



REVIEW INTO THE RESILIENCE OF WELSH FARMING

Kevin Roberts
January 2014

Table of Contents

Table of Contents	1
Introduction	2
Phase I Update	8
Phase II	11
Approach	11
Context	11
The Strengths and Weaknesses in the current Welsh Farming business models.....	13
Financial Analysis	16
Common Agricultural Policy (CAP) Reform	21
Consequences of no intervention	23
Improving Technical and Environmental Performance on Farm.....	25
Intervention	27
Sustainable Agriculture Proposal.....	29
Research, Development, Skills & Knowledge Exchange.....	32
Wider Supply Chain	35
Environmental Schemes.....	Error! Bookmark not defined.
Payment for Eco-system services (PES).....	40
New Entrants, Exits and Mobility within the Industry	43
Monitoring of progress	44
Bibliography	45
Annex 1 – Map of the Less Favoured Areas of Wales	47
Annex 2 – Map showing the affected areas	48
Annex 3 – Consultation List.....	50
Annex 4 – Interim Recommendations Letter	52
Annex 5 – Moorland Zone Map	59
Annex 6 – Summary Letter of Recommendations	60
Annex 7 – Kevin Roberts’ Terms of Reference	66

Introduction

Since this report was commissioned in April 2013, I have spent my time meeting and engaging with stakeholders across the agricultural industry. I was determined that my recommendations should be based on a sound knowledge of the issues that the industry was currently facing, strategically and at a grass-root level. I not only met with the Farming Unions, but I also wanted to meet the farmers who may not necessarily be heard but had a valuable contribution to make.

The openness and welcome I received enabled me to build a picture of what the strengths and weakness were in the industry and where support could be best placed to achieve the ultimate outcome - “a more competitive and market focused industry”.

I undertook the Review in two stages, primarily because any recommendations I made in relation to the extreme weather in March 2013, if accepted would need to be developed over the summer months to ensure they were in place as part of the Welsh Government response to future Rural Resilience activity. Whilst I did look at the whole of Welsh agriculture, my remit, was to focus on the uplands of Wales. For the purpose of this report, the uplands are regarded as land classified as Severely Disadvantaged Areas (SDA) as shown in Annex 1.

There is much to be optimistic about for the medium to longer term for farming in general with increasing demand for food globally, new market opportunities and an increasing recognition of the environmental services that farming can provide in addition to food production. Wales is well placed to “punch above its weight” on the global stage, even allowing for the fact that 58% of the Utilised Agricultural Area (UAA) in Wales is Severely Disadvantaged. These areas experience greater challenges in the uplands due to the harsh conditions and lower agricultural productivity of the land. This was particularly evident during the period of bad weather and the after shock, which saw a 400% increase in calls for help to farming charities. (Royal Agricultural Benevolent Institution, 2013)

What became clear was a need to focus on improving the performance and productivity of many farm businesses, given the repeated patterns of variations

across a number of financial measures, in order to ensure that the overall performance of the sector was improved.. As in other business sectors, we also need to recognise the potential productivity gains from the entry of new more efficient businesses, and the expansion opportunities of more productive enterprises, as well as the exit of some businesses unable to efficiently meet market demands.

Early discussions with stakeholders have led me to believe that there is a substantial effort over a longer period of time required to support resilience rather than a short term fix. What is clear is that if farms continue to operate at a loss, their ability to exploit any opportunities arising in the future could be seriously hindered.

It was evident that there is a dedicated workforce that takes pride in their farms and what they produce. But in discussions it became apparent that too frequently, there existed a poor understanding of costs of production and broader market trends, particularly in the sheep sector.

It is also prudent at this stage to take account of the broader contribution that agriculture makes to the wider social economic benefits to society. Whilst this was outside the scope of this report, discussions with stakeholders clearly demonstrated to me how integral the farming communities are to the overall wellbeing of rural Wales. There is a balance to be struck to ensure that proposals put forward also underpin activity that supports the wider rural economy to build future resilience in these fragmented and sparsely populated areas of Wales.

Addressing issues pre farm gate alone will not deliver the entire solution. The food industry also has to play its part if we are serious about having a progressive sustainable supply chain in Wales with innovative product development to increase sales. From the evidence I have considered from the available economic and financial data, individual farm accounts, and interviews with stakeholders my priority is to recommend measures that will contribute to raising the financial returns from farming across all sectors. However my review has shown how fragile the uplands areas are; therefore, I have put a significant focus on recommending measures that will target upland farms allowing the sector to retain a sufficient critical mass to exploit the future opportunities and build on the current reputation of the Welsh red meat industry.

I believe the Welsh Government needs to secure a substantial funding package to enable this improvement to take place and why I met with the Minister previously to alert him to my recommendation of transferring the maximum amount of transfer (15%) from Pillar 1 to Pillar 2.

This report sets out my view of how this can be achieved.

I would like to take the opportunity to thank all the stakeholders and Welsh Government officials who have taken the time to meet and communicate with me over the time of the project.

Summary of Recommendations

- Welsh Government to commission research to examine the further range of approaches to the effective management of risk in agriculture. This in partnership with other UK regions with interest in risk within the agricultural industry.
- Accept the proposed Contingency Management Plan
- Develop the future Wales Rural Development Programme so as to enable the mobilising of the relevant Articles immediately if the need arises during the next programming period rather than have to seek out modifications from the European Commission which can cause lengthy delays.
- Consideration should be given throughout the relevant Welsh Government policy streams to building in mechanisms to support the future resilience of the industry against climate change and severe weather.
- The Welsh Government to continue to work with Bangor University, HCC and the European Commission to investigate alternative methods for the disposal of fallen stock on farm.
- Welsh Government officials to seek clarification with the European Commission what qualifies as a natural disaster and catastrophic event in terms of the regulations.
- Upland Beef and Sheep farms should be a priority sector for the encouragement of non agriculture business diversification and start up support.
- Maximum transfer of 15% of the funds from Pillar I to Pillar II
- Transition period to be completed over the next Rural Development Programming period
- Undertake a mid term review of the impact of CAP Pillar I reform on the Welsh agricultural industry to gauge impact of the current policy on farming practices, with emphasis on the uplands
- That Natural Resources and Food Department work with the Welsh Language Commission to analyse the impact of the upland areas on the maintenance and development of the Welsh language and to assess any associated future policy requirements.
- Welsh Government policy officials to remain vigilant to external factors that could reduce the overall competitiveness of the industry.

- Welsh Government to commission a similar study to ascertain the Welsh position in terms of CAP impact on agricultural per unit of output.
 - Greater market orientation should be delivered within a bespoke plan that provides the farmer with the tools and knowledge to develop their level of resilience.
 - A tiered and tailored approach to be adopted – with a strong focus on quality - to deliver agricultural extension services with an emphasis on increasing productivity whilst decreasing the negative environmental impacts to be central in future policy development (wherever possible securing multiple outcomes from single interventions).
 - Farmers need to be engaged in influencing the future research agenda through initiatives such as the new European Innovation Partnership.
 - Research proposals should be developed in conjunction with the industry in a multi-disciplinary approach and all subsequent knowledge transfer activities should reflect the future direction of the Welsh farming industry.
 - Establish Knowledge Exchange models that deliver benefit to the industry at the earliest opportunity
 - To work across the industry to mitigate impact on the environment whilst retaining a competitive focus
 - To prioritise the red meat sector to develop skills and increase their uptake of IT and new technologies.
 - Product Development should be an integral feature in the strategic Welsh Red Meat Action Plan;
 - Emphasis needs to be given to increased sales for the Home & Export Markets;
 - Welsh Government officials to support and help develop greater transparencies within supply chains from on farm to beyond the farm gate.
 - To promote and support the Protected Geographical Indication of Welsh products
 - Consideration should be given as to whether Welsh Government support the development of local livestock markets and local abattoirs to achieve robust local supply chains for smaller independent retailers
 - Ensure higher level agri-environment support is available for all sole enclosed moorland
 - Revisit the current stocking regimes in the uplands to address the issue of under grazing by introducing minimum stocking rates.

- Incentivise mixed grazing regimes.
- Support measures to tackle bracken encroachment across the uplands.
- Consider integrating local PES schemes in RDP LEADER and Community led programmes.
- facilitate new projects in upland and lowland situations to demonstrate the 'proof of concept' case book for future developments;
- Welsh Government to undertake a study to identify the current energy infrastructure capacity in the uplands of Wales
- Creation of a mentoring scheme for the development of on-farm / community renewable micro energy projects, delivered through the 'Farming Connect' model.
- Welsh Government to develop a package of facilitative support to advise farms on and address energy efficiency through the RDP as well as offering a financial incentive to replace inefficient systems.
- Support micro capital investment for on farm renewables schemes
- An expanded Young Entrants Offer in the next RDP programme to include a start up package.
- Welsh Government should look at policy options to help deliver increased mobility within the sector, including (if appropriate) facilitative support through the RDP.
- The next Rural Development Programme for Wales needs to have an economic focus at its heart and its aims and objectives need to work towards an enduring change to the viability of agriculture and the sustained development of the Welsh food industry.
- The wider programme of agricultural modernisation should be subject to third party expert scrutiny advice and support
- A significant proportion of the Pillar 2 funds are (soft) ring fenced for a Sustainable Agriculture Programme with priority for uplands and Young/New entrants.
- Develop an implementation plan to monitor progress of the recommendations outlined in this report.

Phase I Update

Importance of Upland Farming in Wales

The majority of farm land in Wales is classified as Upland and generally presents farmers with significant challenge in managing their businesses. There are few, if any, alternatives to livestock farming because of the geography and climate.

Although livestock is often the only option from a farming perspective, this does not reduce its importance in providing both agricultural output and environmental goods. Upland enterprises also have a crucial part to play in the stratified sheep industry in Wales; without upland stock the overall sheep industry would be weaker. Initial work undertaken by the Upland Forum and verified by ADAS demonstrated that Uplands farms were at a financial disadvantage due the natural constraints they have to overcome to produce an agricultural output. For the purposes of this exercise I have used beef and sheep figures, to compare like for like.

The period of severe weather in March 2013 which particularly affected some parts of Wales (approx. 3,000 farms), as identified in Annex 2. The map shows the affected areas following the snow fall which not only caused considerable hardship to the farms affected but led to the subsequent questions about the resilience of Welsh agriculture and in particular upland farming. The extreme weather came at the end of a long period of chronic bad weather and that, together with increasing feed costs and declining market prices for some livestock outputs caused widespread concern, not only in Wales but also within the rest of the UK. To formulate my conclusions, I took evidence from the Welsh Government and other interested parties. My aims were to identify lessons that could be learnt that could be draw upon to develop a Welsh Government response to emergency events, such as instances of extreme weather.

The key recommendations in my letter of the 15th July 2013 (Annex 4) set out the blueprint to build on best practice and collaboration with the farming industry and allied services.

To date, a draft Contingency Management Plan has been developed with a local intelligence network identified to ensure that localised events are reported at the earliest opportunity.

The Welsh Government has also identified senior officials and the relevant protocols to mobilise an emergency response if required. (This is in addition to standing full-scale emergency arrangements that already exist).

