



FUW BREXIT **BRIEFING**

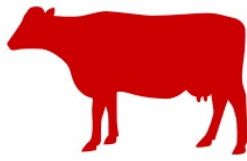
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INTRODUCTION

Since the 23rd June, the Farmers' Union of Wales has held scores of meetings with members across Wales to discuss the implications of the referendum outcome and the way forward for Wales.

Five months on, there remain far more questions than answers in terms of the process of leaving the EU and the implications for Welsh and UK agriculture, and members are clear in their view that policies must be developed cautiously in order to reflect and influence emerging political decisions.

Notwithstanding this, the FUW has already agreed on a number of key principles aimed at protecting Wales' interests, while numerous detailed proposals have been put forward by members.

Meanwhile, the Union has worked alongside others to gather and analyse data on the current role played by agriculture in Wales and the possible implications of different outcomes for our industry and wider society.

This Brexit Briefing provides a summary of the key issues facing our industry post Brexit, and some of the possible outcomes and solutions for agriculture and all those who rely on it.



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AGRICULTURE NEEDS
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WORK UNDERTAKEN TO DATE

As is the case for most government departments and industries, the issue of Brexit has come to dominate most of the areas of work dealt with by the Union.

In addition to meetings with members across Wales, the FUW has met regularly with Ministers, MPs, AMs, civil servants and key stakeholders, emphasising that:



Support should be maintained for sectors at levels which do not compromise either family farms or rural economies



Agriculture and domestic food production must be given priority during all trade negotiations with other countries and trading blocks



Bureaucracy and restrictions must not adversely impact or hamper Welsh and UK agriculture



The procurement of Welsh and British produce should be the default position for all UK public sector bodies



Robust steps must be taken to ensure supermarkets and other private sector bodies support domestic producers and do not act in a way which undermines UK food production or the viability of our agricultural sectors



In line with public opinion, the family farm must be recognised as the powerhouse of our rural economies and the most appropriate source of UK agricultural produce

To this end, over the past twelve months the Union has hosted over 20 farm visits for AMs, MPs, Welsh Assembly Committees, as well as other stakeholders, and has submitted written evidence to numerous Government Committees and Ministers.



AGRICULTURAL SUPPORT AND THE WIDER RURAL ECONOMY



For many years, the FUW has highlighted the wider role agriculture plays in terms of supporting Wales' rural and wider economy.

With large numbers of politicians from across the political spectrum seeing the Brexit vote as an opportunity to introduce changes which would have devastating impacts for agriculture, rural communities, and all those involved in food and agricultural supply chains, the need to inform people of the dangers of undermining Welsh agriculture has never been greater.

As founding members of the Strategic Framework Partnership Group, the FUW has been at the forefront of work which continues to add to the body of knowledge regarding the role played by agriculture in our rural and wider communities.

CURRENT FUW POSITION



"Agricultural support post-Brexit should be maintained at levels which at least reflect those levels which would have been in place should the UK have voted to remain in the European Union"

"A transition period of at least 10 years is necessary in order to phase in and allow the industry to adjust to new agricultural policies"



KEY FACTS: ECONOMY AND CULTURE

57%

of Wales is Severely Disadvantaged Area (SDA) and 23 per cent is Disadvantaged Area (DA)

80%

of Wales' agricultural land is rough grazing or permanent pasture, with just 5 per cent of land used for crops and horticulture

£24,000

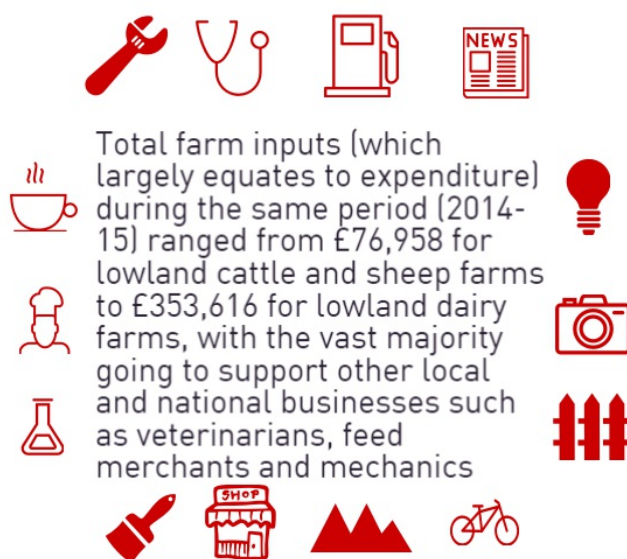
In 2014-15, direct payments accounted for an average of 81 per cent of net Welsh farm profit for all Welsh farm types, with average net profit per farm £24,000



