



BACKING BRITISH FARMING IN A VOLATILE WORLD

— THE REPORT —



TOP 10 POLICY ASKS

- 1** A UK Government engaging and championing farming in EU policy making, leading with review of CAP greening and simplification.
- 2** Comprehensive Agri-Food strategy to grow UK food production over the new government's term, reversing the long-term decline in UK self-sufficiency.
- 3** Robust scientific evidence to ensure continued access to a wide range of plant protection products using risk-based assessments.
- 4** Implement all elements of the 25-year TB Eradication Strategy.
- 5** Extend and support the Grocery Code Adjudicator role to a wider proportion of the food supply chain.
- 6** Fiscal incentives that enable farm businesses to manage volatility and promote capital investment.
- 7** Increased investment in UK-relevant agri-science, including development and approval of biotechnology tools through to commercialisation.
- 8** Accelerated rollout of high-speed broadband to all rural areas.
- 9** Accurate food and farming information supplied to schools and colleges.
- 10** Planning rules that enable farmers and farm enterprises to compete and grow with expanding potential market and conform to regulatory requirements.



FOREWORD

Like many farmers I believe that we are entering a crucial time for UK farming. Britain needs farming to be successful and respected. We need farming to become more competitive, productive and profitable. To do that we need a government that is prepared to work with and champion the farming industry.

We must make the case for why the new government, MPs, ministers and civil servants should Back British Farming. As this report shows, farming has not received the interest and support it needs from successive governments. UK farmers are being denied access to investment aids they need. Biotechnology pioneered in the UK all too often benefits Britain's competitors rather than Britain's farmers. Concerted action to fight animal disease is subject to political game playing. Farm assured farms are not given credit for production standards by regulators.

This cannot continue. Britain's farmers are becoming steadily less competitive when compared with other countries in Europe. For three decades the UK's self-sufficiency has insidiously declined. Yet the opportunity is clear – domestic and global demand for food and renewable energy is on the rise: 88 per cent of the UK public thinks that farming is important to the economy. Almost three-quarters of the public want to halt the nation's declining self-sufficiency. Farmers are ready too, with the potential to grow production and reduce our reliance on imported produce.

What is needed now is a government that understands farming, that has a long-term ambition for the sector's growth and that has the policies to send the right business signals to the UK's farmers in times as challenging as now, as well as in the future. British food production is too important to the country to ignore or disregard.

In this updated report we make the case for a resilient and growing sector, able to invest in its future and confident of government backing. To achieve the vibrant industry the nation needs we close the report with key actions we wish to advance with the government and our partners across the food chain.

Farmers will have four key tests of this government's policies, how will it work with the farming industry to:

- Halt and reverse long-term declines in the nation's self-sufficiency;
- Plan for increasing farming's productive potential, export contribution, competitiveness and profitability;
- Stimulate investment across the farming industry, so that we can grow more British food; and
- Ensure that the drive to increase British food production and productivity is at the heart of policy-making across all government departments and the EU's institutions.

Meurig Raymond MBE FRAGs
President, NFU





WHY BACK BRITISH FARMING? RESILIENCE THROUGH THE RECESSION...

British farming's track record during the recession has been one of resilience and impressive growth, in sharp contrast to most other industrial sectors. While the UK economy has only now recovered to a similar size prior to the global banking crisis, UK farmers' contribution has grown substantially in the seven years to 2014. Farmers' contribution to the economy has grown by £3 billion – a 42.9 per cent increase to £10 billion. We predict that with the right government policies Britain's farmers can continue this impressive performance.

The bottom line is that the UK experienced half a decade of 'lost' growth due to the recession. Compare this to agriculture. To say that agriculture held up well through the recession is a massive understatement. A driving force has been the increased value of the UK's agricultural output, on the back of improving commodity prices. From £20 billion in 2008, our farm output has grown by just over 29 per cent to £25.8 billion in 2014. Success stories from our manufacturing, services and construction sectors have been scarce in recent years, yet the reality is that the fields and farms of Britain have yielded impressive growth.

This has also impacted the overall income of agriculture. The profitability of UK farming fell by 4.4 per cent to £5.4 billion in 2014, after adjusting for inflation. However, 2014 still represents the sixth successive year in which farming profitability has exceeded the £4 billion mark. TIFF is now around two and three quarters (184 per cent) higher than it was in 2000, but is still around 30 per cent below its peak in 1995.

