

# Farmers' Union of Wales (FUW) submission to a UK Parliament Environment, Food and Rural Affairs inquiry into the UK-Australia Free Trade Agreement

21st January 2022

## About the FUW

1. The Farmers' Union of Wales (FUW) was established in 1955 to exclusively represent the interests of farmers in Wales. Since 1978 the union has been formally recognised by UK Governments, and subsequently by Welsh Governments, as independently representing those interests.
2. The FUW's Vision is *thriving, sustainable, family farms in Wales*, while the Mission of the Union is *To advance and protect Wales' family farms, both nationally and individually, in order to fulfil the Union's vision.*
3. In addition to its Head Office, which has thirty full-time members of staff, the FUW Group has around 80 members of staff based in twelve regional offices around Wales providing a broad range of services for members.
4. The FUW is a democratic organisation, with policies being formulated following consultation with its twelve County Executive Committees and eleven Standing Committees.

## Broad concerns

5. FUW President Glyn Roberts warned on 13th June 2016, ten days before the EU referendum, that *"If the UK does vote to leave the EU in a little over a week's time, we must see a reversal of UK parties' long-standing support for policies which would decimate Welsh agriculture – not least the double-whammy of support for increasing cheap food imports while drastically reducing financial support for agriculture..."*
6. To date, current UK Government's policies and actions have vindicated such concerns, in terms of
  - a. The UK Government's appetite for liberal trade deals with major exporters of agricultural goods that their own figures confirm will displace domestic production and reduce UK farm and agri-food supply chain income.
  - b. The UK Government's decision, in autumn 2020, to adopt a creative interpretation of the manifesto commitment to maintain CAP replacement funds at 2019 levels, by including unspent EU funds from the 2014-2020 CAP budgetary period in calculations, leading to a Welsh CAP 2021 replacement budget which was some £137 million less than had been anticipated.

- c. The decision to repeat this approach in autumn 2021 by allocating around £102 million less per annum over the next three years than should have been the case had the manifesto commitment been genuinely upheld (meaning that by 2025 Welsh agriculture will be around £248 million worse off than it would have been had the manifesto commitment been honoured).
  - d. The decision to cut farm support in England (including for FUW members who are cross-border farmers) in a way which led to accountants Douglas Home and Co, which serves more than 1,000 English rural businesses, stating in October: *“Our estimate is that at least 50% of [English] 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”* and the House of Commons Public Accounts Committee concluding that Defra’s plans are based on *“blind optimism”*, and that *“The fear therefore for small and tenant farms who are operating on wafer-thin margins is that many will go out of business...”*
7. The FUW therefore maintains its grave and longstanding concerns that UK Government are pursuing trade-liberalisation and farm support-cutting policies first outlined in the 2005 UK Treasury-Defra *“Vision for the CAP”* document that will cause irreparable damage to UK farming, food production and food security, as well as severe economic, social and cultural damage to rural communities.
  8. Whilst the FUW fully supports the maintenance of high UK environmental and welfare standards and the attaining of premium prices in UK and global markets as a reflection of such standards, we would highlight the fact that such premiums exist above the baseline price of mainstream products, and that there will always be a proportion of UK products or bi-products which must enter mainstream markets (eg certain cuts of meat or bi-products for which there is no premium market).
  9. As such, it is believed a dichotomy exists between the UK Government’s stated aspirations/assurances in terms of UK farmers attaining premiums as UK requirements are maintained and raised, and its pursuance of policies that will allow cheaper food produced to lower standards to undercut UK produce and domestic supplies to UK mainstream/commodity markets.

## **FUW response to questions posed by the Committee**

10. The UK Government’s own figures and projections<sup>1</sup> demonstrate that the degree to which the agreement signed in December 2022 delivers UK interests is negligible, and that the deal is damaging to the UK’s agricultural sector.

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<sup>1</sup> Department for International Trade, Impact assessment of the Free Trade Agreement between the United Kingdom of Great Britain and Northern Ireland and Australia, December 2021

