

COUNTRYSIDE ALLIANCE BRIEFING NOTE

RURAL ECONOMY IN WALES



The Voice of the Countryside

Westminster Hall Debate

“Future of the rural economy in Wales” (Ben Lake MP, Plaid, Ceredigion)

Tuesday 28 November, 4.30-5.30pm

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Background

The Countryside Alliance welcomes this debate on the future of the rural economy in Wales. It is particularly timely given that Brexit presents considerable challenges to agriculture and the rural economy as well as an opportunity to do things differently. There are also ongoing challenges, such as delivering digital connectivity and affordable housing in rural areas, which must be addressed if we are to have a vibrant future for the rural economy in Wales and across the UK.

The rural economy has a vital role to play in the national economy and helping to increase productivity. This is particularly true in Wales where one in three people live in a rural area. Delivering a strong economy, increased productivity and thriving communities cannot be achieved without recognising the vital role the countryside has to play. As we leave the EU, we must ensure that the rural economy is able to compete on the national and global level.

Agriculture

Future Trade

Wales exported £12.3 billion worth of goods outside of the UK in 2015, of which 67 per cent went to the EU. Food production and the processing supply chain is complex and often involves several countries within the EU. In recognition of the importance of trade with the EU, it is vital that the UK Government seeks to maintain tariff-free access to the EU market for food and agricultural produce.

Agricultural goods generally carry higher import tariffs than other commodities. If the UK Government does not establish a new trade agreement with the EU prior to leaving and adopts World Trade Organisation terms, the £12 billion worth of food and agricultural produce which the UK exports to the EU each year would face the prospect of high tariffs. This would be damaging to UK producers, including producers in Wales, and EU consumers.

In 2016, 93 per cent of the meat exported from Wales was to the EU and high tariffs would be particularly damaging to some of the most rural areas in Wales where farming is a vital part of the local economy and community. The EU market is particularly important for certain cuts of meat and offal where there is little domestic demand and therefore exports are a significant proportion of carcass value. Wales is renowned for the quality of its lamb, which has enjoyed Protected Geographical Indication (PGI) status since 2007, and this should continue to be promoted in domestic and export markets, as well as promoted to government bodies to increase public procurement.

The EU is obliged by the World Trade Organisation to offer reduced (or tariff free) import opportunities to certain types of agricultural produce from outside of the EU under Tariff Rate Quotas (TRQ). There is currently a TRQ in place for lamb from New Zealand and hormone-free beef from Argentina and North America which allows an annual quota of meat to avoid the usual EU import tariffs. The UK Government must ensure that the TRQs for agricultural produce are not passed on to the UK unless there is a guarantee that UK farmers will continue to have tariff-free access to the EU market.

As well as maintaining tariff-free trade with the EU, the UK Government must ensure that food and agricultural produce are central to any new trade deals with non-EU countries to open up new export markets. We welcome the UK Government's continued efforts to open up markets in Asia. In China, the value of food and drinks exports from the UK has increased by over 50 per cent from 2015 to 2016 and is now worth £439.5 million.

As the UK Government develops new trading relationships with non-EU countries, it must be ambitious but it must also be pragmatic. A shift towards promoting export markets outside of the EU is likely to increase the need for Welsh farmers to become more competitive, but there will be some farmers who will always struggle to compete on price in the global market. Farmers in the uplands, and other marginal areas, are not in fair competition with global producers who are operating in very different environments, often with fewer safety and animal welfare laws to comply with, meaning their production costs are significantly lower. This type of upland and marginal farming does, however, provide a vital public good in maintaining some of our most iconic rural landscapes and their communities. The interests of these farmers must be safeguarded in any new trade deals.

