Amaeth Cymru

The future of agriculture in Wales: the way forward






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1. Introduction to Amaeth Cymru

Amaeth Cymru – Agriculture Wales was established on 25 September 2015 following a Welsh Government consultation on a Strategic Framework for Welsh Agriculture.[i] This consultation was based around a 'principles paper' developed by leading industry stakeholders and took into account the work of various independent reviewers.

Amaeth Cymru is an industry-led group, with Welsh Government as an equal partner. The group appointed Kevin Roberts as their independent chair in January 2016. The membership of the group covers a spectrum of interests, including farming unions, levy bodies, government, academics and industry experts. Full membership can be found below.

Through joint working, *Amaeth Cymru* seeks to provide strong, collective leadership to move the industry forward and realise our shared vision for Welsh Agriculture. All partners have an important role to play and take collective responsibility for delivering the Vision.

This document sets out our Vision for Welsh Agriculture, the associated outcomes, an overview of where the industry is currently and the strategic priorities that we will need to address to achieve that Vision.

This document is set within the context of Taking Wales Forward – the government's programme to drive improvement in the Welsh economy and public services, delivering a Wales which is prosperous and secure, healthy and active, ambitious and learning, united and connected. The agricultural industry can play a key role in helping to deliver this agenda. This aligns with *Prosperity for all: the national strategy.*[ii]

This document focuses on the timescale until 2030, and will be reviewed periodically by *Amaeth Cymru* to ensure it remains consistent with emerging events.

Membership

Name	**Organisation**
Kevin Roberts	Chair of Amaeth Cymru
John Mercer	NFU Cymru
Dylan Morgan	NFU Cymru
Alan Davies	FUW
Nick Fenwick	FUW
Rebecca Williams	Country Land and Business Association Cymru
George Dunn	Tenant Farmers Association
Gary Haggaty	Welsh Government
Gwyn Howells	Hybu Cig Cymru
Tom Hind	Agriculture and Horticulture Development Board
John Griffiths	Coleg Sir Gâr
Peter Davies	Environment & Sustainable Development representative
Prysor Williams	Bangor University
Wynne Jones	Chair of Farming Connect Strategic Advisory Board
Euryn Jones	Regional Agriculture Director - Wales and South West HSBC, Member of Farming Connect Strategic Advisory Board
Peredur Hughes	Chair of Animal Health & Welfare Framework Group
Andy Richardson	Chair of Food and Drink Wales Industry Board
Nia Lloyd	Wales YFC
Helen Minnice-Smith	Welsh Government

2. Our ambition ¬

Amaeth Cymru has developed the following Vision for agriculture in Wales:

> ***'A prosperous, resilient agriculture industry promoting Wales' present and future well-being.'***

Amaeth Cymru recognises that the industry is operating within a period of unprecedented uncertainty that will mean significant changes to the way that both government and industry will operate in the future. Leaving the European Union presents a unique opportunity for us to set a clear vision for the future of Welsh agriculture. *Amaeth Cymru* has an important role to play in helping to manage this change and is committed to achieving a sustainable future for Welsh agriculture taking into account the needs of all people in Wales now and in the future.

The key components of *Amaeth Cymru's* vision are prosperity and resilience:

- To be prosperous, farms and related businesses must be profitable, creating skilled employment and bringing widespread economic benefit.
- To be resilient, businesses must be robust and therefore able to withstand setbacks – economic or from natural causes – with public support correcting market failures and providing a framework for continuing delivery of public goods and services. Supply chains must be improved to make them more efficient and able to operate in a fair way providing sustainable returns to farmers, processors and retailers, so that farmers can become more market focused and secure a greater degree of reward from the market place for the outputs they produce.
- Production must be profitable and sustainable in the widest sense – economically, environmentally, socially and culturally – with these outcomes being mutually compatible.

Businesses that do all of these things well post EU exit, supported by appropriate government policy will thrive and, importantly, will contribute to Wales' present and future well-being, and delivering against the seven well-being goals set out in the Well-being of Future Generations (Wales) Act.

3. The outcomes ¬

Amaeth Cymru has also agreed a number of shared outcomes that will need to be achieved if the Vision is to be realised. We want the agriculture industry to develop further so that it can reach its full potential to:

- Improve its sustainability – economically, socially, culturally and environmentally.
- Produce a diverse range of 'products' with increased value that meet current market demand and anticipate market trends and embrace opportunities.
- Be a more efficient, competitive and lower cost producer of food products, capable of defending market share at home and seizing new markets overseas. This will require: a better deployment of research, development and knowledge transfer; a higher animal health status and a better understanding of the comparative costs in our businesses and how to reduce them.
- Reduce our carbon footprint and contribute to our climate change targets.
- Drive first class management of the environment (soil, water and natural organisms) that sustains and enhances both production and the natural environment for the long term.
- Maintain overall sustainable production in Wales, ensuring production is not displaced to other countries that have lower environmental and/or animal health and welfare standards.
- Be an industry that continues to generate wealth for the people of Wales.
- Be an industry that contributes to and drives other sectors.
- Recognise that investment in the sector from taxpayers is directly related to the public's willingness to pay for the services provided. The situation after exiting the EU will make this an even more significant relationship and it is essential that the wider community understands and is engaged with building an agriculture sector that is fit for the future, providing multiple public benefits.

All future interventions and actions developed for the agriculture industry in Wales should be tested against their contribution to the outcomes and shared Vision. If an action isn't going to help deliver against these then it should not be considered a priority. Future policies and actions should also be enshrined in the Well-being of Future Generations and Environment Acts.

Although we have a long term Vision, the group will also be looking at what can happen in the short term to tackle the immediate risks, challenges and opportunities facing the agricultural industry in Wales as a result of exiting the EU.

In order to realise this Vision, all the organisations with an interest must work in collaboration, sharing ideas and knowledge.

It is only by working collaboratively and tackling the hard choices that face the industry head on that Welsh agriculture will deliver the step change required for the industry to thrive following our exit from the EU.