UK agricultural exports are dominated by trade with the EU. The European market accounts for 75 per cent of the UK's food exports. Food and drink is now the UK's fourth largest exporting sector, with exports more than doubling over the last decade.

UK food and non-alcoholic drink exports were up 2.6 per cent in 2014 to £12.8 billion, while UK dairy exports were up 8.8 per cent to £1.4 billion. The top three product categories last year were salmon, chocolate and cheese. Cheese exports, which make up a third of the overall dairy exports, were up 5.6 per cent. Demand was high in the United States and China, which had double-digit growth for UK food and non-alcoholic drinks.

This export performance illustrates why the EU is so important to UK farming and food chain. It is the sector's largest market and access is shaped by policies and legislation set in Brussels and agreed by EU Member States, the European Parliament and the European Commission. This is why farmers need UK politicians to work with the industry in shaping EU food and farming policies so that the industry can compete on equal terms.

UK farming and food is also a significant export force into non-EU markets. These non-EU exports stand at £1.7bn in 2014. Coherent and well resourced government support for market access and capacity building in international markets is vital if the sector is to benefit from growing markets for high quality UK food exports.

BACK BRITISH FARMING

The net worth of UK farming was estimated to be

£225BN

in 2013



Agriculture's contribution to the economy increased by

43%

to almost £10bn in the UK between 2008 and 2014

Our farming output has risen from

£20BN

in 2008 to

£25.8BN

in 2014

This is an increase of 29 per cent



The UK has doubled exports over 10 years to reach £12.8 billion in 2014



86% of shoppers want to buy more traceable food that has been produced on British farms, **78%** think supermarkets should sell more food from British farms



For every £1 that farming contributes to the UK economy, our food manufacturers and wholesalers contribute a further £5

The farming and food sectors provide more than

3.8M JOBS



UK shoppers spend some £198bn on food and drink products





WHY BACK BRITISH FARMING? THE SELF-SUFFICIENCY STORY...

It is a disturbing fact that the UK's self-sufficiency has declined steadily for more than 30 years since its peak in 1984. At the time UK food self-sufficiency stood at 78 per cent. Now farming provides 62 per cent of the nation's food. Successive administrations have convinced themselves that this slow and steady erosion of the UK's food security can be replaced by imports. Over the past ten years such complacency has been shown to be dangerous as increasing competition for agricultural products, climatic events, volatility in world markets and export bans by some countries, have disrupted international supplies.

We expect our governments to plan ahead: for farm policy tackling declining self-sufficiency is a key place to start.

The causes of declining self-sufficiency are many and include:

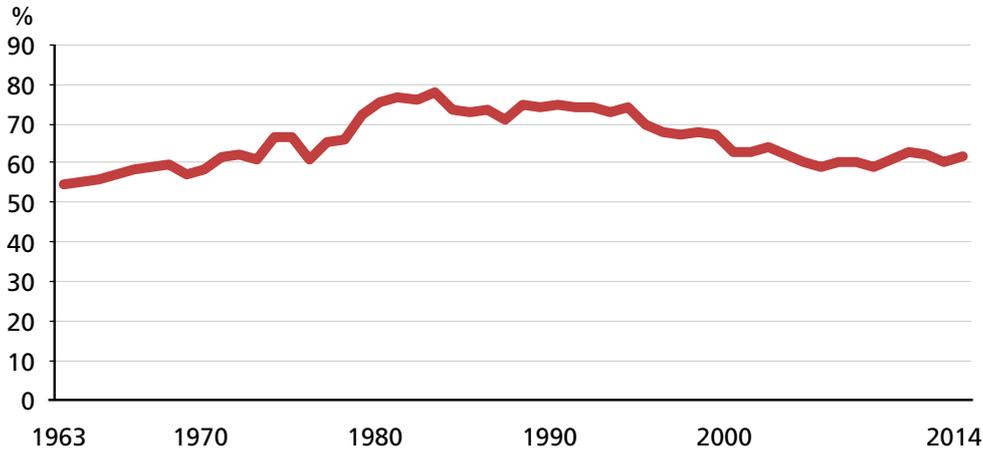
- Output from the UK farms that has failed to keep pace with the rising UK population;
- Shifting and conflicting direction for European and UK farm policy, which has over-emphasised environmental rather than production outcomes and complicated the business of farming;
- Declining investment in publicly funded agricultural R&D and ensuring that new knowledge and technology is adopted on farm;
- Poorly crafted regulation (such as the CAP's three-crop rule and the ongoing loss of crucial plant protection products) which has discouraged private investment in new technology and R&D has added cost and confusion to farmers' daily decisions;
- A failure to deal effectively with animal health threats such as BSE, bovine TB and FMD;
- Access to labour; and
- Weak bargaining power with the food supply chain, and especially with retailers, which has only partly been addressed by the Grocery Code Adjudicator.