Food and agricultural products should be treated as 'sensitive' in trade negotiations with non-EU countries to recognise that the high standards of safety and animal welfare which UK consumers expect, and our laws require, adds to the cost of production for UK producers, including those in Wales. There are significant differences in legislation and best

practice between the UK and many non-EU countries in areas such as biotechnology, hormone growth enhancers, and pathogen reduction treatments. There must be recognition of these differences in any new trade deals to avoid downward harmonisation and a lowering of our high standards. Flooding the domestic market with cheaper imports would put Welsh farmers at a competitive disadvantage and ultimately risk putting many out of business.

Many of the countries with which new trade deals are seen as a priority, such as Australia, the USA and Brazil are also large meat exporting countries. These countries are likely to seek extensive agricultural concessions as part of any agreement with the UK and our farmers must not be used as a 'bargaining chip' in the negotiations. This is particularly important as World Trade Organisation rules do not allow the process by which something was produced to be taken into consideration when providing state support which is considered to have a distorting effect on the market.

The ability of the UK to produce its own food must not be undermined by any new trade deals. Skills and experience in the food and farming industry have taken a long time to develop and in many cases would be hard to replace if they were lost. Securing our ability to produce food should not be mistaken for self-sufficiency as the UK will continue to import food and agricultural produce, just as it will continue to export. Food security will be achieved by ensuring fair competition for UK farmers and producers in EU and non-EU markets and this must be priority for the UK Government.

UK agriculture underpins our food manufacturing sector by providing over 60 percent of the produce and raw materials involved. This is a vitally important sector, sustaining 3.8 million jobs and adding over £21 billion (GVA) to the UK economy every year. Food manufacturing is nationally important and benefits communities across the country, including many rural areas in Wales. The UK's new relationship with the EU and any new trade deals with non-EU countries will be vital to the future success or otherwise of food manufacturing in this country.

Countryside Alliance calls for:

- Tariff-free trade with the EU in food and agricultural produce, including game. Ensure that any new trade deals with non-EU countries recognise and protect the high standards of safety and animal welfare which UK consumers expect and to which our farmers and producers adhere.
- The UK Government to ensure that food and agricultural produce are central to any new trade deals with non-EU countries to open up new markets for Welsh produce.
- The UK Government to ensure that the TRQs for agricultural produce are not passed on to the UK unless there is a guarantee that farmers across the UK will continue to have tariff-free access to the EU market.

Food Labelling

Food labelling is vitally important in enabling Welsh farmers to compete fairly and giving consumers the ability and confidence to buy 'British' or 'Welsh'. Our new relationship with the EU and any new trade deals with non-EU countries must protect market equality by ensuring that imports are produced to UK standards and product labelling should distinguish country of origin and production methods in a way that is clear and not misleading.

The EU has established mandatory country of origin labelling for beef, lamb, pork, and poultry. However, this does not include foods where the meat is processed or an ingredient,

such as sausages and ready meals. Therefore it remains the case that sausages made in the UK using Danish pork can still be legally labelled as 'British' or 'Welsh'. The introduction of legislation making it a legal requirement for the country of origin to be included on lightly processed meats such as sausages and bacon would help support farmers by providing consumers with greater choice and confidence.

The EU Commission has resisted calls to extend mandatory country of origin labelling to dairy products on the grounds that such a move would be too costly and bureaucratic. We believe that consumers would be willing to pay more for this information and we would welcome legislation extending mandatory country of origin labelling to certain dairy products such as milk, butter and cheese, building on the work that has already been done under voluntary schemes. The UK Government should also explore options for extending mandatory country of origin labelling to other foods such as cereals, fruit and vegetables.

The UK has a wide range of regional and speciality food producers which should be promoted at home and abroad. The quality and authenticity of these products is often recognised in their labelling, such as 'Welsh Lamb' from lambs which are born and raised in Wales. For producers, these labels help to add value to their products, which often have high costs of production, and ensure their standards can be maintained. The UK currently has a total of 84 products that benefit from protected geographical or traditional status under EU law and the UK Government should look to develop its own system of legal recognition for product names outside of the EU.

