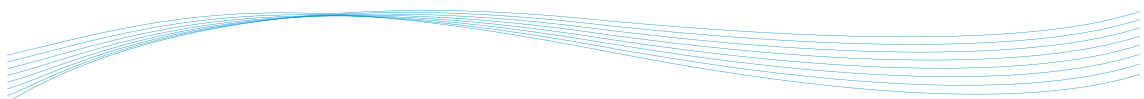




## **Brexit and our land: Securing the future of Welsh farming**

### **Agriculture and Horticulture Development Board (AHDB) response to consultation**

**October 2018**



## **Introduction**

Brexit heralds significant changes for farmers, growers and the food industry in Wales, not least in terms of farming policy as the UK leaves the EU. It is therefore timely and important that Welsh Government has initiated this consultation on the future direction of farming policy in Wales.

AHDB's purpose is to inspire our farmers, growers and industry to succeed in a rapidly changing world. Our activities in Wales span the dairy, horticulture, potatoes and combinable cropping sectors, drawing around £1 million in levies from farmers and growers. AHDB employs seven full time staff in Wales and is currently recruiting for an eighth.

In collaboration with Hybu Cig Cymru (HCC) and Quality Meat Scotland (QMS), AHDB has also united behind a programme of activities to support the profitability and sustainability of the red meat sector across Great Britain underpinned via a ring-fenced fund of £2 million of AHDB red meat levies that is jointly managed by the three organisations.

Our organisation provides a variety of tools and services to support farmers, growers and the food industry in Wales. These include:

- Near market and applied research and innovation to tackle the everyday challenges that farmers, growers and the supply chain face. We invest levy funds in filling the gaps in knowledge that farmers and growers have identified as critical to their businesses
- Knowledge exchange with and between farmers, skills development and benchmarking. Farmer to farmer learning through our strategic and monitor farms plays an important part in this activity along with programmes such as the Dairy Improvement Programme in Wales and tools such as Farmbench. (<https://www.ahdb.org.uk/farmbench>)
- Independent market analysis and intelligence to enable businesses to make informed decisions. Our work with HCC in 2018 to highlight the impacts of Brexit on agriculture and horticulture in Wales is a good example of this.
- Building export markets for British meat, dairy products and crops. In 2018 we have collaborated with HCC and QMS to jointly exhibit at major international trade fairs in Europe and Canada.
- Domestic market development to inspire our consumers and underpin the reputation of our products from potatoes to dairy.

Our unique position as an arms-length body working for and on behalf of the industry puts us in a particularly important position to support the industry to make the most of the opportunities that a new agriculture policy in Wales will bring. AHDB is keen to partner with the industry and government to enable it to succeed.

In responding to this consultation our intention is to offer impartial analysis and identify where AHDB can best support the industry. It also signals where we can more effectively partner with Welsh government and stakeholders to enable the Welsh farming and food industry to navigate a path towards a successful future.

## **Response headlines**

1. A move towards a new policy that eliminates direct income support payments is expected to bring about significant restructuring of farm businesses. It will be vital that Welsh government works with AHDB and other organisations to smoothly facilitate this. This work will need to be done at pace given the potential scale of transformation required in equipping Welsh farming become fit for the future
2. To address the challenge of weak productivity growth requires a more significant change in the knowledge and innovation system that supports Welsh farming
3. The delivery of advice and knowledge transfer to farmers in Wales feels more fragmented than in other parts of the UK. Since the evidence is clear that fragmentation of effort impedes productivity growth it is vital that the future policy framework addresses this. AHDB intends to play a full part in collaborating with other partners to remove fragmentation of effort and bring greater strategic alignment to supporting our farmers and growers

## **Consultation Questions**

### **Chapter 4 – Land Management Programme for Wales**

***Question 1. We propose a new Land Management Programme consisting of an Economic Resilience scheme and a Public Goods scheme. Do you agree these schemes are the best way to deliver against the principles? If not, what alternatives would be best?***

The principles set out in Chapter 4 seem logical. Nonetheless, it is undoubtedly the case that the policy direction proposed will bring about significant change in the nature of Welsh farming.

Our analysis of Brexit scenarios (see <https://ahdb.org.uk/knowledge-library/exploring-the-implications-of-brexit-for-agriculture-and-horticulture-in-wales-28-june-2018>) has highlighted the extent to which farm businesses in Wales are vulnerable to the elimination of direct support provided through the CAP. With over 80% of farm income (profit) derived on average from EU support, farming in Wales is typically more exposed to reductions in direct income support than other parts of the UK, especially England.

