Northern Ireland Assembly

Committee for Agriculture, Environment and Rural Affairs

OFFICIAL REPORT (Hansard)

Farm Welfare Bill: Department of Agriculture, Environment and Rural Affairs

20 May 2021

NORTHERN IRELAND ASSEMBLY

Committee for Agriculture, Environment and Rural Affairs

Farm Welfare Bill: Department of Agriculture, Environment and Rural Affairs

20 May 2021

Members present for all or part of the proceedings:
Mr Declan McAleer (Chairperson)
Mr Philip McGuigan (Deputy Chairperson)
Ms Clare Bailey
Mrs Rosemary Barton
Mr John Blair
Mr Maurice Bradley
Mr Harry Harvey
Mr William Irwin
Mr Patsy McGlone

Witnesses:

Mr Seamus McErlean	Department of Agriculture, Environment and Rural Affairs
Mr Mark McLean	Department of Agriculture, Environment and Rural Affairs

The Deputy Chairperson (Mr McGuigan): I welcome, via StarLeaf, Seamus McErlean, who is DAERA's chief economist, and Mark McLean, who is principal agricultural economist. Do you want to brief the Committee?

Mr Seamus McErlean (Department of Agriculture, Environment and Rural Affairs): Thanks very much, Chair. Our focus will be more on the economic logic of the proposed farm welfare Bill as opposed to going through it in the forensic way that the Assembly researcher did.

I understand what the authors of this potential Bill are trying to achieve. They are trying to ensure that Northern Ireland farmers get a price that covers the cost of production and gives farmers a margin. Effectively, they are trying to guarantee better incomes, but, in our view, the approach proposed has some major flaws that fundamentally undermine it. We have to remember that income is a product of prices and the quantity sold. If prices set under the Bill are higher than prices normally paid in our external markets, that will make Northern Ireland farm produce less competitive in those external markets. Around 70% of food processed in Northern Ireland is sold outside Northern Ireland. That is an important consideration. If Northern Ireland offers its product for sale in those external markets at a higher price than our competitors' products, we can expect the quantity sold to fall as those buyers opt for cheaper prices that are available from competitors. If the quantity sold goes down, so does Northern Ireland agricultural income. In that respect, the Bill is counterproductive in trying to achieve better incomes.

Another flaw in the Bill is that Northern Ireland suppliers of feed, fertiliser and other inputs could put up their prices, safe in the knowledge that government would recalculate the cost of production in Northern Ireland and raise minimum prices accordingly, meaning that the external competitiveness of Northern Ireland farm produce would be continually undermined. It is unclear whether the Bill would be compatible with UK law or, indeed, with EU regulation that is applied under the protocol. Competition is a reserved matter in the UK, so the Assembly has no remit in that area. The relevant UK legislation is the UK Internal Market Act 2020 and the Competition Act 1998.

A further issue with the Bill is that it would, through its anti-avoidance provisions, effectively stop certain food products coming into Northern Ireland. Product from GB farms would be prohibited from coming into Northern Ireland, as would produce from Republic of Ireland (ROI) farms or farms further afield in Europe or the rest of the world. That would create a new barrier to trade, especially in these islands. You would have barriers to trade east-west and South/North.

Around half of the food processed in Northern Ireland is sold in GB, and it is not difficult to guess how significant numbers of consumers in GB might react to finding out that GB farmers could not sell their product in Northern Ireland but that Northern Ireland expected to sell around half of its farm produce to GB consumers.

In conclusion, I think that the approach set out in the Bill is flawed. It could see a contraction of agriculture in Northern Ireland, which, I think, is the opposite of what the authors are trying to achieve. There are other issues with the Bill, but I will stop there for now. Mark and I are happy to take questions. Thank you, Chair.

The Deputy Chairperson (Mr McGuigan): Thank you very much, Seamus. I remind members that, if they want to ask a question or make any points, they can indicate that in the group chat.

Mr McGlone: Thank you, Seamus. It is good to see you and Mark again. There is one thing, and I put the question previously to the other Mark — Mark Allen — about the potential of what I see as risky trade deals. You have probably read the press and the stuff about the National Farmers' Union's (NFU) deep concerns about tariff-free deals with the likes of Australia and the importation of cheap produce. Obviously, if a tariff-free deal or whatever type of deal is negotiated with Australia, there will be other countries in the rest of the world, such as Brazil, saying, "Hey, we need a piece of that action".

