to GB active substances where the expiry dates fell between 1 January 2021 and 31 December 2023. This was to give CRD the time to develop a new GB PPP active substance renewal programme. As this deadline approaches industry stakeholders are concerned that the deadlines with be extended further, leading to further uncertainty. There is acknowledgement that additional costs exist and CRD state that they are working to minimise costs however there does not appear to be any positive progress.

Data calculated by an AIC member for a horticulture product showed that breakeven timescale for renewal of approval of five years, assuming normal market conditions over that period and no withdrawal within that period.

The uncertainly faced by manufacturers increases as HSE / CRD have yet to review the cost structure and data requirements for active substance renewals. Industry stakeholder continue to lobby HSE and Defra to ensure that action is taken urgently to make the current UK regulatory regime fit for purpose.

Trade barriers to the EU. AIC member businesses are still facing considerable administrative and bureaucratic burdens as a result of EU exit. When surveyed by AIC, 94% member businesses involved with GB to EU exports stated that they had experienced delays or friction on exports to the EU since 1/1/21. Strikingly, 20% of members said they found their exporting issues to be unresolvable, with the majority stating that such export markets had been lost to EU based competitors. This is extremely relevant for UK consumers, as these businesses will be involved in the two way flow of goods in and out of the UK; failure to allow this balance of trade raises logistics costs (as they will be needed for imports and not on exports) and sees UK food manufacturing and production capacity lost.

4. How will the proposals in the Government's food strategy policy paper affect:

5. the resilience of food supply chains?;

6. the agri-food and seafood sectors?; and

7. access to healthy, nutritious food?

AIC welcomes a number of measures released under the Government's food strategy policy paper, released earlier this year. Key announcements under the policy include:

- Risk management on farm. The Government will engage with industry to understand and address barriers to uptake of risk management or other farming insurance products. This is welcome. Effective business planning and provision of professional advice is a key enabler of resilience at the individual farm level. It is equally welcome that a specific long-term plan on CO_2 will be made this year, however AIC would argue that there needs to be a fundamental minerals strategy made by the Government, to ensure we have a clear understanding on stocks and global import available of critical minerals and commodities, such as fertilisers, CO_2 and core chemicals used in agriculture.

- Feed additives and livestock production. The Government has already launched a Call for Evidence to better understand the challenges associated with the use of feed additives and materials that can reduce emissions from livestock. This will explore how Defra can work with farmers and agribusinesses to increase adoption of this technology to support more sustainable protein production. This is a very welcome measure that will help the resilience of UK businesses by meeting net zero goals. The role that animal feed can play in reducing emissions is one such issue that Government and industry must continue to work together on.

- Migrant labour. It is clear that there are major challenges arising from a lack of labour availability across for food supply chain, which is why it is welcome that Defra recently announced an independent review to tackle labour shortages in the food supply chain. This work needs to consider all parts of the supply chain, from pre-farm supply right the way to retail.

AIC believes that there were some notable omissions from the Food Strategy:

- Food and mineral self-sufficiency, resilience or security. Although references are made throughout the Strategy, there is limited direct discussion of food or commodity security or an ambition on levels of domestic production in both. The main policy statement in the paper states that it is the Government's aim on food is to *broadly maintain domestic production at current levels*. This is not a particularly meaningful statement and any investors coming to the UK agri-food sector will need to understand Government's strategic objectives for food production. The proposed Land Use framework commitment in the Strategy will be an opportunity to expand on domestic production levels of food, fuel or feed, however.

- Core Infrastructure. The Strategy is notable in that it lacks any real commitment or detail on critical infrastructure in the agri-supply chain. There is little to no comment on improving our logistics networks, port capacities and processing capabilities, for example. AIC is urging Government to provide a clear plan how it can encourage inward investment into core food infrastructure, in order to deliver the measures set out in the Strategy.

- Energy. Given that energy has been a key driver of inflation across supply chains, it was notable that energy or fuel was not mentioned in the Strategy in any great detail – either at on-farm in the agri-supply chain. We are currently locked into short term measures in order to address energy supply and cost challenges – a long term strategy that recognises the role of domestic generation, renewable sources and UK land use is very necessary to UK food security.

8. Is the current level and target of food self-sufficiency in England still appropriate?

As stated above, any investors coming to the UK agri-food sector will need to understand Government's strategic objectives for food production, however this has to be coupled with its approach to land use.

Setting a specific self-sufficiency target is difficult to achieve and could be misleading, due to variability in different food categories and changes in consumer choice. There are certain commodities that have more stable trade flows throughout the year – for example meat products such as pork (until recently) and poultry have a generally stable production output and import demand. Meanwhile, the domestic production of cereals and oilseeds is more variable year on year as a result of external factors such as climate. As a result, setting a broad self-sufficiency is difficult to do. This is especially true when we have limited domestic demand for domestically produced goods (such as pulses, fifth quarter meat products etc), which have to be exported to find a market. Whilst these products could be theoretically consumed at home, the reality is that they are not, which has to form a part of any self-sufficiency consideration.

Balancing consumer and businesses interests towards food availability can only be achieved through a trade and domestic agricultural policy that is dynamic, and able to respond quickly to changing circumstances in domestic and global production systems.

In order to provide confidence to UK agricultural businesses, they need competitive markets open to them. We have to recognise that returns from land ownership have to be sustainable financially, and that those taking entrepreneurial risk are rewarded by markets, be they for food, feed, construction materials or fuel. The fundamental policy choice is whether or not Government policy should be targeted at food production *only*, or to provide landowners and managers with the means to access different markets for their produce. In the case of arable crops, the flexibility and fungibility in markets has provided greater resilience to farmers as more domestic and international markets are available to them. In the livestock sector, better resilience could be achieved by finding markets, home or abroad, for less favoured cuts which would help raise the overall value of livestock.

By addressing a better carcase balance across livestock sectors and stimulating domestic demand across different crop types that we can grow readily in the UK, we can meaningfully help improve consumer choice, availability and affordability.

9. How could the Government's proposed land use strategy for England improve food security? What balance should be struck between land use for food production and other goals – such as environmental benefit?

In order to achieve best outcomes on land use for food and the environment, future Government policy needs to be responsive to the needs of land managers. In order to secure buy in from farmers and land managers, deliver value for money to Government and enhance the delivery of public goods, ELM must be flexible. This flexibility is not only confined to the types of environmental choices being offered and how they are funded, but also to overall timescales on implementing them. As we have seen in the past year, markets and climate can bring about fundamental changes in the ability of land managers to carry them out.

Farm businesses and their advisers will be able to work out if Government based support, and its options are worthwhile; this was seen under previous stewardship schemes, where a number of options required prescriptive requirements in exchange for small payment rates. This is why the feedback loop between Defra and businesses needs to remain in place so that both parties can arrive at an agreement on optimal rates of payment and prescriptions.

Government needs to now accept that it is effectively offering a market opportunity to farmers and land managers. Like any market, it needs to recognise changing circumstances and adapt accordingly. This is true of the market in agricultural commodities and agricultural inputs, which are likely to remain volatile for the short to medium term. Therefore, Government must be able to respond accordingly if it wishes to incentivise land managers to deliver public goods – especially those that require a level of time and investment.