

Senedd Cymru
Y Pwyllgor Newid Hinsawdd, Amgylchedd a
Materion Gwledig
Effaith argyfwng Covid-19 a threfniadau pontio'r
UE
CCERA(5) CP&EU 01
Ymateb gan Undeb Cenedlaethol Amaethwyr
Cymru

Welsh Parliament
Climate Change, Environment and Rural Affairs
Committee
Impact of the Covid-19 pandemic and EU
transition arrangements
CCERA(5) CP&EU 01
Evidence from National Farmers' Union (NFU)
Cymru



Covid-19 and EU Transition

NFU Cymru is the voice of Welsh farming, championing, and representing farmers throughout Wales and across all agricultural sectors. Our vision is for a productive, profitable, and progressive Welsh agricultural industry, capitalising on global opportunities, contributing to the national economy, and supporting thriving rural communities.

Brexit represents one of the most significant challenges our sector and country has ever faced, and as we deal with and prepare for the implications which flow from it, we have also been called upon to respond and adapt to the very significant shock caused by the coronavirus pandemic

Committee has asked NFU Cymru for its views on the on-going problems faced by the sector as a result of the pandemic, and the effectiveness of the Welsh Government's response to it, as well as our views on preparedness in Wales for leaving the EU, the implications this has for our sector and any associated concerns. We are pleased to provide the following commentary

The on-going impacts of the coronavirus pandemic and the effectiveness of the Welsh Government's response to it

1. Like everyone else, NFU Cymru is incredibly grateful to those working so hard as part of the national effort to deal with the coronavirus situation, and the Union would like to record its gratitude to those working on the front line of the coronavirus pandemic.
2. Wales' farmers are proud of their role as food producers and stand ready to do whatever is needed to keep our food processing sector supplied with the primary produce that it needs to keep the nation fed. However, the long production cycles involved in agriculture mean that farmers are to a greater or

lesser extent locked into their commitments to keep producing at certain level, and will always find it challenging to respond to market signals.

3. Food supply chains are also highly complex and vulnerable to disruption, and primary producers experienced some significant upheaval and volatility in the spring as lockdown led to completely altered consumer demand, with the near complete loss of foodservice outlets and increased demand in the retail sector.
4. The empty shelves driven as we saw in the Spring arose as UK consumers transferred £1.5bn of food into the home in less than one month. Things got back to normal once supply chains had replenished stocks and consumer buying began to return to more usual buying patterns.
5. As well as being concerned with food production, many farms have diversified into enterprises such as hospitality and retail. The coronavirus pandemic meant that for many farm businesses these alternative income streams were chocked off during the lockdown period, something which has had a significant impact on many farm incomes
6. Although things have now normalised with supply chains back in equilibrium and prices having stabilised, the situation which unfolded back in the spring has reminded us of how farmers are exposed to a disproportionate share of risks in the supply chain and are not especially well placed to be able to respond rapidly to changing demand. We believe that greater account of these facts needs to be taken by Governments in the mitigation measures they chose to introduce, and the policy choices they make.
7. The UK and Welsh Governments have put in place a range of measures to mitigate the effects of the pandemic including the UK Government's Coronavirus Job Retention Scheme, Coronavirus Business Interruption Loan Scheme (CBILS), the Bounce Back loan scheme and the Welsh Government's Economic Resilience Fund.
8. These schemes were not always readily applicable to agricultural systems and businesses: production on farms cannot be furloughed when animals need to be looked after and crops need to be tended, and we feel that to an extent the agricultural sector has fallen between the cracks when it comes to the support made available to aid the economy.
9. NFU Cymru was grateful to Welsh Government's deployment of a dairy hardship support scheme to assist those milk producers who had been hardest hit by the effects of the Covid-19 outbreak. Around 160 farmers have been benefitted from the scheme which has offered assistance of up to £10,000 to cover around 70% of lost income, which has partially made up for the significant losses suffered by them.
10. The deployment of assistance to dairy farmers in Wales did however see a significant number of individuals miss out on the threshold for eligibility by the narrowest of margins, as a result of the decision to base the eligibility criteria

on milk price alone rather than income loss on the farm. Many of these farms have faced income loss that runs into the tens of thousands of pounds. We continue to press the Minister to reconsider the eligibility criteria for this hardship scheme.