4. Links to other groups and sectors ¬

Amaeth Cymru can not deliver the shared vision and outcomes alone. The group must work closely with other key groups and individuals.

Amaeth Cymru is currently working closely with:

- Animal Health and Welfare Framework Group
- Food and Drink Wales Industry Board
- Agriculture Industry Climate Change Forum
- Farming Connect – Strategic Advisory Board
- Cabinet Secretary's Round Table on Brexit and associated sub groups
- First Minister's European Advisory Group

Amaeth Cymru will also work with other key stakeholders including planning policy makers, Public Service Boards, Animal and Plant Health Agency and Natural Resources Wales to realise its ambitions.

5. Where are we now? ¬

Global trends ¬

It is not only the present trends in Welsh agriculture and the environment that are important, but we must also take into account key global trends.[iii]

The global economy – economic growth, particularly in low and middle-income countries, could accelerate dietary transitions and drive up agricultural demand.

Climate change – On a global scale food and agricultural sectors contribute an estimated 24%[iv] of greenhouse gas (GHG) emissions (not allowing for carbon sequestration). The impact of Climate Change could be a limiting factor in some parts of the world for the availability of water and food production. The Conference Of Parties (COP) Paris 21 agreement recognised this and while targets were set to reduce emissions it was agreed that this should not be at the expense of food production.

Climate change does have some positive outcomes for pasture based farming systems in Wales. Agriculture also plays an important role as a carbon sink through the management of grassland, peat and farm woodlands as well as a significant contributor to the decarbonisation of the energy sector.

Food security – global demographic change coupled with climate change is likely to put pressure on food security, with population growth likely to be concentrated in Africa and South Asia. To meet demand, agriculture in 2050 will need to produce almost 50%[v] more food, feed and biofuel than it did in 2012. This may lead to increased prices for some produce. In addition, the increased global terrorism threat and international tensions may create future threats to international trade, which will impact on global food security and the need to consider whether greater self-sufficiency is warranted.

In the UK, consumer demands and tastes are also changing. Households are becoming smaller and meals are increasingly being chosen based on convenience. People are also consuming less meat, with 40% of meat eaters 'flexitarians' (Kantar Worldpanel). People are also looking for more healthy options in their overall diet.

The Welsh agriculture industry ¬

Welsh agriculture is vital for Wales and we want it to thrive, recognise its strengths and realise its potential. The reach and impact of agriculture goes beyond its economic value alone as it impacts on rural communities, environment, culture and the well-being of Wales. Agriculture can contribute to delivering against all seven goals in the Well-being of Future Generations Act. Annex 1 sets out a paper detailing the key information relating to the current position of Welsh agriculture, but a summary of key points is set out below.

The farming sector is the cornerstone of the rural economy and the farm structure in Wales is primarily small and medium sized enterprises in family ownership. In Wales agriculture forms a larger proportion of national GVA than other countries in the UK and employs a higher percentage of the population (3.6% compared with 1.4% across the UK)[vi]. *Amaeth Cymru* will therefore look to grow this GVA and create further jobs whilst sustainably managing natural resources.

Welsh agriculture provides the important first link in Wales' largest manufacturing sector; a dynamic food and drink sector that has an annual turnover of £6.1bn (2015 Food and Farming Priority Sector Statistical Release), and a supply chain that employs 223,100[vii].

Key imports and exports ¬

Wales makes a significant contribution to the UK production of red meat and milk. It accounts for 29% of the sheep in the UK, 13% of the dairy cows and 11% of all cattle (compared to around 5% of the people in the UK)[viii].

Trade in these sectors is therefore particularly important for the agriculture industry in Wales. The export market beyond UK has become increasingly important to the Welsh red meat industry, as this helps to balance supply and demand and ensures carcase balance.

Wales produces considerably more lamb than is consumed in the country annually – with 5% consumed in Wales, 55-60% in the rest of UK and 35-40% exported. This highlights the importance of identifying and maintaining new and existing UK and export markets. The value of exports from Wales has grown considerably from £57 million in 2004 to £106 million in 2015; 95% of the sheep meat exports in 2015 were shipped to markets within other member states of the EU-28[ix].

The main destination for beef exports are other European countries. In 2015 93% of total UK beef and veal exports (excluding offal), with an annual value of £51 million, was shipped to other member states within the EU-28, with the Republic of Ireland and the Netherlands combined accounting for over half of total exports. Equally a high proportion of UK beef imports would be sourced from the EU-28 as well, in 2015 the figure stood at 91% of total imports[x].

In the dairy sector, the UK currently had a trade deficit of around £1.1bn, in 2015, a reduction of around £120m from 2014. The trade balance has improved over the past few years, with a reduction in imports and an increase in exports. Nearly all of the UK's imports come from the EU and in 2015 around 90% of the UK exports were to the EU. There is a heavy reliance on England for processing capability[xi].

The arable, horticulture, pig and poultry sectors are currently relatively small in Wales.

Wider benefits of agriculture ¬

The agriculture sector brings wider benefits to Wales than just a Gross Value added (GVA) contribution from agricultural production alone. For every pound invested in British farming the industry puts more than seven back into the UK economy.[xii] An increasing number of farmers are diversifying their farm businesses and use of their land to create additional benefits, for example, energy (solar, wind, combined heat & power (CHP)) is increasingly common place. There is also a clear contribution from agriculture to the provision of services such as clean water and air that provide essential benefits to the public. More broadly there are also wider social and cultural benefits (e.g. language, custodians of the landscape, role at the heart of rural communities).

Agriculture plays a vital role in sustaining rural communities. In rural areas agricultural businesses deliver other services and there are other businesses that depend on agriculture to make their living, thus extending the economic value of agriculture for the area. Farm businesses are important employers in their own right, and procure a wide range of services from a broad variety of secondary businesses.

Recent research indicates that family farms in Wales procure over 80% of goods and services from within a 25 mile radius of the holding[xiii], making a wider contribution to local economies and communities.