As a consequence the UK's farming sector has become steadily less competitive with other parts of the EU and on world markets. The new UK Government has a major opportunity to set a new path.

In the wider global context there is more reason to care about self-sufficiency. By value Europe's agricultural trade accounts for 9.8 per cent of exports and 9.7 per cent of imports respectively. Trade on this scale carries a significant external environmental footprint. In effect Europe relies on crucial natural resources, such as water, which are likely to become increasingly limiting to food production in the decades ahead.

We could address our 'food footprint' by increasing food production in the UK and Europe. Investing in resource efficient and resilient food production would have an important role to play in limiting this external footprint. Crucial to this, and an underlying theme of this report, is the continued need to invest in both management and technological advances which support the achievement of these high production standards. We also know that in making this investment we demonstrate that leadership are able to export this knowledge and innovative solutions on a global scale.

UK SELF-SUFFICIENCY TREND



Self-sufficiency captures a sense of how UK farming is performing on its home turf. It's a yardstick for measuring how competitive we are and how much we produce. There will always be a proportion of food that we just can't grow in the UK because we haven't got the natural ability to grow them. The disappointment for UK farmers is where we see production fall or stand still in those products where we could compete and where we have a natural advantage. Greater self-sufficiency does not mean limiting or reducing export; it means capitalising on what we're already good at to underpin a potential improvement in farm output volumes.

SELF-SUFFICIENCY IN KEY COMMODITIES

Self-sufficiency five year average

| | 2010-2014 | 1985-1989 |
|----------|-----------|-------------------|
| Wheat | 101% | 114% |
| Potatoes | 81% | 90% |
| Beef | 84% | 95% |
| Lamb | 99% | 84% |
| Milk | 103% | No data available |
| Pork | 58% | 77% |

UK crop yields have plateaued as agricultural research and development spend fell



30%
between 2002 and 2010

UK food self-sufficiency is now just 62 per cent, down from 78 per cent in 1984





POPULATION GROWTH – A NEW CHALLENGE FOR SELF-SUFFICIENCY

According to Eurostat¹ projections, the UK's population will continue to grow faster than any other large EU Member State. By the mid-2040s the UK will be the most populous country in the EU. Based on data drawn from the UK's Office for National Statistics (ONS), Eurostat predicts that the UK's population will be 77 million compared with Germany (75 million) and France (74 million) by 2050.

Population growth on this scale requires early action by our current, and future governments. For farming, population growth presents both opportunities and challenges. Positively, a growing domestic market means greater potential for UK-sourced food and renewable energy provided by UK farmers. We are already seeing some early signs of how increasing demand is being met: In 1991, for example, domestic strawberry production was 44k tonnes; in 2014 it was 104k tonnes. For asparagus, the UK produced just 1,500 tonnes in 1991 versus almost 6,000 tonnes in 2014. But for many of our core enterprises production has failed to compete for market share, despite increasing demand. For example potato production dropped from 7.8m tonnes in 1992 to 5.9m tonnes in 2013, while beef production has fallen by 11 per cent over the same period.

A growing population also means increasing competition for labour, land and water, especially in the south and east where such resources are hard won. To become more competitive and meet growing markets farming needs government policies that protect access to adequate supplies of water to grow crops and water livestock as well as the

ability to invest in new ways of growing crops such as polytunnels and new poultry or pig units. Farmers already see the threat of restrictions to water needs, while well-organised lobby groups are using planning objections to frustrate new development needed to produce food more efficiently. Unchecked such trends can only increase the nation's need to import food in ever greater quantities.

