

# Farmers' Union of Wales response to a Welsh Affairs Committee Inquiry into the economic and cultural impacts of trade and environmental policy on family farms in Wales

29th October 2021

## How unique are family farms and how significant is their contribution to Wales' cultural life?

1. Family farms make a significant and indispensable contribution to cultural life in Wales, contributing as they do in the vast majority of Wales to numerous community organisations and events, the maintenance of rural schools and the provision of jobs and economic benefits.
2. Truly unique to Wales is the persistence of a Celtic language in large numbers of Welsh communities.
3. The number who speak Welsh is around 170% higher than for the next most commonly spoken Celtic language (Breton, spoken by an estimated 206,000 people), and Welsh speakers make up 61% of all Celtic language speakers in the world, despite the fact that Wales' population comprises less than 20% of the population of all Celtic countries and communities (*Figure 1*).

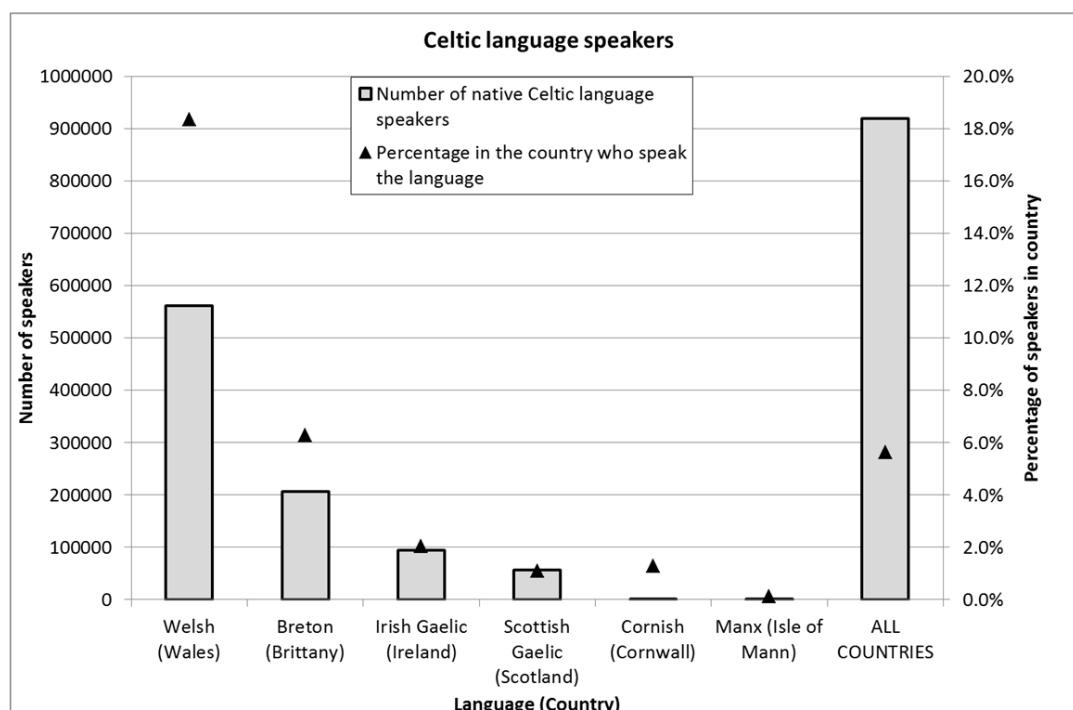
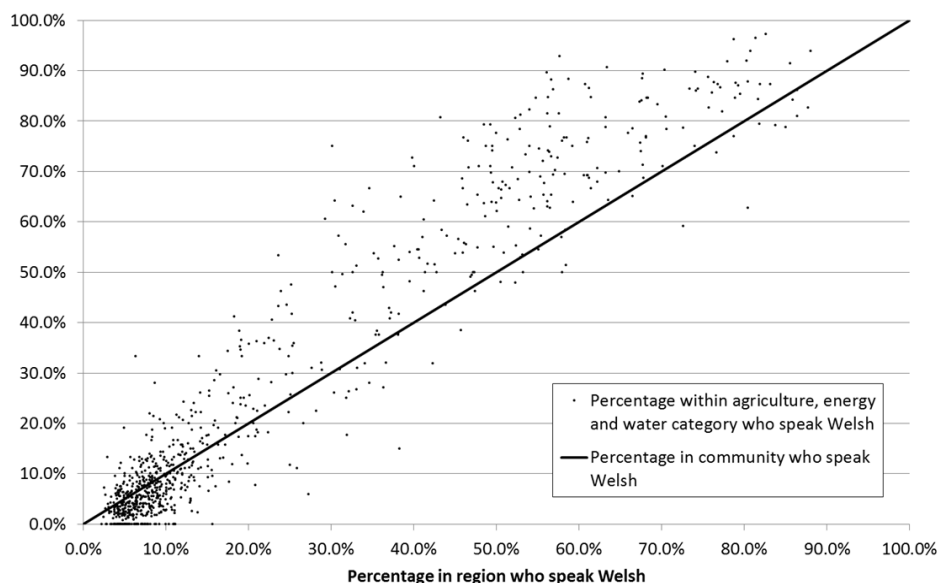