Agricultural production accounts for more than 80%[xiv] of the land in Wales and, therefore contributes to the wider management of Wales' natural resources and climate change action as envisaged by the Environment Act. The potential environmental benefits that can be provided by farmers should be recognised and valued as 'public goods'. For example, agriculture is the most significant single contributor to an estimated £1.9 billion in "wildlife-based activity" in Wales[xv].

Unlike some other parts of the UK, cultural connections with farming across Wales remain comparatively strong, and agriculture continues to play a role in attracting and ensuring maximum benefit from tourism and sustaining the Welsh language.

Throughout Wales, those who speak Welsh within the agriculture community make an essential contribution to the preservation of the language in terms of numbers, and in particular in terms of the proportion within the category who speak Welsh (29.5%)[xvi], which is higher than in any other employment category.

Current support payments ¬

Welsh farming currently benefits from some €300,000,000[xvii] of EU support per annum and overall Welsh farming is highly dependent on these subsidies, as are other European farmers. Across all farm types, support payments accounted for an average of 81% of Farm Business Income in 2014/15 and average Farm Business Income across all farm types in Wales is £24,500[xviii]. (Note that Farm Business Income is a measure of the net profit on farm)

The degree to which farms depend on support payments changes considerably across the types of farm. Some, such as poultry, horticulture and pigs, have historically received little in support payments. In general, dairy farms tend to be less dependent on support payments, while beef and sheep farms, particularly in the uplands, are more so.

Environment (Wales) Act ¬

Although good land management can enhance and maintain the quality of our natural resources, if landowners do not appropriately manage their land they can also have a significant impact on the environment.

The Environment (Wales) Act 2016 sets out the legislative framework for the sustainable management of Wales' natural resources.

In September 2016 Natural Resources Wales published the State of our Natural Resources Report (SoNaRR)[xix] in accordance with the requirements of the Environment Act. This report provides some headline messages about our natural resources and the extent to which they are being sustainably managed. This should form part of the evidence base used to inform future agricultural policy.

Based on the evidence in SoNaRR, Welsh Ministers have set out their priorities for policy to address the sustainable management of natural resources through the Natural Resources Policy (NRP).

The Natural Resources Policy sets out the national priorities to address the challenges our natural resources face and realise the significant opportunities that they provide for our well-being and prosperity.

There are three priorities for action:

- The delivery of nature-based solutions
- Increasing renewable energy and resource efficiency, and
- Taking a place-based approach.

Delivering against these priorities requires action across the Welsh Government and from stakeholders across sectors.

Natural Resources Wales will also develop Area Statements to support delivering the Natural Resources Policy. This will provide farmers with the opportunity for asset realisation and to look at diversification.

6. The impact of exiting the EU ¬

There is currently a degree of turbulence due to uncertainties resulting from the UK's decision to leave the EU. Although there are significant risks for the agricultural industry in Wales at this time that will need careful management, there could also be opportunities that must be capitalised on.

Opportunities and threats presented by EU Exit ¬

Opportunities

- There is an opportunity to develop an agricultural policy for Wales. There is significant potential for import substitution in all of Wales' key agricultural sectors[xx]
- New trading opportunities, so long as the markets remain open.
- More competitive currency provides good market conditions for exports and displacements of imports – if this is sustained in the long run.

Threats

- Potential for the introduction of tariffs and non-tariff barriers to our export markets. This is a major threat for the sheep sector, in particular, which is heavily reliant on exports to balance carcass value.
- If trade tariffs are arbitrarily reduced as part of a cheap food policy, market returns will be undermined by competition from low cost, lower quality imports produced to lower environmental, animal health and human rights standards.
- A weak currency adds cost to key farm inputs.
- Our animal disease status is very positive, and bovine TB (bTB) has the potential to impact negatively on our ability to trade.
- General uncertainty on how EU exit will shape the future regulation and support regime.

The decision to leave the EU has not changed the Vision of *Amaeth Cymru*, but has made the collaborative role of this group even more important and its work more urgent.

A key prerequisite to achieving the Vision in the context of EU exit will be to ensure good access to UK, EU and global markets. *Amaeth Cymru* has covered these issues in its market access paper (see Annex 2).

There is a clear need for a period of transition after exiting the EU to allow the establishment of a viable trade regime and support mechanism. This approach would substantially mitigate the risks associated with a hard EU exit.

Amaeth Cymru also recognises it is essential that equivalent or greater resources to those Wales would have received from the Common Agriculture Policy are provided from the UK Government to support Welsh farming.

7. The way forward ¬

Amaeth Cymru held a two day workshop with partnership members and invited stakeholders to develop a plan to deliver the Vision. The plan has been categorised through overarching requirements and measures to deliver prosperity and resilience. A Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis for the agriculture industry can be found at Annex 3.

Overarching requirements ¬

The elements identified below describe how gaps in knowledge or understanding are required to be filled before a delivery plan can be fully implemented.

1. There is a requirement for more data and evidence to underpin future plans; we broadly know what needs to be done but the degree of impact would be better understood with more data.
2. There is a need to understand better the issues identified in SoNaRR and whether some of the existing remedial measures will bear fruit in the long term and whether a different approach is now needed.
3. To set a strategic direction and deliver a coherent structure to address climate change mitigation (reduction of greenhouse gas (GHG) emissions) and actions to support agricultural businesses to plan and respond to changes in weather patterns.
4. Consideration of whether better evidence and communication of sector and market signals is needed to help shape improved knowledge exchange networks and their tools so they meet the needs of all players more fully. Could our effective farm assurance platform be better exploited to deliver better knowledge exchange?
5. Better collaboration will be required between all players responsible for the delivery of this plan.
6. An improved understanding of the barriers that may exist and need to be removed before the plan can be implemented fully; barriers may include knowledge, ability to cope with the necessary change, planning, taxation, access to effective broadband and the free flowing entry and exit from the industry. Develop an understanding of whether the industry possesses the appropriate risk management tools to cope with the inevitable volatility driven by market change, disease risk and climate change/climate events.

Measures to deliver more prosperity ¬

The overall intention in this section is to encourage activities that make markets work better and ensure that the additional value stays at the farm gate, improving profitability and prosperity.