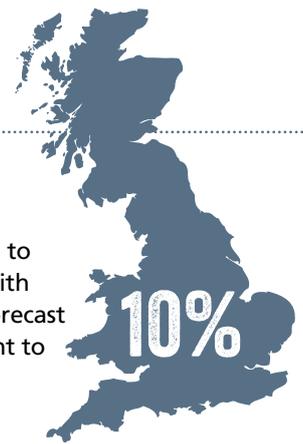
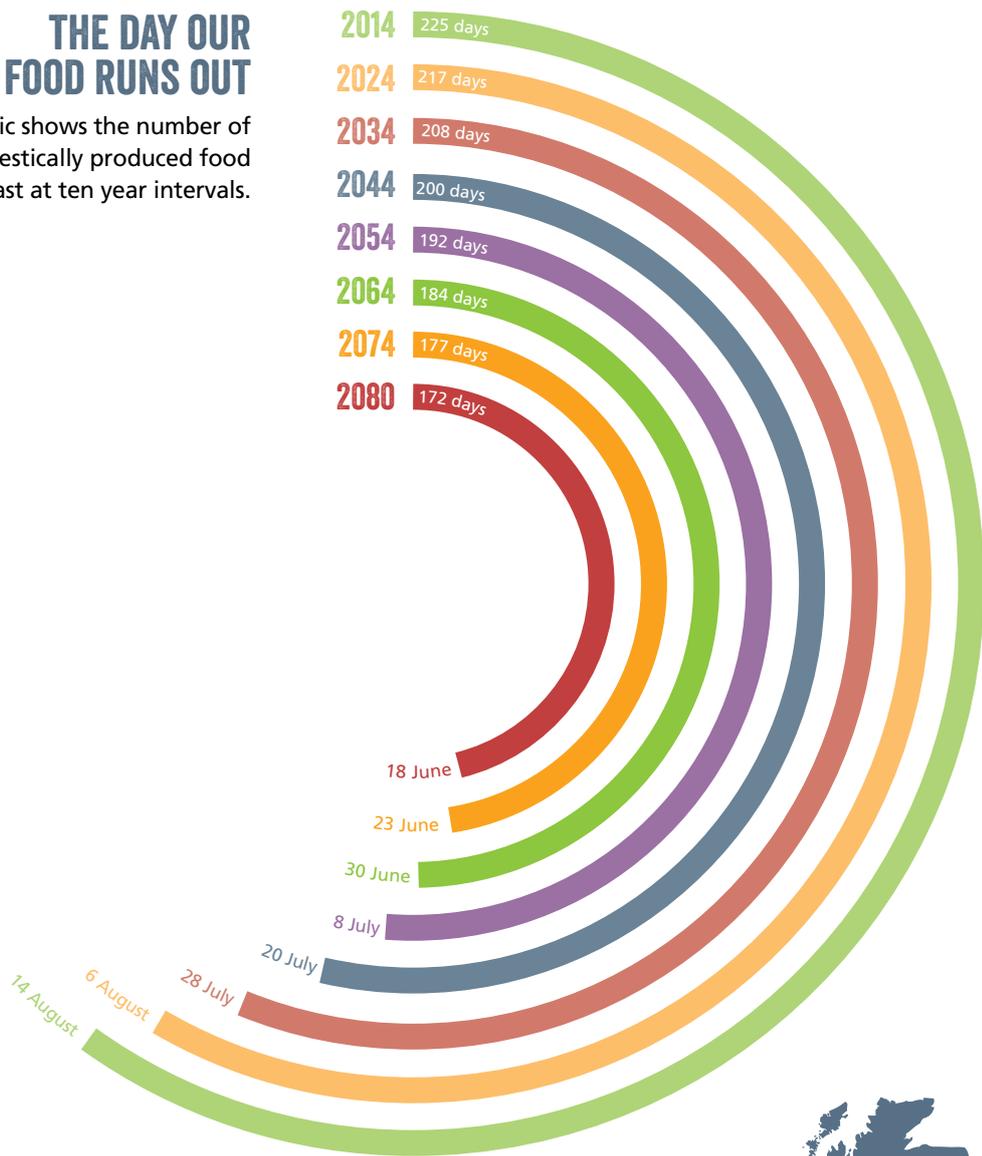
The NFU estimates that if UK farm production stays at current levels and population grows as predicted, by the mid-2040s UK self-sufficiency would have slumped to 54.5 per cent of the nation's needs. This level was last seen in the early 1960s. Unaddressed this slump would continue through to 2080 by which time only 47.2 per cent of the nation's needs would be met by UK farming. Such a level of dependency would be akin to the levels last seen in the post-war period.