The UK Government must ensure that the three existing types of EU protected product names: Protected Geographical Indication (Welsh Lamb), Protected Designation of Origin (Conwy Mussels), and Traditional Speciality Guaranteed (Traditionally Reared Pedigree Welsh Pork), continue to have the same level of protection both in the UK and EU market. It is also important that this protection is included in any new trade deals with non-EU countries, which may involve working to develop trademark protection in countries to which UK farmers and producers export.

Countryside Alliance calls for:

- Development of a comprehensive food labelling policy and the extension of mandatory country of origin labelling to lightly processed meats and some dairy products.
- The continuation and development of protections for regional and speciality food and drink products in order to support Welsh farmers and producers.

Agricultural Workers

People from the EU play an important role in harvesting, production and processing across the food supply chain, in both skilled and unskilled jobs. The UK Government must consider how our future relationship with the EU will enable people to travel to Wales to work in the food and farming industry, particularly at important times of the year.

There are indications that it has already become difficult to recruit people from the EU following the referendum result. The decrease in the value of sterling combined with uncertainty about the UK's future relationship with the EU has reduced the appeal of working in Wales for some people. In order to ensure that Welsh farmers and producers are able to attract the labour they require, it is vital that the UK Government provides clarity on travel arrangements as soon as possible.

The UK Government should also consider the reintroduction of the Seasonal Agricultural Workers Scheme (SAWS), or similar scheme, which allows a person to enter a country to undertake a specific role with a specific employer for a set period of time. The UK Government removed the SAWS in 2013 following the removal of freedom of movement restrictions on people from Romania and Bulgaria. The reintroduction of the SAWS, or similar scheme, could be one way to help Welsh farmers and producers in the event of removal of freedom of movement after the UK leaves the EU.

Any new travel scheme for agricultural workers should also include the requirements of other land-based industries such as forestry and shooting, particularly game farmers. Game farming is not included in the definition of 'agriculture' in the 1947 Agriculture Act, so any new scheme will need to adapt a broader definition of 'agriculture' to ensure that people from the EU can continue to work on game farms in Wales.

Countryside Alliance calls for:

- The UK Government to reintroduce the Seasonal Agricultural Workers Scheme, or a similar scheme, which allows a person to enter a country to undertake a specific role with a specific employer for a set period of time.

Support Payments

Farmers in the UK benefit from support payments as part of the EU's Common Agricultural Policy (CAP). Between 2014-2020, Wales is expected to receive a total of €1.95 billion for Pillar 1 direct payments from the EU which equates to an average of €279m per annum. For Pillar 2, Wales is expected to receive a total of €655.8m from the EU for the 2014-2020 period, which equates to an average of €93.5m per annum.

Support payments play an important role in the food and farming industry and the wider economy. In 2015, it was estimated that the contribution of farming to the UK across all areas was worth 7.4 times the funding it received in direct payments under Pillar 1 (approximately £2.2 billion). This is particularly important in rural areas in Wales where farming remains an important part of the economic and social life of the local community. We welcomed the announcement from the UK Government that funding under Pillar 1 will be guaranteed until 2020 and the commitment that projects under Pillar 2, signed before the Autumn Statement in 2016, will also have their funding guaranteed.

It is important that CAP is replaced with a fully funded UK agricultural policy to be in place and ready to be implemented before existing funding is removed. Farming in the UK has developed within the framework of CAP for the last 40 years and therefore the introduction of a new agricultural policy will need to include transitional arrangements to ensure that farm businesses in Wales are able to adjust as decisions often need to be taken years in advance. Farmers, particularly in upland and marginal areas, are often small to medium sized enterprises and a sudden change in agricultural policy would risk the sustainability of some of these businesses which are dependent upon support payments.

The administration of the new agricultural policy must recognise the fact that many farmers are still unable to receive high speed broadband and those who are connected do not always have the skills to be able to use it to full advantage. The UK Government and the Welsh Assembly Government must ensure that applications under a new agricultural policy are able to be made by post as well as online for as long as universal connectivity is lacking.