1. Develop 'Brand Wales' to promote Wales' quality products at home and abroad with a focus on increasing the proportion of Welsh branded produce sold in Retail and Food Service markets. Communicating a combination of high quality, high welfare and environmental standards, together with aspects of the imagery of Wales' unique culture and landscape. The brand will be underpinned by progressive standards, regularly and independently inspected, that will guarantee consistently high quality products.
2. Encourage market driven innovative product development that meets the needs of consumers on an ongoing basis. The consumer ask is constantly changing and today's consumers are looking for more versatile and convenient meal solutions capable of being prepared quickly and more representative of modern life where people either eat alone or in twos; large meal occasions are almost a thing of the past.

3. There needs to be a better flow of information up and down supply chains; they work better when they are more joined up and all players understand the market signals and respond accordingly; farmers participating in the Fairtrade scheme is just such an example.

4. Drive export markets, particularly in the red meat sector. There is a direct correlation between export performance and farm gate price. Better export performance will ensure a higher proportion of the value in the supply chain is retained at the farm gate. The weaker currency currently ensures export sales are more competitive but, in order to sustain exports in the longer term, a strategy of differentiation is required focusing on the unique qualities of Welsh produce. Enhanced exports provide opportunities for all cuts and products and particularly products not ordinarily purchased by British consumers.

5. Seize import substitution opportunities presented by the weaker currency making competitors' products more expensive. This is particularly viable in the dairy sector, but also beef sector.

6. More prosperity may be driven for some players by considering other opportunities such as eggs and poultry enterprises; these food stuffs currently offer more short term profitability but these enterprises have to be fully costed and include the proper disposal and management of all waste products. There is also an opportunity to consider more innovative projects such as vertical farming.

7. New opportunities should be constantly reviewed through an effective horizon scanning process.

8. Stimulate diversification into new forms of resource use; encourage better uptake of all forms of renewable energy, forestry where appropriate and small scale tourism based on landscape and local food.

9. Stimulate greater understanding of how markets work and the impact they have on farm performance; there needs to be better sharing of best practice and a greater understanding of the elements that drive farm profitability, a greater understanding of the costs of inputs and a better uptake of benchmarking. A precision agriculture approach (similar to arable farming) will reduce waste and increase profitability.

10. The sector will perform better overall if skills are optimised and deployed efficiently; we need to facilitate continuous professional development and the free flow of new more appropriately skilled entrants and the exit of individuals no longer able to compete.

Measures to deliver more resilience ¬

1. Businesses are only truly resilient if they can defend, sustain and enhance their market positions. In the previous section we addressed how this could be achieved through differentiation but businesses must also be as cost effective and competitive as possible. Businesses that strive to improve their performance continuously, reduce their costs and deploy the latest innovative technology will be more resilient in the long run. More efficient businesses can reduce their carbon intensity in line

with the Wales Decarbonisation Plan and its associated targets. Businesses that optimise outputs from inputs (i.e. driving productivity) by managing resources and improving soil health, grassland management and genetic performance better are more efficient and more profitable in the long run. Productivity, however, should be driven sustainably and should be calibrated against the capability of the land. Good environmental practice, such as preservation of pollinators bio diversity and protection of soils, adds to the long-term resilience of the farm resources and long-term potential for future profitability. Indeed, poor environmental practice and poor management of resources should not be tolerated and the worst cases should be penalised.

2. The plan should encourage a high animal health status as this will improve efficiency and resilience in the long run. High animal health status is vital to facilitating export performance also.

3. The sector will perform better and be more resilient if supply chains add more value nearer the point of primary production; measures to encourage more investment in Wales's secondary production capability will protect primary production and jobs in the long run.

4. Good environmental performance should be driven by more sympathetic regulation that is more outcome focused.

5. Payment for Ecosystem Services (PES) offers long-term opportunities for the sector; this is an emerging activity that may develop market outcomes for goods (biodiversity, resource protection, flood management etc.) that are often funded from the public purse. There are already beacons of good practice often funded by philanthropy that can signal the way forward and similar schemes should be considered for seed funding through the public purse. Further opportunities should be sought through horizon scanning.

6. Although food production and forestry will remain the most viable ecosystem service for some time to come, the most recent emerging opportunity has been renewable energy. This technology will provide a useful additional income stream for those players able to participate. This opportunity should therefore be encouraged, but managed carefully to avoid the unintended consequences such as increased land rents associated with large scale anaerobic digestion.

7. There should continue to be support for farm business investment in new and improved fixed equipment, cost reduction initiatives, on-farm processing capacity, diversification, marketing, cooperative and collaborative initiatives, the establishment of producer organisations, measures associated with climate change adaptation and environmental improvement.

8. Conclusion ¬

The agriculture sector in Wales is a significantly larger proportion of the economy than in the UK as a whole. It provides vital economic activity in the smallest rural communities; often it is the only economic activity in the most remote areas. The sector safeguards Wales' extensive natural resources and provides access to public amenity.

This document sets out the measures necessary to protect and enhance agriculture's vital role in Welsh life. It also commits to restoring Wales' natural resources whilst growing output in a sustainable way. The food and drink industry in Wales has tremendous potential for growth, providing greater economic activity and more jobs in the future. The document contains a bold ambition to drive the sector forward through the creation of a brand for Wales that champions and promotes high quality, sustainable food products at home and in overseas markets.

The document assumes that EU Exit will provide opportunities for growth in export markets and allow the development of a support and regulatory regime that helps build a sector that is more prosperous and resilient in the future. Should EU Exit result in loss of trade and reduced support for the sector in the short term then our ambition will be seriously curtailed. Indeed, the Vision may never be realised if a hard exit results in loss of critical mass and environmental degradation in the short term.

The next step in the process will be to convert this document into a deliverable plan. It will also provide valuable evidence for policy makers considering a post EU Exit regime. *Amaeth Cymru* will also have to consider what part it wishes to play in building that plan for delivery.

Annex 1: Evidence paper – the Welsh agriculture sector ¬

Annex 1 and 2 were used to inform discussion at Amaeth Cymru in developing The future of agriculture in Wales: the way forward.