Figure 1: Speakers of Celtic languages in Celtic countries and regions

4. A 2017 analysis of Office for National Statistics (ONS) data by the FUW<sup>1</sup> found that the proportion of Welsh workers within the ONS *Agriculture, Energy and Fisheries* work category who speak Welsh was 29.5% - higher than in any other employment category, and significantly higher than the overall proportion who speak Welsh (17%).
5. A further refinement of additional data by the Welsh Government found 43% of those in the agriculture category to be Welsh speaking<sup>1</sup>.
6. In communities where the total proportion of workers who speak Welsh is between 30% and 80%, the proportion who do so within the agriculture category is significantly higher than the overall average (*Figure 2*).
7. While the FUW would emphasise the essential cultural, social and economic role played by family farms in Wales' non-Welsh-speaking areas, when the use of the Welsh language is taken as a proxy for the cultural importance of an industry it is clear that family farms and the businesses that rely on them are critical to the cultural identity of Wales.
8. In 2019, the agricultural sector was responsible for 3.5% of the Welsh labour force (52,860 persons), compared with 1.1% in England and 2.5% in Scotland.<sup>2</sup> However, it must be noted that the local percentages employed in agriculture in Wales is between 15% and 28% in large areas of Wales, particularly in sheep and beef producing areas (*Figure 3*).
9. As such, moves which undermine the viability of Welsh agriculture are likely to represent a significant threat to Welsh culture and the Welsh language.



*Figure 2: Percentage of people in the Agriculture, Energy and Fisheries work category in all Welsh communities who speak Welsh compared with the average across all work categories who speak Welsh.*

<sup>1</sup> Agriculture in Wales, Welsh Government (2019)

