Written evidence submitted by the Agriculture and Horticulture Development Board (FSA0006)

House of Commons:

SCOTTISH AFFAIRS SELECT COMMITTEE
THE FUTURE OF SCOTTISH AGRICULTURE POST-BREXIT

Call for written evidence:

Submission from the Agriculture and Horticulture Development Board (AHDB)

10 January 2019

Executive summary
AHDB has identified the key areas likely to impact on agriculture and horticulture in Scotland as a result of the UK leaving the EU. The submission details:

- What differentiates Scottish agriculture.
- Limitations in processing, manufacture and finishing facilities, as well as the distance from market and its impact on costs.
- Reliance on Common Agricultural Policy (CAP) support payments on a sector-by-sector basis.
- Barriers to trade and the influence on future competitiveness.
- Sector specific issues.
- The importance of the internal UK market.
- The impact of labour shortages on the Scottish agricultural sector.
- The link between innovation and technology and productivity.

**AHDB**

AHDB’s purpose is to inspire our farmers, growers and industry to succeed in a rapidly changing world. We are the independent go-to source of trustworthy information and evidence-based research. We equip the industry with easy to use, practical know-how which they can apply straight away to make better decisions and improve their performance.

Through deepening our technical, commercial and market insight, and making this available where, when and how the industry needs it, we aim to enable British agriculture to become truly world class.

We focus our activities on four strategic priorities:

- Inspiring British farming and growing to be more competitive and resilient.
- Accelerating innovation and productivity growth through coordinated research and development (R&D) and knowledge exchange (KE).
- Helping the industry understand and deliver what consumers will trust and buy.
- Delivering thought leadership and horizon scanning.
Inquiry questions and AHDB’s response

1. **What should be the priorities of any future agricultural support system in Scotland? Are the needs of the agricultural sector in Scotland different from the rest of the UK?**

2. As a non-departmental public body (NDPB) AHDB cannot comment directly on policy or speculate on the future agricultural support system in Scotland. However, we can detail some of the particular challenges faced by the Scottish agricultural sector.

3. The UK’s decision to leave the EU will present Scottish agriculture and horticulture with both risks and opportunities. Scotland’s food and drink industry is recognised as a vital part of the Scottish economy. In 2016 primary agriculture and food and drink manufacturing contributed around 4.8% of Gross Value Added (GVA) to Scotland’s onshore economy.

4. Agriculture in Scotland is faced with particular challenges such as:
   - 85% of agricultural land being designated as Less Favoured Area (LFA), compared to 17% in England
   - Around 43% of Scottish farmland has been designated as High Nature Value land which qualifies for higher EU ‘custodial’ support
   - Distance from the market, with high transportation costs compared to farmers elsewhere in the UK. This is a key factor with 41% (7,200) of Scottish agricultural business operating in remote locations
   - Limitations in local processing, manufacture and finishing facilities for some primary agricultural produce. There is also limited access to deep water ports to export bulk agricultural produce such as grains to non-EU countries.

5. Scotland has a much higher share of output, compared to the UK as a whole, from cattle (24% vs 12%) and potatoes (7% vs 3%). Conversely, shares of output from poultry (3% vs 10%) and horticulture (9% vs 15%) are much lower.

6. There are some very productive arms and regions in Scotland but the total agricultural area has a lower productivity per hectare (based on income generated) compared to England and Northern Ireland. Its productivity per hectare is, however, higher than Wales which has a similarly challenging agricultural topography.

7. The Scottish agricultural industry is heavily reliant on Common Agricultural Policy (CAP) support payments which account for around two thirds of total farm business income. The importance of support varies by sector, with the grazing livestock and cereals sectors having a greater reliance on financial support.

8. **Livestock:**
   - The Scottish livestock sector, including livestock products accounts for 60% of primary agricultural output in Scotland
   - However, the North East of Scotland has one of the highest concentrations of livestock in the country and is the greatest distance from key markets
   - Exports to the EU are of most significance for sheep meat and if the UK as a whole faces barriers to the EU, it will impact Scottish lamb exports
   - If exports are exposed to tariffs, these are significant for many livestock products, likely to make them uncompetitive.

9. **Potatoes:**
   - Scotland produces 22% of total GB production, with seed potato output accounting for 45% of Scottish production. Scotland’s climate lends itself to producing pest and disease-free seed potatoes which are highly sought after in overseas markets
   - However, with limited access to processing facilities, when supply exceeds demand, prices for Scottish ware potatoes tend to see sharp fall
Around half of Scottish potato production is concentrated in the North East which, due to distance from England, brings added transportation costs in to consideration.