Welsh agriculture is vital for Wales and we want it to thrive, recognise its strengths and realise its potential. The reach and impact of agriculture goes beyond its economic value into rural communities, environment, culture and the well-being of Wales. The following bullet points describe the current situation for the agriculture sector in Wales.

Economic value and jobs

- The value of agriculture to the economy is wider than the value of agricultural produce alone.
- The agriculture sector provides a crucial link in the supply chain for the food and drink industry in Wales. The Food and Farming 'Priority Sector' in Wales has a Gross Value Added (GVA) of £1.55 billion (2013) and employs 84,200 people (if all farmers and agricultural workers are included (2014).
- Agriculture's share of total regional employment in 2015 was higher in Wales at 3.6% compared to the 1.4% across the UK. At a more local scale agriculture can be a significant share of the total workers in parts of rural Wales.
- While quantification is difficult, in rural areas agricultural businesses deliver other services and there are other businesses that depend on agriculture to make their living, thus extending the economic value of agriculture for the area. Recent research indicates that family farms in Wales procure over 80% of goods and services from within a 25 mile radius of the holding, making a wider contribution to local economies and communities.

Support Payments

- Welsh farming benefits from some €300,000,000 of EC support per annum. Support payments to farmers over the period 2012/13 – 2014/15 (three years) have remained relatively stable (changes are likely in 2015/16 however, as a consequence of The Common Agricultural Policy (CAP) reform, resulting in both winners and losers).
- Across all farm types, support payments accounted for an average of 81% of Farm Business Income in 2014/15 and average Farm Business Income across all farm types in Wales is £24,500. Forecasts for 2015/16 suggest a further drop in income, which would lead to support payments accounting for an even higher percentage of Farm Business Income. (Note that Farm Business Income is a measure of the net profit on farm)
- The degree to which farms depend on support payments changes considerably across the types of farm. Some, such as poultry, horticulture and pigs, have historically received little in support payments. In general, dairy farms tend to be less dependent on support payments, while beef and sheep farms are more so – particularly those beef and sheep farms in the uplands. The uplands, if sustainably managed, can provide an important contribution to the biodiversity of Wales.
- There is, however, a considerable variation within the farm types. These may reflect previous support payments claims, entitlements etc., but can also reflect the efficiency and business acumen of the farm.
- In 2014-15 just under half of all farms either made a loss or would have done so without support payments.
- Farmers in the UK have received support payments since the Second World War, which has helped to insulate them from market forces. If no replacement support funding is available it will inevitably put our producers at a competitive disadvantage compared with our neighbouring countries that will remain in the EU.

Furthermore, generally most economies throughout the world provide support payments to agriculture.

Trade

- Wales makes a significant contribution to the UK production of red meat and milk. Wales accounts for 29% of the sheep in the UK, 13% of the dairy cows and 11% of all cattle (compared to around 5% of the people in the UK).
- Trade in these sectors is therefore particularly important for the agriculture industry in Wales, and work is underway to build a complete evidence base for Wales only trade.
- The export market has become increasingly important to the Welsh red meat industry, as this helps to balance supply and demand and ensures carcase balance.
- Being a member of the EU-28 has allowed the UK to have free market access to established red meat markets across the continent, particularly important for sheep meat exports although there has been a growing EU market for beef exports after the UK re-gained access following the BSE sanctions. Restricted access to the EU export market access would, therefore, have an adverse effect on farming.
- With Wales having 28% of the UK breeding flock and less than 5% of the UK's population. Wales produces considerably more lamb than is consumed in the country annually.
- For sheep meat, the value of exports from Wales has grown considerably from £57 million in 2004 to £106 million in 2015. 95% of the sheep meat exports in 2015 were shipped to markets within other member states of the EU-28.
- Consumers in the UK prefer certain cuts of lamb, such as legs, and UK domestic production is supplemented by sheep meat imports dominated by New Zealand (74% of all UK sheep meat imports in 2015) and Australia (15% in 2015). Other cuts, that are less popular for the domestic market, are exported abroad.
- The main destination for beef exports are other European countries. In 2015 93% of total UK beef and veal exports (excluding offal), with an annual value of £51 million, was shipped to other member states within the EU-28, with Ireland and the Netherlands combined accounting for over half of total exports. Conversely a high proportion of UK beef imports would be sourced from the EU-28 as well, in 2015 the figure stood at 91% of total imports.
- In the dairy sector, the UK currently has a trade deficit of around £1.1bn, in 2015, a reduction of around £120m from 2014. The trade balance has improved over the past few years, with a reduction in imports and an increase in exports. Nearly all of the UK's imports come from the EU and in 2015 around 90% of the UK exports were to the EU.
- Welsh milk production accounts (on average) for around 12% of UK milk production. Over the past few years, milk production in Wales has increased 20% between 2012/13 and 2015/16. The amount of milk processed has consistently been lower than milk produced and in 2015/16 this was 48% lower. Excess production has to be transported out of the country, and there is a heavy reliance on England for processing capability. With milk production expected to increase over the coming years, production of commodity products is likely to grow.
- Agriculture in Wales is very much part of the wider sector in the UK as a whole. Livestock, products and goods move freely between Wales and the rest of the UK. This poses questions about how to be distinctively Welsh while maintaining the essential links with the rest of the UK.
- Export trade for Wales is underpinned by a reputation for high quality products built on good animal health and welfare, human health and environmental standards. In order to maintain this status Wales needs to continue to fund programmes that tackle Bovine TB rigorously.

Wider Benefits to Wales Delivered by the Agriculture Sector

- The agriculture sector brings wider benefits to Wales than described by just its GVA contribution. For example, diversification of farm businesses into tourism (B&B's, Campsites, leisure destinations) and increasingly energy (solar, wind, CHP) is common place and the contribution of agriculture cannot therefore be measured by the contribution of agricultural produce alone. For example, agriculture will contribute to the value of wildlife and outdoor activity tourism in Wales, which is estimated to be in the region of £6.2 billion with an estimated 206,000 jobs across Wales. A number of studies have shown that tourists view the 'farmed landscape' favourably.
- There is also a clear contribution from agriculture to the provision of services like clean water and air that Wales benefits from. Although these do not generate income, it is nevertheless possible to quantify the value of the benefit (e.g. a drinking water treatment plant costing approximately £10 million; poor air quality was estimated to cost approximately 5% of the UK's Gross Domestic Product (GDP) in 2010). More broadly there are also the wider social and cultural benefits (e.g. language, landscape, role at the heart of rural communities).