11. There can be no doubt that some of these farms were amongst the hardest hit, financially, by the loss of markets caused as a direct result of COVID and is suggestive of the need for the Welsh Government to consider a more flexible approach if confronted with a similar situation in future
12. In relation to the Welsh Government's Economic Resilience Fund, at the outset it became apparent that primary production would be excluded from the scope of the scheme, and we made immediate and multiple representations to the First Minister, Welsh Government Ministers, Members of the Senedd and Members of Parliament as to the need to modify scheme eligibility so that farm businesses concerned with primary production would be able to access support. Unfortunately, we were unable to persuade Welsh Government of the need to modify the scheme, and Welsh agriculture has not been recognised in the Welsh Government's Economic Resilience Fund.¹
13. Welsh agriculture and the food processing sector in particular are reliant on migrant labour, this is very often for specialised tasks, such as animal husbandry and butchery, which cannot be automated. The pool of available labour was already under pressure before the Covid-19 pandemic, but the lockdown measures and transport disruption have put further pressure on labour recruitment from abroad.
14. In NFU Cymru's view the coronavirus pandemic has underscored the value of having an indigenous primary production base, particularly when supply chains are so complex, operate on a 'just in time' basis and are as easily disrupted as they are now. Insulating them from shocks, particularly when we do not know what form that shock might take, and where it might impact, presents a real challenge
15. Coronavirus has prompted a number of countries around the world (e.g. Russia, Ukraine and India) to take steps to limit the export of strategically important foodstuffs such as wheat and soy meal. If export controls are to become increasingly common and frequent, then this will have a knock-on impact on global food supplies and will bring into question the wisdom of many countries in relying on others to assure their food security.
16. Getting Wales' economy back on its feet after recent events represents a very significant challenge, and whatever the 'new normal' will be, it will be vastly different to the pre-Covid situation. It will be many months, if not years before we see the food service sector operating as it did prior to the pandemic.

¹ <https://www.nfu-cymru.org.uk/news/latest-news/nfu-cymru-calls-for-urgent-review-of-economic-resilience-fund-to-support-welsh-farm-businesse/>

17. Although lockdown measures were eased during the summer, and we saw more people eating out of the home, the fact is that we are seeing lockdown measures re-introduced on a nation-wide or localised basis and this is going to impact on demand in the food-service sector.

Preparedness in Wales for the end of the EU transition period, the implications for agriculture and our concerns

18. January 31st 2020 saw the UK's departure from the EU in legal and political terms, whilst December 31st 2020 will essentially see our departure from the EU in economic terms, as we leave the single market and customs union.

19. The EU27 remains our nearest and most valuable export market. Preserving as much as we can of this market, on the best possible terms is vital for Welsh agriculture. If we fail to agree a trade deal with the EU, then this will mean the loss of an export market which is home to around £200m worth of red meat exports annually. Losing this market could result in the failure of many businesses operating across the Welsh red meat supply chain.

20. NFU Cymru very much wants to see a deal between the UK and EU which is based on zero tariffs and zero quotas. It is of course very well known that tariffs on agri-food products are incredibly high (48% on lamb, 84% on beef, cheddar 57%) and if these tariffs are not eliminated through a comprehensive free-trade agreement, they will effectively price us out of key export markets.

21. Whilst the impact of tariff barriers on our competitive position are readily understood, we must not overlook the corrosive effects that non-tariff barriers such as Export Health Certification, customs checks, and sanitary and phytosanitary controls can have. The fact is that any such trade facilitation cost is almost certain to make our product less competitive in our export markets and can also constrain our ability to respond rapidly to market signals.