Wales currently receives around £300 million annually under the Common Agricultural Policy

A third of Wales' population live in rural areas where farming, and businesses which rely on agriculture, play an important role in local economies; in sparsely populated areas, where centres of population have less than 2,000 people, around 10 per cent of workers are employed in agriculture – equivalent to 14 per cent of those employed outside the public sector

DEFRA and Welsh Government figures suggest around £1.1 billion is spent annually on costs including animal feed (£342 million), agricultural services (£80 million), maintenance (£39 million) and veterinary services (£62 million)



Total farm inputs (which largely equates to expenditure) during the same period (2014-15) ranged from £76,958 for lowland cattle and sheep farms to £353,616 for lowland dairy farms, with the vast majority going to support other local and national businesses such as veterinarians, feed merchants and mechanics

Agriculture makes an invaluable contribution to Wales' culture; the per-head contribution of 'Agriculture, energy and water' workers to all Welsh speakers is 78 per cent higher than for all categories, and has the highest percentage of Welsh speakers across Wales, at 29.5 per cent



TRADE

"Establishing trade deals with other countries & trading blocks - including EU- is a major priority"

For almost half a century, and most recently as members of the EU, the UK has been part of a single European market, which bans payments from being levied on goods travelling between the UK and other Member States. Critical to the agreement is the imposition of common tariffs on any goods entering Member States of the EU. Inherent to membership of the single market is the free movement of people.

For agriculture, membership of the single market has meant significant protection from non-EU food imports, increased competition from produce from other Member States, and unfettered access to EU markets – all within a single farm support framework and system of common rules.

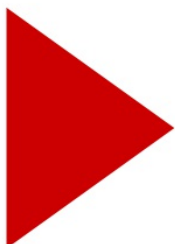
As a single trading block, the European Union negotiates trade deals with other countries as a single entity, for example through the World Trade Organisation (WTO), while countries which are not members of the EU must negotiate alone, and in the absence of trade agreements, are subject to default WTO trade rules and tariffs, which impose significant restrictions on trade.

As such, establishing trade deals with other countries and trading-blocks – including the EU – is a major priority and challenge for the UK, and one regarding which there are a broad range of opinions.

Most concerning for farmers are proposals by senior politicians from across the political spectrum to increase imports of cheap food from countries with environmental, animal health, and in some cases human rights standards which fall well short of those legally required in the UK.

Such policies would not only have a severe detrimental impact on UK agriculture and rural communities, but would also lead to an overall increase in environmental degradation and a fall in animal welfare standards – both issues on which the UK electorate has strong views.

In terms of Wales' 3 key agricultural products, namely milk, beef and lamb, there is significant concern regarding the implications for all three sectors of:



The loss of nearby and relatively affluent continental markets, and the degree to which these can be realistically replaced by markets which are much further afield, given the costs, logistics and reality of gaining similar access to alternative, by definition more distant markets



WTO or similar tariffs being applied to UK exports to the EU, given tariffs for some products would markedly reduce the value of sales to Welsh producers.

AGRICULTURAL TRADE FACTS

Superficially, trade balance figures suggest that leaving the EU's free trade area may benefit some products through the removal of imported produce. However, such benefits could only be realised if there is political support for trade policies which reduce imports from all other countries.

Complicating such perceived benefits is the seasonality of production, and the degree to which sectors rely on exporting certain types of products and cuts ('quarters') which do not generally appeal to UK consumers in order to balance carcass and product value.

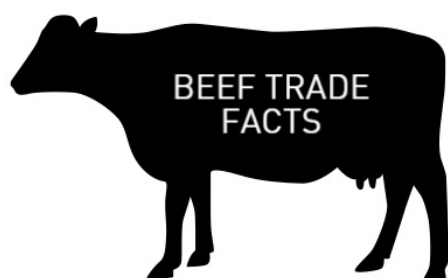
This is a particular concern for the Welsh sheep sector, where production is necessarily extremely seasonal and includes a significant proportion of lighter lambs (around 15 per cent) for which there is little domestic demand, and exports to the continent of certain cuts and offal make up a significant proportion of carcass value for the same reason.