<sup>2</sup> Little book of Meat Facts, Hybu Cig Cymru. 2020

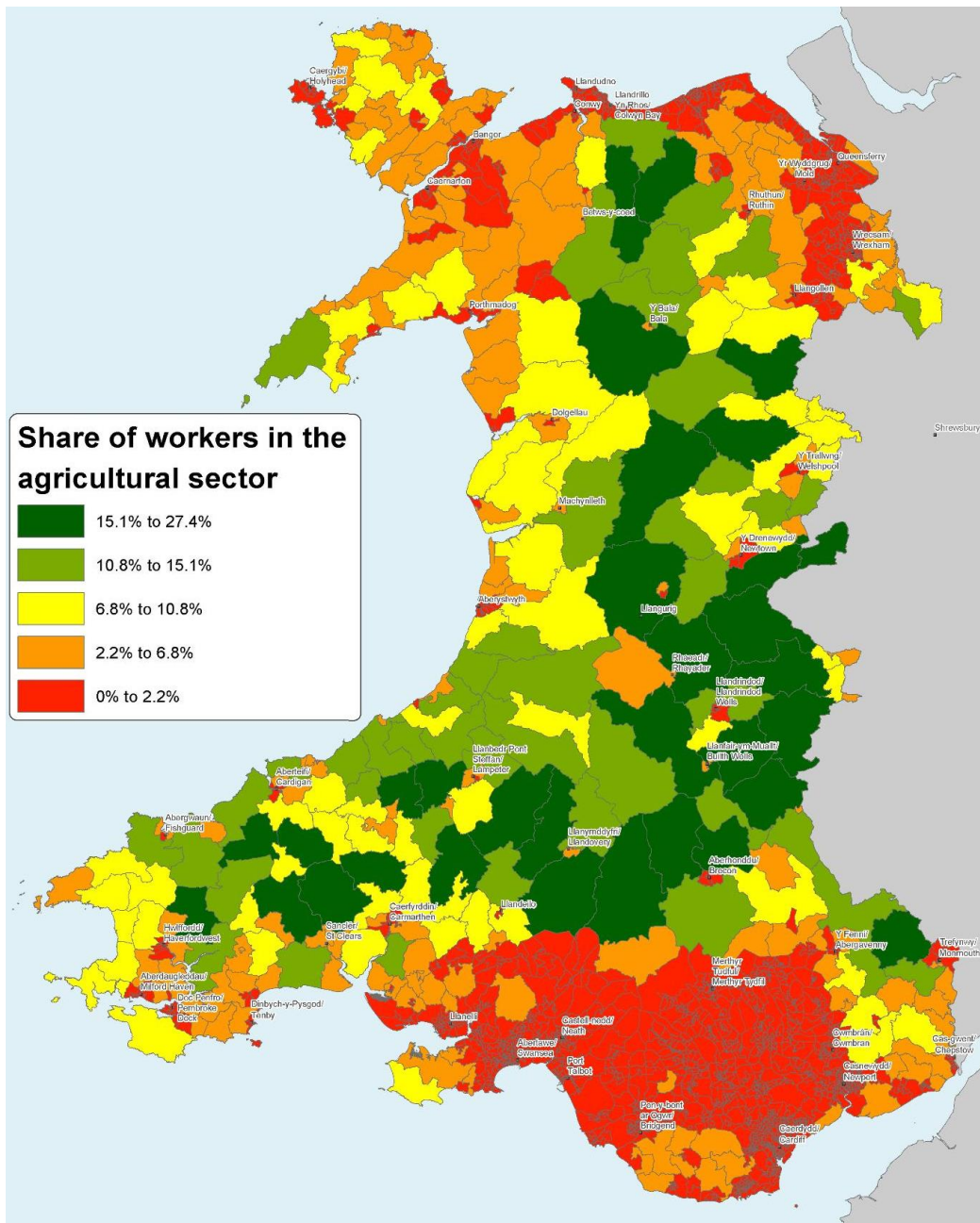


Figure 3: Share of Welsh workers in the agricultural sector (2009)

## What are the main challenges facing family farms specifically, and farming communities more generally, in Wales?

10. The most significant single challenge facing family farms relates to low farm incomes, which have a knock on impact on the wider rural economy and social problems such as the loss of young people from rural communities: Whilst fluctuations have occurred over the past decade, particularly in the dairy industry, there continues to be a general downward trend in farm business income (*Figure 4*).