The aims of the farm welfare Bill are very laudable. It aims to make sure that people are paid a proper wage and have a proper income for their produce. Clare Bailey mentioned farm families, and we know that many of those families are on the breadline already. My question is this: how do we prevent a race to the bottom? That is exactly what the consequences of these trade deals with other parts of the world will be, and that is obviously what the NFU's concerns are about.

I was going to ask that question anyway, but Seamus referred to the fact that 70% of food produce from the North is sold in other jurisdictions, and 50% of that goes to GB. This is the query: if the GB market is flooded by cheap imports, some of which are really cheap, how do you prevent that race to the bottom? We are moving on to climate issues, and there are consequences for the climate because of transportation. What sort of interventions can be made, and in what way? This is an attempt to try to do that. I hear what the consequences and the impact might be. You say that the Bill is a threat to farmgate prices, incomes and the like, but I think that there are other potential threats, which are much larger and which the British Government in Westminster seem intent in going headlong into.

Mr McErlean: It is a complicated question. Obviously, trade is a reserved matter on which we do not have a direct say. We get to feed our views in, and we do that at every opportunity. A tariff-free trade deal with Australia is a threat, because Australia is a big producer of beef and sheep and could sell quite a lot into the UK market. That would be detrimental to us because there would be a competitor in the GB market — for sure. Australia's prices are lower than ours. The normal approach to protecting the market for local producers is to treat certain sectors as sensitive and to use tariffs. That is the normal approach to dealing with the issue.

I do not think that the Bill is the solution for the reason that, if our produce is more expensive, it will have even less chance of competing with Australian produce in the GB market. I am not sure whether Mark wants to add anything to that.

Mr Mark McLean (Department of Agriculture, Environment and Rural Affairs): I will only add to what Seamus said about the Bill working. If we increase prices, two things will happen. First, we will be less competitive on exports. Secondly, imports will come into Northern Ireland at a lower price, and, therefore, our own produce will not be bought. Retailers will not buy more expensive produce if cheaper produce is an option.

In order to try to make that work, you would have to start putting import controls on food. That is hinted at in the circumvention measures relating to food from the EU and the rest of the world and from GB. It is not feasible for Northern Ireland to do that, nor is it legal. That is where the difficulties are.

Mr McGlone: That is the nub of it all, and it has been stimulated over generations of farm producers. Mark, you are from that type of background, and you know well what I am talking about.

How do you stop that race to the bottom? What sort of interventions other than tariffs are available? For the food producer who is putting the food out there, the multinationals that come in and look for their cut of it have driven prices down and further down. That producer often does not have a strong voice, and the only protection is some sort of government intervention. In that bigger context, how do we stop the race to the bottom?

Mr McLean: *[Inaudible owing to poor sound quality]* continues to make representation to the UK Government on trade deals. In our view, the most adequate protection measure is tariffs. We all recognise that, in trade deals, there has to be some give and take. For agricultural produce, if there is to be any extra market access, it is usually done through tariff rate quotas whereby you can control the amount of imports and offer a small amount of additional market access.

The reports of zero tariffs and zero quotas in free trade deals with the likes of Australia are very concerning. As Seamus said, trade deals are a reserved area, but we will certainly — other devolved Administrations will do the same — make the strongest representations to the UK Government on that matter.

Mr McGlone: Thanks very much for that, Mark and Seamus. Go raibh maith agaibh.

Mr Blair: Thank you, Seamus and Mark, for the information that you have brought to us. Before your presentation, we heard from our own researchers that DEFRA has mentioned action, by using powers in the Agriculture Act 2020, to address the issue of the market failures that farmers have faced and that have put them in, as DEFRA calls it, a weaker position. Are you aware of progress on that that could affect Northern Ireland or, similarly, any separate measures that could impact here in the same way that parts of the Bill intend to do?

Mr McErlean: There is ongoing work on contracts, which would offer farmers better protection. Obviously, if you have a contract, it has to be honoured when prices fall, and that gives you a better price than you might otherwise have got without it. There is work ongoing to formalise that and put a bit of structure around it. That approach can work for farmers.

Mr Blair: I take it that we are not yet sure of the detail or the implications of that for Northern Ireland.

Mr McErlean: That is not my area of responsibility. The Department may be doing some work on it, but, unfortunately, I cannot report what it may or may not be.

Mr Blair: OK. Thank you. We can chase up any progress there and try to get some details. Thanks for that, Seamus.

Mr McLean: Yes, but that is about fair contracts. No work is being done on the UK Government's intervention to set prices higher than the market price would be.