We offer no view on the merits of removing direct support in Wales. However, we do feel it is important to recognise the potential scale and pace of restructuring that will occur to enable the farming industry to adjust. Depending on the post-Brexit trade scenario, this may result in downstream impacts for the food supply chain in Wales. Recent analysis by Newcastle University in which AHDB partnered indicated the potential for a 20-30% reduction in output value by 2026 in the event of the UK government adopting a stance of unilateral trade liberalisation.

Our key points on this are two-fold. Firstly, there may be challenges to Principle 1 (keep farmers et al on the land) which will require flanking measures to support farmers in restructuring and adjusting to a new post-Brexit policy environment. Secondly and more importantly, it will be essential that Welsh Government works strategically with organisations like AHDB to support the industry to adapt overtime. A move towards a durable public goods scheme may imply a change in skills required by the industry. Loss of direct income payments

will mean production of food is dependent on the industry's ability to compete in the market. To achieve this a significant reduction in cost of production for some producers will be necessary. There may be scope for some producers to add value although this will be limited by market opportunity.

In terms of Principle 2, it should always be borne in mind that food production is a function of the market. It would be preferable to avoid perverse incentives that encourage farmers to produce food when market signals indicate otherwise.

***Question 2. Does the Welsh Government need to take action to ensure tenants can access new schemes? If so, what action would be best?***

We have no comment on this question.

## **Chapter 5 – Economic Resilience Scheme**

***Question 3. From your experience of current programmes, what do you feel would work well for the future?***

AHDB has been jointly delivering knowledge exchange activities (where appropriate and possible) with Farming Connect for a number of years in order to avoid duplication and achieve best value for our levy payers. This joint working has been mainly in the dairy sector although we have partnered on some activities in cereals and oilseeds also.

More recently AHDB has secured £6.5m from the Welsh Government Rural Communities - Rural Development Programme 2014-2020 to deliver a Dairy Improvement Programme over the next five years. This programme was developed with industry and government. Dairy farmers are now being invited to apply for financial and technical support to improve herd health management and disease control.

It is already evident that there is great interest and enthusiasm in the focused approach of HerdAdvance where animal health planning becomes a key area for ongoing action and improvement on farm. There are many partners, organisations and companies involved in delivering the project and all are working towards the same goal. Key to this project will be learning what works and even more important is to learn what isn't successful in terms of changing farmer behaviour. The AHDB Strategic Dairy Farm network will also be expanded in Wales through this funding avenue. We believe this initiative has significant potential to drive improvements in the performance and sustainability of dairying in Wales.

AHDB delivered the EU Conditional Aid Benchmarking Scheme on behalf of Welsh Government last year. This was a huge success in terms of farmer engagement and the first step in getting many farmers to start collating data and benchmarking. It also provided a very important insight into the dairy industry in Wales.

Some of the key hallmarks that we see from successful programmes are:

1. There is strategic focus through a discrete number of shared 'missions' (for example, to reduce greenhouse gas emissions on dairy farms). In our experience a broad brush approach to knowledge transfer is largely ineffective as it is untargeted

2. All key stakeholders associated with the development and delivery of the mission are bought in and understand the role they play in its execution. There is no duplication or competition between key players
3. Key performance measures are set and tracked
4. There are effective feedback loops and data capture to ensure continuous learning, evaluation and improvement of the scheme

***Question 4. Do you agree with the focus of the Economic Resilience scheme being on growing the market opportunities for products from the land throughout the supply chain, rather than restricting support to land management businesses only?***

The economic resilience scheme should put greatest emphasis on improving productivity and performance on farm in order to mitigate the inherent risks and volatility associated with agricultural markets. Whilst there are opportunities to add value to Welsh goods, the industry's ability to compete on cost remains fundamental, especially in commoditised markets such as dairy. Analysis indicates the latent potential for Welsh dairying to compete at marginal cost and it makes sense to support the growth of Welsh dairying as long as it is environmentally sustainable.

Areas of the current RDP scheme already support activity across the food chain and some continuation of these schemes seems appropriate to overcome the challenges some farming businesses face in obtaining commercial loans or other financial support in diversifying. In all cases, diversification through on-farm processing must be backed up by thorough market research and business planning.

***Question 5. Are the five proposed areas of support the right ones to improve economic resilience? Are there any areas which should be included but currently are not?***

Chapter 5 correctly identifies the challenge faced by Welsh agriculture in terms of its underlying productivity growth and performance. The consultation recognises the need for the industry to be agile, responsive to market demand and collaborate end to end in supply chains. Improving productivity is recognised as vital to driving resilience, competitiveness & greater sustainability.