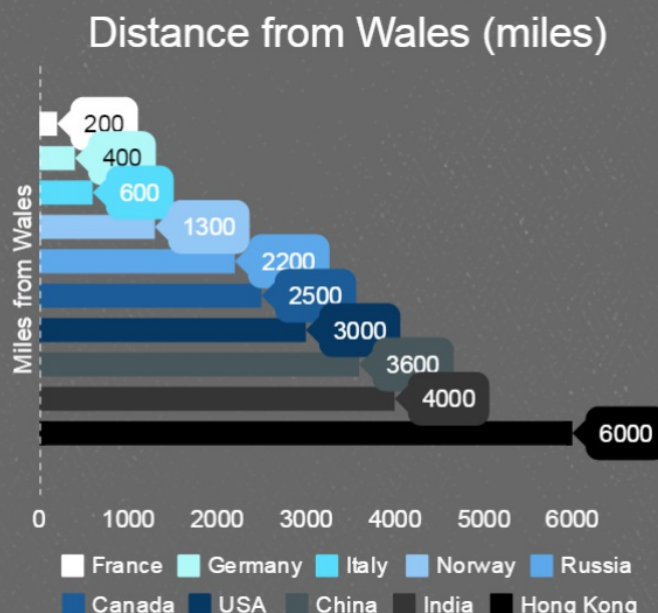
- Around 90 per cent of UK dairy exports go to EU countries
- Powders make up the majority of exports to non-EU countries
- The UK is around 75 per cent self-sufficient in butter and 55 per cent in cheese – meaning favourable post-Brexit trade deals and exchange rates may allow imported dairy products to be displaced by UK produce
- Export opportunities include developing markets in China, Asia, the Middle East and North Africa



- UK sheep meat exports and imports are both around 100,000 tonnes per annum
- Around 30 per cent of UK sheep meat production is exported, mainly to the EU
- 74 per cent of UK sheep meat imports come from New Zealand
- The strength of the pound and other factors means UK sheep meat struggles to be price competitive against major players such as New Zealand and Australia
- China has free trade agreements in place with New Zealand and Australia



- Around 90 per cent of UK beef exports go to EU countries
- Some 35 per cent of the beef consumed in the UK is imported
- The UK is around 75 per cent self-sufficient in beef – meaning favourable post-Brexit trade deals and exchange rates may allow imported beef to be displaced by UK produce



Butter	1,896 euro / tonne
Cheddar	1,671 euro/ tonne
Beef	12.8% product available plus 1,414 euro to 3,041 (depending on cut)
Sheep meat	12.8% of product value plus 902 euro to 3,118euro/ tonne
Wheat	95 euro/ tonne
Barley	93 euro/tonne
Fresh/ chilled potatoes	11.5% of market value

General agreement of FUW members that :

- Tariff-free access to EU markets is essential, particularly for the Welsh sheep sector
- Imports to the UK should be subject to genuine equivalence in terms of environmental and animal health standards
- Any agreement which allows free access to UK markets for EU agricultural produce must be accompanied by financial support for UK producers equivalent to the support received by EU farmers
- The EU's New Zealand sheep meat quota should not be passed back to the UK as this is likely to add significantly to pressures on the sheep sector post-Brexit
- Governments should proactively support UK food and farming through their own procurement policies, and by ensuring competition rules favour rather than disadvantage UK industries

UK AGRICULTURAL POLICIES AND DEVOLUTION



Under the current Common Agricultural Policy, Member States are allocated Pillar 1 and Pillar 2 budgets which must be spent on direct support and rural development over the seven year period of the policy.

That money must be spent by Member States and regions within a set of overarching EU Regulations, aimed at minimising unfair competition between regions and ensuring similar rules are applied in regions and on farms.

Those rules allow a degree of flexibility, allowing administrations such as those in Wales, England, Scotland and Northern Ireland to implement payment systems and policies which differ, but comply with the overarching principles of the CAP.

While there is currently no clarity as to what system, if any, should replace the Common Agricultural Policy once the UK leaves the EU, some have argued for a single agricultural policy and budget to be governed by the UK Government, thereby bypassing devolution, while others believe devolved administrations should have complete autonomy over agricultural budgets and policies.

The way in which budgets are allocated by UK Governments, and the allocation of devolved budgets through the Barnett Formula, further complicate matters, and represent a significant threat in terms of volatility and any allocation of agricultural funding to Wales.