Mr Blair: Thanks, Mark.

Mrs Barton: I have a couple of questions. How does farmgate pricing work out in relation to multinationals that buy globally? Have any thoughts been given to that?

Mr McErlean: If you are a multinational that buys from farmers in Northern Ireland and elsewhere, and you are thinking about expanding your operation and know that it will be more expensive to buy from farmers in Northern Ireland, that will feed into your decision-making. There is an issue there.

Mrs Barton: Right. OK. Your paper states:

> *"As such, the NI Assembly, and DAERA, has no remit to introduce minimum price legislation on farm gate prices."*

The Assembly will not introduce minimum price legislation. However, if the Bill were enacted, that would obviously have to change.

Mr McErlean: I said that we have no remit in that area. I cannot give you legal advice on the matter — it probably needs to be sought — but I think that, if the Bill were passed, it would be subject to challenge under existing legislation.

Mark, do you want to add anything to that?

Mr McLean: Yes, I want to emphasise the consequences of it. Clearly, there will have to be restrictions on imports into Northern Ireland to enable this to work in any sense. We outlined the consequences that there will be for Northern Ireland exports. There is no point in raising prices in Northern Ireland if imports will just come in and substitute for those products. That will be damaging, so there will have to be restrictions on imports from the EU and GB, and both of those are extremely problematic.

Mrs Barton: Yes. I was going to say that there would be issues if you were going to restrict those imports.

Mr McLean: The agreement between the UK and the EU does not allow restrictions on EU imports into Northern Ireland.

Mrs Barton: Yes. OK. Thank you, Mark.

Ms Bailey: I think that University College Dublin (UCD) estimated that, if the Bill were enacted, it could create up to between10,000 and 20,000 good jobs in Northern Ireland at the start and more after that. Are you of the same opinion? Have you done a jobs estimation study on this one?

Mr McErlean: For the reasons that we have already outlined, we think that the Bill would be counterproductive for growth in the agriculture sector. I am afraid that we have a different view on the number of jobs that it would create.

Ms Bailey: Seamus, you said that you understand the aims of the authors of the Bill. Obviously, they are trying to get a fair price for farming families and allow them to make a margin. You are absolutely right. One of the main purposes of the Bill is to force large corporate food retailers and corporate food wholesalers to give farming families their fair share of that financial cake.

You say that the Bill would increase the cost to the consumer. I read it a wee bit differently. Surely that would not affect the retail price of food beyond normal inflationary increases?

Mr McErlean: It is often pointed out that, between what farmers get and the final retail price, there is quite a margin of difference. There might be scope for retailers to absorb some of that difference. However, a lot of the large food retailers work on very small margins, because they sell so much food that they can work on such margins. Different people have different views, but their view is that some of that would be passed on to consumers.

Ms Bailey: We know that 25% of farming families in Northern Ireland live in poverty. That is a shocking, long-term statistic. What are the Minister or his officials doing to make sure that the UK Agriculture Act allows our farmers a fair price and income so that we can embed that sustainable element in future policies?

Mr McErlean: There is a lot of thinking about what future agricultural support should look like, and all those issues will be considered in that work. We hope to come out with something in the next few months. I am not exactly sure when that work will come out but, to be fair, a lot of thinking is going on, and we must wait to see what comes out of that.

Ms Bailey: You said that the Bill would be counterproductive in trying to achieve better incomes because 70% of our food is sold abroad to foreign companies or countries. Is that right?

Mr McErlean: I included sales to GB in that. Some 50% of what we process in Northern Ireland is sold into GB, and roughly 25% is sold to other countries. According to our stats, that leaves about 25% or 30% that is likely to be consumed locally. Some of that may be bought by firms that subsequently sell it on to other countries. The stats are difficult. All that we can know is who it goes to first, after being processed in Northern Ireland. We do not follow it all the way to its final consumer. However, it is reasonably safe to say that 70% goes to external markets.

Ms Bailey: OK. It goes to external markets. Is there any indication of how much of it goes outside the UK?

Mr McErlean: It depends on the sector *[Inaudible owing to poor sound quality.]* I do not have figures to hand.

Ms Bailey: Have you any idea of the number of businesses from outside the UK that access products here or trade with our farming families? Have you any idea how many of them have access to the investor-state dispute settlement mechanisms, for example, or does all that lie with Westminster and DEFRA's ability to do the trade deals rather than us?

Mr McErlean: The Department for the Economy leads on issues like that, so it is probably better to put that question to its officials.