The stark choice for our government is whether to trust the nation's food security to volatile world markets or to Back British Farming and reverse the worrying trend in food production that will be by mid-century severely affected by climate change?

¹ <http://ec.europa.eu/eurostat/web/products-datasets/-/tps00002>

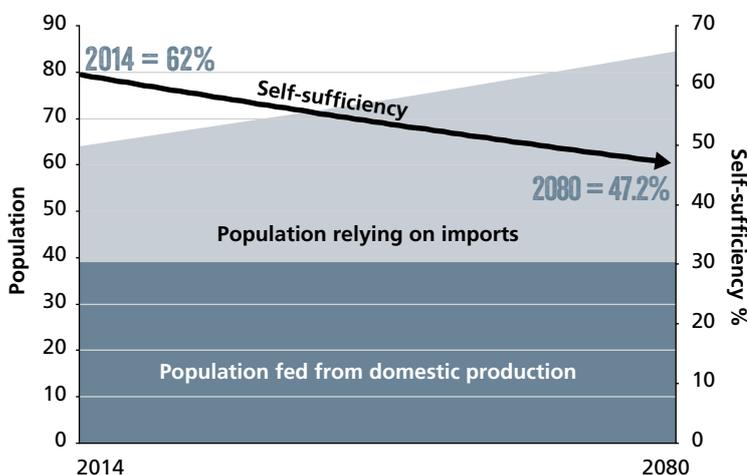
THE DAY OUR FOOD RUNS OUT

This graphic shows the number of days domestically produced food will last at ten year intervals.

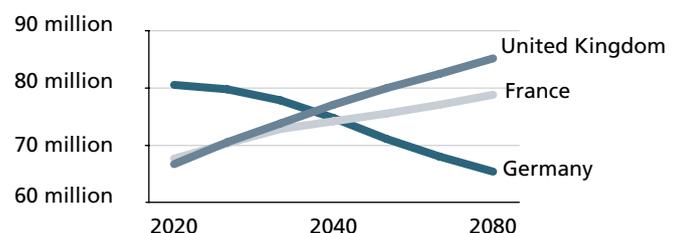


Global population is estimated to increase to 9.6 billion by 2050, with the UK population forecast to increase 10 per cent to 70 million by 2030

POPULATION AND SELF-SUFFICIENCY PROJECTIONS



EU POPULATION PREDICTIONS





WHY BACK BRITISH FARMING... THE PRODUCTIVITY AND INVESTMENT CHALLENGE

Over the past 60 years farming has had an impressive record of increasing levels of production and productivity. But in recent decades this trend has faltered and more recently flatlined. As the Andersons report for the Oxford Farming Conference in 2015 showed, taken with increasing domestic demand and increasing concern over food security in the decades ahead, there is an urgent need to address UK farming's productivity challenge.²

Using Defra's measure of 'total factor productivity'³, the chart shows that UK's farmers have become more efficient in the use of inputs since the mid-1990s, reducing input use by about 14 per cent, but have only marginally increased output. In this sense farming has delivered more food with less input, but progress is substantially slower than in previous decades.

Looking back over the last 60 years prior to 1984 productivity grew by 1.9 per cent/year whereas between 1984 and 2000 the rate fell to only 0.25 per cent/year. Although TFP rose in 2014, the previous five years has seen a fall in TFP of a quarter of one per cent. A detailed study of UK productivity trends, published by Defra⁴, helps to explain why this is happening. It concluded that the slowdown coincided with substantial cuts to public funding of UK agricultural research base and the privatisation of farm advice in England (the report also notes that where research has been maintained, as is the case for sugar beet, where processor/grower jointly fund research, productivity growth has continued).

Perhaps most alarming has been that total output from UK farms are little changed since 1984.

The NFU highlighted the consequence of declining productivity in the UK in its report *Healthy Harvest*. That report maps the risks to plant protection products from a precautionary hazard-based

approach to pesticide regulation. Our report verifies Defra's conclusions on the importance of agricultural research, as with more costly and less certain regulatory controls in the EU, agro-chemical companies focus their research effort on more accessible agricultural markets elsewhere. We can already see the results in crop production terms as major crop output in the UK remains static against significantly increased production elsewhere (chart opposite).