The possibility of catastrophe insurance cover has been explored, but due to the lack of quantifiable evidence on which to assess the mode of occurrence and /or the actual value of the occurrence, potential providers approached did not feel they were in a position to develop a viable business product Whilst such work was not feasible to meet the timescale of my review, there may be scope to examine further the range of approaches to the effective management of risk in agriculture through further research.

Recommendation

- **Welsh Government to commission research to examine the further range of approaches to the effective management of risk in agriculture. This in partnership with other UK regions with interest in risk within the agricultural industry.**

The effective and timely disposal of fallen stock was an issue of concern during the severe weather and despite everyone's best efforts, there was evidence of long delays, causing emotional stress to farming families. Initial work between Bangor University, Hybu Cig Cymru (HCC) and the Welsh Government has taken place to investigate the potential for alternative methods to deal with fallen stock. This needs to continue until a solution can be agreed.

Recommendations:

- **Accept the proposed Contingency Management Plan**
- **Develop the future Wales Rural Development Programme so as to enable the mobilising of the relevant Articles immediately if the need arises during the next programming period rather than have to seek out modifications from the European Commission which can cause lengthy delays.**

- **Consideration should be given throughout the relevant Welsh Government policy streams to building in mechanisms to support the future resilience of the industry against climate change and severe weather.**
- **The Welsh Government to continue to work with Bangor University, HCC and the European Commission to investigate alternative methods for the disposal of fallen stock on farm.**

Looking forward into the next programme period of the Rural Development Programme 2014-2020, there are several Articles in the draft European Regulations for Rural Development which should be considered when drafting a future Rural Development Programme for Wales. Article 19 of the EAFRD – “Restoring agricultural production potential damaged by natural disasters and catastrophic events and introduction of appropriate prevention actions” allows Managing Authorities to devise schemes to protect producers against losses from natural disasters and catastrophic events. This may give scope for the Welsh Government to develop schemes, potentially through the Farming Connect delivery model, to assist farmers to look to lessen the impact against an event and again, some further robust analysis of such options seem to warrant investigation.

It should be noted that this article does not offer financial redress from actual losses in income, and that the adverse weather witnessed in March 2013 may not have been deemed severe enough at EU level to qualify as a ‘natural disaster’ or ‘catastrophic event’.

At the time of writing this, Welsh Government officials still need to clarify further as to what the European Commission (EC) deem as a *natural disaster* and *catastrophic event*. If the Welsh Government, as the competent authority, has the power to determine the definition, consideration needs to be taken going from experiences witnessed. With the draft Contingency Management Plan in place, Welsh Government now has a mechanism to assess and identify if a *natural disaster and /or catastrophic event* has occurred and take appropriate action.

Recommendations

- **Welsh Government officials to seek clarification with the European Commission what qualifies as a natural disaster and catastrophic event in**

terms of the regulations.

Phase II

During phase two of the review, I have focused mainly on the economic performance of Welsh agriculture. The terms of reference for this second phase were;

- Undertake Financial Analysis of Welsh farming with a particular focus on the uplands;
- Identify the Strengths and Weaknesses in the current Welsh farming business models;
- Identify mechanisms that could improve financial stability for Welsh farms particularly in the uplands; and
- Make recommendations for the future Wales Rural Development Plan to increase the competitiveness of the Farming Industry and associated supply chains.

Approach

Agriculture satisfies so many different goals and delivers so many public goods, it increasingly important that any support given is targeted appropriately. In reaching my views about the way forward, I have undertaken desk research in to the agricultural industry and associated supply chains. I have also carried out in-depth interviews with the farming industry, the allied industries, non-government organisations, and Government officials, the finance sector, research institutions and the relevant Levy Bodies.

Context

It is perhaps worth at this point providing some general economic context on the agricultural sector in Wales. On the latest figures (Welsh Government, 2013) the agricultural sector in Wales generated around £1,387.8 million in gross output in 2012 (marginally below that of 2011, but above that of 2010), predominantly from milk and milk products, cattle and sheep – which represented around 73 percent of gross output – resulting in an estimated gross value added (GVA) of around £214.4 million in 2012.

Based on the Office for National Statistics (ONS) GVA statistics for 2011, which enable an appropriate comparison of the share of gross value added attributable to agriculture (though combined with forestry and fishing), the share of total gross value added from agriculture, forestry and fishing in Wales was around 0.56 percent. Over a slightly longer timeframe, whilst there has been some recent modest improvement in the share of GVA attributable to agriculture, forestry and fishing since the mid 2000s this share has remained below 1 percent of total GVA. It is estimated that the Welsh food supply chain is worth £17.3billion to the economy, supporting 170,000 jobs. Tourism also remains another important sector with direct relevance on agriculture and rural upland communities.

However, within Wales, there are areas where the contribution is somewhat higher, representing around 2.9 percent of total GVA in Powys and 2.0 percent in South West Wales .

Total labour engaged on holdings in 2011 was 58,400 showing an increase of 3.5% since 2001. However, full time employment has decreased by nearly 13% to 19,900 in the same period.

Whilst the evidence for the wider economic impacts of agriculture, at least at more aggregated levels, is perhaps not as clear as often suggested, there exists a fairly widespread positive view of the role of agriculture in the broader social and cultural fabric for some rural parts of Wales. This is clearly defined in the “Cherished Uplands of Wales” Peter Midmore, 2005 and more recently in the Unlocking the Potential of the Uplands report, Dec 2012 (Wales Uplands Forum, 2012).

The Strengths and Weaknesses in the current Welsh Farming business models

Due to the topography, climate and soil types in Wales, grass is the predominant crop thus limiting agriculture mainly to extensive livestock production. This is particularly true in the uplands where extensive and semi-extensive beef and sheep systems are the significant majority. The opportunities for diversifying from these systems as opposed to lowland farms are limited and thus Upland farm business incomes continue to have a heavier reliance on Government support.

Following the extensive consultation with stakeholders a SWOT analysis identified the limiting factors of the business models that were encountered as well as the opportunities to achieving a more resilient business base.

Strengths	Weaknesses
<ul style="list-style-type: none"> • Family Farms which often have a strong asset base. • Strong husbandry skills • Good climate for grass growing in the lowlands • Strong natural resources with an abundance of water, carbon rich soils and high productive grassland in the uplands • Strong brand in Welsh Lamb and Welsh Beef • Availability of extensive grass-based grazing in the uplands • Extensive production systems in sympathy with environmental requirements in the uplands • Good animal welfare standards • Variety of breeds and 	<ul style="list-style-type: none"> • Soil type limiting arable cropping to certain areas • Lack of diversification opportunities in the uplands • Dependency on public support in the uplands • 80% of UAA designated LFA • Ageing workforce • Low levels of reinvestment • Low producer influence in the supply chain • Lack of collaboration amongst producers • Lack of take-up of technological advances in areas such as animal and plant genetics particularly in the uplands • Lack of leadership and

<p>production systems to meet differing domestic and export demand requirements</p> <ul style="list-style-type: none"> • Ability to segment markets and to identify niche market opportunities • Robust market demand for red meat- PGI status Beef and Lamb 	<p>management skills across the industry</p> <ul style="list-style-type: none"> • Lack of succession planning with the inability or unwillingness of some farmers to retire or transfer ownership • Lack of financial / business skills particularly in the sheep sector • Additional cost of inputs due to the Natural constraints of the uplands in terms of agricultural inputs and infrastructure.
<p>Opportunities</p>	<p>Threats</p>
<ul style="list-style-type: none"> • Capitalise on the need to address food and fuel security issues • Diversification in to renewable energy technologies • Capitalising on consumer demand for local produce • Capitalising on global demand for food from population growth • Developing markets for novel and alternative cropping • Developing on-farm tourism opportunities • Scope for greater producer collaboration • Scope to increase the take-up of technological advances • Scope to improve marketing skills • Develop an integrated 	<ul style="list-style-type: none"> • Under-grazing or even potential land abandonment in the uplands • Risk of infections and disease affecting animal and plants • Regulatory burden • Climate change • Increase in incidents of extreme weather, flood / snow • Rising production costs • Confidence to invest undermined by the prospect of poor or negative margins • Reduction in Government support • Pressure on land use • Continued impact of the economic downturn on demand for food • Wide variation in costs of

<p>approach to supporting farmers develop their business</p> <ul style="list-style-type: none">• Significant land based skills	<p>production</p> <ul style="list-style-type: none">• Competitiveness reduced as a result of other UK governments CAP decisions• Image of farming• Lack of an “uplands sense of Place” for Wales
--	--

Financial Analysis

The direct contribution of Agriculture to the Gross Value Added of Wales was 0.56% per cent in 2011, but as previously discussed, agriculture may be considered important to the wider economic, social and cultural wellbeing of Wales. Although it is difficult to quantify accurately, the turnover from agriculture was nearly £1.4 billion (Welsh Government, 2013). In real terms (at 2012-13 prices) average farm business income per farm in Wales decreased by 32 per cent for All Farm Types between 2011-12 and 2012-13, falling by 35 per cent for Dairy and 36 per cent for Cattle & Sheep (LFA) farms, by 34 per cent and 41 per cent, respectively, for SDA Cattle & Sheep farms and DA Cattle & Sheep farms, and decreasing by around 20 per cent for Cattle & Sheep (Lowland) farms.

In Wales the average single farm payment is approximately £15,000 (Rural Payments Wales, 2013). Stakeholder discussions demonstrated that upland sheep farmers were heavily reliant on this payment, however the dairy sector saw it as important in the short term but becoming less so as they move forward.

In the uplands, the Single Farm Payment (SFP) still remains a significant proportion of income for some farm businesses. This potentially reduces the resilience of upland farms because the SFP is heavily influenced by external factors such as exchange rate movements and changes in European policy (Aberystwyth University, 2013), making the industry susceptible to political uncertainty.

To mitigate this, a properly functioning supply chain operating within the context of the UK is essential to the resilience of the Welsh agricultural industry; however with pressure on food inflation, the answer is not necessarily in higher prices, but with a focus on improving efficiency in production and increase in sales of added value product.

Despite the trends showing an overall rise in average farm income across all sectors since 2007, with a slight drop in 2010 which was recovered in 2011, the following two bad winters of 2012 and 2013 and the associated stock and cropping losses, and additional costs incurred as a result, as well as the demise of the Tir Mynydd scheme has meant that the farming industry has experienced a significant drop in farm

incomes. The Aggregate Agricultural Output and Income 2012 figures released 28 February 2013 indicated that the Total Farm Income in Wales had decreased by 48%. A number of factors influenced this outcome, but a significant factor was the increase of 17% for concentrate feedstuffs, this remains the most significant input cost for production, accounting for 34% of the total input costs.

A level of volatility in farm income measures is expected due to the prevalence of external market conditions. However, the rise in input costs has out-weighed the trend of the rise in income.

I note that the published figures on farm incomes are presented on the basis of averages, and it should be noted that the data for individual farms may be very different, with farm-level factors influencing variations in production and costs.

This would be very relevant to the three thousand affected farms during March and April 2013. Farm borrowings show that during that period of March to November 2013, there was an increase in overall across all sectors. Discussions with the main clearing banks and stakeholders confirmed that this was initially as a result, in the short term, for the extension of overdrafts and increased borrowing facilities (Bank of England, 2013).

