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To : Rural Economy and Connectivity Committee
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COVID-19 – NFU SCOTLAND EVIDENCE

- NFU Scotland (NFUS) welcomes the opportunity to respond to this inquiry. Representing over 8,500 farm, croft and professional agricultural businesses across Scotland, the response to, and forthcoming recovery from, Covid-19 has been a significant focus of NFUS' work since the outbreak of the virus in Scotland.
- Scottish agriculture already faces an array of political, physical and financial challenges. The obvious existing challenges include: Brexit and the issues around trade; people and future support; dysfunctional supply chains characterised by inequitable margins across most sectors; and, the here and now of current agricultural policy, its funding and its delivery.
- Food production and distribution is classed by Scottish Government as one of the 13 'Critical National Infrastructure' sectors of the Scottish economy and NFUS has welcomed the early clarification from both the UK and Scottish governments relating to the essential continued production of the agricultural industry. This early clarity has allowed the vast majority of NFUS members to continue producing with confidence, albeit in adherence to strict guidance and altered processes relating to social distancing.
- Indeed, some of the structural features of rural Scotland, notably their more dispersed population base and their already established tradition of home-based working has in the main been a source of business resilience during this crisis.

- However, there has been an undoubtable impact for rural businesses from the lockdown restrictions, due to the greater dispersal of workplaces, consumer and business services, and the importance of visitor and tourism economies to many rural areas – an issue which is perhaps even more pronounced with the significant expansion in Scottish agri-tourism in the last decade. Even more clear has been the almost immediate impact on the agri-food supply chain, where significant vulnerabilities have been exposed.
- There is a need to avoid over-generalising between places or assuming that their resilience means farming and crofting communities can be left to fend for themselves to weather crises, or that their resilient behaviour itself does not have unintended effects.
- This evidence paper outlines the issues that the pandemic has created primarily across the agricultural commodities and Scottish rural economy, and offers commentary on the agriculture sector's role for the forthcoming economic recovery.

Countryside impacts

1. **Agri-tourism.** An immediate impact of Covid-19 for agricultural businesses that have diversified into agritourism was the almost immediate cancellation of months' worth of bookings and the processing of refunds as a result. For some farm-based tourism ventures, profits made from the diversified arm of the business significantly support the income of the farm itself as well as cash flow.
2. Whilst the initial exclusion of self-catering accommodation from the Scottish Government's support grant for tourism businesses caused problems for a number of agri-tourism ventures, the reversal of this stipulation ensured that for ventures where income from the self-catering venture exceeds that from the farm, grant relief was available. NFUS is also aware of members making successful applications to the UK Government's Bounce Back Loan Scheme.
3. NFUS is however aware of a further discrepancy for self-catering agri-tourism ventures, where if self-catering properties are rated separately, applicants will be eligible for £7500 per property. However, if they are registered as one property, then applicants will only be eligible for the £10,000 grant.

4. NFUS recognises that the Scottish Government's *Framework for Decision Making* outlines that restrictions will be relaxed for "accommodation providers" during Phase 3. Whilst NFUS recognises the Scottish Government's desire to be cautious in its approach to the reopening of the hospitality sector, it is the view of NFUS that for the vast majority of providers of self-catered accommodation as part of agri-tourism ventures, safe social distancing is entirely possible and as such, providers of self-catered accommodation could potentially be considered as a priority in an earlier phase of lockdown restrictions being removed. As alluded to above, the financial losses incurred by these businesses due to continued closure are significant in the agri-tourism sector and NFUS considers that where it can be demonstrated that businesses can safely operate within the spirit of the phased lockdown requirements, they should be encouraged to do so.

5. **Flytipping.** The closure of municipal recycling facilities at the beginning of the Covid-19 lockdown correlated with a significant increase in NFUS members reporting instances of flytipping. NFUS has worked with the Scottish Partnership for Rural Crime (SPARC) to continually highlight the illegality of flytipping however maintains that the increase in cases in recent months are indicative of a serious issue which long pre-dates the Covid-19 crisis.

6. For this reason, NFUS supports calls for an extension to householder responsibility in Scotland which would aid convictions for flytipping. NFUS also believes it is vital that local authorities are duty-bound to report instances of flytipping so that instances can be fully and appropriately investigated.

7. **Outdoor access.** As a member of the National Access Forum, NFUS strongly encourages responsible access-taking as per the Scottish Outdoor Access Code. Throughout the lockdown period and following the partial lifting of restrictions on travel for leisure, NFUS has received over 100 reports from its members across the country of irresponsible access-taking on agricultural land. Most reports have been related to litter, gates not being left as they were found, and the worrying of livestock by dogs (which has been particularly problematic during the lambing and calving season).