The UK Government has indicated that it wants to see a more market-orientated agricultural policy with a focus on competitiveness. Policies designed to make our farmers more

competitive should be welcomed, however this must not be done to the detriment of the environment.

Despite efforts and incentives to improve competitiveness, there will continue to be some parts of the UK, particularly in Wales, where farmers cannot survive on the profits of food production alone and this will need to be addressed in a new agricultural policy as well as continued efforts to support diversification.

Farmers in the uplands, and other marginal areas, are limited to low intensity grazing which has small profit margins and is often more exposed to market volatility than other sectors of the industry. Their work, however, often provides the most amount of public good in maintaining and improving some of our most iconic rural landscapes, which are so important to our cultural heritage and provide the recreational opportunities people value so much. Over 80 per cent of the Welsh countryside is managed by farmers, and it is these iconic landscapes that attract visitors from around the world and stimulate a tourism industry worth £2.5 billion to Wales.

A new agricultural policy should target support payments to those farmers who are providing the most amount of public good but not being rewarded for this by the market. This also means ensuring that support is provided to the people and businesses that have the task of carrying out this work on a daily basis.

A new agricultural policy should be appropriate for farming in Wales which will require the Welsh Assembly Government to have greater flexibility in implementing support payments. However, there will need to be a UK framework for agriculture to ensure fair competition between all parts of the UK, and in order to secure long term funding for agriculture. It is vital that this framework is established following consultation and consent from the devolved administrations, including the Welsh Assembly Government.

Farmers play a vital role in conservation. Using the skills and experience of farmers is often the best way to improve biodiversity and secure the future of our vital natural resources. If farming in upland, and other marginal areas, were to be abandoned because of changes to support payments, there would be detrimental effects on the habitat in these areas and the species they support.

Farming is often central to the economic and social life of some of the most rural communities in Wales. As well as support payments helping to keep livestock on the hills, they also help to keep the local school open and provide employment in the wider rural economy from shops and garages to hotels and pubs. The importance of support payments to rural communities needs to be recognised when developing a new agricultural policy as without this support many of the most rural communities in Wales face the prospect of becoming unsustainable.

Countryside Alliance calls for:

- A fully funded agricultural policy with support payments targeted at those farmers who are providing the most amount of public good but not being rewarded for this by the market.
- The interests of farmers in the uplands, and other marginal areas, to be safeguarded in any new trade arrangements, recognising that this type of farming provides a vital public good in maintaining some of our most iconic rural landscapes and their communities.

Rural Economy and Services

Tourism

Tourism is vitally important for many rural areas in Wales, sustaining jobs in a number of areas from accommodation and hospitality to leisure and retail, which supports the wider rural economy. In 2015 the UK received the highest number of international visitors since records began (1961), with 36.1 million visitors, helping to generate more than £62 billion for the UK economy. Visitors from the EU are an important part of our tourist market. In 2015 more than 60 per cent of international holiday visitors and more than 70 per cent of business visitors to the UK were from countries within the EU.

Rural tourism in the UK benefits from visa-free travel between countries within the EU and it is important that this continues for short leisure and business trips after we leave the EU. Any additional bureaucracy or costs on travel to the UK from the EU would place the UK at a disadvantage with other European tourist destinations as far as EU nationals are concerned. Fair competition would also be helped by reducing VAT rates for tourist businesses which would bring the UK into line with competitor destinations across the EU.

As well as maintaining access to the European tourist market, the UK Government should take the opportunity of leaving the EU to open new tourist markets. Enhanced visa services have already increased the number of visitors from China and this is a model which the UK Government should consider adopting with other countries. This should be combined with increased funding of Visit Britain and the GREAT campaign to ensure that the UK, and in particular the countryside, is promoted globally as a tourist destination.