The natural constraints of the uplands cannot be ignored, work undertaken by the Uplands Forum showed that there were additional costs incurred on beef and sheep enterprises compared to the lowlands, which were attributed to the variable costs of feed including concentrate feedstuffs, forage and purchased forage.

The Farm Business Survey also shows a wide variation in physical and financial performance across all Welsh farms (The Wales Rural Observatory, 2013). Such significant variation is consistently observed across years. Ideally, all farms should aspire to the performance achieved by those currently in the top third for performance. This would be possible in a controlled factory floor environment, but in a farming context this is not achievable, due to natural variations outside of farmer control e.g. if the farm is north facing or south facing, soil type all will impact on financial performance, despite this much improvement is still required.

The Wales Rural Observatory report which was commissioned by the Welsh Government to provide an income analysis of farms in Wales as part of the CAP

review confirmed my findings with stakeholders (The Wales Rural Observatory, 2013).

This research was part of a larger multi-phase project to explore how CAP reform will affect rural Wales. It should be acknowledged that the data is only core research but it does highlight some important factors. The Survey was conducted on 2,402 farms across all of Wales, using three discrete geographical areas; see (Fig 1 & Fig 2). This included a predominantly dairy area in the south west, an upland area in the North West and as a comparator, a mixed area within mid Wales. It concluded that farm incomes in general are vulnerable to CAP reform.

Fig 1 Farm Type based on Welsh Government classifications

Farm Type	No of interviews	% of Survey
Beef	448	19%
Dairy	190	8%
Sheep	723	30%
Sheep/Beef	413	17%
Other /Mixed	628	26%
Total	2402	100%

Fig 2 Agricultural region (based on Welsh Government Classifications)

Agricultural region	No of interviews	% of survey total
Carmarthen	391	16%
Ceredigion	257	10%
North East	344	14%
North West	341	14%
Pembrokeshire	212	9%
Powys	479	20%
South Wales	378	16%
Total	2402	100%

Fig 3 Profit and loss by farm typology

Outcome (count)	Overall (2402)	Larger Dairy (163)	Larger-Larger-Sheep Others & Cattle (84) (190)	Small Sheep (297)	Small-Others (610)	Very Small (1058)
Profit	46%	81%	49% 61%	53%	49%	36%
Loss	29%	7%	32% 19%	30%	28%	34%
Break even	20%	10%	17% 17%	14%	21%	23%
Refused & Don't	5%	2%	3%	3%	2%	7%

Know						
Total	100%	100%	100%	100%	100%	100%

Figure 3 demonstrates that larger dairy farms are in a much stronger position compared to other farm types. Milk is a commodity and due to the nature of the markets and the supply chain it would be fair to conclude that dairy farmers are more market focused and have a higher degree of financial and business planning awareness than other sectors. The SFP was a reasonable element of the profit demonstrated but was less of an issue in the larger dairy farms due to their lower dependence on Pillar I payments (The Wales Rural Observatory, 2013).

Fig 4 - Farm Business Profit per Farm net of subsidies (FBS 2010-11)

Farm Type	Profit after rent and finance £ per Farm	SFP £ per Farm	Tir Mynydd £ per Farm	Indirect Subsidies £ per Farm	Profit Net of Subsidies £ Per Farm
Hill Cattle and Sheep	32,242	34,854	4,293	5,482	-12,387
Hill Sheep	33,183	33,777	5,635	7,171	-13,400
Upland Cattle and Sheep	30,176	29,597	2,560	2,910	- 4,891
Lowland Cattle and Sheep	25,880	23,191	0	2,190	499
Hill and Upland Dairy	57,175	28,103	0	3,259	25,813
Lowland Dairy	72,342	33,578	0	2,526	36,238

(The Wales Rural Observatory, 2013)

Fig 4 demonstrates very clearly that hill cattle and sheep farms have a negative income net of SFP and other subsidies. Dairy farms demonstrated the largest profits and FBS data does show in recent times that dairy farms are the only sector to have made a profit purely from production. It is reasonable to conclude currently the dairy sector is in a better financial position to adapt to change than the beef and sheep sector. The recent rise in milk prices are welcome and should consolidate this view further.

I would emphasise here that it is not my intention to ration support only to beef and sheep enterprises. The entire agricultural sector in Wales needs support to improve, innovate and move forward, but the level and type of intervention will be different. The Dairy Task Force for Wales has, for example, confirmed that they wish support

for the dairy industry to include a heavier focus on efficiencies, collaboration and technical on farm improvements.

For farm enterprises to be termed truly resilient, they should be breaking even before the receipt of subsidy payments. In order to achieve this return, sales income would need to increase by over 30% or costs would need to reduce by a similar level or some combination of both. This income shortfall could be replaced but it will take considerable time to achieve and should be the main target for the industry. Once this is achieved however, it will allow the single farm payment to be reinvested in further efficiencies and future investments.

This report is focussing purely on total income from farming and does not take into account any off farm diversification activity. The 'Statistical Bulletin 2012 – Farm Diversification in Wales (Welsh Government, 2012), identified approximately 10% of farms in Wales were engaged in producing output from diversified activities. The value is currently estimated at £19million (1% of farm business output in 2011-2012).

If farms wish to increase the resilience, effort will also be needed to create wider income streams. Presently, farm returns, apart from those in the dairy sector are not demonstrating the viability to enable them to explore these opportunities.

The next Rural Development Programme should give priority to upland beef and sheep farms to support business start up activity for diversification activities.

Recommendation

- **Upland Beef and Sheep farms should be a priority sector for the encouragement of non agriculture business diversification and start up support.**

Common Agricultural Policy (CAP) Reform

My interviews were taking place at the same time as the extensive CAP Pillar 1 consultation process. Whilst this was not the focus of my review, it was interesting to hear stakeholders' thoughts on the various policy considerations. Initial discussions with stakeholders highlighted a number of concerns and the reform of the CAP was open to much debate.

The change of historic payments to area based payments will no doubt cause a period of financial adjustment for the individual businesses concerned. The decision to have a payment system which causes least disruption was widely welcomed by the industry, and there was no conclusion from my discussions, if it should be a two or a three level payment scheme.

The major concern was the proposed introduction of the Moorland line. The recent inclusion of an altitude criterion is welcomed, but I do have concerns around the 58,000 ha of enclosed farm land which was previously classed as SDA and now qualifies as Moorland for CAP payment purposes. The latest Moorland map can be found at Annex 5.

The June 2013 Survey of Agriculture and Land Use in Wales (Welsh Government, 2013) shows the un enclosed 180,300 ha as rough grazing with the enclosed 58,000ha land identified as permanent pasture. As part of the review, I visited several farms and witnessed my self how integral to the overall productivity of the individual farm unit, this land was.

During my interview with the farmers, it became clear that the significant loss of income per ha due to the reclassification of this land would mean in real terms they would consider a level of destocking and leave that area to fallow.

The environmental implications of this may be valuable but recent evidence is demonstrating that the development of a mono culture is not necessarily the best way to support the future health of an eco system (Countryside Council for Wales, 2011).

In upland terms, the CAP financial modelling has demonstrated that the sheep sector and small farms will have the largest net gain under an area based payment. The issue of small farms is interesting. Financial data shows us that small farms only produce 5% of the total Welsh farm agricultural output and it could be argued that there is a general rationale to support further rationalisation in the industry, including increased scale of enterprise. However, it could also be considered that these farms could potentially demonstrate a level of innovation and are often an important contributor to the wider economic activity in rural Wales, with 80% of small farm purchases being made within 25 miles of the holding (The Wales Rural Observatory, 2013).

Recommendations

- **Maximum transfer of 15% of the funds from Pillar I to Pillar II**
- **Transition period to be completed over the next Rural Development Programming period**

Consequences of no intervention

If the current situation continued, the rational response would be for some farmers to keep fewer animals; indeed my discussions with farmers and stakeholders confirmed that they are already making these decisions. What is interesting to note is that consideration is given to a reduction of stocking levels but not exiting from the industry. It is too early to predict the actual outcome of the farmers intentions as a result of the CAP Reform and I would recommend that the impact of the 2015 CAP reform is analysed mid term through the programme.

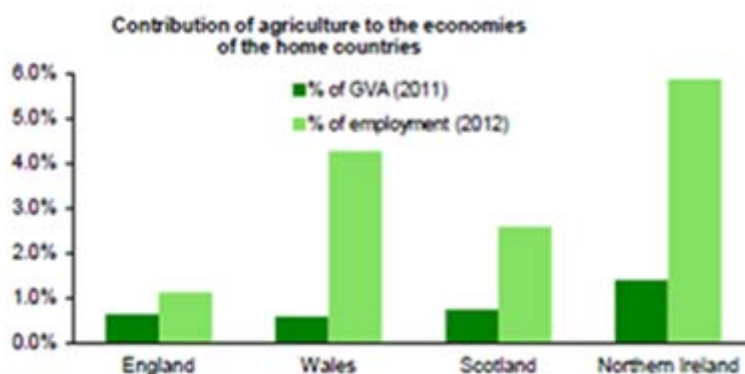
Recommendation:

- **Undertake a mid term review of the impact of CAP Pillar I reform on the Welsh agricultural industry to gauge impact of the current policy on farming practices, with emphasis on the uplands**

Given the importance of the uplands to the rest of Welsh livestock industry, a significant level of destocking would not be a desirable outcome for the Agricultural industry or the wider society of Wales.

In employment terms, Wales' % of employment compared to the GVA is still significant. The majority of this employment will be in the uplands of Wales and therefore considered an important factor in ensuring the well being of the more marginal rural areas of Wales.

Fig 5: Contribution of agriculture to the economy (Source: Defra)



Obviously there is much more to agricultural productivity than number of animals on the ground. Great strides have been made in the dairy and the sheep industry to increase yields but nevertheless the consequences of fewer animals in the uplands could mean that land reverts to a poorer environmental condition and or in some cases due to the decoupled nature of the subsidy regime incur land abandonment in the more marginal rural areas, or alternatively new entry or expansion for existing businesses.

In real terms, if a farmer scales back his stock it may make sense for a particular business but the aggregate outcome of these individual decisions potentially could have serious consequences for upstream and downstream businesses in the supply chain. Agricultural supply businesses would contract as would downstream activities such as abattoirs and livestock markets. Volume sensitive businesses may ultimately shut down operations as their throughputs fall below breakeven levels. There would clearly be consequences for jobs and growth in the Welsh economy such as recently experienced with the closure of the Welsh Country Foods, Gaerwen, Anglesey.

Whilst the Welsh language and the culture does not necessarily impact on the resilience of farming, the Unlocking the Potential of the Uplands report Dec 2012, did highlight a decline in the number of people speaking Welsh as a first language in the traditional uplands areas. This was also a matter of concern with the stakeholders I met with as the uplands were once the heartlands of the Welsh language. Further decline in the socio-economic structure in these areas, could lead to a significant demise of the Welsh language in these areas.

Recommendation

- **That Natural Resources and Food Department work with the Welsh Language Commission to analyse the impact of the upland areas on the maintenance and development of the Welsh language and to assess any associated future policy requirements.**

Improving Technical and Environmental Performance on Farm

In order to match this definition of resilience, farmers need to build up enterprises that are sufficiently profitable over the business cycle to be able to deal with adverse events such as extreme weather, disease or a dip in market prices.