Ms Bailey: OK. That information does not flow through to DAERA, then.

Mr McErlean: I am not sure whether Mark has any more information on that one.

Mr McLean: No, I do not. The investor-state dispute settlement mechanisms do not fall within the Department's remit. We do not discuss it with DEFRA because it is not part of its remit either. The Department for International Trade deals with that.

Ms Bailey: OK. My rationale for asking that is that, if we know that current practice is leading and allowing our farming families to live in poverty, I wonder about those foreign trade deals if 70% of our produce is going to foreign markets, as the Department classes it. Is the ability of the Government, the Department or the Minister to get a fair price being blocked by those trade deals? We need to keep an eye on that, given that we are making new post-Brexit trade deals as well.

Mr McLean: Just to clarify: a lot of the 70% going outside of Northern Ireland is going to GB.

Ms Bailey: I know that that is not a foreign market per se; that is the domestic market. There would be nothing there to prevent us from sustaining and maintaining fair pricing in our *[Inaudible owing to poor sound quality]* market.

Mr McLean: Clearly, if you are going to bring in a Bill for fair pricing in Northern Ireland, that will have an impact on the ability to sell goods outside Northern Ireland if the prices are higher than what is available in GB. Retailers in GB will not buy it if they can get cheaper food from elsewhere. That is the context. We are not saying that 70% of Northern Ireland goods are going to foreign markets, but, clearly, if you bring in a Bill that treats Northern Ireland differently on a minimum price, that is very relevant because that, effectively, becomes an export in relation to what the Bill is trying to do.

Ms Bailey: I have one last question. France is trying to make moves; it is looking at farmgate pricing. Are you having conversations with DEFRA about that applying in the UK?

Mr McLean: No, there are no discussions about minimum farmgate pricing. The EU attempted to do that in the past and introduced import controls, and it still has tariffs. It also had export subsidies, which were very unpopular with developing countries because it meant that subsidised exports were going from the EU to developing countries, which lowered their market prices. It also incentivised production in the EU and led to oversupply. That whole approach has been gradually abandoned and has moved towards direct support and decoupled income support. That is what we have at the moment. The agriculture sector is well supported and is paid £293 million in direct payments each year.

Ms Bailey: Those are public subsidies.

Mr McLean: That is right, but they were derived from —

Ms Bailey: They are needed because we are not getting a profitable or fair price.

Mr McLean: Historically, it derived from when the EU had higher prices than the market price. It abandoned that approach and reduced those prices, and the direct support was compensation for that reduction. That is from where it derived.

Ms Bailey: Thanks very much. Cheers.

Mr Irwin: I have farmed all my life, so I know a wee bit about the industry. We are all concerned about free trade deals. Of course, in the past, all those predicting doom and gloom said that Brexit would mean falling lamb prices, which would be disastrous for sheep farmers. The very opposite has happened, and lamb prices are at probably their highest level ever.

I have concerns about having fixed pricing in the way that the officials describe. I am not sure how we do that without pricing ourselves out of the market, and I do not see a way round that. Are you aware of anywhere in the UK or Europe that has fixed pricing legislation?

Mr McErlean: I am not 100% sure. I am not aware of anywhere in Europe. Mark, do you have any information on that?

Mr McLean: No, there is nothing on minimum pricing as construed in the Bill. The common agricultural policy operates within the EU. Previously, it operated an intervention price system whereby it tried to keep prices at a minimum level. When prices fell below that level, produce could be sold into intervention. That was operating at EU level.

As I was saying, however, the EU has moved away from that because it created a lot of problems. It did not resolve anything. The intervention system is still there at a much-reduced level. Clearly, as market prices are high at the moment, it is not being used. The intervention prices are at such a level that farmers do not regard them as sustainable. It is there only as an emergency safety net. That has been carried over and retained in UK law for the time being, as all EU laws were carried over in the process of withdrawal. Clearly, it is not relevant at the moment, given the high market prices.

Mr Irwin: Are you saying that it indicates a price reduction. There was an issue with the UK still having the option to put some produce into private storage through intervention. Is that correct?

Mr McErlean: The option is there, yes, if the prices are very low.

Mr Irwin: Thank you.

(The Chairperson [Mr McAleer] in the Chair)

The Chairperson (Mr McAleer): As I have no other members down to speak, I would like to take the opportunity to thank you very much, Mark and Seamus, for appearing before the Committee this morning. No doubt we will hear more from you on this and many other issues.