22. Even if our access to this market is lost briefly, it will mean that our customers in the EU27 will look for alternative suppliers which will in turn make it very difficult for us to reclaim these markets at a later date

23. At such a late stage in the Brexit process, we still have no idea what sort of future trading relationship we will have with the EU27, and this is deeply frustrating and highly regrettable. This also severely limits the practical steps and actions which can be taken in Wales to prepare for the end of the transition period.

24. Without knowing what sort of future trading relationship we will have with the EU, any steps taken by business and Welsh Government at this stage could mean the unnecessary and wasteful diversion of resources in preparation for an outcome which may not be realised.

25. Although we now have the certainty that we will completely exit the EU's structures at the end of year, and trade with the EU27 on an entirely different basis, it has to be remembered that our departure from the EU, with or without a deal has been in prospect on two previous occasions. The possibility of Brexit in March 2019 and then again in October 2019 undoubtedly led to the nugatory deployment of money and resources. These false starts, coupled with Brexit negotiations which have so far proved unsuccessful in terms of reaching a deal, means that a strong feeling of Brexit fatigue appears to have set in amongst both business and the public
26. Overlaid with Brexit fatigue is the fact that since March, so much business and government resource has been re-directed into dealing with the fallout of the coronavirus pandemic. The co-incidence of the unprecedented upheaval of Brexit and a once in a generation pandemic has created 'the perfect storm' where business are at the third time of asking reluctant and/or unable to divert significant resource into preparing for the unknown, when so many are already battling for survival in light of the coronavirus situation.
27. The long and complex production cycles involved in livestock and crop agriculture mean that our sector will always face a challenge in terms of responding quickly to market signals. This is no less true of Brexit and trying to anticipate the changing demand for our product which may arise under different scenarios. Most of the lambs which are to be born in 2021 have already been conceived and cropping plans for next year are well advanced. For dairy and beef cattle, production cycles can span a number of years, and as living organisms, their output and productivity cannot be stopped or slowed down easily.
28. The practical steps that farmers can take to prepare for Brexit are limited. In 2019, farmers were urged to take steps such as ensuring that they had adequate amounts of commonly used veterinary medicines and vaccines as these products overwhelmingly originate in the EU. The shelf-life of these products is often quite short, and in addition they are often expensive and so would mean tying up working capital.
29. With the ending for free movement from the EU now imminent, there are some real questions about the likely availability of the labour force which is needed in the agricultural and allied industries after Brexit. This includes not only labour on farm, but also labour the food processing and horticulture sectors. In particular, we are incredibly reliant on EU nationals working as official veterinarians in abattoirs.
30. We wish to draw committee's attention to Wales' organic sector, and the considerable uncertainty it faces. At present the UK is seeking "equivalence" for UK organic certification bodies so they are able to continue to market organic product in EU markets, and to continue using the EU organic logo on packaging. The situation around organic produce is still unresolved, and if a way forward is not found then our organic producers will face the prospect of having to sell their product into the conventional market and will receive a much lower return for it.