The fact is productivity matters: if you are able to produce more from the same level of inputs, it creates the margin that enables farmers to re-invest in businesses, whether this is as new crops, new genetics, new machinery or new buildings. It is not the enemy of the environment as it ensures that inputs are used more efficiently, placed where and when needed in a crop or pasture to deliver the optimum output and without need to increase the area of land in production. And it follows that the more efficient a farm business becomes, the more competitive and resilient it is too. This is why the government needs to work with the industry to focus on a long-term plan to grow farming's productivity and competitiveness.

It also follows that the new government must also have fiscal policies that will stimulate investment by farm businesses. A major drag on investment is the extreme volatility in which farm businesses operate. Agricultural markets have been increasingly

² www.ofc.org.uk/files/ofc/papers/ofcreport2015.pdf

³ www.gov.uk/government/uploads/system/uploads/attachment_data/file/379774/agriproductivity-statsnotice-27nov14.pdf

⁴ <http://archive.defra.gov.uk/evidence/economics/foodfarm/reports/documents/ProdRep.pdf>

characterised by market volatility, and the current year is no different. Prices for most agricultural commodities have been falling over the past 18 months and this trend has continued in 2015. Rising outputs and subdued demand being the key drivers behind lower prices.

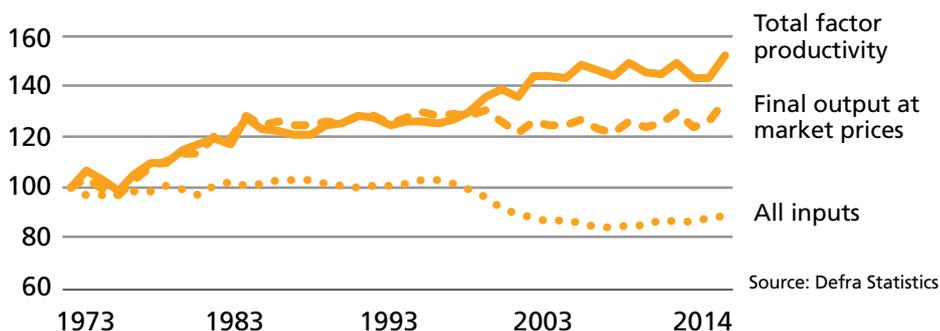
Lamb prices were 20 per cent lower in August 2015 compared with the beginning of the year, while milk prices have declined by 11 per cent this year so far and remain 26 per cent below levels seen in August 2014. Other sectors have also seen falling prices with the wheat price being nine per cent lower compared with January. Such price changes are not unusual as over the last ten years average farm business income can halve or double year-on-year. However such volatility provides a very insecure base for investment planning and productivity growth.

Boosting productivity works for farm businesses too. Farm business performance varies across the industry. The latest stocktake data from AHDB Beef & Lamb show that the top third of lowland and Less Favoured Area (LFA) suckler cow enterprises failed to return a positive net margin per cow put to the bull on a full economic cost of production basis.

WHAT IS 'TOTAL FACTOR PRODUCTIVITY'?

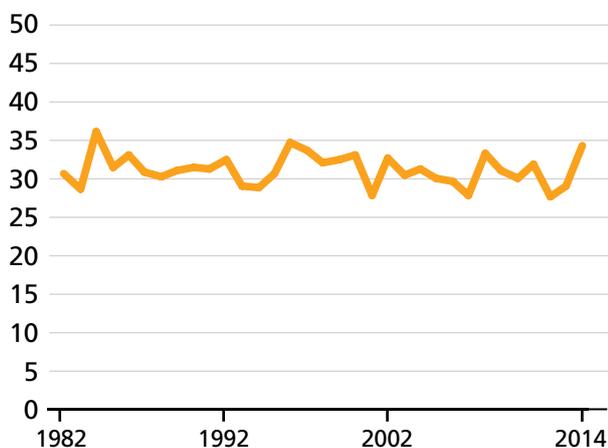
This measures how well inputs are converted into outputs giving an indication of the efficiency and competitiveness of the industry. Growing productivity means more income is available for re-investment into farm businesses. Year-on-year variations in productivity may be due to factors outside a farmers' control, such as the weather or disease outbreaks, so long-term trends are important.