Tourism specifically associated with country sports is also an important economic contributor in many rural communities in Wales, particularly in the winter months when income from other forms of tourism is often reduced. It is essential that country sports in the UK remain easily accessible to people from the EU. In 2014/15 a total of 8,810 Visitor Permits were granted in England and Wales for people to bring firearms into the UK for game or sport shooting. Angling is also important to the tourist industry and the value of freshwater angling tourism alone is estimated to be worth £100 million every year to the Welsh economy.

Shooters and anglers pay for accommodation and services wherever they travel. Tables in pubs and restaurants and rooms in hotels and B&Bs are booked by people who shoot and fish throughout the shooting and fishing seasons, which coincides with the otherwise quiet winter months. The food served in these eateries is supplemented with seasonal Welsh game meat, fish and seafood.

Countryside Alliance calls for:

- The continuation of visa-free travel between the UK and countries within the EU.
- Continued access to, and acceptance of, the European Firearms Pass.
- A tourism strategy which recognises the contribution made by country sports tourism to the rural economy.

Shooting and the Game Market

Shooting directly contributes £75 million to the Welsh economy every year. Government research has shown that small and medium enterprises (SMEs) are even more important to

the Welsh rural economy than they are elsewhere, and it is exactly these SMEs that the 76,000 people who shoot in Wales support.

Shooting estates source many materials and services locally, spending money with game farmers, contractors, seed and feed merchants, agricultural suppliers, machinery dealers, caterers and all manner of local tradespeople. Shooting also supports 2,400 Full Time Equivalent (FTE) jobs, often in locations where employment opportunities might be limited. 64 per cent of all shoot providers in the UK say that all of their staff live within 10 miles of the shoot, ensuring wages are being spent supporting local businesses and services.

Shooting benefits from trade with countries within the EU across a number of areas. As a member of the Single Market and Customs Union, this trade is currently tariff-free and avoids other frictions to trade. It is vital that the interests of shooting and the game market are considered as part of our new relationship with the EU.

In particular the majority of firearms that are used in this country are imported from countries within the EU, particularly Spain and Italy. Importers currently enjoy excellent relationships with manufacturers based in countries within the EU and have few problems importing into this country. The UK Government should seek to maintain tariff-free trade with the EU in firearms, component parts, and ammunition. It is also important that imports do not face other barriers to trade, such as an increase in bureaucracy and regulation which have the potential to disrupt the supply chain and add to costs. Similarly, the EU is an important export market for game meat and this must be preserved in any new trade arrangements with the EU.

Countryside Alliance calls for:

- The interests of people who shoot and hunt to be considered as part of our new relationship with the EU.
- Continued tariff free and frictionless trade in firearms, ammunition and parts for sporting purposes.
- Continued access to the EU market for UK produced game meat.

Digital Connectivity

Digital growth is key to driving the Welsh economy forward, which is why innovative policies are needed to meet the increasing demand for connectivity and to ensure rural communities' needs are met.

Access to high speed and reliable broadband connectivity varies wildly across Wales but it is vital to our increasingly online and economic lives. The most recent report by the telecommunications regulator, Ofcom, in December 2016 showed that while there has been an increase in coverage and speeds of broadband in Wales, the proportion of premises benefitting from these connections is less than the UK as a whole.

Access to the internet via the mobile network is increasing by 66 per cent a year, yet 33 per cent of premises in Wales do not have 3G coverage. We need to ensure that not only do we have the infrastructure and coverage to meet this demand, but we also educate consumers and businesses about the benefits of high speed connectivity. Complete and partial mobile not spots are also more prevalent in rural Wales.

The current lack of broadband infrastructure serving small firms threatens the expansion of the rural economy currently worth £400bn annually. The business opportunity includes 28 per cent of all UK firms and over one million small businesses.