31. Ultimately, how Welsh agriculture fares when we leave the EU's single market and customs union will depend on others in the agri-food supply chain. Whilst we have emphasised the importance of being able to access export markets, there are few if any farmers who are themselves involved with supplying directly into export markets. Typically what farmers produce is aggregated by a processor or intermediary and sent for export, if these other actors in the supply chain are unprepared for the new way in which we will have to deal with the EU27 after 1st January, then this will be felt very keenly by primary producers.
32. NFU Cymru broadly welcomed the publication of the UK Global Tariff schedule published back in May 2020, with the UK Government looking to largely maintain tariffs on imports of agri-food products, not covered by an existing trade agreement. We believe that it attains a reasonable accommodation between helping safeguard primary production and consumer interests.
33. The kind of tariff regime operated by the UK after 1st January will have a significant bearing on the prospects for Welsh agriculture, and we have pressed UK Government ministers on a number of occasions as to whether the tariff regime published in May will still pertain in the event of a no-deal Brexit. On each occasion, we have been assured by the UK Government that the May 2020 tariff schedule would be adhered to, however we cannot be certain that in the event of a no-deal with the EU, the UK Government would not simply deploy an alternative tariff schedule which would see tariff barriers relating to agri-food products fully or partially dismantled.
34. We continue to press the UK Government on the publication of the statutory instrument relating to tariffs, which would provide some assurance as to the government's intention in this area.
35. The worst of all worlds scenario as far as tariffs is concerned is that the UK Government fully or partly dismantles tariffs on inbound agri-food products, whilst the EU maintains its common external tariff on UK exports (as it is bound to do under WTO rules). This would mean products from all over the world would enter the UK at low or zero tariffs, whilst we would be priced out of EU export markets.
36. In relation to Welsh Agriculture, NFU Cymru is concerned at the way in which Welsh Government appears to be intent on pressing ahead with the development of future agricultural support policy for Wales. Since the Brexit referendum we have had two consultations on future policy, and a third is expected before the end of 2020.
37. Outside of the Common Agricultural Policy, Welsh Government has the ability to devise and operate its own arrangements for agricultural support, however this does not mean that we have to rush towards devising a Welsh policy, particularly when there are so many unknowns which could have a very profound impact on Welsh agriculture.

38. At the present time, we do not know whether we will be trading with the EU, or nearest and most valuable export market on a WTO basis, or whether a trade deal will be agreed. Similarly, we do not know what trade deals the UK Government may reach with economies with significant offensive agri-food interests, and what impact this could have on Wales' farmers.
39. With so much of the agricultural sector's prosperity bound up in the sort of future trading relationships we have with the EU and third countries, we are urging Welsh Government not to press ahead with policy development until a much clearer picture has emerged of the trading environment which will pertain in future.
40. In light of Covid and Brexit we need to properly reflect on the resilience of the nation's food supply systems and our food security, and place domestic food production at the heart of government policy for agricultural support.
41. In the event of a no-deal Brexit, we would ask that the Welsh Government be prepared to lobby and work with the UK Treasury to secure the deployment of support packages which are tailored to the sectors of the Welsh farming industry adversely impacted by market disruption.
42. NFU Cymru fully accepts that upon our departure from the European Union's single market, and the regulatory convergence it imposes, there is genuine potential for new barriers to intra-UK trade to arise as a result of diverging regulation in each of the UK's home nations, as areas previously occupied by Community law revert to the competence of London, Cardiff, Edinburgh and Belfast. One of the natural corollaries of being outside the EU's single market therefore is the need to take steps to preserve the integrity of the UK's internal market
43. We would for example point to the fact that around 60 per cent of Welsh red meat is sold on the UK market, with only 5% of Welsh red meat sold within Wales. When it comes to dairy, in 2018-19 Wales was estimated to have produced 1,971 million litres of milk but has a current processing capacity estimated at 956m litres per year. As a small country which produces far more milk than it consumes, we are very dependent on being able to send this to other parts of the UK for processing and consumption.
44. We must ensure that from 1st January 2021 we do not see new barriers to intra-UK trade being erected, but we have always argued that this should be achieved by mutual agreement between the UK and the Devolved Governments and not by imposition from the centre, this remains our position, and we do have some concerns about a number of proposals contained in the UK Government's Internal Market Bill.
45. NFU Cymru considers the prospect of mutual recognition and non-discrimination principles, not properly anchored to a UK wide baseline of product standards (provided for via common frameworks) to be deeply concerning, and something which could risk triggering an intra-UK race to the

bottom in terms of standards. Outside of the discipline imposed by a trade agreement with the EU we would consider this risk to be significantly amplified. We are keen to see common frameworks progressed and operationalised from 1st January 2021.

46. NFU Cymru thanks the committee for the opportunity to comment on the impacts of the Covid-19 pandemic and preparedness in Wales for the end of the Brexit transition period.