8. In order to support members who are experiencing repeated issues with irresponsible access-takers, NFUS has published clear and succinct guidance posters¹ - a resource which many members have made use of.

9. **Connectivity.** Like all sectors of the economy, lockdown and social distancing has forced many agricultural activities online – including farm shop retail, livestock auctions, NFUS member/farmer-to-farmer engagement, and other social activities such as local and national summer shows. This sudden shift to online has only underlined the significant postcode lottery in broadband capability and speed across Scotland’s rural areas. Whilst NFUS members are enthused by the opportunities afforded by technology to propel their businesses into the future, the lack of digital capacity in much of rural Scotland is a significant source of frustration for NFUS members.

10. **Marts.** Livestock auction marts provide a significant contribution to rural communities in Scotland. As an essential outlet for livestock, they are vital for a competitive market and during the initial market disruption caused by Covid-19 it was clear that uncertainty over the functioning of marts detrimentally impacted the prime sheep price. Where auction markets have closed many farmers, crofters and those in the agricultural trade would say that the community has lost its heart with those weekly or monthly trips to the mart no longer occurring, leaving many isolated within their own communities. Aside from their primary function of being a forum for farmers and crofters to do business, marts are a social hub – a great positive not only for peer-to-peer learning but also for the mental health and wellbeing of agricultural communities.

Agricultural commodity and supply chain issues

11. Covid-19 is a health, social and economic crisis. In the response phase alone, the mitigating measures from Westminster and Holyrood to tackle what is an extreme public health crisis have highlighted the fragility and interdependence of food production and consumption.

¹ <https://www.nfus.org.uk/news/news/access-guidance-poster-from-union-now-available-to-download-and-print>

12. It is clear that existing supply chains are extremely vulnerable to major upheaval, and that different supply chains react in different ways. Whether it is a sudden shift in demand from food service sector to food retailer, or simply the fact that people cannot move freely, the capacity to adjust rapidly and without chaos and cost is limited.
13. The rapid restructuring of the supply chain due to the loss of the foodservice sector and export has created acute issues for some agricultural commodities – namely dairy and beef. For others, price impacts are anticipated in the longer term – particularly in the arable sector, where the impact of reduced distilling and brewing capacity is yet to be realised for primary producers. These cumulative impacts across the agricultural commodities during the response phase have served to highlight the fragility and interdependence of food production and consumption. NFUS believes that these issues are highly relevant to the Committee’s consideration of the rural economy impact of Covid-19.
14. NFUS is closely monitoring the situation across the livestock (beef and sheep), dairy, pigs, poultry, cereals, horticulture and ornamentals sectors and has produced action plans for each, which identify both industry and government-led initiatives to ensure each sector can ensure enduring viability through the response, reset, restart and recovery phases as identified by Scottish Government. NFUS has presented this work to Scottish Government as part of its engagement on the government’s document *A Framework for Decision Making* and is working closely with the enterprise agencies on these recovery plans. This submission provides an overview of the situation for the agricultural commodities and measures which will support these sectors to stay in profitable production.

Dairy

15. Lockdown measures have had significant impacts on the dairy sector with major disruption of the normal cycle of supply and demand in the UK due to the collapse of the out of home foodservice sector. Export markets have also been severely damaged. Demand within the retail sector for dairy products has been volatile. The initial uplift in retail sales within the first week of the lockdown dropped very

quickly to around 5% above pre-Covid-19 levels. This was not enough to make up losses from foodservice.

16. As a result of the above, in the first few of weeks of Covid-19 measures there were serious oversupply issues for dairy and some farmers were asked to dispose of milk that couldn't be collected or designated for a processing facility. Processing capacity was also damaged by rising staff absenteeism, disruption to inputs (packaging, etc) and the impact of any factory breakdowns. Due to downward price pressures, many individual dairy farm businesses faced significant financial consequences.
17. In dairy, even a relatively short crisis can have sustained impacts for the whole sector due to the loss of value. Indeed, a number of the problems that have impacted the dairy sector during Covid-19 (price per litre, supply/demand management, and market transparency) existed long before the pandemic outbreak and have simply been exacerbated for some farmers. Whilst some farmers have been directly negatively impacted by the behaviour of some processors during Covid-19, there are growing concerns regarding a long-term global slowdown for dairy and lack of export opportunities which could have a long-term impact on price. Should this happen, there will be long-term viability issues for many farmers and processors.
18. The UK Government's relaxation on competition law² will ensure that blockages and imbalances in the supply chain can be addressed. However, NFUS is concerned that this action – whilst welcome – came too late to avoid significant dumping of milk in the UK. NFUS has also welcomed the UK Government confirming it will make use of Private Storage Aid offered by the EU Commission; and the commencement of a UK-wide marketing campaign supported by the levy bodies and four governments of the UK promoting milk and dairy products to consumers.

