

Policy Push & Commercial Pull - What's Changing UK Farming and Food?

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Introduction

How will we look back on 2020? COVID - 19 is going to stick in the mind for a long time and the impacts of this will be felt for many years to come as we come to terms with the “new normal”. The Brexit discussions seem far from settled. Talks on a US – UK trade deal are underway and we have a new Agricultural Bill passing through Parliament.

There is clearly a huge amount of change taking place in the UK farming and food sector. This will produce a very different looking sector over the next 5 – 10 years.

I have tried to summarise these changes in this piece – they are to my mind, a combination of “policy push” and “commercial pull”.

The Agricultural Bill

Leaving the EU by the start of 2021, means the UK is also leaving the EU's Common Agricultural Policy (CAP). Farmers in the UK currently receive around £3.5 billion support annually under the CAP. More than 80% of these CAP payments that UK farmers receive are ‘direct payments’ based on how much land they farm. The remainder pays mainly for rural and environmental farm management schemes.

The EU Common Agricultural Policy (CAP) has for a long time been heavily criticised by many in the UK farming sector. This is now seen as an opportunity to develop a policy framework that is much more in line with the more specific needs of the UK farming industry.

The Agriculture Bill now being proposed provides the legislative framework for the replacement of existing agricultural support schemes. Farmers will be paid largely in the future to produce ‘public goods’ such as environmental or animal welfare improvements and see payments for production of agricultural products phased out over a 7 year period. The Bill also includes wider measures, including improving fairness in the agricultural supply chain and on the operation of agricultural markets.

The other objectives of the Agricultural Bill include as follows:

- balancing the need for food production with the requirement for better standards of environmental practice and sustainability
- de linking payments to farmers to create the environment for faster structural change in UK farming and encourage new entrants in to the sector

- a fairer and more transparent supply chain
- increasing awareness of the importance of food security
- the ability to provide emergency assistance to farmers if required – but this would not include extreme weather or disease outbreak, unless they result in markets being disrupted and damage to producers incurred.
- to encourage the production of organic food
- maintaining high standards of animal welfare, food safety etc. for UK producers and protection for UK farmers from imports from countries that have lower standards of production. This is one of the most contentious issues and will be put to the test during the UK - US Fair Trade Agreement discussions vis a vis the importation of US poultry products, GM soybeans and hormone treated beef and pesticide regulations/tolerances on fresh produce etc.

The complete and rapid abandonment of direct payments has been treated with more caution by the devolved administrations in Wales, Scotland and Northern Ireland, at least up to 2024. This is not surprising given that agriculture is a devolved issue, and Scotland, which refused to consent to the initial Bill, published its own Agriculture Bill in November 2019. This allows the Scottish government to continue current CAP schemes, including direct payments, beyond 2020.

Differences between the countries of the UK regarding farm support could create tensions, with farmers complaining about the lack of a ‘level playing field’. But the amount of money to be allocated to UK farming still lies with Westminster, and therefore the devolved governments may find themselves constrained on how they can use their own budget.

So, what does this all mean for UK farming? The proof will be in the pudding, of course, but some things seem clear:

- UK farmers will be required to demonstrate they produce food in a more environmentally friendly manner than in the past
- the amounts of financial support received by farmers for production will be reduced over time and they have c. 7 years to plan on how they will run their business with vastly reduced subsidies than they have enjoyed in the past and this is a major challenge

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- the UK supply chain should operate in a more transparent and fairer manner – but to our mind will still be fiercely competitive
- UK farm standards should be upheld to the benefit of producers and consumers, but much will depend on the outcome of the UK – US Free Trade Agreement and the precedent that this might set
- it should be easier for new entrants to begin farming and produce a greater degree of structural change of UK farming than seen in the past

As such, the Agricultural Bill, which is passing through the legislative process now (summer 2020), will represent a fundamental change in how UK farming and food production is supported over the next 10 years and beyond. There will be a huge shift to an emphasis on environmental enhancement and a more sustainable supply chain per se. It has been estimated that the actual amount of money paid out to farmers might not reduce that much, but what will happen is that it will be paid out in a very different way.

This therefore presents something of a brave new dawn for UK agriculture and food and its development will be watched with interest in other countries around the world, and not least, around the various regions of the UK.