Environment and Service Delivery

- Agriculture accounts for more than 80% of the land in Wales. This means that there is great potential for environmental impacts – either positive or negative - and carbon reduction. The corresponding figure for the UK is 70% and therefore Wales has the potential to contribute more proportionally to environment and climate change action. For example, given the high amount of land accounted for by agriculture, then it follows that solving the issue around producing enough of our energy renewably needs to consider the its contribution.
- Agricultural land can act as a major store of water, providing an important role in downstream flood mitigation. This is particularly the case in Wales, where such a high proportion of land is managed under permanent pasture, which has increased water infiltration rates and storage potential.
- The management, use and appreciation of the natural environment has been recognised as making a relatively greater contribution to the economy of Wales than to other UK countries. It directly supported an estimated 117,000 full-time equivalent (FTE) jobs.
- The management and use of the environment, and the multiplied economic effects of this, generates spending of around £9 billion each year to Wales – almost £1 in every £10 of Welsh GDP is dependent on the environment.
- Office of National Statistics (ONS) in its work looking at the value of natural capital have estimated that the monetary valuation of UK agricultural land is estimated to be £45.1 billion based on 2011 prices.
- In terms of carbon, the monetary valuation of net greenhouse gas sequestration services provided by UK natural capital in 2007 and 2011 is estimated to be £7.4 billion and £8 billion. Carbon sequestration from living biomass (mostly trees) was estimated at 1.2 $MtCO_2$, which equals a value of £75.6 million for the annual value of carbon sequestration in Wales in 2016. There is also significant scope for greater sequestration of carbon through afforestation of less favourable marginal land.

Culture and the Welsh Language

- Unlike some other parts of the UK, cultural connections with farming across Wales remain comparatively strong, and agriculture continues to play a role in attracting and ensuring maximum benefit from tourism and sustaining the Welsh language.
- Throughout Wales, those who speak Welsh within the agriculture category make an essential contribution to the preservation of the language in terms of numbers, and in particular in terms of the proportion within the category who speak Welsh (29.5%), which is higher than in any other employment category.

Purpose of this paper

The purpose of this paper is to provide a briefing on the potential market access consequences of an EU Exit for the agriculture sector in the context of delivering *Amaeth Cymru*'s Vision of a "A prosperous, resilient agriculture industry promoting Wales' present and future well-being".[1]

This is the first in a series of papers produced by *Amaeth Cymru*. This paper focuses solely on market access, but future papers will focus on other key issues.

Why is agriculture important?

Taking Wales Forward sets out the government's programme to drive improvement in the Welsh economy and public services, delivering a Wales which is prosperous and secure, healthy and active, ambitious and learning, united and connected. The agricultural industry can play a key role in helping to deliver this agenda, as the farming sector is the cornerstone of the rural economy and in Wales, agriculture forms a larger proportion of national GVA than other countries in the UK.

Welsh agriculture provides the important first link in Wales' largest manufacturing sector; a dynamic food and drink sector that has an annual turnover of £6.1 billion (2015 Food and Farming Priority Sector Statistical Release), and a supply chain that employs 223,100. This in turn forms part of a wider UK industry that is worth £108 billion; food and drink is also the fourth largest exporting sector. Exports for agricultural commodities alone are valued at £6.25 billion each year.

Growing the food and drink industry will form a valuable element of developing and driving forward the Welsh economy. However, the agriculture sector brings wider benefits to Wales than just a GVA contribution from agricultural production alone and can contribute to delivering against all seven goals in the Well-being of Future Generations Act.

An increasing number of farmers are helping to deliver on the green growth agenda through the diversification of farm businesses, for example, energy (solar, wind, CHP) is increasingly common place. There is also a clear contribution from agriculture to the provision of services such as clean water and air that provide essential benefits to the public. More broadly there are also wider social and cultural benefits (e.g. language, custodians of the landscape, role at the heart of rural communities).

Agriculture plays a vital role in sustaining rural communities. In rural areas agricultural businesses deliver other services and there are other businesses that depend on agriculture to make their living, thus extending the economic value of agriculture for the area. As well as being the starting point for a multi-billion pound food and drink sector, farm businesses are also important employers in their own right, and procure a wide range of services from a broad variety of secondary businesses. Recent research indicates that family farms in Wales procure over 80% of goods and services from within a 25 mile radius of the holding, making a wider contribution to local economies and communities.

Agricultural production accounts for more than 80% of the land in Wales and therefore has the potential to contribute positively to the management of Wales' natural resources and climate change action as envisaged by the Environment Act. The potential environmental benefits that can be provided by farmers should be recognised and valued as 'public goods'. For example, agriculture is the most significant single contributor to an estimated £1.9 billion in "wildlife-based activity" in Wales.

Market prospects for agriculture in the medium to long term

While we believe the long term prospects for agriculture are positive, the short term will be extremely challenging, particularly if there is no tariff free market access for export trade. In 2015 Wales' direct food and drink exports were worth over £264m of which over 90% was exported to the EU. The sheepmeat sector is particularly reliant on European markets with over 90% of our lamb exported to the EU. Although Welsh farmers are adaptive, on average, they currently rely on EU support for 80% of their net income. Achieving real resilience will take considerable time.

Towards Sustainable Growth: An action plan for the food and drink industry 2014 – 2020 sets targets for 30% growth to a £7bn turnover and 7000 new jobs by 2020. In light of EU exit this action plan should be refreshed to cover the period to 2030.

The opportunities for a food and drink manufacturing sector producing high quality products from efficient sustainable systems supplying high value markets at home and abroad are currently not fully realised. Wales has unique qualities built around its language, culture and production systems, developed from an unrivalled extensive landscape. These qualities represent excellent branding opportunities to promote Welsh products in the UK and overseas.