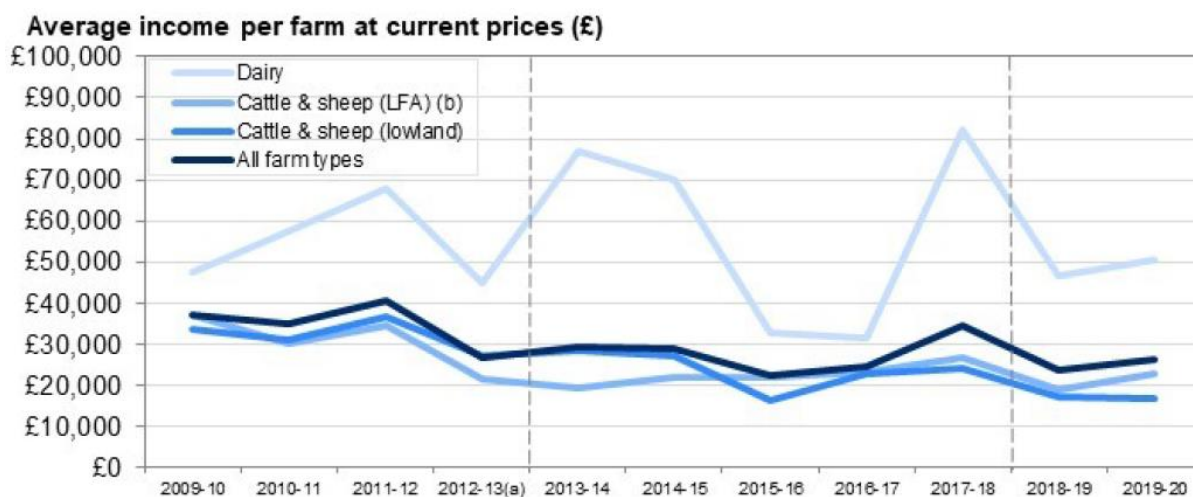


Figure 4: Average farm incomes 2009-2019 for all farm types (*Farm Business Survey*)

11. Family farms nevertheless continue to play a key role in sustaining rural economies, employment and society, and this occurs as a direct result of those families undertaking agricultural activities which support secondary and tertiary businesses in the wider economy.
12. Farm inputs (i.e. expenditure) are a clear measure of such contributions, and while farm profitability is generally low, the scale of farm inputs highlights this contribution (*Figure 5*).

	Farm business income	Input costs	income/input costs
<b>All farms</b>	£23,600	£141,400	17%
<b>Dairy</b>	£46,600	£379,300	12%
<b>LFA cattle and sheep</b>	£18,900	£96,800	20%
<b>Lowland cattle and sheep</b>	£17,100	£83,500	20%

Figure 5: Welsh farm business income (i.e. business outputs less business inputs) and input costs, 2018-19

13. While farm incomes remain low, in the absence of direct support they would be far lower or negative, representing a major threat to their very existence (*Figure 6*).

2018-19	Dairy	LFA livestock	Lowland livestock	All farms
% of income from agriculture (B)	60%	-67%	-4%	-18%
% of income from direct support (BPS)	33%	117%	80%	84%
% of income from agri-environment payments	3%	33%	15%	20%
% of income from diversification	4%	17%	9%	14%

Figure 6: Components of Welsh farm business income, 2018-19

14. The particular reliance on direct support (BPS) is not surprising, given agricultural support policies currently in place are the latest incarnation of UK, EEC and EU policies introduced more than 60 years ago specifically aimed at reducing food prices for consumers without threatening farm incomes and food production.
15. In the absence of increases in farmgate prices (which would have to come from either significant increases in the percentage of consumer costs passed up the supply chain, or an increase in food prices) the loss of direct support represents an existential threat to Welsh family farms.
16. We would therefore draw the Committee's attention to developments in England, where policies identical in principle to those proposed in Wales are already being implemented.
17. For example, in recent weeks accountancy firm Douglas Home and Co, which serves more than 1,000 rural businesses, stated *"Our estimate is that at least 50% of farmers could see their profit wiped out [as a result of the loss of direct support]. While most may break even, many will be running at a loss once the subsidies are cut. That is a horrifying prospect."*
18. Trade deals which allow the importation of cheap food produced to lower standards than those required of Welsh farmers will reduce domestic farmgate prices and increase reliance on the direct support that is currently destined to be phased out in Wales and England.
19. Amongst the costs faced by farmers are the numerous regulations in place, and plans to increase such costs through the introduction of additional restrictions and regulations which are not in place in other countries represent an additional threat to Wales' family farms.
20. Most prominent amongst an array of such additional costs is *The Water Resources (Control of Agricultural Pollution) (Wales) Regulations 2021*, which the Welsh Government's Regulatory Impact Assessment (RIA) acknowledges will cost Welsh farmers as much as £360 million in infrastructure costs alone – around £100 million more than the Total Income from Farming in Wales in 2019<sup>3</sup>.