One of the biggest barriers I witnessed was that farmers particularly in the uplands did not have the necessary business / financial planning knowledge.

The second barrier was that enterprises were not sufficiently diverse to provide other regular streams of income when the market delivers less profit from the agricultural output.

Thirdly, there was insufficient mobility within the industry to enable progressive farmers to expand and further improve technical efficiency.

Apart from on-farm technical efficiency, there is a continual job of work to be done to promote and market Welsh produce. Sales of Welsh lamb and beef will need to increase in the home and export market to bridge the gap if subsidies were removed.

The Action Plan for the Food and Drinks Industry 2014-2020 vision is to grow by 30% by 2020. Currently meat contributes 32% and dairy 12% to the current turnover of £5.2Billion (Welsh Government, 2013). As grass based livestock systems predominate Wales, it is appropriate that the meat and dairy sectors are treated as a priority in the next Rural Development Programme.

In the following sections, I try to develop my thoughts on what rationale(s) there may be for intervention. It is important however that we define what is meant by resilience and what features resilient businesses may have. For the purposes of this report I mean:

“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

Intervention

There is an argument to say that public support impedes change and insulates farmers from the market and on that basis it would be sensible to remove the support and make the industry more market focussed. That said, unless support were similarly removed from their competitors, Welsh farmers could potentially be put at a competitive disadvantage.

The recent Agricultural & Horticultural Development Board (AHDB) report: Impact of CAP reform 2013, (Agricultural & Horticultural Development Board, 2013) was based on the assumption that the full 15% transfer to Pillar 2 from Pillar 1 would go ahead and there would be no coupling of support for sectors in England and Wales.

AHDB chose to change the calculation of support to the amount of payment per unit of output from the typical farms analysed rather than support per hectare. This is important to consider when you are assessing sector performance. With many farm businesses, particularly in upland areas, having few alternative enterprise opportunities, there is potential for different levels of support in the UK and other European member states to distort relative competitiveness.

AHDB estimated that CAP support **could** vary from:

- €0.41/kg in England to €1.77/kg live weight (LW) equivalent in Northern Ireland in cow-calf beef production.
- €0.45/kg in England to €1.16/kg deadweight (DW) equivalent in Northern Ireland in beef finishing [€0.24/kg to €0.63/kg LW equivalent].
- €0.87/kg in England to €1.65/kg (LW) equivalent in Northern Ireland in the production of lamb.
- 1.8¢/litre in Scotland to 2.6¢/litre in Wales in dairy.
- €24/tonne in Scotland to €36/tonne wheat equivalent in Wales in cereals production.

Recommendations

- **Welsh Government policy officials to remain vigilant to external factors that could reduce the overall competitiveness of the industry.**

- **Welsh Government to commission a similar study to ascertain the Welsh position in terms of CAP impact on agricultural per unit of output.**

Decoupling of support was a first step in making the industry more market focussed. This does however have its own issues in terms of how farmers make future decisions. The transfer of funds to Pillar 2 to target aid to outcomes that improve performance and reward farmers for introducing processes that protect the environment is a progressive measure and should be fully utilised.

Since the extremities in both costs and weather, farmers are becoming increasingly conscious that there is an increasing pressure for them to make efficiency gains.

A new mind-set is meaning that farmers are splitting their time between working the land and managing the ever increasing amount of paperwork. In order to maintain viability, the ability to manage the balance between 'risk and reward' in order to deliver the food we need is essential for commercial success. This needs to be done in a way that gives a sufficient return for their labour and capital investments. Investing in such technology can bring about increases in performance and efficiencies. Therefore focus should be given to farms that demonstrate the desire to take advantage of developments in new technology.

Recommendation

- **Greater market orientation should be delivered within a bespoke plan that provides the farmer with the tools and knowledge to develop their level of resilience.**

Sustainable Agriculture Proposal

All sectors demonstrate large differences between the average and top third performances in each sector. Whilst I concede this is based on gross margin information which does not take into account fixed costs, it is still a very relevant indication of a farmer's understanding of costs and technical capability.

In all instances there is a large difference between the top third and the all farm average. The farm Business survey, 2012 shows the largest variance in the SDA areas all sheep farms show an average at £37.54, with the top third at £63.90 . SDA suckler cows are also significant, data shows £177.23 difference between the average and the top third producers. The suckler cow results are similar throughout Wales. The dairy sector also demonstrates a variance between the average and top third performances but the gap is not as wide as the sheep and beef sectors and with a concentrated effort I am confident this can be remedied over a reasonable period of time.

Fig 6: Difference between Gross Margins of All Farms and Top Third across all sectors (Aberystwyth University, 2013)

Gross Margins Hill Sheep (Per Ewe)			
All Farms	Top Third	Difference	
37.54	63.90	26.36	
Gross Margins Upland Sheep (Per Ewe)			
All Farms	Top Third	Difference	
58.08	86.82	28.74	
Gross Margins Lowland Sheep (Per Ewe)			
All Farms	Top Third	Difference	
66.43	88.69	22.26	
Gross Margins Hill Suckler Cows (Per Cow)			
All Farms	Top Third	Difference	
294.33	471.56	177.23	
Gross Margins Upland Suckler Cows (Per Cow)			
All Farms	Top Third	Difference	
338.00	506.51	168.51	
Gross Margins Lowland Suckler Cows (Per Cow)			
All Farms	Top Third	Difference	
385.85	616.74	230.89	
Gross Margins Hill and Upland Dairy (Per Cow)			
All Farms	Top Third	Difference	
923.69	1221.33	297.64	
Gross Margins Lowland Dairy (Per Cow)			
All Farms	Top Third	Difference	
984.84	1331.97	347.13	

The Rural Development Programme needs to include a farm transformation programme which has the primary objective to improve the financial viability of farm businesses. Support should be targeted primarily at those businesses determined to become more efficient and ultimately able to cope without public support – in other words, helping those who are prepared to help themselves.

I have been working with Welsh Government officials to look at addressing how farmers in Wales produce products that satisfy consumer's demands whilst maintaining a high level of environmental responsibility.

The working group that was established consisted of representatives from HCC, Dairy Co, NSA, Wales YFC as well as Welsh Government policy and technical staff. The work of this sub-group has resulted in the development of a single business support model for farming businesses.

The model has been developed to ensure that decisions, activities and investments on-farm are made in the context of the whole-business with the ultimate aim of becoming a sustainable unit. Applicants will be required to follow all phases of intervention with certain elements such as business planning and animal/plant health plans being mandatory. This will limit the applicants' ability to simply apply and obtain capital investment without demonstrating how the investment can be justified within the overall business.

The proposed activity integrates elements of programmes currently in place with the Young Entrants Support Scheme (YESS), Farming Connect and Glastir Efficiency Grants to a single business model. Whilst the customer will see a single delivery approach, it is acknowledged internally that there would continue to be various policy and delivery branches across Welsh Government engaging with the process.

The programme should be made easy for the farmer to access and entry should include a contract which is between the Welsh Government and the individual business. The contract will set out a number of improvements to support the business to become more viable in the future. These will be contractual obligations of which the business will receive support either in terms of a technical advice, grant, loan, and/or loan guarantee, to undertake a series of activity which will improve the farm's productivity and deliver efficiency gains. The plan will be bespoke to the individual business and monitored throughout the process.

The plan will include a range of business improvement tools designed to help farmers to:

- Improve grassland management;
- Improve resource efficiency;
- Measuring Performance such as benchmarking;
- Improve the genetic capability of livestock;
- Improve herd and flock health; and
- To encourage the uptake of technology and innovation across all sectors with a particular focus on the red meat industry.

Research, Development, Skills & Knowledge Exchange

Wales has been fortunate that it has invested in excellent agricultural extension services such as “Farming Connect”, and the relevant levy bodies, but evidence suggests that currently the number of farmers who actually make a step change in their production methods as a result of advice only is limited, this increases if there is a capital grant element attached to the individual programme.

The YESS mentoring scheme did achieve some on-farm knowledge transfer and there was evidence of signposting new entrants to accessing further services, this was identified in the Working Smarter report as best practice. Despite this, there is still a substantial number that do not fully engage and utilise the knowledge transfer and applied science for their overall benefit of their business. That is why I am recommending a tiered approach to the delivery of farm advice and knowledge transfer services.

Delivery of broad and shallow services still has a place in future delivery, but should be scaled back. Co ordination of published material and events must be a central function so that the service is not diluted and where possible utilise the existing structures such as the levy boards for delivery .The levy bodies are answerable to the farming industry and I believe with the vested interest the farming industry has in the levy boards they are best placed to deliver, at least in part, appropriate extension services.

To instigate real change, the service needs to be integrated deeper into the individual farm holdings, providing a bespoke service to the individual holding, and acting as a conduit to access further financial support to implement real change which promotes increased productivity, financial, environmental and wider social gains for the farm businesses. The aim should be that farmers and land owners who are accessing this service should be able to measure the benefits in part in their profit and loss accounts.

As part of the service, there needs to be an emphasis on skills. Modern day agriculture requires additional skills to the traditional farming model, such as GIS, with IT being the main feature. It was clear from the stakeholders that the arable and

dairy sectors had already embraced this, but there was still a significant job to do in the red meat sector.

By creating this shift I believe there is much to be gained for agriculture and the wider society of Wales. Failure to achieve this would negate much of the value of creating it.

The other exciting initiative to come forward is the mandatory direction to create European Innovation Partnerships (E.I.P). To some extent it could be argued that research in agriculture had lost its status since the 1970s due to surplus production and the opening of the global market, which allowed for cheap imports. Food security was taken as a “given” in developed countries until recently when the UK Government Foresight analysis on future food security, (Department for Business Innovation and Skills, 2011) did make a clear statement that there was a need to under pin the UK food industry (the largest industry sector) for the future.

In my discussions with stakeholders, the need to be able to feed the predicted rise in population was high on their agenda. The question most raised was how we are going to do it; there was no evidence to suggest that they were aware of how the necessary research was identified to go forward and very little awareness of the research agenda and the subsequent deployment of that on farm. “Repairing a fractured pipeline: Improving the effectiveness of agricultural R&D in the UK, Pollock, 2013 (Pollock, 2013)” confirms that if we are to promote innovation and increase uptake of knowledge and best practise, farmers need to be engaged in the research agenda and the findings available on farm in a user friendly format.

The EIP offers an opportunity to share best practice across the UK and other Member States. Wales needs to grasp this and make it work ensuring that research is aligned to the future direction of Welsh Agriculture. Ensuring that new knowledge and applications are able to reach the end user as soon as practically achievable is a must.

Recommendation

- **A tiered and tailored approach to be adopted – with a strong focus on quality - to deliver agricultural extension services with an emphasis on increasing productivity whilst decreasing the negative environmental**

impacts to be central in future policy development (wherever possible securing multiple outcomes from single interventions).

- **Farmers need to be engaged in influencing the future research agenda through initiatives such as the new European Innovation Partnership.**
- **Research proposals should be developed in conjunction with the industry in a multi-disciplinary approach and all subsequent knowledge transfer activities should reflect the future direction of the Welsh farming industry.**
- **Establish Knowledge Exchange models that deliver benefit to the industry at the earliest opportunity**
- **To work across the industry to mitigate impact on the environment whilst retaining a competitive focus**
- **To prioritise the red meat sector to develop skills and increase their uptake of IT and new technologies.**

Wider Supply Chain

As stated earlier in the report, there needs to be a two pronged approach to building resilience in the food industry. I have focused my attention on the primary industry's technical performance, but there is the wider supply chain challenge of "New Sales and New Products" to be considered in parallel to this. The brand awareness of the Welsh red meat brand and associated benefits for the wider Welsh food sector are very well demonstrated but an area of work that require energy and support is adding value to Welsh red meat products.