To translate this potential into jobs and growth the Welsh agriculture industry should work with government to capture more added value processing in Wales and further develop an ambitious export programme to exploit markets in the EU and beyond. Wales should seek to rival the successes of the Republic of Ireland and New Zealand in developing an export culture. Success should improve prices and stabilise returns from the market for many food producers. A successful export strategy should also have a positive impact on home market prices assuming demand holds steady and there is little or no product substitution. Stimulating our export markets is one of the few ways of intervening positively on market prices. A successful food and drink sector is also one that drives continuous improvement and innovation in its supply chains, stimulating the development of new products that keep pace with changing consumer demand; consumers want more convenience, quicker preparation times and products that suit smaller meal occasions.

Implementation of these broad recommendations would:

- Help to rebalance the economy in Wales by providing more jobs and growth in the private sector;
- Deliver on the Taking Wales Forward agenda;
- Improve returns to food producers;
- Increase resilience in the agriculture sector;
- Help create sustainable and thriving rural communities.

However, all this potential could be lost if the UK suffers a hard exit from the EU. Loss of export markets could generate enormous short term consequences, in particular, for the livestock sector. The agriculture sector currently depends heavily on EU support for 80% of its income and is therefore very vulnerable to market shocks. Measures should be introduced that avoid these threats and allow the sector to capitalise on opportunities presented by life outside the EU regime.

Opportunities and threats presented by EU Exit

The UK's decision to leave the EU presents both market opportunities and threats to delivering our vision for agriculture in Wales.

Opportunities

- There is an opportunity to develop a bespoke agricultural policy fit for the industry and Wales.
- There is significant potential for import substitution in all of Wales' key agricultural sectors.
- New trading opportunities, so long as the markets remain open.
- More competitive currency provides good market conditions for exports – if this is sustained in the long run.

Threats

- Potential for the introduction of tariffs and non-tariff barriers to our export markets. This is a major threat for the sheep sector, in particular, which is particularly reliant on exports to balance carcass value.
- If trade tariffs are arbitrarily reduced as part of a cheap food policy, market returns will be undermined by competition from low cost, lower quality imports produced to lower environmental, animal health and human rights standards.
- A weak currency adds cost to key farm inputs.
- Our animal disease status is very positive, and bovine TB (bTB) has the potential to impact negatively on our ability to trade.

As identified earlier in the paper, the threats generated by a very hard EU exit would more than offset most potential opportunities. The prospects of developing a more resilient and prosperous food industry would be detrimentally impacted. Returns from agriculture would be significantly reduced if export markets were closed at the same time as cheap imports flooded in. Sustainable management of natural resources would be more difficult to deliver. Experience tells us that shocks to the farming sector have serious consequential impacts to wider communities and allied industries; the Foot and Mouth Disease epidemic is a case in point.

Measures to mitigate risk

Securing a transitional arrangement allowing the UK to continue trading with EU Member States and third countries with EU trade agreements would substantially mitigate the risks associated with a hard EU exit. Loss of markets is, by far, the most serious immediate consequence.

It will be important that there is clarity on how the UK market operates and is regulated so that its four countries can continue to trade freely. It will, therefore, be necessary to consider the proposal to develop UK frameworks to replace key frameworks currently set by the EU. These frameworks should be collectively developed and agreed, rather than imposed, and both respect devolution and acknowledge that the devolved administrations will have a more active interest in non-devolved areas, such as trade. The input of the devolved administrations will be key to ensuring that such frameworks represent the UK as a whole and do not lead to unintended consequences.

Conclusion

The prospects for the food and drink sector in Wales are bright and with the right policy framework these prospects can be brought to fruition. Growth and jobs in the sector could be increased substantially helping to rebalance the economy and deliver on the Taking Wales Forward agenda. However, a hard EU exit could put this outcome in jeopardy, create substantial financial hardship in the farming sector and upstream and downstream businesses (agriculture suppliers and food processors), and impact detrimentally on the essential job of restoring and sustainably managing Wales' natural resources.

Annex 3: SWOT Analysis ¬

Amaeth Cymru undertook a SWOT analysis to inform the development of this document and this is detailed below:

Strengths

- Welsh agriculture's gross output is £1.5 billion with around 58,000 people employed full or part-time on farm holdings in Wales
- Farming underpins the food and drink supply chain worth over £6billion, employing over 220,000 – Wales' biggest employer
- Welsh farmers are food producers producing safe, nutritious, traceable, high quality produce to world leading environmental and animal welfare standards, recognised and trusted by consumers
- Depth and wealth of Welsh produce – including Welsh lamb, beef, pork, dairy, poultry, horticulture and cereals
- PGI status for Welsh Lamb and Beef and Pembrokeshire Early Potatoes
- 80% land area of Wales actively managed by farmers, including extensive areas of grazing providing diverse semi-natural habitats
- Significant natural resources and advantageous climatic conditions for grass-based production systems producing high quality protein products
- A culture of actively participating in agri-environment schemes
- Strong natural asset base for delivery of wider environmental and public goods and services including renewable energy, water, carbon storage
- Increasing capacity for integrated natural resource management
- Strong, innovative, highly trained adaptable workforce including young people and new entrants seeking opportunities in farming
- Strong agricultural education and knowledge exchange network
- Growing tourism destination based around Wales' iconic landscape, maintained by farmers
- Strong heritage, culture and linguistic identity
- An enabling legislative framework – Well-being of Future Generations Act and Environment Act

Weaknesses

- Red meat sector too heavily reliant on multiple retailers
- Poor current market returns with returns below cost of production across many sectors
- Reliance on EU support which ensures affordable food produced to high standards for the consumer
- High transport costs caused by poor road network and consequential lack of processing capacity across whole food industry but in particular for dairy
- Lack of relevant applied research
- Outflow of young people
- Barriers to growth such as planning, tax and legal requirements
- Costs and complexity associated with the regulatory environment
- Limited opportunities to diversify cropping from lamb and beef production in many areas of Wales – particularly the uplands which comprise significant land area
- Poor access to national grid limiting opportunities for renewable energy supply
- Not all agricultural businesses are yet able to benefit from current and planned improvements in broadband and mobile connectivity.