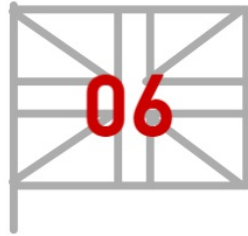
WHAT WE BELIEVE

"Irrespective of what trade deals are in place post-Brexit, within the UK Welsh farmers will compete against their counterparts in other devolved regions"

As such, the rationale for having a common policy across the UK which minimises unfair competition and market distortion remains unchanged.

A UK agricultural framework should therefore be put in place which prevents unfair competition between devolved regions and secures and protects adequate long term funding for agriculture, while also respecting devolved powers over agriculture and the need for flexibility within that framework which allows devolved governments to make decisions which are appropriate for their regions.

"Specific ring-fenced funding for agriculture should be allocated to Wales outside the Barnett Formula, and should be administered by the Welsh Government"



BREXIT TIMETABLE

Since the outcome of the 23rd June referendum was announced, the FUW has called for the Brexit timetable to be aligned with the current EU budgetary period – the Multiannual Financial Framework, which runs to 2020, and lays down the maximum annual amounts which the EU may spend in different policy areas.

The Union also believes that it is in the interests of all countries for the UK's withdrawal from the EU to take place as smoothly as possible and over an appropriate transition period, as opposed to the 'hard Brexit' advocated by some.

The FUW therefore welcomes the recent suggestion by Prime Minister Theresa May that transition period may be sought during negotiations with the EU.

POST BREXIT SUPPORT POLICIES

The FUW is clear in its view that a support policy is needed post-Brexit if severe repercussions are to be avoided, and that devolution should be respected within an overarching UK support framework.

However, there is general acknowledgement of the need to develop ideas in parallel with decisions made during trade and domestic negotiations, and that identifying specific detailed policies would be premature at this time.

However, a number of overarching principles have been suggested aimed at better focussing agricultural support where it is genuinely needed, including:



A needs-based allocation of post-Brexit budgets based upon the proportion of a region which is subject to handicaps such as adverse climatic conditions and poor soil productivity, socio-economic constraints and the proportion of businesses routinely affected by market failure



A cap being introduced for recipients of all future payments across the UK (no cap is currently applied in England)



That greater emphasis be placed upon active farmers and food security

ENVIRONMENT AND COUNTRYSIDE

Over three quarters of the Welsh countryside has some environmental or conservation designation, highlighting the important role farming continues to play in maintaining our natural resources.

Over recent years, that role has expanded significantly, particularly in terms of renewable energy production, and Welsh farming has an indispensable part to play in terms of our need to adapt to changing weather patterns, increased environmental pressures, carbon sequestration and meeting greenhouse gas reduction targets.

Wales also has a long history of implementing agri-environment schemes, and while numerous concerns exist regarding the punitive nature of the current Glastir scheme, Brexit provides a significant opportunity to improve scheme design in a way which better meets the needs of both farming and the environment.

However, it must be recognised that further moves towards policies focussed on agri-environment funding risk undermining the economics of agriculture and the livelihoods of all those involved in related supply chains, due to restrictions under World Trade Organisation rules.

Specifically, while many politicians and charities have advocated 'paying farmers for the delivery of environmental goods', Annex 2 of the WTO Agreement on Agriculture states that "The amount of [agri-environment] payment shall be limited to the extra costs or loss of income involved in complying with the government programme."

This severely limits the degree to which agri-environmental payments can deliver the broad economic benefits currently delivered through direct payments.

In order to ensure Welsh farming can continue to play such a role in the environment



Systems must be introduced which ensure farmers are more fairly rewarded for their contributions to water management, carbon sequestration and the delivery of other public goods



The temptation to abandon areas of countryside advocated by some, and in particular supporters of 'wilding', must be resisted given the severe economic and environmental impacts such policies would have in areas where species, habitats and communities are reliant on agriculture and grazing animals in particular



Support for agri-environment schemes must be continued, while recognising the far-reaching adverse consequences of an inappropriate balance between direct support and agri-environment payments given the limitations of WTO rules



The infrastructure and investment needed to increase on-farm renewable energy production must be increased, and barriers removed





FARMERS' UNION OF WALES

The Farmers' Union of Wales protects and advances the interests of those who derive an income from Welsh agriculture.

We are an independent Union valuing the freedom to run our own affairs. We advance the views of the Farmers of Wales without fear or favour, unfettered by sectional or external financial interests.

Established in 1955, the FUW has been given the official right by the UK Government to represent and speak on behalf of the Farmers of Wales. The Union has done so at the highest level – at the National Assembly, Whitehall and Brussels.

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