11. For example, those figures estimate the agreement will increase UK GDP by 0.08% (eight parts in ten thousand) in the long term (by 2035), leading to a long term increase in UK wages of 0.1%, or around 60p a week, based on 2019 figures.
12. This compares with the Office for Budget Responsibility estimate that the recently implemented changes to UK-EU trading arrangements will lead to UK GDP being 4% lower than it would otherwise have been - meaning 50 trade deals similar to that with Australia would be needed to make up for such a reduction.
13. The agreement is estimated to increase Australia's GDP by the equivalent of around £1.6 billion when compared to its 2019 level - a benefit to Australia that is 80% higher than the estimated (equivalent, based on 2019 figures) increase in UK's GDP.
14. Immediate access to duty free transitional quotas for key agriculture products, including beef and sheepmeat, sugar and dairy, with eventual tariff elimination, are estimated to lead to a fall in the GVA of the UK's agri-food sectors of more than a quarter of a billion pounds, which the UK Government admits<sup>1</sup> is *"...driven by increased import competition in the beef and sheepmeat sub-sectors."*
15. These falls comprise reductions in the GVA of the 'agriculture, fishing and forestry' and 'semi-processed food' categories of £319 million.
16. Government figures estimate such impacts will lead to a reduction in gross output of *"...around 3% for beef and 5% for sheepmeat as a result of liberalisation...felt gradually over the staging period...Our best estimates suggest that around three quarters of the estimated impacts to gross output reflect reductions in producer price...The remaining quarter of impact is driven by reductions in the quantity of production...If supply was more responsive in the future than suggested by the historic data, production volumes could decrease by more."*
17. Notwithstanding other concerns, inherent to such an increase in food imports would be a reduction in the UK's food security, both/either through the displacement of domestic production and/or through additional reliance on food produced many thousands of miles away as opposed to in neighbouring countries. The shipping distance between Melbourne and London is around 12,700 miles, compared to a shipping distance of 220 miles between Rotterdam and London.
18. Such a reduction in food security would come at a time when both the coronavirus pandemic and gas shortages/energy price rises have highlighted the fragility of both domestic and global supply chains, and how rapidly changes can occur due to unforeseen circumstances.
19. It is notable that while Australian beef prices are currently higher than those in the UK, historically, both beef and lamb prices have generally been significantly lower than those in the UK.

20. For example, 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. Similarly, for beef the average Australian prices were at times half the UK value, and on average 25% below those in the UK.
21. These and other fluctuations account for the variations in the volumes of Australian livestock products previously imported to the UK.
22. For example, Australia's EU lamb import quota allocation before Brexit was 19,186 tonnes, of which it used 99%, 96% and 100% in 2015, 2016 and 2017 respectively, while from 2013-14 to 2020, Australian beef imports to the UK fell from over 7,000 tonnes to around 560 tonnes in 2020 due to changes to the price differential.
23. Given the UK Government's acknowledgement that the beef and lamb industries will pay the greatest price for such a trade deal; that 44% of Wales' gross agricultural output is in these sectors (the figure is far higher in many Welsh counties); and that grazing livestock farms make up 62% of all main Welsh agricultural holdings, major concerns exist regarding the impact of such a deal on Welsh agriculture and rural employment - particularly in certain trading circumstances and for the large number of Welsh communities where, according to ONS figures, up to 28% are employed in agriculture.
24. In terms of other differences that represent a concern or threat, it is notable that while the average Welsh cattle farm has 23 cows<sup>2</sup>, 65% of Australian farms have between 100 and 400 head of cattle, while farms of over 5,400 cattle account for 30% of the country's beef cattle<sup>3</sup>.
25. Similarly, the average farm size in Australia is 4,331ha (10,700 acres), while the average farm sizes in Wales, England and Scotland are 50ha (125 acres), 90ha (222 acres) and 100 ha (447 acres) respectively.
26. Such differences mean Australia has major advantages in terms of economies of scale.
27. Such concerns have been echoed by independent observers; for example, former Australian trade negotiator Professor Dmitry Grozoubinski, who is Executive Director of Geneva Trade Platform, told the Welsh Affairs Committee in July 2021<sup>4</sup>: *“Welsh farmers are right to be concerned in the long term...when you eliminate tariffs or you raise quotas to hundreds of thousands of pounds, then, if that quota were to be filled or if there were a 10,000% increase in Australian lamb to the UK, I think that would be devastating for Welsh farming. This deal means that that is now a theoretical possibility in the sense that the UK Government can no longer use tariffs to prevent it.”*
28. Such concerns are exacerbated by the UK Government's stated intention to strike liberal trade deals with other countries which are major exporters of agricultural products - deals for which it is generally acknowledged the UK-Australia deal has set a precedent in terms of

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<sup>2</sup> Farming Facts and Figures, Welsh Government, 2021

<sup>3</sup> Agricultural Commodities 2015-16, Australian Bureau of Statistics

<sup>4</sup> One-off oral evidence session of the Welsh Affairs Committee, 15th July 2021

liberal access to the UK food market, and which will increase many fold the adverse impacts for the agri-food sector acknowledged by the UK Government in its impact assessment of the UK-Australia FTA..