While, this does indeed represent an opportunity for things to be done differently in the future, it is not without its challenges. For many farmers in the UK, especially in the beef, sheep and dairy sectors, there has been an over reliance on the CAP subsidy schemes. This has historically been less so the case in the less protected sectors, such as horticulture, pigs and poultry. Many of the more capable farmers in the UK, including beef/sheep and dairy have for some time though believed they can compete in international markets without the use of CAP subsidies. We are about to find out if this is the case.

Brexit - Still to be Played Out?

The whole issue of Brexit, before the COVID – 19 pandemic, has been the dominant issue across UK society for the last 4 years. The debate about what happens next in the agricultural and food sector has been a key feature of the ongoing discussions both within the UK and then with the EU Commission.

While the decision to leave was confirmed in January 2020 after the Conservative governments overwhelming election victory in December 2019, the final details of on what terms this will be on are still to be decided. The key issues are still many, but the most important are what happens in terms of market access to the rest of the EU for the UK (and of course, vice versa), the issue of the border between Northern Ireland and the Republic of Ireland, fishing rights and then the question over the freedom of movement of labour. This issue is of particular concern to the UK agricultural and food sector as in many cases, there is a high dependency on the use of migrant labour from the likes of Eastern Europe as well as Africa and parts of North Africa and the Middle East.

As of this summer, the UK government has consistently stated that if a satisfactory agreement cannot be reached, they are prepared to walk away from

negotiations and accept a No Deal situation. This would in effect see the UK revert to trading with the rest of the EU, and indeed, the rest of the world on WTO terms. As such, the possibility of a No Deal situation cannot be ruled out. It is expected, though that the discussions will go on through the autumn/early winter until the proposed end date of January 2021.

Boris Johnson's apparent bravado around No Deal might eventually be somewhat tempered by the fact that most predictions are that this could be potentially disastrous for the UK economy. This is already facing a huge down turn post COVID - 19. There is only so much that the economy can take. - as well as the electorate.

There have been several studies carried out, not least by the likes of the National Farmers Union (NFU) and the Agricultural & Horticulture Development Board (AHDB) to assess the impact of the decision to leave the EU. These have all been based on a number of scenarios, such as still having good access to the EU markets and then this not being the case and then variations on this such as a Norwegian and/or Swiss style relationship with the EU. In most cases, the conclusions have been that unless a "good" deal is secured, Brexit is not a positive outcome for the UK, at least in the immediate future. To be able to survive and thrive in any post Brexit environment, farmers will need to strive to be:

- in the top quartile of industry performers
- and probably (but not always) be operating at an increased scale

There are also ongoing discussions with the likes of the US, New Zealand and Australia as to the development of Free Trade Agreements (FTA) which will provide some new opportunities for UK farmers and food businesses, but also threats too. It is also hoped that there will be similar FTA's concluded with the likes of India and China, but these still seem some way off.

The other key conclusion reached, is that almost regardless of what sort of Brexit is reached, the key trends and influences on the UK supply chain will merely be accentuated, and in some cases, be accelerated.

A US Trade Deal?

So where does this leave the UK/US Free Trade Agreement? Talks have started and this is a good sign. But, with packed agendas for Johnson (dealing with impact of COVID - 19 and then Brexit) and then President Trump - who also must deal with economic impact of COVID - 19 and then has the small matter of a US election too) - how much time can be given to this? No doubt, the civil servants on both sides will be working away on this, but can the knock out blows required really be achieved in the short term?

A US deal does represent a significant opportunity for the whole UK economy. It has the potential to create a substantial increase in trade with the US of approximately £15.3 billion in the long run, delivering a £1.8 billion boost to UK workers' wages, as well as lowering prices on key consumer goods imported from the US. The US should remove the punitive tariffs imposed following the WTO's ruling on Government subsidies to Airbus. For example, some 62% of all US goods imported into the UK and 42% of all UK goods

exported into the US are used in supply chains, where extra gains could also be found from lowering barriers.