Addressing weak productivity growth is a key priority for AHDB and we are pleased that the consultation identifies both the need to tackle the performance gap as well as some important policy measures that could support sustained improvement. The areas of support outlined in 5.31 seem logical but would be complemented by three things:

- Greater on-farm demonstration of technology to inspire farmers by seeing innovation first hand. AHDB's strategic farms as well as Farming Connect's network could be an effective platform for this
- The presence of an 'innovation accelerator' as a competitive fund to facilitate de-risking of novel yet near-market innovation that might be applicable to farms in Wales
- The development of a co-ordinated strategy on data integration, analysis and use to enable the farming industry in Wales to be at the forefront of potential benefits of data driven solutions that might arise from the so-called Fourth Industrial Revolution

In terms of risk management, AHDB has some experience and expertise that may be useful to draw on in considering future proposals. As part of the conditional dairy aid package that was implemented in England in 2016, AHDB led a risk management programme focussed on

upskilling dairy and livestock farmers in financial risk management. The project combined workshops with one to one support with producers to identify risks, develop SWOT analyses and identify action plans to mitigate risks. Whilst the total number of participating farms was relatively small (341 farmers attended workshops), 94% of businesses indicated they would make practical changes to their businesses. The scale of potential benefit was variable but post hoc evaluation indicated a potential benefit of up to £1,500 per farm.

Farm action plans highlighted three critical areas for businesses to focus: business culture, cost management and business objectives and structure. These areas bear out some of the findings of AHDB's Volatility Forum in 2016 which identified relentless cost management as the most significant factor in a business' armoury in reducing exposure to market volatility.

Cost management requires businesses to be able to understand production costs and identify where scope for improvements lies. Benchmarking is powerful tool that could be effectively championed through any new policy. The recent announcement of funding for red meat benchmarking following similar work delivered by AHDB in dairy is an important opportunity. The roll-out of our new Farmbench (<https://www.ahdb.org.uk/farmbench>) provides a tool which for the first time will enable mixed farm businesses to assess whole business as well as specific enterprise costs. It will also enable international benchmarking to take place.

The consultation rightly champions the need to transform the provision of KE, skills and innovation in Wales. Our analysis identifies that the key barriers lie within our knowledge and innovation system, which is characterised by fragmentation of effort and limited strategic connection between the needs of industry and academic research (see <https://www.ahdb.org.uk/knowledge-library/driving-productivity-growth-together-2-january-2018>). In our view there is a greater fragmentation in Wales than other parts of the UK, which leads to competition for funding and dispersed effort between levy boards, Farming Connect, academics, the food chain and private sector advisers.

AHDB is determined to embrace a more collaborative approach to knowledge exchange and dissemination. At all stages we should be driven by the insight gathered from farmers and growers themselves about how best they can learn and acquire knowledge and ensure the mechanisms are in place to provide and meet this demand. At present there appear to be some significant gaps including:

- The lack of an industry aligned strategic innovation programme focussed on the needs of Welsh agriculture and horticulture
- Absence of a single authoritative evidence base and limited amounts of data on changes in farm performance
- Limited on-farm demonstration of excellence
- Under-delivery of advice in environmental land-management and sustainability
- Under-investment in agricultural education that is focussed on the needs of employers

The one major positive about the delivery landscape in Wales is that there is significant investment in both KE and continuous professional development by industry (levy boards) and government through Farming Connect. This provides a wide range of opportunities for producers to learn and upskill. In spite of this, the evidence appears to indicate a wide range in farm business performance. The best farmers are able to assess their needs and access advice from a variety of sources, yet the majority may well be confused by what is available and less able to identify critical business needs in terms of advice and support.

The consultation indicates a desire to drive a step-change in the advice offer. Yet, the greater opportunity appears to be to remould the existing advice offer in a more collaborative and strategic way, remaining focussed on meeting the needs of the industry.

To address the lack of an authoritative evidence base, we feel there is an opportunity to seize on the formative discussions taking place under the aegis of the UK Food and Drink Sector Council with regard to the creation of a 'What Works' centre for agriculture and horticulture. Such a centre would provide both a one-stop knowledge house for the industry but also help to bring about co-ordination of knowledge exchange and drive a strategic innovation agenda for Welsh agriculture based on evidence of what works as well as what is needed.