<sup>3</sup> Further information can be found in the FUW's September 2021 submission to the Economy, Trade and Rural Affairs Committee:  
<https://business.senedd.wales/documents/s117732/APR19%20Farmers%20Union%20of%20Wales.pdf>

21. A major and growing challenge facing family farms and rural communities is the competition for rural homes and land from individuals and businesses outside Wales which places both beyond the financial reach of most Welsh families and has an adverse impact on communities and culture.
22. Dominating concerns over land acquisition is the rise in the purchasing of land for tree planting/carbon offsetting by individuals from outside Wales.
23. Between November 2019 and March 2020 the proportion of land accepted for the Welsh Government's Glastir Woodland Creation grant following applications from outside Wales rose from 10% to 16%, while the average area of Wales planted under the scheme by bodies from outside Wales during the 2020-21 planting season was 97 hectares - five times higher than the average.
24. Such concerns and challenges are compounded by the ongoing impacts of Brexit and other factors, including:
  - a. Worker shortages in the food supply chain and veterinary practices
  - b. Major rises in input costs, including fuel, energy, fertiliser, feed and building materials<sup>4</sup>
  - c. Non-tariff barriers for exports to the EU which contrast with the UK Government's failure to introduce equivalent checks for imports of agricultural products from the continent

### **What are the potential implications of free trade agreements for farmers in Wales?**

25. FAPRI-UK modelling of post-Brexit trade scenarios commissioned by UK Governments and published in August 2017<sup>5</sup> estimated that, under an extreme trade liberalisation scenario in which Zero tariffs were applied on imports to the UK from both the EU and the rest of the world, beef, lamb and dairy prices would fall by 45%, 29% and 10% respectively.
26. Such estimates are equivalent to the cumulative result of trade deals with countries which are major agricultural exporters, such as Australia, New Zealand and the USA.
27. The *Quantitative Modelling for Post-Brexit Scenarios* report produced for AHDB in 2017 concluded that, under circumstances where domestic support is reduced and liberal trade deals are reached with major agricultural exporting nations: *"Farm Business Income would fall for all farm types... The impact of the removal of Pillar I payments is only partially compensated by increased Pillar II payments...exacerbated by decreases in the value of sheep and beef production as lower priced imports exert downward pressure on domestic prices."*

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<sup>4</sup> The price index for total inputs had already increased by 11.8% in the 12 months to August 2021 prior to the major disruption seen in September due to fuel and gas shortages and other factors

<sup>5</sup> [https://content17.green17creative.com/media/99/files/FAPRI\\_UK\\_Brexit\\_Report.pdf](https://content17.green17creative.com/media/99/files/FAPRI_UK_Brexit_Report.pdf)

28. In considering the previous work by FAPRI-UK the latter report found that *“The FAPRI-UK model provides indications of the orders of change in prices and production that might be expected from trade liberation. There is a universal downward prediction in prices received by UK farmers... This has implications for the volume of UK production and imports... The large projected decline in beef and sheep numbers would carry environmental implications (some mixed) and economic and employment impacts and consequential threats to social cohesion in rural areas.”*
29. Such data and conclusions highlight the major adverse impacts for Wales’ family farms and rural communities of liberal trade deals under certain global trading scenarios.
30. The FUW would also draw the Committee’s attention to its September 2021 submission to the House of Lords International Agreements Committee *inquiry into the UK-Australia trade negotiations and agreement*<sup>6</sup>.
31. That evidence highlights that:
- a. The UK Government’s own modelling estimates that a UK-Australia trade deal could increase UK GDP by just 0.01% or 0.02% in the long run - equating to increases in the average annual UK wage of £3.15 and £15.75 respectively (based on the current average UK income).
  - b. That modelling suggests a UK-Australia deal similar to that proposed could lead to an increase in UK exports to Australia of 7.3%, compared with an increase in imports from Australia of 83.2%.
  - c. In the period 2002-2021, Australian lamb prices were at times around half the UK value and on average 29% below those in the UK; for beef, average Australian prices were at times half the UK value, and on average 25% below those in the UK.
  - d. The agreement therefore represents a major concern in terms of the impacts on Welsh farmgate prices, UK markets and UK food security under certain trading conditions such as those seen during the past two decades.
32. Similar concerns exist in terms of the recently announced trade deal with New Zealand and other deals with major agricultural trading nations with significant competitive advantages over, and standards which fall well short of those required by law of Welsh farmers and food producers.
33. In the latter context, major concerns exist in terms of the animal health and welfare standards, use of certain chemicals and lower environmental standards in countries with which the UK has reached, or is seeking to reach trade deals - and the failure of the UK Government to include binding terms relating to these in trade deals negotiated to date.
34. While the FUW fully appreciates the importance of seeking trade deals where these can be shown to be genuinely in our national interests on many levels, we remain