One of the major factors to date in Wales in developing the red meat industry in Wales is to look further afield in terms of where product is sold. During 2012, the export market for Welsh lamb and beef stood at approximately £183.9million (Welsh Government, 2013):

This has led to some excellent opportunities being opened up in the new emerging markets, but I still recall the late 1990s and the low value of the euro; the impact that this had on farm gate prices was harsh and it was not until 2005 that the industry experienced uplift. We must learn from this and whilst we are enjoying the benefits of the export trade at present we must retain a balance and ensure that market opportunities for Welsh red meat are maximised in the domestic (UK) market and further product development is undertaken to enable Welsh lamb products to be affordable for the home consumer.

This will entail HCC, the Food Development Centres and others developing new products to meet the modern demands of a busy lifestyle. There is a fine balance to be achieved as Welsh Lamb is a quality product, but the perception is that it is expensive. As previously discussed farms will get into profit by greater efficiencies but that is not the single remedy and the rest of the supply chain needs to take responsibility to ensure they are continuing to innovate to increase lamb consumption and other Welsh products in the home and export markets.

Transparency in the food chain has been a long term goal of the Government, but to date has been difficult to achieve. The upwards and down wards flow of added value in the supply chain is difficult to quantify but in real terms data shows that the

farmer's share in the value of lamb between 1998 and 2012 has seen a 12% decrease per kg of untrimmed product (Wolters Kluwer (UK) Limited, 2013).

Welsh Government officials should work to ensure an integrated, profitable, resilient, secure and sustainable supply chain with quality industry practices operating within Wales. This will encourage sustainable growth, whilst meeting the demands of the markets and consumers we serve and all within the confines of legislative and environmental frameworks.

Recommendations

- **Product Development should be an integral feature in the strategic Welsh Red Meat Action Plan;**
- **Emphasis needs to be given to increased sales for the Home & Export Markets;**
- **Welsh Government officials to support and help develop greater transparencies within supply chains from on farm to beyond the farm gate.**
- **To promote and support the Protected Geographical Indication of Welsh products**

In order to address improved competitiveness and business performance Welsh Government and HCC should look to support the development of local abattoirs as well as the larger processing plants. Large scale processing is a necessity for serving the larger food stores but since the horse meat scandal there is a suggestion that consumers are changing their purchasing habits. Creating and supporting local abattoirs would allow local farmers to supply local butchers and retailers, which can only be seen as a benefit to the industry and wider economy.

Recommendation

- **Consideration should be given as to whether Welsh Government support the development of local livestock markets and local abattoirs to achieve robust local supply chains for smaller independent retailers**

Environmental Schemes

During my time with farmers and stake holders, the environment and its importance was raised many times. It is evident that the uplands of Wales continues to be seen as playing an important part in the delivery of the Welsh Government's priorities.

The impact and challenges that climate change will have on future food production was initially outlined by His Royal Highness the Prince of Wales in his speech "On the Future of Food", 2011 (HRH Prince of Wales, 2011). This has been more recently confirmed by the "Unlocking the Potential of the Uplands" 2012 (Wales Uplands Forum, 2012) report produced by Wales Upland Forum. Therefore it is important that in all stages of the Welsh Government's policy cycle, the climate and weather implications are considered where appropriate and measures put in place to mitigate where possible.

The current Glastir agri-environment scheme has at times received much comment, although both a review and stocktake have taken place and have to some extent allayed farmers' concerns and significantly improved uptake particularly in the uplands.

However, some stakeholders felt that some environmental requirements of Glastir do not take into account the need to retain a level of productivity to ensure the stratified sheep industry is maintained. Inflexible stocking regimes in some cases do not lend themselves to managing the holding effectively and the traditional shepherding of the hill flocks cannot flourish under the current regimes. There was also concern about the levels of stocking on the hills and particularly to the decline in mixed grazing regimes.

Currently there are already large areas of the uplands which have very low stocking densities due to previous agri environment schemes. This is demonstrated in the Elan Valley Study which clearly showed that stocking rates are lower now than in the 1800s (Joyce, 2013) this combined with localised historic overgrazing has led to a significant increase in bracken and Molina grasses, which are encroaching on important forage areas and rights of way in some parts of Wales

Under-grazing can be harmful to delivering environmental outcomes; and if profitability is driven down further and stocking levels cut, this could be storing up longer term problems for the environment as the pictures unfolds.

Land abandonment is not an issue to any extent in Wales at present, but the possibility of it increasing is becoming a concern for policy makers.

The main areas where further destocking would be most likely to occur is on the newly defined sole moorland areas currently classified as SDA. This land has traditionally been part of the productive holding, but farmers have expressed concerns that if they were put under further financial pressures their option would be to destock to reduce costs.

All the stakeholders I met confirmed that moorland is much more productive in delivering environmental benefits, when managed correctly. I feel it is important that these areas are given special attention and that rural development funds are secured to support the potential to deliver eco systems services and wider public goods and services, on what are arguably the most environmentally significant habitats. This should be done through measures which are also compatible with maintaining a stratified Welsh sheep industry

Traditionally agri-environment schemes have also delivered the maintenance or reinstatement of important landscape features such as stone walls, traditional farm buildings and hedgerows. This work is expensive to undertake, but the contribution made from previous schemes enabled land owners to undertake some of this important maintenance, providing an important employment source for the rural communities. These activities continue to be supported by the Glastir Advanced scheme but concerns were raised that not all the landowners in the uplands of Wales could access this scheme.

The Minister for Natural Resources and Food announced in 2013 that all commons participating in Glastir will be offered the possibility of an Advanced contract. This was a very positive step. However, due to the importance of the moorland zone to the wider priorities outlined by the Welsh Government, I believe that other farmland in this moorland zone should also have access to the higher level tier of Glastir .

Interestingly when I discussed Glastir with the lowland farmers, it would appear that the Glastir efficiency grant was the drive to join the scheme originally rather than for

environmental options. This is an excellent scheme as it does provide the necessary incentive for the more intensive farms to maintain and in some cases increase their level of productivity as well as delivering the Welsh Government's priorities to reduce the negative environmental impact of agriculture.

Further discussions did confirm my original thoughts that the more intensive farms should not have to participate within the Whole Farm agri environment Entry scheme as a requirement to access support to increase on farm resource efficiency.

Stakeholders were very clear that support which could deliver environmental value should be retained in the next programme period.

The future Glastir offer should be developed to enable greater flexibility for those farms who wish to undertake some wider positive environmental work without putting the overall efficiency of the agricultural unit at risk.

The new Rural Development Programme for Wales 2014-20 provides an opportunity to introduce and develop the following recommendations in terms of the agri-environment offer as it will impact on the Welsh Uplands.

Recommendations

- **Ensure higher level agri-environment support is available for all sole enclosed moorland**
- **Revisit the current stocking regimes in the uplands to address the issue of undergrazing by introducing minimum stocking rates.**
- **Incentivise mixed grazing regimes.**
- **Support measures to tackle bracken encroachment across the uplands.**

Payment for Eco-system services (PES)

Another area for consideration to add additional income to the upland farm income is payment for eco-system services. Society benefits from a multitude of resources and processes that are supplied by natural ecosystems, collectively known as eco-system services.

'Payments for Eco-system services' can be defined as payments to land managers and others to undertake actions that increase the resilience of ecosystems so that they are able to provide increased longevity, quantity and quality of desired eco-system services, which benefit specific or general users.

In a Welsh context PES encompasses a vast range of activities and outcomes associated with the land, these include, energy generation, water quality, water for industrial processing, carbon sequestration and management, public access opportunities, flood alleviation or flood defence.

Opportunities in the Uplands

Payments for ecosystems services offer potential as a new set of goods and services that upland farmers can offer but it is a new and developing market and there are number of issues to be resolved before these markets can offer a credible income stream to a wide range of upland farmers. Key to the realising these opportunities are to develop a value system for ecosystem services. This process is beginning to take place as markets are created (carbon) and costs of engineering are rising. However, during my discussions it was broadly agreed that PES is unlikely to become a significant income stream for upland land managers over the next RDP period. Due to the potential longer term benefits it should not be ignored in the new RDP, but expectations should be arranged and associated support should be similarly realistic.

One area that could merit further attention in the uplands is to support animateurs to develop small, local schemes to link small tourist businesses with upland farmers. The key to this will be finding the common ground where a mutually beneficial arrangement could be found.

For instance, a local scheme could be where each purchase made, has a small surcharge that goes into a fund to provide a source of funding for specific land management activity that the tourist businesses value, such as hedgerow restoration or additional permissive access routes or car parking. These schemes have to be grown at the grass routes level to achieve the buy-in from both participants of these schemes.

Recommendation

- **Consider integrating local PES schemes in RDP LEADER and Community led programmes.**
- **facilitate new projects in upland and lowland situations to demonstrate the 'proof of concept' case book for future developments;**

Renewable Energy and Energy Efficiency

Reducing input costs will be one of the main areas of concentration. With energy costs the second highest for farms, the reliance on standard energy supplies needs to be addressed. Farms need to harness the natural environment and elements to which they are exposed. Many farms, including in the uplands, have the ability to generate energy from wind, hydro and solar technologies. This would help to achieve Welsh Government's 3% reduction of CO₂ as part of their climate change strategy and also have the potential to generate a secondary income for upland farms. .

The issue for the uplands areas, is two fold: three phase power supplies are not the norm in these areas, and there is limited infrastructure to export energy back in to the national grid. Lowland farms are more likely to be able to utilise these options earlier, due to better financial returns, access to infrastructure arguably more readily available, and more intensive farms more likely to have three phase power supplies.

Despite this however, interventions could form around the feasibility and planning elements of an on-farm renewable energy scheme.

A more straight forward way of reducing energy input costs may be to promote energy efficiency, for example the replacement of sodium flood lighting around farm yards with low energy consumption LED systems.

Recommendations:

- **Welsh Government to undertake a study to identify the current energy infrastructure capacity in the uplands of Wales**
- **Creation of a mentoring scheme for the development of on-farm / community renewable energy projects, delivered through the 'Farming Connect' model.**
- **Welsh Government to develop a package of facilitative support to advise farms on and address energy efficiency through the RDP as well as offering a financial incentive to replace inefficient systems.**
- **Support micro capital investment for on farm renewables schemes**

New Entrants, Exits and Mobility within the Industry

No resilience review can be complete without considering the next generation. The current age distribution of principal farm holders show that over 63 per cent of farmers over 55 years old compared to 60 per cent in 2005. However the number of farm holders under 35 years old has increased slightly from 2.7 per cent to 3.1 per cent over the same period.