TOTAL FACTOR PRODUCTIVITY 1988 – 2014

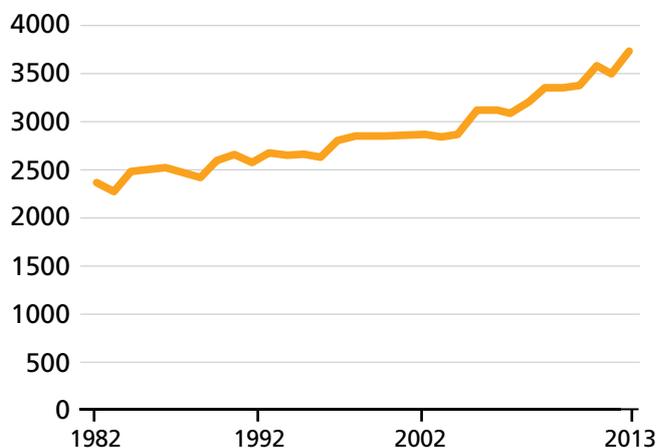


CROP PRODUCTION

PRODUCTION OF MAJOR CROPS – UK
Millions of tonnes



PRODUCTION OF MAJOR CROPS – WORLD
Millions of tonnes



* Major crops include: cereals, rapeseed, soya, potatoes, sugar beet

Sources – FAO, Defra





BACKING BRITISH FARMING... POLICIES FOR THE NEW GOVERNMENT

As farmers we are strongly aware of the pressures on this government's attention and the risk that farming's needs may be marginalised against pressing macro-economic issues. These include continuing pressure on public spending, securing a sustainable economic recovery, the UK's continuing membership of the EU and the level of immigration. But all impact on the outlook for UK farm businesses directly or indirectly.

Efforts to reduce the public spending will inevitably dominate Government thinking, especially in Defra. With budgets cut by more than 30 per cent over the past five years and expectations of further significant cuts between 25-40 per cent, targeting remaining spend well is vital. For NFU, delivering on the agri-tech promises, implementing the Bovine TB eradication strategy and 25-year food and farming plan are vital. But so too will be delivering on public procurement and flood defence.

At the moment a full evaluation of the benefits and disadvantages of EU membership for British farmers and growers is impossible because while we know the benefits and disadvantages of EU membership we have no clarity on what arrangements would be available outside the EU and what kind of agricultural policy a British Government would pursue. These are vital questions which demand answers before farmers can make a definitive choice in the planned referendum.

In our current arrangements within the EU, the principal matters that are important to British farmers and growers are: access to Europe's single market; direct payments; trading conditions with third

countries and free movement of labour. So if we were to leave the EU the questions on which we would need answers are:

- Would we have access to the European market, and under what conditions?;
- What would a future British agricultural policy look like, particularly for direct payments?;
- Would Britain be more or less open to imports?; and
- What immigration policy would we pursue and how would it affect our access to labour?

Labour has particular resonance for many in the horticulture sector which relies on a secure source for harvesting and processing UK fruit and vegetables. Growers' experience is that finding reliable workers from within the UK workforce is impractical. Agriculture is not alone in relying on non-UK workers and like other sectors would become less competitive if compelled to do so. This is why the NFU is calling on the government to establish an agricultural workers scheme drawing on bona fide foreign students who will return to their country when the season is over.



SUMMARY AND KEY MANIFESTO RECOMMENDATIONS

In this report, we have drawn together the NFU's case for placing farming high on this government's agenda. We have made the case for a resilient and growing sector, able to invest in its future and confident that it has backing and support across government. Working with the government we want to develop an ambitious food and farming strategy that gives confidence to all parts of the food chain that investment and effort will be rewarded.

Central to our case for Backing British Farming is the urgent need to halt and reverse the long-term decline in the nation's self-sufficiency. Doing nothing is not an acceptable policy for farming, as it places the UK's food security at risk. Doing nothing would miss a huge opportunity to grow the mainstay of the rural economy and the many jobs reliant on our vibrant industry. Key to reversing the current situation is a renewed focus on the sector's productivity, on promoting profitable production and investment.