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<sup>6</sup> <https://committees.parliament.uk/writtenevidence/38893/pdf/>

unconvinced that the long term impacts for Welsh and UK family farms and food produces and UK food security under different trade scenarios has been taken proper account of, and fully support the view of the Welsh Affairs Committee that “...“...*the UK Government should publish a Wales-specific impact assessment for free trade agreements (FTAs), including the UK-Australia FTA.*”

35. The FUW is also unconvinced that the opportunities offered through the UK’s membership of the Comprehensive and Progressive Transatlantic and Pacific Partnership (CPTPP) on the terms likely to be achieved will bring any major benefits for the UK - a view heard by the Committee in the oral evidence given on 15th July 2021 by Sam Lowe, Senior Research Fellow, Centre for European Reform, who stated that “*In terms of the benefits of CPTPP membership, the economics are negligible*”
36. Given that the EU is the destination for around a third of Welsh lamb, 90% of Welsh beef exports and 95% of Welsh dairy exports, liberal trade deals are likely to raise already problematic barriers for trade with the EU, as it seeks to ensure the UK does not become a back-door for imports that fall outside existing EU trade deals.
37. Such trade deals will also act as a major obstruction to any future UK Government wishing to renegotiate trading arrangements with our nearest neighbours, as they are binding international agreements.
38. In terms of the very recently published AHDB *The impact of a UK-Australia free trade agreement on UK agriculture* document<sup>7</sup>, it would appear that this considers only limited datasets and future global trading scenarios, and does not therefore cover the full range of scenarios that may develop over the 15 year transition of a UK-Australia trade deal (see *Figure 7*, for example).
39. This latest analysis should therefore be considered alongside academic reports such as those already referred to that consider a broader range of data and scenarios.

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<sup>7</sup> [https://projectblue.blob.core.windows.net/media/Default/Market%20Insight/HorizonImpactofUK-AustraliaTrade\\_211019\\_WEB.pdf](https://projectblue.blob.core.windows.net/media/Default/Market%20Insight/HorizonImpactofUK-AustraliaTrade_211019_WEB.pdf)



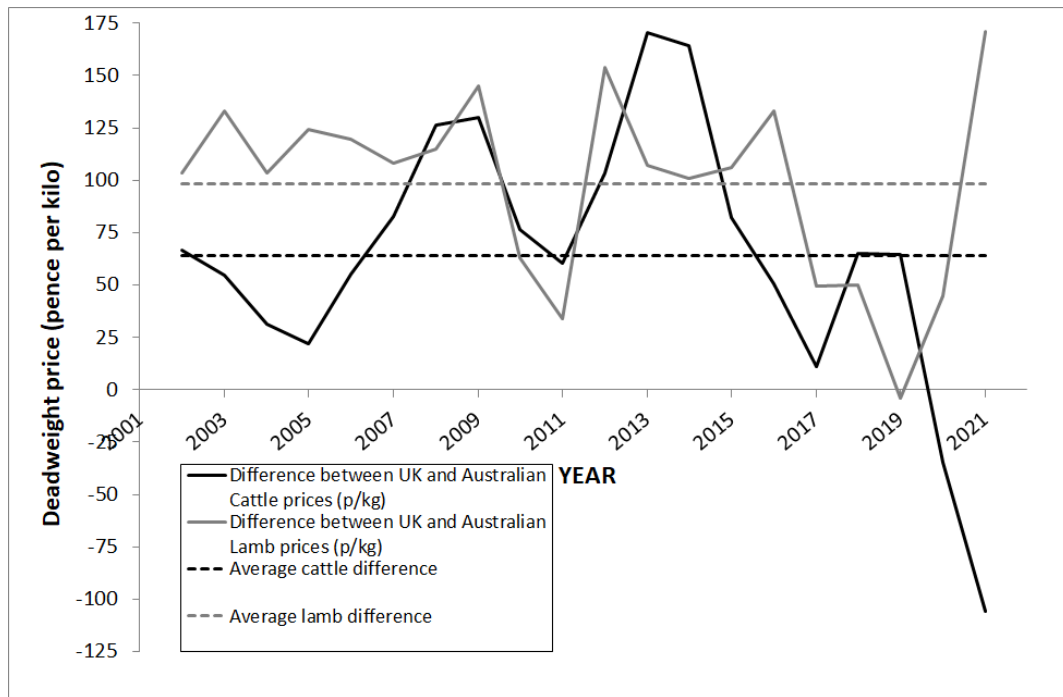


Figure 7: Price differences between UK and Australian cattle and lamb (deadweight price per kilo). Note: figures above zero indicate lower prices in Australia