Mobility in the industry has been relatively stagnant not only in Wales but throughout Europe. The work of Malcolm Thomas has clearly indicated that policy needs to have a balanced approach to allow efficient exit from and entry to the industry. The industry is already experiencing some of the back-lash from the lack of movement within the sector, with low levels of innovation and little evidence of knowledge transfer being incorporated in farming practice to improve technical efficiency, particularly in the sheep sector. The current Young Entrant Support Scheme (YESS) stimulated the debate and I would recommend that the best practice is continued in an expanded programme during the next RDP period.

Recommendations:

- **An expanded Young Entrants Offer in the next RDP programme to include a start up package.**
- **Welsh Government should look at policy options to help deliver increased mobility within the sector, including (if appropriate) facilitative support through the RDP.**

Monitoring of progress

Measuring the 'real world' progress of the next Rural Development Programme must be paramount in future monitoring plans, and the direction of travel open to be rigorously challenged. In monitoring the measure of increased profitability, key indicators such as a profit and loss account, managing cash flow, gross and net margins along with output per unit, should be included. This is why there must be careful application of the Programme according to a clearer segmentation of holdings and product.

To conclude, I am very confident about the long term future for Welsh farming and in particular for upland farming, but equally I accept that the current returns are not sufficient to maintain a viable economic activity without financial intervention. Pillar 2 is best placed to deliver a significant amount of targeted support to enable those businesses who wish to adapt to running a business in a global and competitive market an opportunity to move forward with confidence and ambition.

The additional funds can provide the financial and physical resource to achieve this important job of work.

To take this strategy forward, it is essential that a clear implementation plan is put into place at the earliest opportunity.

Recommendation

- **The next Rural Development Programme for Wales needs to have an economic focus at its heart and its aims and objectives need to work towards an enduring change to the viability of agriculture and the sustained development of the Welsh food industry.**
- **The wider programme of agricultural modernisation should be subject to third party expert scrutiny advice and support**
- **A significant proportion of the Pillar 2 funds are (soft) ring fenced for a Sustainable Agriculture Programme with priority for uplands and Young/New entrants.**
- **Develop an implementation plan to monitor progress of the recommendations outlined in this report.**

Bibliography

Aberystwyth University, 2013. *Welsh Farm Income Booklet 2012/13*. Aberystwyth: Aberystwyth University.

Agricultural & Horticultural Development Board, 2013. *Impact of CAP Reform*, Stoneleigh: AHDB.

Bank of England, 2013. *Industrial analysis of monetary financial institutions lending to UK residents*, London: Bank of England.

Countryside Council for Wales, 2011. *Cattle grazing to deliver improved biodiversity outcomes in the uplands*, Bangor: Countryside Council for Wales.

Cumulus Consultants Ltd, 2013. *The role of grazing animals and agriculture in the Cambrian Mountains: recognising key environmental and economic benefits delivered by agriculture in Wales' uplands*, Aberystwyth: Farmers Union of Wales.

Department for Business Innovation and Skills, 2011. *Global Food and Farming Futures report*. [Online]

Available at: <http://www.bis.gov.uk/assets/bispartners/foresight/docs/food-and-farming/11-546-future-of-food-and-farming-report.pdf>

HRH Prince of Wales, 2011. *On the Future of Food* [Interview] (4 May 2011).

Pollock, C., 2013. Repairing a fractured pipeline: improving the effectiveness of agricultural R&D in the UK. *International Journal of Agricultural Management*, pp. 1-4.

Royal Agricultural Benevolent Institution, 2013. *Impact of weather on calls received* [Interview] (November 2013).

Rural Payments Wales, 2013. *Average Single Farm Payment in Wales* [Interview] 2013.

The Wales Rural Observatory, 2013. *CAP Reform Phase 1 Report*, Cardiff: The Wales Rural Observatory.

Wales Uplands Forum, 2012. *Unlocking the Potential of the Uplands*, Cardiff: Welsh Government.

Welsh Government, 2012. *Farm Diversification*. [Online]

Available at: <http://wales.gov.uk/docs/statistics/2012/121221sb1252012en.pdf>

Welsh Government, 2013. *Agricultural and Horticultural Survey - data collection*. [Online]

Available at: <http://wales.gov.uk/docs/statistics/2013/130605-changes-to-questions-on-the-3-june-2013-survey-of-agriculture-en.pdf>

Welsh Government, 2013. *Delivering Growth: An Action Plan for the Food and Drinks Industry 2014-2020*, Cardiff: Welsh Government.

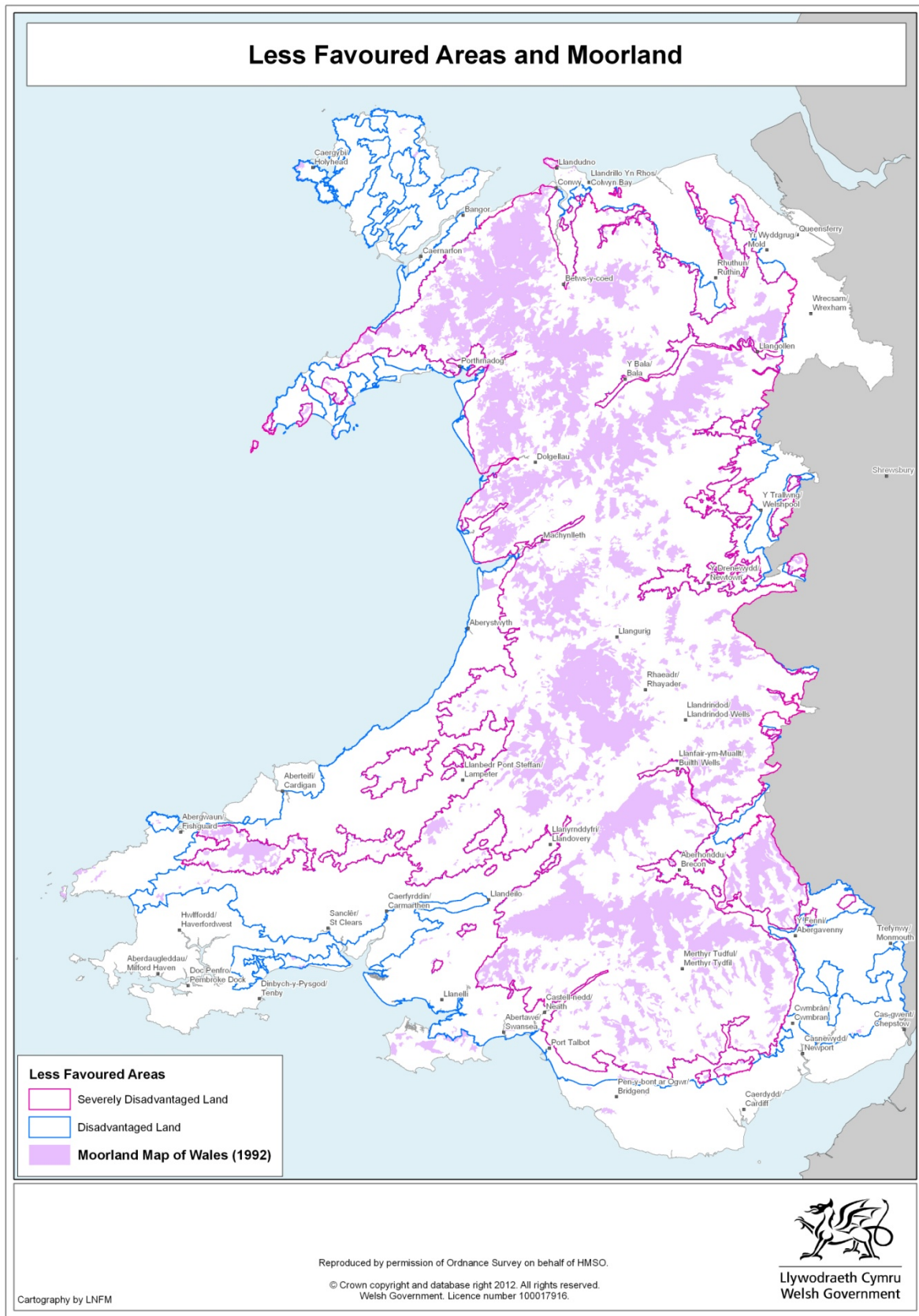
Welsh Government, 2013. *Statistics for Wales*. [Online]

Available at: <http://wales.gov.uk/statistics-and-research/aggregate-agricultural-output-income/?lang=en>

Wolters Kluwer (UK) Limited, 2013. [Online]

Available at: <http://www.accountancylive.com>

Annex 1 – Map of the Less Favoured Areas of Wales

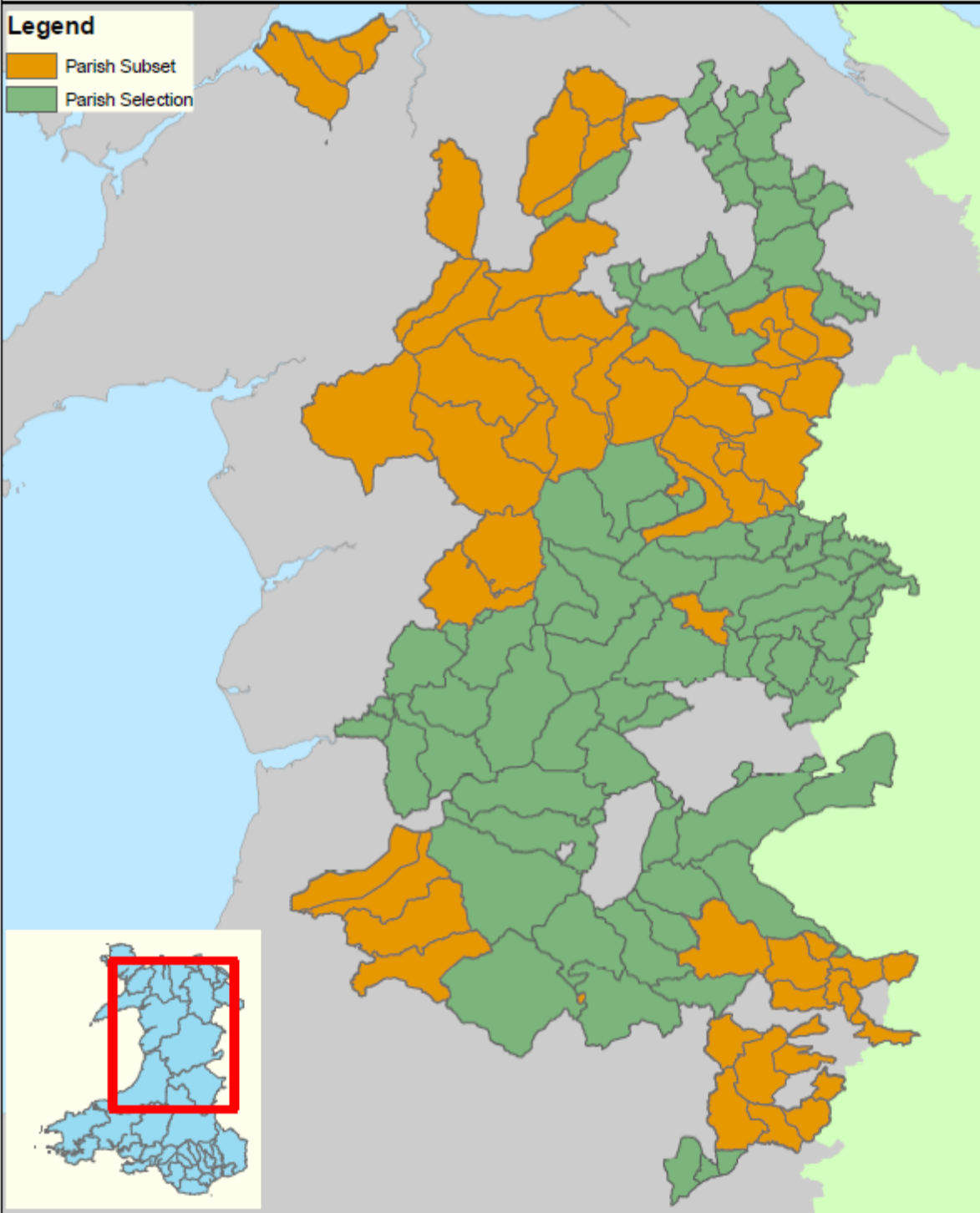


Annex 2 – Map showing the affected areas

Parish - Overview

Legend

- Parish Subset
- Parish Selection



This map is reproduced from Ordnance Survey material with the permission of Ordnance Survey on behalf of the Controller of Her Majesty's Stationary Office © Crown copyright. Unauthorised reproduction infringes Crown copyright and may lead to prosecution or civil proceedings. Welsh Assembly Government, License Number GD 100017916, 2012. Cartography by Rural Payments Cartographic Branch, Aberystwyth.