- A lack of understanding as to how exploitation of improving broadband and mobile connectivity can support business growth and diversification.
- Some agricultural practices contributing to deterioration in environmental quality and a failure to recognise the positive contribution that farming makes to the environment in Wales
- Aging population of farmers and lack of new entrants

Opportunities

- Opportunity to establish Wales as a food producing nation and grow the Welsh food and drink sector providing jobs, growth and employment in Wales based around marketing and branding opportunities for high quality products from Wales building on unique values of natural environment, identity and culture and world leading production standards (environmental and animal health and welfare)
- EU Exit presents opportunity to design support and regulatory regime that facilitates this to happen and better meets the needs of Wales; more outcome based and driving better competitiveness and sustainability
- Weaker currency makes exports more competitive if markets remain open
- Opportunities to diversify agricultural sectors and range of food produced in Wales
- To produce more, impact less and to further integrate farming and environmental objectives by fairly rewarding farmers for the full range of environmental and public goods and services they provide
- To invest in the infrastructure of Welsh farming to enhance economic and environmental performance
- To better understand and seek to reduce greenhouse gas emissions per unit of production by improving agricultural efficiency
- Develop and grow diversified, high value export markets reducing dependence on EU market
- Develop and grow home markets including public procurement opportunities
- Recognise the contribution of safe, healthy, nutritious food to well-being and actively promote this through the education system and health service. Wales' natural advantage as a food producing nation in context of the challenges to our global food production system including climate change, growing world population, scarcity of resources to grow food such as land and water and the so-called nutrition transition and demand for increased protein in the diet
- Diversification through renewable energy
- Exploitation of improving broadband and mobile connectivity to support business growth and diversification
- Address barriers to increasing agri raw material processed in Wales, including working with partners to ensure that the transport network provides the efficient movement and growth of materials
- Exploit demand for farm based tourism
- To market and promote and develop grading systems to reward meat yield and eating quality
- Reduce waste throughout the supply chain
- Capitalise on emerging water and carbon trading markets and emerging payments for ecosystems generally; encouraging better utilisation of uplands for water and carbon management

Threats

- Increased reliance on imported foods produced to lower environmental and animal health and welfare standards than Wales
- Funding previously financed by EU for support and agri-research used for other purposes – Health or Education
- Weakening sterling increases input costs
- New trade deals designed to enhance opportunities for financial services may expose farming to lower cost competitors
- Potential loss of Protected Geographical Indication (PGI) status after EU Exit
- The UK could become more isolationist in trade terms
- Potentially fewer skilled and unskilled foreign workers after EU Exit
- Potential for different regulatory regimes in Wales and UK causing complexity, confusion and market distortions
- Potential for different agricultural policy and budgetary regimes in other parts of the UK and within the EU that could create market distortions.
- Failure to address some of the barriers in the current planning and regulatory frameworks that prevent agricultural and non-farm diversification
- Failure to exploit current and future improvements in broadband and mobile connectivity.
- Failure to implement planned improvements in broadband connectivity
- Failure to recognise the strategic importance of the farming sector and the inter-dependencies of other sectors such as tourism, food and drink
- Significant land-use change which will have a detrimental impact on the environmental, economic, social and cultural well-being of Wales
- Failure to monitor and evaluate environmental action such as carbon sequestration, reduced emissions intensity of production which will undermine the green credentials of brand Wales
- Uncertainty over future support for farming as a result of EU exit
- EU and other export markets are closed after EU Exit
- Fragile farm incomes threatens resilience of farming, potential business failures, degradation in environmental goods and creates pressure on rural communities
- Lack of transition period in terms of future support and terms of trade
- Climate change and predicted extreme weather events Potential for a new or emerging exotic animal disease outbreak
- Our animal disease status is very positive, and bovine TB (bTB) has the potential to impact negatively on our ability to trade
- Continued downward price pressure in the supply chain
- Human dietary and health concerns restricting consumption of meat and dairy products
- Poor agriculture practice causing diffuse pollution
- Growth of fuel crops distorting market for agriculture production Potential loss of environmental protection previously driven by EU directives
- The further loss of plant protection products placing further pressure on the viability of arable and horticulture production.

Annex 4: List of sources ¬

[i] Consultation document – A strategic Framework for Welsh Agriculture ¬

[ii] Prosperity for all: the national strategy ¬

[iii] The future of food and agriculture Report – Food and Agriculture Organization of the United Nations ¬

[iv] Global Greenhouse Gas Emissions Data ¬

[v] Food and Agriculture Organization of the United Nations ¬

[vi] Agriculture in the UK 2016 – https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/629226/AUK-2016-17jul17.pdf ¬

[vii] Update on the Welsh food and drink sector's economic performance to 2016 ¬

[viii] Farming facts and figures – http://gov.wales/statistics-and-research/farming-facts-figures/?lang=en ¬

[ix] Source: Hybu Cig Cymru ¬

[x] Source: Hybu Cig Cymru ¬

[xi] Agriculture and Horticulture Development Board (AHDB) ¬

[xii] Farming – Bringing Wales Together – NFU Cymru ¬
https://www.nfu-cymru.org.uk/nfu-cymru/documents/farming-bringing-wales-together/

[xiii] Wales Rural Observatory (2013) ¬

[xiv] Farming – Bringing Wales Together – NFU Cymru ¬
https://www.nfu-cymru.org.uk/nfu-cymru/documents/farming-bringing-wales-together/

[xv] Wildlife Economy Wales': An Economic Evaluation Scoping Study ¬

[xvi] The Office for National Statistics ¬

[xvii] Farm Business Survey ¬

[xviii] Farm Business Survey ¬

[xix] Reference to the State of Natural Resources Report (SoNaRR) ¬

[xx] Food and Agricultural Policy Research Institute (FAPRI) UK modelling work ¬