The main Brexit risk to the Scottish potato industry is ongoing preferential market access for Scottish seed exports to non-EU markets such as Egypt and Morocco. If preferential access was lost to these markets the seed industry would be at a disadvantage to EU competitors.

Egypt has a standard seed potato tariff of 2%, while Morocco levies 2.5% outside any trade agreements which could make Scottish seed exports there unviable.

The UK also operates within the framework of EU phytosanitary standards so it is necessary to ensure future UK standards are accepted by current and future trade partners.

10. Dairy:

- In the three-year period to 2016 dairy farming saw the highest average farm business income of all Scottish farming sectors, with support payments making up a relatively lower proportion of farm income than other sectors.
- Despite Scottish dairy farms having the largest average herd sizes in Europe, total income is lower than in England and has been particularly volatile in the last few years, partly due to English dairy farmers having better access to higher value supermarket aligned contracts.

11. Horticulture:

- If the UK leaves the Single Market and Customs Union, Brexit will result in greater trade friction and costs of trade with the potential for tariffs to be imposed on trade as well.
- This would effectively increase the price of imported product and make domestic product more competitive and create opportunities to expand production of certain products where conditions allow.
- Availability of labour appears to be the biggest limiting factor for the industry to benefit from this opportunity, and the biggest risk to the sector as it is particularly reliant on migrant workers for many roles in production, processing and packaging.

12. Cereals:

- Over half of Scottish grain is fed to livestock so any increase in trade costs as a result of customs checks and/or tariffs that affect livestock production will subsequently have an influence on domestic feed demand. The global market for feedwheat is highly price competitive, meaning Scotland’s ability to export any excess feedwheat is limited.
- Infrastructure constraints are a critical factor for cereal industry competitiveness. Not just roads, railways and ports – also digital infrastructure and routes to market.
- Most ports in the cereal producing regions are equipped to handle small coasters suitable for intra-UK or EU trade. This can add supplementary road transport costs particularly to move barley to more distant, deep water ports suited to supplying non-EU markets.
- Any trade restrictions on processed foods could be particularly damaging for the oats industry as Scotland’s oats processing sector is heavily reliant on EU export markets.

13. Barriers to trade in the form of tariffs, non-tariff barriers or regulation and the level at which these are set are likely to have a significant influence on the continued competitiveness of the UK’s farming and growing sectors, as well as food prices for consumers. Whether they represent an opportunity or threat depends on each sector’s reliance on imports and exports, both in and outside the EU. The trade policy adopted by the UK and other governments will be a deciding factor.

14. The AHDB Horizon report: What might Brexit mean for UK trade in agricultural products outlines the current trading situation and the importance of the EU in this trade by on a sector-by-sector basis. This is currently being updated and will be available in Spring 2019.

15. What funding will Scotland’s agricultural sector require post-Brexit? What should future agricultural support in Scotland look like, and what goals should it seek to achieve?

16. While the importance of the internal market cannot be ignored, in terms of increasing Scotland’s exports, continued access to existing non-EU markets where it is already enjoying considerable
success will be crucially important. In the potatoes sector, for example, seed exports have traditionally been the focus of most export development activity. Egypt and Morocco are the two biggest markets where the UK currently enjoys zero tariff due to EU preferential trade deals.

17. Egypt has long been the main destination for UK seed exports accounts for 50% of product shipped. Egypt is also the main destination for the UK’s largest competitor in seed exports, the Netherlands, highlighting the importance of a continuing FTA with Egypt post-Brexit. Meanwhile, Mexico and South Korea present opportunities for the export of livestock products. More detailed analysis of these opportunities can be found in the AHDB Horizon report: What might Brexit mean for UK trade in potato products? and AHDB Horizon report: Meat and dairy – Our prospects in the global marketplace.

18. **How should a future agricultural policy seek to accommodate different sectors of the farming community, especially those in remote and less favoured areas, and crofters?**

19. Due to the amount of LFA in Scotland (85% of agricultural land being designated LFA) if these landscapes are to be maintained in their current form, alternative sources of income must be sought. AHDB analysis shows the impact by sector of various post-Brexit scenarios. The overarching finding is that FBI will fall significantly in the absence of access to EU markets under an FTA, or as a result of a reduction in the overall level of funding for Scottish agriculture. Further information can be found in the AHDB Horizon report: Exploring the implications of Brexit for agriculture and horticulture in Scotland.