Atgynhyrchir y map hon o Ddwydd y'r Arolwg Ordnans gyda chaniellid Arolwg Ordnans ar ran Rheolwr Llyfrau a Mawrhydi o Hysbysu y Goron. Mae atgynhyrchu heb ganiellid yn torri hawlfraint y Goron a gall hyn arwain at adrodd neu achos eidd. Llywodraeth Cynulliad Cymru, Rhif Trwydded GD 100017916, 2012. Cartograffeg gan Cangen Cartograffeg Talidau Gwledig, Aberystwyth.

Cangen Cartograffeg Talidau Gwledig
Rural Payments Cartographic Branch

Greddfaiscale: 1:1,000,000 Dyddiad: 1904/2013



Annex 3 – Consultation List

Aled Roberts	ADAS
Tim Bennett	AHDB
Craig Sigley	Barclays Bank
Delyth Davies	DairyCo
Penny Coombe	Defra
Tony O'Regan	Farm Business Survey
Aled Jones	Farmer
Aled Wothington	Farmer
Alwyn Watkin	Farmer
D. Matheson	Farmer
Gareth Wyn Jones	Farmer
Glyn Jones	Farmer
Gwyn Evans	Farmer
Mark Williams	Farmer
Messrs A G & E L Jones	Farmer
Mr & Mrs Jones	Farmer
Mr & Mrs Jones	Farmer
Mr Ellis & Son	Farmer
Phillip Edwards	Farmer
Will Jones	Farmer
Steven John Smith	Farmer
Alwyn Vaughan	Farmer
Rhys Parry	Farmer
Rhys Pugh	Farming Connect
Nick Fenwick	FUW
Susan Jones	FUW
Gwyn Howells	HCC
Dai Davies	HCC
Ken Yorston	Head of Wales Trading Standards
Euryn Jones	HSBC
Prof Wayne Powell	IBERS
Malcolm Thomas	JCP Solicitors
Kevin Thomas	LANTRA
Mark Lord	Lloyds TSB
Alun Jones	Menter a Busnes
Michael Seals	National Fallen Stock
Phil Stocker	National Sheep Association
Simon Neale	Natural Resource Wales
Ed Bailey	NFU Cymru
William Powell	NFU Cymru
Dylan Morgan	NFU Cymru

Mary James	NFU Cymru
Jeremy Distin	NFU Mutual Insurance
David Barnes	Scottish Government
George Dunn	Tenant Farmer's Association
David Green	UK Renderers
Derek Morgan	Upland Forum Ministerial Advisory Group
Ieuan Joyce	Upland Forum Ministerial Advisory Group
Liz Bickerton	Upland Forum Ministerial Advisory Group
Lorraine Howells	Upland Forum Ministerial Advisory Group
Andrew Slade	Welsh Government
Ann Humble	Welsh Government
Betsan John	Welsh Government
Christianne Glossop	Welsh Government
Gary Haggaty	Welsh Government
Helen Minnice-Smith	Welsh Government
Irene Allen	Welsh Government
Kevin Austin	Welsh Government
Laura Griffiths	Welsh Government
Matthew Quinn	Welsh Government
Nia Griffiths	Welsh Government
Terri Thomas	Welsh Government
Wyn Price	Welsh Government
Keith Smyton	Welsh Government
Simon Wilkinson	Welsh Local Government Assoc.

N.B Two Farmer Discussion working groups were held by the National Farmer Union Cymru and Farmers Union of Wales- 70 farmers attended.

Annex 4 – Interim Recommendations Letter

15 July 2013

Dear Minister,

Thank you for inviting me to conduct a review into the resilience of farming in Wales. You have asked that the review address two key areas: firstly, the response of the Welsh Government, and other interested parties, to the adverse weather in March. This will include lessons learned that can be drawn upon for handling contingency events such as the snow of this year or the severe flooding in Denbighshire in 2012. Secondly I am reviewing what measures might be taken to improve the general resilience of farming with a particular focus on the beef and sheep sectors in the uplands and hills of Wales.

At this stage of the review this letter should only be regarded as interim feedback with a much fuller report to follow. I do, however, provide my initial views on both areas below.

AREA 1 - EXTREME WEATHER AND MANAGING CONTINGENCIES

I have taken evidence from affected farmers and their representatives, Welsh Government (WG) staff involved in the response, other Devolved Administrations, the banks, the National Fallen Stock Company and the Local Authority staff that provide support and guidance to farmers.

Facts

The snowfall in March was an extremely unusual event due to the severity of the snow and the high winds, which prevailed, causing significant drifting in the uplands and mountains of North and parts of Mid Wales. This was compounded by the length of time the snow remained on the ground which, due to below average temperatures, was significantly longer than would normally be expected at this time of the year. The last time such an event was recorded was in the early 1940s.

Secondly, the areas that were affected were extremely localised and without accurate intelligence many of the relevant parties would have been unaware of the events unfolding until much later. This was compounded by the fact it occurred over a double bank holiday period which meant there were fewer people at a managerial and an operational level within the relevant organisations present. These first two factors combined made an effective early response difficult to deliver.

Thirdly, the snowfall came at the end of a long period of chronic bad weather which started with the cold spring of 2011. This coincided with the peak lambing period for upland flocks. The loss of breeding ewes and lambs was therefore much higher in certain businesses than would be expected during a normal lambing season. The true extent of losses is still to be established as part of a review currently being carried out by HCC.

Initial findings

There is no doubt that this event was so unusual that it would be unrealistic to expect a perfect response. It is therefore to be expected that there will be lessons to be learnt for all parties involved. Events in Wales were reported by BBC Wales from the outset, however similar events occurring in other parts of the United Kingdom grabbed more of the national headlines.

I have restricted my feedback, at this stage, to an assessment of the measures put in place to respond to the consequences of the acute weather event. There has been a

range of follow-up aid and support provided by all the Devolved Administrations ,

and by DEFRA driven by different pressures; I have not looked into these measures at this stage, but if you wish I could do so in the second half of my review.

The measures and policies put in place by the Welsh Government were broadly appropriate to the developing situation, although arguably implementation was slightly delayed as acknowledged in your evidence to the Environment and Sustainability Committee of 1 May 2013. This was also reflected in delayed feedback from the industry and partners on the ground. Following my discussions, I have established that the measures put in place by the Welsh Government were on the whole in line with the rest of the UK. However, the intervention would have been more effective if measures had been ready for immediate implementation and delivered with a coordinated and consistent approach across the affected area.

The intelligence that was received lacked clarity and detail for at least the first week of the event. Obtaining an accurate picture of what was happening on the ground was difficult for all concerned throughout the episode; however, the establishment of a weekly industry group meeting did provide useful intelligence to inform the Welsh Government. The recent necessary reorganisations in Welsh Government also meant that some officials found themselves managing difficult contingency planning issues without the experience of any such previous events.

The biggest complaint from the farming community revolved around the

implementation of the measure allowing on-farm burial of fallen stock. It was evident

that the different Local Authorities dealing with this issue on the ground had different interpretations of the guidance given by Welsh Government officials and implemented the measure differently; some lacked sensitivity and flexibility while others lacked a clear understanding of the severity of the conditions. Generally, it

was unclear what evidence was required to allow on-farm burial. Notwithstanding

these general complaints, some farmers praised the way their local authority dealt sensitively with the situation.

Another important factor was the delay in collecting fallen stock, which was unacceptable and added to the distress suffered by farmers already perplexed by the weather event itself. The delays could, in part, be explained by problems with access and the sheer number of collections required. A poor performing collector exacerbated an already difficult situation; this has subsequently been addressed through a business acquisition. The disposal of fallen stock is a specific agenda that needs to be carefully considered for the future. The Animal Health and Welfare group made me aware of the work being considered on potential options and I hope to expand on this in my full report later in the year.

Generally, farmers praised the role of feed companies who continued to provide product even if at times it was rationed.

Interim Recommendations

The feedback from all parties confirmed that matters would be vastly improved if the intelligence was more accurate and timely and that a properly documented Contingency Management Plan (CMP) guided the response (to a wide range of potential contingencies). Much planning already goes on that is led by the Welsh Government in relation to such matters such as animal disease emergencies, but is tightly focussed on the related issue. In addition to this, there are many plans in place to deal with adverse weather on a local level, but there is no central function in place which acts as a trigger point for the Welsh Government to mobilise the necessary resources in order to provide a national response to climatic incidents or other contingency events.

The CMP should be made available online to inform staff how to respond; in particular for those with little past experience. It should be a single, generic plan with

detailed guidance to ensure a consistent approach to delivery of the relevant policies and procedures regardless of location.

The CMP should:

- Be developed following a major risk assessment exercise considering the likely events that may impact on farming, livestock or people. It must address emergencies caused by both acute and chronic events.
- Be mobilised by the nominated coordinator when a trigger occurs and include the following steps:
- An emergency response is triggered when an event occurs as defined in the CMP assessment.
- Involve a suitably trained team that possess the necessary authority and skills to manage the consequences of an event. The team should be multidisciplinary and include members from any agency/stakeholder likely to be involved in the response.
- Be tested periodically against simulated events.
- The CMP coordinator should bring the response team together physically if possible or by video/conference call, once mobilisation has occurred the following aspects need to be considered;
- An assessment is carried out,
- Appropriate measures are implemented to respond to the event including a communication plan ,
- The CMP team meets as frequently as necessary to monitor progress until the emergency has been dealt with.

EARLY RECOMMENDATION – A generic Contingency Management Plan should be created and appropriate internal and external people need to be identified and training for dealing with emergency responses delivered.

Accurate feedback is vital to effective management of any emergency or situation; it determines the seriousness of the event in the first place and provides accurate information about the response on an ongoing basis. Intelligence is the responsibility of all interested parties not just the government and an effective network should be formalised and documented in the CMP. The network should include the regional network for the Farm Liaison Service, Farming Connect, farming charities and the farming unions; the wider and more extensive the better.

