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Dear Minister

Re: Resilience Review –Summary

When we met recently I promised to provide a written summary progress report on my Resilience Review ahead of your decisions on CAP reform for Wales in the New Year, and prior to submission of my full report (which I understand you will be presenting to the National Assembly on 28th January).

As we discussed, for the purposes of my review, I have taken '*resilience*' to encompass 'viable, resource-efficient, enterprises that can satisfy consumer demand and are able to cope with fluctuations in the business cycle or extreme events triggered by natural causes without recourse to significant public intervention'.

In Part 1 of my review I looked at the arrangements in place for dealing with contingent weather events (inside and outside Government), and made a number of recommendations. For Part 2 (longer-term resilience), the evidence I have gathered to date – with the latest detailed FBS data and analysis due to come to me shortly - has confirmed to me that livestock farming in the upland areas of Wales is not currently viable without some subsidy (except in a few limited areas/cases). This has been particularly true over the last eighteen months after a period of chronic bad weather followed by acute bad weather in March 2013. Even the finances for the preceding year when the weather was better also indicates that, on average, Severely Disadvantaged Area farmers returned a net profit of £17k but this included subsidy payments of £44k. Market returns for sheep have reduced since this time and costs have increased and therefore we must brace ourselves for poor figures for this year.

The financial analysis clearly points to some targeted intervention otherwise there may be considerable reduction in stocking levels in the uplands; indeed this would be the rational response by farmers to their financial situation. Hill and upland breeds play a vital role in the stratified sheep sector in Wales and therefore if stock is significantly reduced in the uplands there is likely to be an overall detrimental effect on the whole livestock sector in Wales. There are also potential negative environmental impacts as a consequence of destocking in the uplands; under grazing can be as troublesome as overgrazing. Farmers are

also, of course, your principal delivery agents for securing environmental benefits more generally from land management across most of Wales.

Alongside the question of market returns is the issue of efficiency and competitiveness. As we discussed, there is significant variation between the best and average performers within upland farming, let alone between the best and the worst. No amount of public subsidy will close these gaps; effective business development will be key.

Overall I am optimistic about the long run prospects for agriculture and particularly those in Wales where there are good brands that play to consumers goodwill for quality produce with a strong place-based connection. In addition, the long-term opportunities presented by population growth and more affluence within populations in Asia and elsewhere will undoubtedly deliver a dividend for food producers over time. Conversely, climate change will present challenges in general to global production. Increased demand and restricted production should mean gradually increasing prices. Wales, with its ideal climate and terrain for extensive livestock and dairy production, and which should arguably ‘benefit’ from climate change in production terms, is therefore ideally positioned to capitalise on these opportunities.

The financial returns from dairying, as distinct from other ruminant livestock production, show in general a robust industry capable of driving forward and capitalising on the opportunities presented by the scrapping of milk quotas. (There will continue to be a need for investment in that sector, however, to ensure that Welsh production and processing is among the best in class to compete internationally.) The beef and sheep sectors however are not in such rude health and need some targeted support to help them develop to the point where markets start to reflect the improved global prospects. That said, I believe it would be wrong simply to increase direct aid to the uplands sector without any strings attached; this would not guarantee value for money, or drive the change necessary to create a sustainable and resilient industry.

The above preamble provides, I hope, the context for my central recommendations, which will be that:

- CAP Pillar 1 payments be converted to an area-based system as early as can reasonably be done; historic payments distort market signals and confuse decision making;
- the conversion to area-based payments is however done, as far as possible, with least redistribution between farming sectors. It would be wrong to move money ‘up the hill’ to help upland farmers unconditionally, and DA and lowland farmers need to remain competitive (in a UK, EU and international context) too;
- the maximum amount of money permissible (i.e. 15%) be transferred from Pillar 1 to Pillar 2 in order to create the size of fund required to target aid to help farmers in a sustainable and constructive way. The new RDP must be well designed, and have strong and transparent delivery arrangements put in place to track progress with making the transition to more market-facing, more adaptable, and less subsidy-reliant farming that also protects and enhances Welsh natural resources. The focus on industry development – which I believe should address supply chains as well as primary production – must place a premium on knowledge exchange and learning, and include new approaches to aid mobility within the sector (people moving in, moving on, and moving out);

- a multi-faceted and properly resourced ‘uplands package’ be created within the new Pillar 2 mechanism that encourages farmers to make farm improvements within the context of good environmental and resource-management practice. The package should encourage, among other things: a greater uptake of environmental measures more suited to upland farming, better grassland management, better understanding and uptake of better performing genetic stock, better performance on animal health and welfare and a clearer understanding of the performance of the farm enterprise. Farmers understand how the current Glastir package works and this format should, I believe, form the basis of the next generation of more integrated upland schemes.

I recognise that 2014 will be a transitional year within the CAP, and that this will limit options for making immediate changes, but I recommend that as many of the above measures are ready for introduction in early 2015 as possible.

I have a number of other more detailed recommendations to make, along with supporting analysis, but - to reiterate - by using aid to drive better, more sustainable farming practices, this should prepare our sector for a more market-driven economy with less subsidy in future. I believe this may be the last real strategic opportunity to shape a more sustainable uplands sector in particular. Failure to take this opportunity could leave uplands farming to the vagaries of the market. Market-driven changes would occur in the longer run but would be far more messy for farmers and disruptive to food production and rural communities.

Kind regards.

Kevin