

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

14th February 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.

Impacts of the agreement for Wales and further afield

8. Agriculture represents a higher percentage of Wales’ economy than it does for the UK as a whole¹, while 44% of Wales’ gross agricultural output is in the lamb and beef sectors² - higher than in any other GB nation - with this figure far higher in many of Wales’ counties. Grazing livestock farms make up 62% of all main Welsh agricultural holdings³.
9. In 2017, employment in the Office for National Statistics (ONS) ‘Agriculture, forestry and fishing’ category represented 3.2% of workforce jobs in Wales compared to the UK average of 1.1%¹. ONS figures also reveal that in a large number of Welsh communities up to 28% are employed in agriculture, while employment in this category is highest in Ceredigion (12.4%) and Powys (12.4%)¹. Such figures do not include those employed in secondary and tertiary businesses that are reliant on agriculture to a large extent.
10. It should be noted in this context that employment in agriculture makes up the overwhelming majority of the ONS ‘Agriculture, forestry and fishing’ category figure: The number employed in the fishing industry is estimated to be circa 900, while the same number are estimated to be

¹ Agriculture in Wales, Welsh Government, 2019

² Aggregate agricultural output and income, 2020

³ Farming Facts and Figures, 2021

employed in forestry and logging in Wales⁴, compared to 52,800 employed on Welsh farms³. Welsh Government figures suggesting that between 10,300 and 11,000 people are employed in the forestry sector are misleading, as they include workers in the wood, wood product, paper and paper product manufacturing industries.

11. As such, there are grave concerns that under trading conditions that favour the importation of large volumes of Australian agricultural products, particularly lamb and beef, FUW members and others operating or employed in Wales' agricultural supply chain will be adversely impacted through reduced income and business viability, and that such impacts will be exacerbated by further trade deals with other countries and resulting barriers to exports to the EU.
12. The UK Government's own figures and projections⁵ demonstrate that the degree to which the agreement signed in December 2022 delivers UK interests is negligible, while the damage to the UK's agricultural sector will be significant.
13. For example, those figures estimate the agreement will increase UK GDP by between 0.06% and 0.1% (an average of 0.08%, or eight parts in ten thousand) in the long term (by 2035), leading to a long term increase in UK wages of 0.1% - an average of 60p a week, based on 2019 figures.
14. For Wales, the benefit is estimated to equate to an increase in GVA of 0.09%, or around £60 million per year. This compares to a fall of circa £250 million in the annual funding allocated to Wales by the UK Government compared with what would have been received had the UK remained in the EU.
15. It is also notable that the Office for Budget Responsibility estimates 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 based on the UK Government's own figures.
16. The UK-Australia FTA 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.
17. Immediate access to duty free transitional quotas for key agriculture products, including beef and sheepmeat, sugar and dairy, with eventual tariff elimination, are estimated in the impact assessment 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 admits¹ is "*...driven by increased import competition in the beef and sheepmeat sub-sectors.*"

⁴ Woodlands for Wales Indicators 2017-18

⁵ 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

18. These falls comprise reductions in the GVA of the 'agriculture, fishing and forestry' and 'semi-processed food' categories of £319 million.
19. 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..."*
20. Based on the latest figures², such impacts would equate to a fall in the gross output of Wales' cattle and sheep sectors of £29 million (£13 million for the cattle industry and £16 million for the sheep industry). However, the impact assessment also highlights that this could be an underestimate under certain trading conditions, stating *"The potential and scale of any long-run increase in imports are uncertain...If supply was more responsive in the future than suggested by the historic data, production volumes could decrease by more."*
21. It should also be emphasised that such adverse impacts may well be concentrated and inflated in Welsh communities, given the particular reliance of Wales on the beef and sheep industry and the upland nature of much of Wales, which makes alternative forms of agriculture impossible.
22. Inherent to the increase in Australian food imports acknowledged by the UK Government 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 around 200 miles between Rotterdam and London.
23. 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.
24. 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.
25. 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.
26. These and other fluctuations account for the variations in the volumes of Australian livestock products previously imported to the UK.
27. 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 in the price differential between UK and Australian prices.

28. In terms of other differences that represent a concern or threat, it is notable that while the average Welsh cattle farm has 23 cows⁶, 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 cattle⁷.
29. 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.
30. Such differences mean Australia has major advantages in terms of economies of scale.
31. Such concerns have been echoed by independent observers; for example, former Australian trade negotiator Professor Dmitry Grozoubski, who is Executive Director of Geneva Trade Platform, told the Welsh Affairs Committee in July 2021⁸: *“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.”*
32. 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 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.
33. That impact assessment also highlights potential adverse impacts on natural resources at a time of grave concerns regarding our global environment and climate, stating that *“...For Australia, increased output in the agriculture sector could place strain on Australian water resources and water quality in regions where red meat and livestock sectors are concentrated, such as Queensland, New South Wales, Victoria, and Western Australia. In addition, the construction sector is estimated to increase. Since construction materials such as cement and steel have a high-water footprint, this may increase the risk of pressure on Australian water resources”*;

“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...”