EARLY RECOMMENDATION– WG reviews its intelligence network and ensures the network is sufficiently briefed to identify a trigger event.

Resilient businesses can be expected to cover losses in the ordinary course of a business cycle and the good years generally more than offset the bad ones, however where businesses sustain exceptional losses, their usual risk management tool is insurance. There is a range of insurance vehicles available to farmers that cover general risks but as yet no specific cover for catastrophe loss; this option is currently being explored with NFU Mutual and will be considered more fully in the final report.

EARLY RECOMMENDATION Catastrophe cover is explored as a risk management tool for exceptional losses.

AREA 2 - IMPROVING THE WIDER RESILIENCE OF FARMING

The impact of the extreme weather has thrown a spotlight on the financial performance of the farming sector and highlighted how economically fragile some businesses are. You have asked me to make recommendations on how resilience could be built into the agricultural sector enabling it to be more sustainable in the long term. Following an initial analysis of farm business survey data, I have decided to concentrate my interim report on farming in the uplands of Wales.

This region is particularly important to the environment, rural communities and the stratified sheep industry in Welsh agriculture: a reduced level of farming in the Severely Disadvantaged Areas of the uplands and would have a detrimental impact on all these elements. I will, however, conduct a wider review of all key farming activities and sectors in Wales in my full report.

I have taken evidence from farmers, their representatives, Welsh Government staff, the Uplands Forum, Menter a Busnes and other individuals involved either directly or allied to the industry. I have also considered other reports relevant to my review and used their recommendations where appropriate.

I have also conducted some rudimentary analysis of the current information on financial performance of the farming sector. I am still waiting for some further

financial information and will conduct more in-depth analysis during the later stages

of my work.

My broad analysis of the finances leads me to conclude that the current business models for providing public support for farming in the uplands namely, Single Farm Payment Scheme (SPS) and Glastir are unsustainable and need urgent attention.

Faced with the prospects of declining prices, increasing costs and reducing subsidies, the rational response of most farmers would be to reduce the numbers of animals on their holding in order to reduce the losses sustained in their business. Some may simply cease farming altogether.

From my discussions with the industry, HCC and the environmental representatives, it was very clear that this outcome would not only affect the farming and /or land management practices of Wales but would have a significant negative effect on the environment, the wider Welsh agricultural industry as well as communities and culture.

However, I do not believe that the best way to improve resilience is to simply increase the level of public money to the upland farms this option will simply embed current practice and discourage business improvement. Nor do all the levers lie in the Welsh Government's hands. That said, very few farmers would have sustainable businesses in the short to medium term without some level of public support.

My view is that we should make maximum use of the Rural Development Plan to create a targeted and integrated package of measures that provides support for good farming and environmental performance and encourages the uptake of progressive farming practices that, over time, will make these businesses more resilient and sustainable.

Care must be taken with those farms that are truly in the Severely Disadvantaged Areas, and the moorland, as these areas are most likely to destock and it is these areas where we need to keep stocking densities at an appropriate level to maintain diversity in the environment and the outcomes that society and the Welsh farming sector needs.

The renegotiation of the Rural Development Regulation presents a one-off

opportunity to place upland farming on the road to sustainability and measures should be included that allow an integrated package of support to be rolled out.

There will be much more to do in the later stages of my review but the feedback I have had to date all reinforces this early view.

I will delve much deeper in the full report when considering other barriers that may frustrate efficient and effective farming but I thought it was important to signal, even at this early stage, the likely direction of travel.

EARLY RECOMMENDATION – An integrated package of measures be considered for the uplands in the next RDP that will help improve farming and environmental performance, and which in time should provide resilience to the industry.

A buoyant domestic and export market is vital in improving returns in the livestock sectors. WG could augment levy funds that are already used to stimulate growth in Welsh lamb and beef and expand the valuable work of opening up new markets for these products. An effective strategy, which explores new markets for Welsh lamb, particularly the lighter

lambs, not only adds extra value to the industry but provides opportunities to sell products that are of interest to a wide range of consumers at home and abroad.

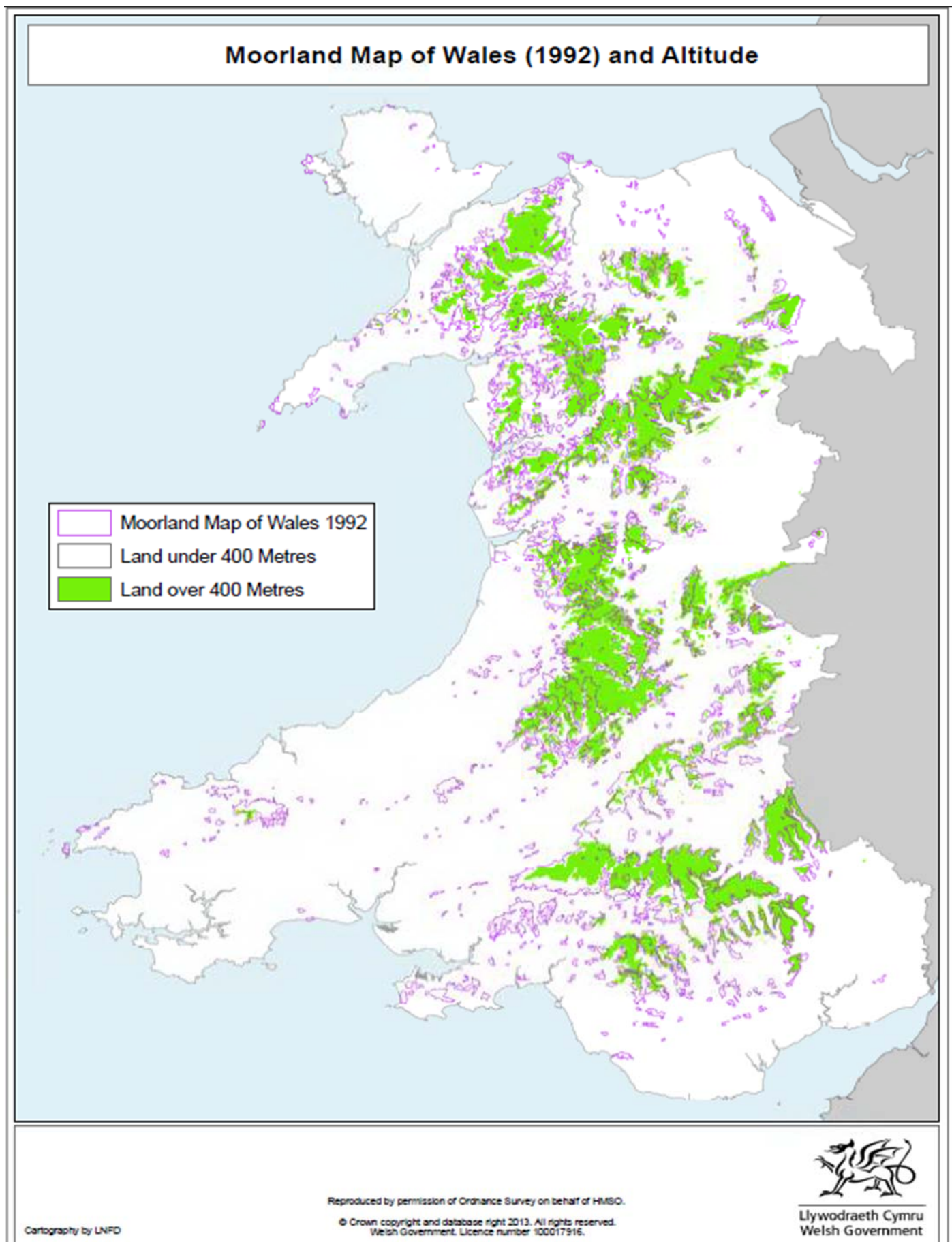
EARLY RECOMMENDATION – The Welsh Government augments levy funds to finance targeted promotion for accessing new market opportunities.

I still have a lot of work to embark on and a great deal of follow up discussion to conduct, but I hope this brief report provides you with enough detail to show how both aspects of the review can be dealt with positively. I am happy to meet with you to discuss it further and get your views on the way forward.

Yours

Kevin

Annex 5 – Moorland Zone Map



Annex 6 – Summary Letter of Recommendations

December 2013.

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 subsidyreliant

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

Annex 7 – Review Terms of Reference

INDEPENDENT REVIEW OF THE RESILIENCE OF AGRICULTURAL SECTORS IN WALES

Background

Following the recent episode of unexpectedly severe snowfall in North Wales, the Minister for Natural Resources and Food has commissioned an independent review of the resilience of the farming industry in Wales. The review will consider issues at both the sectoral and farm business level, and address the industry's ability to respond to contingent events, as well as to survive and prosper over the longer term with current business models. The work will focus in particular on the livestock and upland sectors.

The review of resilience will draw on other recent reports, including the Working Smarter review, the stocktake of Glastir, the report of the Uplands Task Force, and work on climate change, among others. It will complement other relevant work that has been commissioned or is shortly due to get underway, including an analysis to be undertaken by Hybu Cig Cymru of the impacts of the recent weather on the red meat supply chain in Wales, a project to develop the Welsh Government's Young/New Entrant Support Scheme further, and internal lessons learned exercises within Welsh Government. Given that contingent events rarely respect administrative borders, the review will also consider the Wales dimension to matters that might best be addressed at a GB or UK level.

It is expected that the review will inform the development of policy on reform of the Common Agricultural Policy (CAP) in Wales over the next seven years, and, in particular the shape of the next Rural Development Plan. The review findings will also feed into work on responsibility and cost-sharing, and the broader 'Working Smarter' agenda.

The independent reviewer will be Kevin Roberts, former Director General of the National Farmers' Union, former Chief Executive of the Agricultural and Horticultural

Development Board, and previously Director General of the Meat and Livestock Commission.

Proposed Terms of Reference

To assess the resilience of the agricultural industry in Wales, with particular reference to livestock and upland farming, and advise on related matters, including:

- the impact of the severe snowfall in parts of Mid and North Wales in late March 2013, and the roles played by the industry, ancillary sectors, Welsh Government, local authorities, farming charities and others in responding to that developing situation;
- how the farming and associated ancillary sectors in Wales manage risk, and their ability (collectively and at individual business level) to withstand contingent events more generally;
- whether, in view of current and anticipated challenges and opportunities, and in light of recent experience with the severe weather, current farm business models across the principal farm types in Wales are robust and viable for the longer term; and
- the role of government and other agencies (across the public, private and voluntary sectors) in helping develop resilience within the industry;

and to make recommendations to the Minister for the future.

Deliverable outputs

It is expected that initial findings from the review work will be presented to the Minister by 5th July 2013, and that the reviewer's final report will be submitted by 30th November 2013.

Working terms and conditions

The reviewer will be provided with Secretariat support from within Agriculture, Food & Marine Group in the Welsh Government.

The reviewer's travel and subsistence costs will be remunerated at the standard Welsh Government rate, and payment for loss of earnings will be made. The review work will involve attendance at meetings across Wales and may include some travel to other parts of the UK.

It is anticipated that the reviewer will, on average, devote one to two days per week to this work until the review report is completed and will attend subsequent meetings and events, as requested by the Minister, to present his findings.

May 2013