***Question 6. Of the five proposed areas for support, which are the priorities both in terms of funding and the sequence of delivery? For example, are certain measures needed in advance of others?***

This question feels somewhat abstract. The only comment we can offer is that it will be important to prioritise productivity improvement as fundamental to underpinning greater competitiveness and resilience in a world without direct support.

***Question 7. Should we be investing in people, for example to bring in new ideas, skills and people into land management and the supply chain in Wales? If so, how should we look to do this?***

Our people are vital to the future sustainability and productivity of the industry. Ensuring both a talent pipeline exists as well as opportunities for existing farm businesses to upskill and in some cases retrain will be vital. There are three particular drivers for this:

- Restructuring and consolidation of farm businesses will entail a greater need for farmers to focus on people management and leadership
- The growth of data driven solution and artificial intelligence will require changes in skillsets needed to optimise farming production
- A move towards the use of public money to deliver public goods will in some cases entail retraining and upskilling to move from food production towards delivery of environmental land management

We perceive that there are elements of the current CPD programme run by Farming Connect that could be built upon to harness and develop talent in Welsh farming. However, we also see scope for a more innovative approach, especially to CPD that takes account of broader skills that will need to be acquired by producers to enable them to compete and adapt to this new environment.

## **Chapter 6 – Public Goods scheme**

***Question 8. We have set out our proposed parameters for the Public Goods scheme. Are they appropriate? Would you change anything? If so, what?***

No comment

***Question 9. This scheme is meant to offer land managers the opportunity to access a significant new income stream as the BPS comes to an end. How could we improve what is being proposed to attract land managers whilst still achieving our vision and objectives?***



No comment

**Question 10. Are there any other public goods which you think should be supported? If so, why?**

An obvious omission from the scope of the public goods scheme is improvements in animal health and welfare. Although in many cases improving animal health will yield an economic dividend, improvements in animal welfare beyond an already high regulatory baseline may not always or routinely be rewarded by the market. It would seem appropriate to enable producers who want to drive even further improvements in animal welfare to be supported through the public goods scheme.

**Question 11. A number of public goods could potentially take several years, sometimes decades, to be fully realised. E.g. carbon sequestration through broad leaf trees. To deliver on these, land managers may need to enter into a long term contract. How do you see such agreements working? What do you see as the benefits of disadvantages to such agreements?**

No comment

**Question 12. A collaborative approach to delivering public goods may in some instances provide better value for money than isolated activity. How could the scheme facilitate this approach? How could public and private bodies contribute to such partnerships?**

No comment

**Question 13. Some actions can deliver multiple public goods in the same location. Eg peat bog restoration can have benefits for carbon sequestration and flood risk reduction. However, some locations could be suitable for multiple public goods from different activities. Eg one location may be suitable to either plant trees for carbon sequestration or to revert to wetland for biodiversity. How could locations for single, multiple or competing benefits be prioritised?**

No comment

**Question 14. Given that support for the delivery of public goods will be a new approach in Wales, there will be a requirement for a significant amount of training and advice for the sector. How best could this training and advice be delivered? Which areas of the sector need the most attention?**

Overall we think the biggest immediate challenge will be cultural as segments of the farming industry respond to the incentives to produce environmental and other public goods. Overcoming the terminology associated with this – such as the provision of natural capital, will also be important as this jargon feels remote and alien to most farmers.

Having said that we do feel there is a gap in the delivery of integrated and qualified advice to farmers that focusses both on targeting activities to meet specific environmental outcomes that might be needed spatially in different parts of Wales and, critically, can be achieved within the farming system & structure operated.



What will be just as important is the ability to harness behavioural insights and other social sciences in order to connect most effectively with farmers and growers. A variety of channels and tactics are likely to be needed to support long-term behavioural change towards delivery of public goods.

***Question 15. Private investment in the purchase of public goods is already happening but at a relatively small scale. How could the new scheme promote greater involvement from the private sector? What are the barriers to this type of investment?***

No comment

## **Chapter 8 – Transition, delivery & legislation**

***Question 16. What are your comments on the phased transition period and our ambition to complete the changes by 2025?***

AHDB has no comment in terms of the policy other than to highlight the proposals recently announced in England to phase out direct payments over seven years. This may prompt a longer transition for Wales than originally proposed.

***Question 17. What is the most appropriate way to phase out the Basic Payment Scheme to fund implementation of the new schemes?***

No comment

***Question 18. How can we simplify the current administration and delivery of the Basic Payment Scheme during the phased transitional period?***

No comment

***Question 19. Welsh Language – positive/ adverse effects of new land management programme?***

No comment

***Question 20. Do you wish to make further comments?***