⁶ Farming Facts and Figures, Welsh Government, 2021

⁷ Agricultural Commodities 2015-16, Australian Bureau of Statistics

⁸ One-off oral evidence session of the Welsh Affairs Committee, 15th July 2021

“There is evidence that agricultural activities (especially beef and dairy production) contribute to deforestation in Australia. It is also possible that an estimated increase in trade of wood, paper and rubber products in both directions could also place pressure on forested land.”

34. 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”*.
35. 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 - making competition between Welsh and EU farmers far fairer.
36. Such alignment includes those standards relating to animal health and welfare, disease traceability and the environment, whereas practises which are routine in Australia would not only breach Welsh standards but likely lead to farmers being prosecuted.
37. Examples of practises 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.
38. 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.
39. 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 ship⁹.
40. 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.
41. 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.”*⁸ While this statement referred to the agreement reached in principle in June 2021, the text of the final (December 2021) deal suggests that this remains largely the case (for example, the non-regression clause meaning the UK and Australia are merely *“...committed to not lowering their animal welfare standards for the purpose of encouraging trade”*).

⁹ All Livestock Exports Report, Australian Government

42. 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.
43. 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"¹⁰, the modelling undertaken by the DIT provides no such assurances.
44. 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.
45. 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. These concerns were echoed recently in a British Veterinary Submission to the UK Parliament's Environment, Food and Rural Affairs Inquiry into the trade deal, in which the body stated "*Australian products would become indistinguishable from UK produce, jeopardising the ability of exporters to trade using the good reputation of the UK as a high animal health and welfare producer.*" leading to "...additional risk-based checks' for "*British goods entering the EU Single Market, and potentially Northern Ireland.*"
46. In a similar context, it is notable that trade deals with countries such as Australia severely reduce the ability of future UK Governments to renegotiate the current UK-EU trade deal, since the UK and EU trading agreements with such countries are likely to differ significantly (whereas most existing agreements are closely aligned at present) and World Trade Organisation rules make the annulling or breaching of trade deals extremely difficult and prohibitive.
47. 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*"⁴
48. It is also notable that CPTPP membership requires equal treatment of other members, and 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.

¹⁰ Agri-food in the UK-Australia Free Trade Agreement, DIT, December 2021

Support needed from the Welsh and UK governments to respond to and prepare for the implementation of the Agreement

49. 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 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.
50. As such, the FUW believed that the greatest support that could be provided by the UK Government would be to abandon its pursuit of liberal trade deals with distant nations and trading blocs that will be of little value and detrimental to UK agriculture for the reasons already stated - while seeking to improve the terms of the UK-EU trade agreement, the barriers of which have been blamed for a 25% reduction in UK sheepmeat exports to the EU¹¹.
51. Notwithstanding this, given the importance of agricultural funding for Welsh farm incomes and Welsh agriculture in general, and the previous importance of EU Structural Funds for the economic and social prosperity of communities across Wales' the UK Government should:
- a. Honour its commitment to *"guarantee the current annual [Common Agricultural Policy (CAP)] budget to farmers in every year of the next Parliament"* by reversing decisions in 2019, 2020 and 2021 to reduce Welsh agricultural and rural development funding by a total of £248 million over the period 2020 to 2025.
 - b. Honour its commitment to fully replace EU Structural Funds, which, under the Shared Prosperity Fund, have been reduced significantly and by the 2023-2024 financial year will be a total of circa £750 less than would have been received had the UK remained in the EU
 - c. Respect devolution by ensuring that the the Welsh Government and its agencies - subject to strict governance, scrutiny and transparency rules - have control over spending in relation to areas of responsibility that are devolved.
52. Given the adverse impacts of the UK-Australia trade deal on Welsh Agriculture, and cattle and sheep farms in particular, acknowledged by the UK Government; the likely cumulative adverse impacts of further trade deals the UK Government is negotiating; and the reliance of Welsh farms on direct support for circa 80% of their incomes on average, the Welsh Government should:

¹¹ EFRA Committee evidence hearing, 8th February 2022

- a. Recognise the increasing role that direct support is likely to play in supporting Welsh farms in the advent of such trade deals - as has been the case in the EU, where direct payments will continue for the duration of the next Common Agricultural Policy on the grounds that it *'functions as a safety net and makes farming more profitable; guarantees food security in Europe; assist farmers in the production of safe, healthy and affordable food; and rewards farmers for delivering public goods not normally paid for by markets, such as taking care of the countryside and the environment.'*¹²
- b. Ensure that the anticipated Welsh Agriculture Bill provides a framework that is sufficiently flexible to allow secondary legislation to be introduced or changed in response to challenges that trade deals are likely to represent for the Welsh industry
- c. Ensure that the Bill provides a framework that allows existing schemes to be evolved in a way which retains a form of stability payment which is non-discriminatory and accessible to all active farmers, and delivers against economic, environmental, social and cultural objectives
- d. Maintain and where possible increase current budgets in a manner that recognises the core role agriculture and family farms play, and should continue to play in the sustainable production of food, and the economic, environmental, social and cultural wellbeing of Wales

¹² Income support explained; European Commission