**How, if at all, is the UK Government’s climate change policy agenda impacting on family farms, including the future generations of farmers, and rural communities in Wales?**

- 40. The UK Government’s climate change policy agenda in the run up to the 26th United Nations Conference of the Parties (COP26) is further raising awareness for all businesses of the need for action to tackle climate change.
- 41. However, the misleading rhetoric around the contribution of UK agriculture and meat eating to climate change at a time when environmental conditions appear to be being largely omitted by the UK from trade deal negotiations raises concerns that food security will be proactively undermined by UK Governments whilst liberal trade deals will hand over control of food production emissions to countries with far less regard for such matters.
- 42. As already highlighted, there is growing evidence of the adverse impacts on communities of tree planting targets and a liberal carbon trading environment.
- 43. While some thought may have been given to high profile tree planting targets aimed at capturing carbon, little thought has been devoted to the carbon already held in and sequestered by farmland, the management of existing woodlands and the impacts of allowing the carbon captured by newly planted trees to be sold between industries or outside Wales in a liberal carbon trading market.

44. Growth and speculation in the carbon offsetting market appears to be the major factor in the recent buying up of large areas of Welsh farmland for tree planting by individuals and companies from outside Wales.
45. In order to avoid the economic, social and environmental devastation seen as a result of inappropriate afforestation in the past, and to ensure that agricultural communities, devolved nations and the UK as a whole does not naively allow increases in sequestered carbon have negligible benefits in terms of net-zero goals, it is essential that the UK Government considers how this market should operate.

**What practical steps can the UK Government take to support these communities and how should the UK and Welsh governments work together to support these communities' unique culture, including their contribution to the Welsh language, and heritage?**

46. Critical to the survival of Welsh family farms and the economic, environmental, social and cultural contribution they make to our communities is their economic viability.
47. Whilst farmers should strive to increase their efficiency and profitability, the UK Government clearly has a role in ensuring that markets operate in a way that delivers equitable farmgate prices - not least given the legacy of policies and support aimed specifically at producing large quantities of food at low prices for consumers.
48. In the absence of such successful efforts, the UK Government must recognise the dangers to UK farming and food security of liberal trade deals with major agricultural exporters.
49. Where trade deals do offer new opportunities for Welsh farmers it is essential that the UK and Welsh Governments work together to open up such markets, by supporting promotion, ensuring best use of diplomatic channels and addressing practical barriers such as paperwork that may hinder market access irrespective of what has been agreed in principle.
50. The UK Government must take account of how adverse impacts of trade deals will be exacerbated by reductions in agricultural funding, and it is notable in this context that the Budget and Spending Review figures announced by the UK Government on 27th October 2021 suggest that by 2025, Wales will have received around 17% less in agriculture and rural development funding (in nominal terms) than it would have done had Wales' 2019 funding allocation remained unchanged.
51. Whilst it is appreciated that agricultural support policies are devolved, both the UK and Welsh Governments must consider the likely economic, social, environmental, cultural and food security impacts of abandoning the income support safety nets specifically put in place to balance low food prices and high levels of regulation.
52. Given that Defra and Welsh Government future rural funding policies are both based on the same 'payment for public goods' principles, both Governments should work together to enhance modelling and analyses of the impacts of such policies on individual farms

and the businesses and employment which rely on them, at a local, regional and sectoral level.

53. The Welsh Government has recently taken the welcome step of implemented just such work, but the FUW is unaware of any similar work having been undertaken in England, despite 2021 being the first year of a transition towards an untried and untested policy which represent the greatest changes to the principles underpinning agricultural support since 1947.
54. The UK and Welsh Governments should also work together to seek to manage the property and carbon markets in a way which addresses the major and growing problems for rural and farming communities caused by second home and similar types of household purchasing and the buying up of vast areas of Welsh land to plant trees - problems that are also present in England and other parts of the UK.