A number of measures were announced in the Budget in March including £16 million to create a new National 5G Innovation Network to trial and demonstrate 5G applications and £200 million to roll out a series of local projects to accelerate market delivery of fast and reliable full-fibre broadband to more homes and businesses. There was no update on the progress of these measures in this latest Budget.

1.4 million premises in the UK remain unable to access broadband speeds over 10 Mbit/s, the speeds required to meet a typical household's digital needs, which is also the proposed speed of the Government's Universal Service Obligation. This is down from around 2.4 million in 2015 although 960,000 premises in rural areas are still unable to access download speeds above 10 Mbit/s. Superfast broadband, measured at 30 Mbit/s, is now available to 89 per cent of UK homes although only 59 per cent of homes in rural areas are able to access superfast speeds.

We welcomed the Digital Economy Act and we hope that the Act will ensure that digital connectivity is delivered in rural areas. One of the main obstacles to high speed broadband and mobile connectivity in rural areas is the lack of infrastructure able to support high speed connections. We also welcomed the proposal to introduce a Universal Service Obligation (USO) of 10Mbit/s for broadband speeds across the country. However, the UK Government needs to consider how the USO is going to be delivered and allocate resources to ensure that 10Mbit/s can be accessed in all premises across the UK, including rural areas. There was no mention of this in the Budget.

Countryside Alliance calls for:

- The full implementation of the Universal Service Obligation under the Digital Economy Act 2017.
- When we leave the EU the Government must seek to be at least as ambitious as the EU in digital connectivity and where possible to exceed EU targets.
- Government to promote and support alternative technologies, such as satellite and mobile broadband, which can deliver connectivity to remoter rural areas.

Housing

We welcome the recognition in the Budget that housing is one of the most serious challenges facing this country. However, while many of the measures announced are welcome we are concerned that the approach to increasing housing supply, and especially affordable housing, is still too focussed on urban areas.

We need planning policies that support sustainable rural life and businesses. This should include better use of permitted development rights, measures to incentivise landowners to bring forward land for affordable housing, and measures which enable small scale locally led provision of affordable local housing to meet local need.

The Budget notes that: "increasing the supply of housing in the right places brings productivity gains. It supports flexible and responsive labour markets, enabling people to work where they are most productive, and allows successful towns and cities to become even more productive by realising agglomeration economies". However, it is not just urban

areas which need housing as part of boosting productivity. The need is as great in rural areas, and is a particular problem for young people and families.

Many rural areas are suffering from a lack of housing, especially affordable housing. Population growth, combined with migration from urban areas, has seen the rural population grow by 800,000 in the last decade according to the Office for National Statistics, driving up house prices and pricing many families out of the communities in which they work and in which they have often been brought up.

Rural house prices are much higher, rural wages are much lower and the gap between them is widening particularly for agricultural workers. There is a premium for rural housing in all parts of the country and property prices in rural Wales are 19 per cent higher than in urban areas according to the Halifax Housing Survey 2015.

Research by the National Housing Federation found that in 77 per cent of rural local authorities, house prices are outstripping average incomes faster than the rate of the national average. In 69 rural local authorities, house prices were more than the national average rate of 6.8 times average wages. The average rural worker would need a wage rise of around 150 per cent just to be able to buy a home.

The failure to recognise the equally pressing need for affordable housing in rural areas will only exacerbate the problem of young people in rural areas unable to find a home, with negative consequences for the future of sustainability of rural shops, schools, services, and increasing rural isolation.

Countryside Alliance calls for:

- Planning system that is efficient with planning policies that support sustainable rural life and businesses; including better use of permitted development rights.
- Government to implement measures to incentivise landowners to bring forward land for affordable housing.
- Locally led provision of affordable local housing to meet local need.

For more information please contact:

Sarah Lee

Head of Policy

Sarah-lee@countryside-alliance.org

0207 840 9250

James Somerville-Meikle

Political Relations Manager

James-sm@countryside-alliance.org

0207 840 9260