29. That impact assessment also highlights potential adverse impacts on natural resources at a time of grave concerns regarding our environment and climate, stating that *“Increased production from trade could put pressure on water resources and quality through agricultural, industrial and urban pollution...Agriculture is the largest consumer of water in Australia.”*
30. In terms of increases in Australian food imports, the UK Government argues that these should not be a concern as *“It is likely that the increase in imports will primarily displace beef imports from the EU and sheepmeat imports from New Zealand”*.
31. However, it should be noted that farming systems in EU countries are far more similar to those in the UK than those in Australia, while production standards in EU countries and the UK are effectively aligned due to the UK’s recent membership of the EU.
32. Such alignment includes those standards relating to animal health and welfare, disease traceability and the environment, whereas practices which are routine in Australia would not only breach UK standards but likely lead to farmers being prosecuted.
33. Examples of practices banned in the UK but legal in Australia include: “mulesling” (cutting skin and flesh off sheep rear ends); battery hen cages; chlorinated chicken; sow stalls; growth hormone treatment of livestock; animal journey times of up to 48 hours without food or water; dehorning of cattle without pain relief; hot branding; and differing pesticide standards.
34. In the context of differing standards, it is also notable that UK Governments intend to ban the live export of animals and are considering a raft of additional restrictions on what are already extremely strict rules regarding domestic livestock movements.
35. In terms of the former, it is notable that the live export of animals from the UK overwhelmingly involves movements of around 60 miles or less, across the Irish Sea, or 27 miles across the English Channel, whereas 47% of Australian live exports of sheep and cattle (2.4 million animals in 2019) are transported over 9,000 miles by ship<sup>5</sup>.
36. In terms of the latter (animal transport rules), farmers in the UK are already subject to animal movement and movement reporting rules that are amongst the strictest in the world, whereas in Australia such standards are largely absent or at best voluntary.
37. In terms of the animal welfare measures proposed as part of the trade deal agreed in principle in June 2021, Prof. Dmitry Grozoubinski told the Welsh Affairs Committee in July 2021 that *“Australia will not be obligated to treat an animal in any way differently because of this deal than they were a week before it was signed.”*<sup>4</sup> The text of the final deal suggests

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<sup>5</sup> All Livestock Exports Report, Australian Government

that this remains largely the case (for example, the non-regression clause meaning the UK and Australia “...are committed to not lowering their animal welfare standards for the purpose of encouraging trade”).

38. As such, the UK Government's own impact assessment, in concluding that UK production will fall as a result of the deal, implies there will be a net fall in global animal welfare and environmental standards.
39. While the UK Government places great stock in demand for beef and lamb increasing in the Asian market, “...increasing the opportunities for high-quality British meat in this region” and “...strong ‘Buy British’ trends in the UK and strong support for British farmers”<sup>6</sup>, the modelling undertaken by the DIT provides no such assurances.
40. The FUW believes that any new markets opened up through trade deals should complement the existing trade we have with the vast and prosperous EU market which is on our doorstep, which is the destination for around a third of Welsh lamb, 90% of Welsh beef exports and 95% of Welsh dairy exports.
41. In this context, it is a major concern that the UK-Australia deal may raise the already highly problematic non-tariff barriers for UK food exports to the EU, as EU countries tighten controls to ensure the UK does not become a back-door for Australian imports that fall outside existing EU-Australia trade arrangements.
42. Whilst the FUW appreciates the importance of seeking trade deals and accession to trading partnerships where these can be shown to be genuinely in our national interests, we remain unconvinced that membership of the Comprehensive and Progressive Transatlantic and Pacific Partnership (CPTPP) on the terms likely to be achieved will bring any major benefits for UK agriculture. This is a view shared by Sam Lowe, Senior Research Fellow at the Centre for European Reform, who told the Welsh Affairs Committee that “*In terms of the benefits of CPTPP membership, the economics are negligible*”<sup>4</sup>
43. It is also notable that four out of the eleven current members of the CPTPP are net exporters of red meat and already have established markets in countries such as China, while members Australia and New Zealand together make up 70 percent of total global trade of sheepmeat.
44. In terms of all concerns regarding the benefits or adverse impacts of the trade deal, it must be emphasised that (notwithstanding the inclusion of cursory safeguarding measures for certain agricultural products) trade agreements are international treaties that, once implemented, and particularly after the transition to full liberalisation, are extremely difficult or impossible to change or revoke - even if severe adverse impacts are identified.
45. In light of the above concerns, the FUW believes that the UK-Australia trade deal is of negligible value to the UK economy as a whole; would undermine UK food security; will have an adverse economic impact on a range of UK sectors - most notably agriculture and

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<sup>6</sup> Agri-food in the UK-Australia Free Trade Agreement, DIT, December 2021

livestock production - particularly when combined with impacts of other planned trade deals; and will result in a net reduction in global animal welfare and environmental standards due to the displacement of food produced by those in the UK who are legally required bound by far higher standards than those required of Australian farmers.