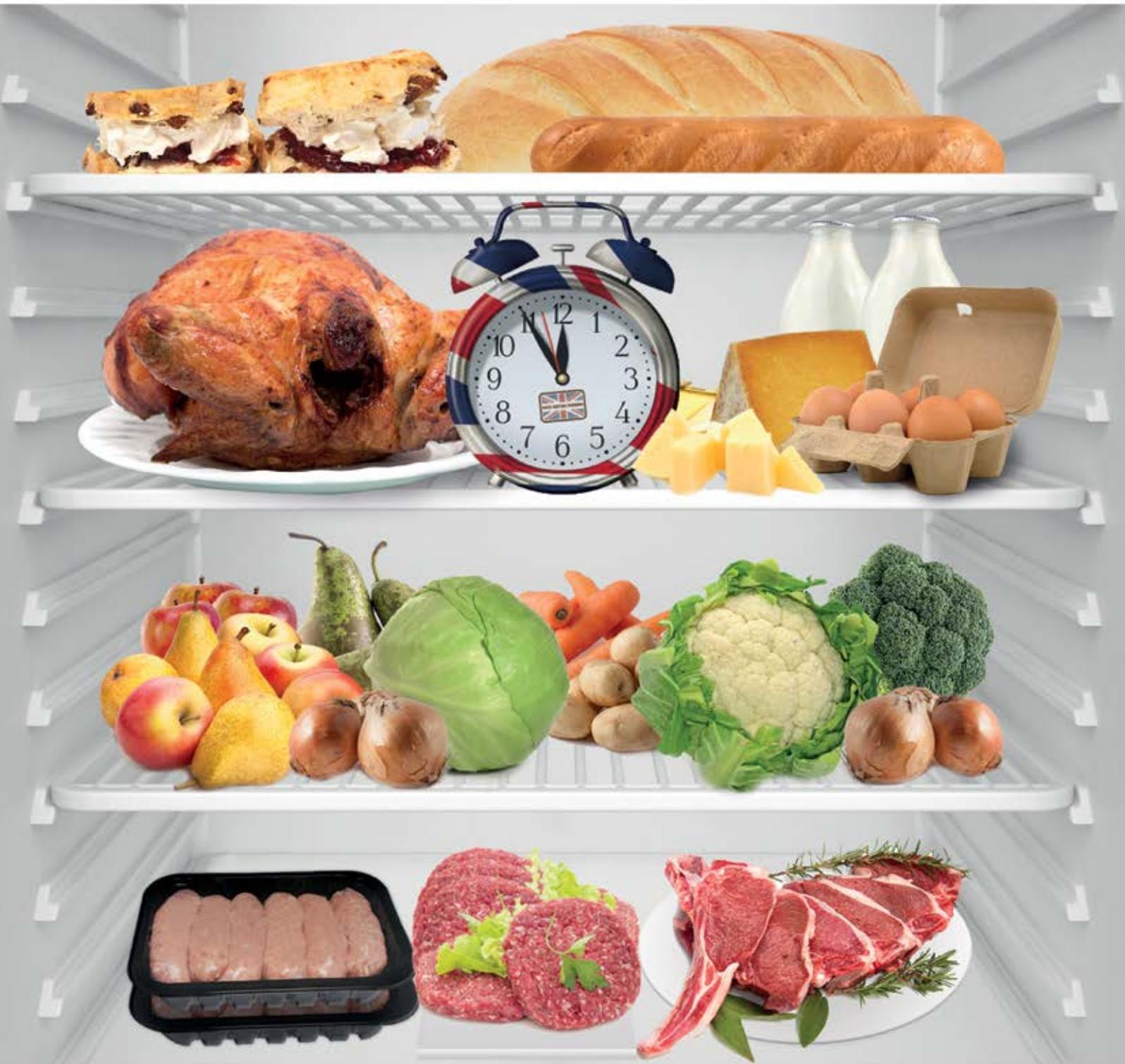
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- Halt and reverse long-term declines in the nation's self-sufficiency;
- Plan for increasing farming's productivity and competitiveness;
- Stimulate investment across the farming industry, so that we can grow more British food for growing population; and
- Ensure that the drive to increase British food production and productivity is at the heart of policy-making across all government departments and the EU's institutions.

The NFU has set out our long list of expectations. A précis of these is given below:

- A UK Government engaging and championing farming in EU policy making, leading with review of CAP greening and simplification.
- Comprehensive Agri-Food strategy to grow UK food production over the new government's term, reversing the long-term decline in UK self-sufficiency.
- Robust scientific evidence to ensure continued access to a wide range of plant protection products using risk-based assessments.
- Implement all elements of the 25-year TB Eradication Strategy.
- Extend and support the Grocery Code Adjudicator role to a wider proportion of the food supply chain.
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IT'S TIME TO BACK BRITISH FARMING



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