What you can be sure of though is that agriculture and food will almost certainly be a sticking point in all of this. There is concern in the UK about a free trade deal opening opportunities for the US to sell GM soybeans, chlorinated chicken and hormone treated beef to the UK. Some farmers are worried that agriculture will be thrown under the bus, in order to get concessions in other areas of the negotiations. And it would be a brave supermarket in the UK to boldly claim to its customers "our chicken comes from the US".

Our experience also shows that just having market access to a particular country does not mean that exporters immediately rush to that market. Has the US supplied the UK in the past – yes. Have the leading US farmers, processors and shippers got the technical and commercial ability to deal with the UK – yes. Does it mean that they will look to the UK market at a time when post COVID - 19, UK importers and retailers might be looking to shorten supply chains? Not automatically, in my view. At the same time, UK agriculture and horticulture are still looking to boost domestic productivity, not least through the use of various forms of so called "agri tech". The best of the best in the US might re look at the UK market, but this is by no means certain.

Sealing a UK/US Free Trade Deal will almost certainly take longer than the much heralded "quick and outstanding deal" that President Trump promised. He might not even be around by the end of the year to see this through. Trade deals normally take several years to negotiate, and even then, there is a longer implementation period – and "outstanding" – for who, you wonder? What does seem sure is that there is some way to go on this and there is plenty of water to flow under the bridge before a UK/US deal is finalised.

The Impact of COVID - 19

COVID -19 has had a major impact in the UK. Since the first outbreaks in early March 2020, there have been some 45,700 deaths from the disease and there has been huge pressure on the economy, as well as the National Health Service as a result. The government has introduced a range of emergency support measures to the tune of some £300 billion.

25% of the workforce has been "furloughed" – a scheme by which the government has paid 80% of the wages of workers who would have otherwise been made unemployed. The scheme will come to an end later on in the year and there are predictions that the unemployment rate will soar to around 3 million - maybe even higher over the winter months.

The country of course was in lock down for much of the period between the end of March and early July. The service and hospitality sectors have been it very hard in this period. The government, is very keen, for understandable reasons to try and kick start the economy, but there are also huge concerns around the prevention of a second spike in the number of infections too.

At farm level, there have been a number of major challenges to face up to, especially in the early days of the outbreak. Agriculture and food were both deemed by the government to be "essential industries" and could

carry on working. Some dairy farmers, however, were forced to throw away milk as collection schedules were severely disrupted.

There were also concerns over the availability of farm labour. This has been an ongoing issue over the last few years but was accentuated by the need for seasonal labour, especially in the horticultural sector, which has a high degree of dependency on workers from Eastern Europe.

Farmers who supplied food to the catering sector saw sales disappear overnight and had to quickly find alternative customers. Some relief was provided by switching to online selling mechanisms. In some cases, deliveries of agricultural inputs were not possible, as distributors struggled to come to terms with reduced work forces, enforcing social distancing measures and general business disruption.

At the outset of the pandemic, it was clear that many farmers were under stress and anxiety as to how they would be able to manage their operations. At the same time, many farmers seemed to adopt a policy of "just getting on with the job". There appears to have been no knee jerk reaction to the outbreak of COVID – 19, although many have used the opportunity to review how they run their farms going forward.

There has been no apparent rush to invest in robotics and automation, as an example, as a result of concerns over labour. Farmers though have used the time to get closer to their banks and even closer to their customers. Most farms have introduced social distancing measures effectively. This has not stopped problems arising, especially on horticultural units, where several hundred people can be employed at any one time. Several farms have been forced to shut if large outbreaks have occurred.

In terms of the impact of COVID – 19, these have been seen more clearly in the rest of the supply chain and can be summarised as follows:

- foodservice sales have all but collapsed and even the re-opening of pubs, restaurants and hotels in early July does not guarantee a full return to normal of this route to market
- despite using a range of social distancing measures, food processing factories have been closed due to COVID - 19 outbreaks. This is associated with the working conditions and environment in these factories as well as the nature of the labour often used in them (i.e. often migrant labour who also live and travel to the place of work in close proximity to each other).
- online selling has boomed in this period - this was something that had already begun to be a more prominent feature of the UK supply chain.