20. A key question will be the extent to which the UK Government’s trade policy is supportive to the long-term interests of Scottish food and drink. Scotland’s international trade growth ambitions in the immediate term will be dependent on the trade arrangements negotiated by the whole of the UK.

21. Replicating the existing EU preferential trade agreements to avoid negative impacts should be the initial priority. In the medium to long-term there are opportunities to gain improved access to other markets but these could bring both opportunities and threats (in the form of imports) to the agricultural sector. AHDB has published reports examining the growth prospects for UK grains, livestock and dairy products, identifying possible target markets for food and drink exports.

22. **What should be included in common frameworks between the UK and devolved administrations in relation to agriculture? What balance should it strike between having a common UK-wide approach and providing flexibility to Scotland’s needs?**

23. The internal market for Scottish agriculture means there must be coherent policy between the devolved nations.

24. **What should be done to meet the long-term labour needs of Scotland’s agricultural sector?**

25. Without free movement of workers between the UK and the EU post-Brexit, the cost of labour will change. Arguably, the horticulture sector faces the greatest challenges due to the higher intensity of its use than in other parts of the industry. Eastern European workers currently provide a ready supply of seasonal labour for soft fruit picking – one of Scotland’s growing sectors. In the short term, at least, the profitability of horticultural businesses, particularly those in soft fruit picking production, appears to be linked to availability of this flexible labour force. While Scotland as a whole would be less impacted by any adverse changes than other parts of the UK, given the lower proportion of horticultural output, for the businesses affected the issue is critical.

26. Migrant labour is also critical to the viability of the agricultural processing sector in Scotland and an estimated half of the workforce in Scotland’s abattoirs and meat processing plants are migrant workers. EU migrants also make up a large proportion of veterinarians.

27. **What role can innovation & technology have in improving productivity in Scottish agriculture?**

28. The government is looking at potential solutions to not being able to access this cheap and plentiful supply of labour including improving skills, productivity and innovation. It boils down to either improving the productivity of existing workers or replacing to some extent with new technology and methods of
production. The key, ultimately, is to improve the productivity of the industry as a whole so it can either afford to pay higher wages, or invest in new technology and still remain competitive.

29. Innovation and technology are key to addressing the productivity issues. AHDB has done a huge amount of work in this area, including the AHDB Horizon report: Driving productivity growth together and our Fit for the Future workstream. Our R&D and KE teams support the industry in Scotland and have a major role to play in this area, particularly improving the link between research and on-farm application.

30. While uncertainty is inevitably a barrier to investment, the AHDB Horizon report: Preparing for change: The characteristics of top performing farms does highlight that having a mindset for change and innovation as one of eight factors differentiating the top-performing farms. It cites the link between better use of computers and high-performing farm businesses and, while the link to next generation of big data and precision farming is currently unproven, such technologies facilitate expansion by allowing more detailed farming practice over more hectares of head of stock. Having the right information at the right time helps farmers make the right decisions for their respective businesses.

31. Among the steps for success identified in the report are:

- Identifying how livestock health can be improved further through considering changes to their housing and handling areas
- Farmers could discuss how contractors can improve their cost base by not owning their own machinery and to question the seed rate they have been using
- Identifying the key factors that encourage mycotoxins and avoid or manage them carefully
- Identify local monitor farms and attend meetings and discussion groups
- Attend local small business (non-farming) discussion groups and seek new ideas and collaborations
- Listen to others and read business books for inspiration from other industries.

32. Further information

33. Further details on this and the other key factors identified as differentiating top-performing farms can be found in the AHDB Horizon report: Preparing for change: The characteristics of top performing farms.

34. The AHDB Horizon report: Exploring the implications of Brexit for agriculture and horticulture in Scotland also examines some of the risks and opportunities for Scottish agriculture and horticulture that arise from the UK’s decision to leave the EU in greater detail.

35. Any queries relating to this submission should, in the first instance, be directed to Andy Hutson, AHDB Public Affairs Manager, Agriculture and Horticulture Development Board, Stoneleigh Park, Kenilworth, Warwickshire CV8 2TL. T: 024 7647 8822 E: andy.hutson@ahdb.org.uk

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