At the start of the outbreak, it was common to see supermarket shelves empty of key essentials such as fresh produce, canned and dry goods. To some extent, this was due to a level of panic buying, but also demonstrated how fragile at times UK supply chains can be with a strong reliance on just in time delivery operations. Within a few weeks though, most products could be found on supermarket shelves without too much of a problem. This, in turn, is testament of how robust UK supermarket supply chains are as well. In the mid to long term though, there are probably a number of factors that

will drive change in the UK supply chain and the businesses (including farmers) who supply it as follows:

- because of COVID – 19, all suppliers and supermarkets which still dominate the UK point of sale, will stress test the robustness of their supply chains and we might well see the shortening of these in the future
- there will be a trend towards more home preparation of food and demand for convenience foods
- shopping habits will change with consumers opting to buy food on a more localised basis
- issues that were important before March 2020 to the supply chain will not go away - these include areas such as plastics reduction, water usage, meeting the challenge and in some cases, the opportunities of climate change etc
- the experience to date – and we suspect going forward - is that no one has been immune from the impact of COVID - 19 be they big, small, well established or relatively new businesses etc
- the ongoing pressure in the retail market as this discount chains continue to gain ground on the Big 4 retailers (i.e. Tesco, JS, Asda and Morrisons) and at the expense the higher value retailers such as M & S and Waitrose. It is reported that some supermarkets have requested significant price discounts over the rest of the year from their suppliers. This is a direct result of the predicted severe down turn in the economy that we have begun to already see

The economic situation in the UK for the next 24 months looks very challenging indeed. COVID - 19 has been another major shock to the UK supply chain, but to a totally new level. As a result, companies need to be more agile and resilient than ever before and not all are going to make it through this incredibly challenging period. In my experience, the full impact of a supply chain shock such as COVID – 19 again, will be to speed up change/trends already taking place in the market.

COVID - 19 impacts and uncertainty over Brexit are something of a double challenge and are all accentuated by the threat of supply chain price pressures that seem likely to follow over the next 3 – 6 months and beyond.

Commercial Pull

A reality of the UK food chain is the power of the food processing sector, and then in particular, the role of the major supermarket chains (i.e. the 4 largest supermarkets account for c. 70% of food sales). They operate in a fiercely competitive market environment and are constantly seeking, if not at times, demanding improvements from their supply base in terms of efficient and increasingly, sustainable food production.

Beyond the Agricultural Bill, Brexit and any international trade deals we the UK do or do not secure, this is therefore the other huge driver for change in the

UK - the sheer “commercial pull” of the major retailers and food processors in the UK. The key players operating at the point of sale have also been impacted by a whole range of factors over the last 10 years. This includes the development of the discount chains in the UK, the move to online retailing, the need for New Product Development (NPD) and innovation in food products and the need to meet a clear consumer demand for environmentally friendly and sustainably produced food. And all of this at often no additional cost.

The big difference is that the Agricultural Bill, although the direction of change is clear, will take 7 years to unwind in full. A new trade deal with the US might take several years to negotiate and then be followed by an implementation period. Even an extension of Brexit cannot be totally ruled out, although we suspect there is little appetite for this in the UK or the rest of the EU.

A change in procurement policy, however, by a leading supermarket or a food processor can see change happen almost overnight. While there are several policy push drivers in the UK and these will influence the future direction of farming, the commercial pull factors are probably even stronger as an agent of change.

Final Words

This all points to a very different looking sort of farming sector in the future. Will some thrive in this new environment and take advantage of new opportunities - yes. Will some struggle - potentially - quite a few. The sector will need to be open to new ways of farming and doing things – yes. The new political, economic and social climate in the UK over the next few years will also see us, the managers, of farm and food businesses needing to be at the very top of their game.

I finish this viewpoint by making an unashamed plug for what we do at the Institute of Agricultural Management. Everything we get involved with is to help farmers and others in the supply chain be “better and more professional managers”. And we are going to need to be. The work and activities of the IAgrM, to my mind, has never been more important.

About the author

John is a Divisional Director with Promar International, the agri food consulting arm of Genus plc and a former Chair of the Institute of Agricultural Management – he still serves on the Council. He has also been a Council Member for the Oxford Farming Conference and is the current chair of the annual City Food Lecture. He has worked in over 60 countries around the world on an equally wide range of projects, but a good deal of his work has been in the horticultural and dairy sectors. He can be contacted at john.giles@genusplc.com