² <https://www.gov.uk/government/news/dairy-industry-to-join-together-to-manage-milk-supply>

19. The UK Government and the Welsh Assembly Government have announced that they intend to support milk producers directly impacted by Covid-19 via a support package for producers in England and Wales respectively. Likewise, NFUS supports calls for a targeted rescue package for farmers who have been adversely impacted by a falling milk price to be introduced by the Scottish Government. However, it is also abundantly clear that the process of identifying how such a scheme could operate and genuinely ensure that those who have lost income as a direct result of Covid-19 is an extremely difficult calculation to make. At present, NFUS agrees with Scottish Government that further detail on how the English and Welsh schemes will operate is required in order to identify whether something similar would be relevant for Scotland to ensure the worst affected are helped.
20. Looking longer term, it is NFUS' clear view that the current situation highlights the important role that mandatory written contracts between dairy processors and producers could play in instilling fairness and transparency. Having advocated for many years for the introduction of mandatory contracts in the dairy sector, NFUS is pleased to learn that it is the intention of the UK and devolved governments to introduce a consultation on contracts in the near future. NFUS will engage wholeheartedly in this process.
21. Across the board, the supply chain issues created by the current pandemic have highlighted a chronic lack of processing capacity across the UK. This is a particular issue for dairy but is clearly apparent for other agricultural commodities too. Lack of processing capacity has inflicted further damage on already fragile sectors operating in just-in-time processes. A long-term legacy from the current pandemic must be industry and government collaboration on upscaling the processing capacity of the UK so that the agricultural, food and drink sectors can be more versatile and adaptive to future challenges. Further investment in processing will allow value to be added to the primary produce that farmers provide – with the potential to upscale the market impact of high-value Scottish produce both domestically and in new export markets.

Livestock

22. The overnight cessation of the hospitality market, which was a significant destination for higher value cuts, has created significant pressure for the beef sector. This along with an apparent shift at retail to mince and diced beef has compounded the loss in carcass value. With the beef price already at a sustained low before Covid-19, the impact has in NFUS' view exacerbated the significant financial challenge already faced by those farmers who sell finished cattle.
23. NFUS has outlined concerns about the impacts of the Irish Wage Subsidy Scheme³ which during the pandemic has supported the wages of Irish abattoir workers and therefore acted as a cost-saving for Irish abattoirs. This is having a knock-on for the Irish beef price, with the potential to pull the Scottish beef price down further. NFUS believes that it is as a result of this scheme that some retailers have chosen to source Irish beef at a cheaper price, foregoing Scottish or UK product.
24. With the support of NFUS, QMS, AHDB and HCC (Meat Promotion Wales) have launched a £1.2m promotional campaign⁴ to promote high-value beef cuts which is welcome.
25. However, NFUS believes there is still much work to be done to reconnect consumers with UK product and supports calls for the UK Government to compel retailers to differentiate and account for products sold by country of origin and that these meet stated sourcing commitments. That Retail Stock Keeping Units (SKUs) clearly differentiate product origin so consumer can support to elect to buy Scottish and UK beef online is particularly relevant given the increase in online shopping.
26. As the sector considers recovery from Covid-19 NFUS believes there is an important opportunity for new legislation that would enhance country of origin labelling. At present there is no legal requirement to provide the origin of beef in processed products like a steak pie or sausages. NFUS would support steps to enhance requirements for origin labelling of beef in processed food.

3

https://www.citizensinformation.ie/en/employment/unemployment_and_redundancy/covid19_temporary_wage_subsidy_scheme.html

⁴ <https://www.qmscotland.co.uk/news/levy-boards-pitch-beef-campaign-aid-carcass-balance>

Combinable Crops

27. During the lockdown, many of the Scottish distilleries either reduced or stopped production due to the application of social distancing guidance and essential work. As a result, what was left of the 2019 crop began to overburden the supply chain as it was held in storage either to go direct to distillers or to maltings to be processed into distilling malt. Throughout the lockdown, NFUS highlighted that a sustained reduction in malting and distilling activity would result in a significant oversupply issue as the industry looked towards the 2020 harvest. Another immediate impact was a reduction in the volume of malting and distillery co-products used for animal feed in Scotland's livestock sector.
28. Traditionally Scottish barley is moved almost immediately to maltsters, co-operatives or merchants who have better facilities to store and dry grain. With Scottish grain cut at moistures too high to store, correct drying is vital or the crop will spoil or become unsuitable for maltings. Barley also needs to be cleared from farm stores either to make space for wheat, which is harvested later or for cattle being brought indoors for the winter.
29. There is a looming transport issue caused by hauliers' loss of demand for non-food businesses such as moving aggregate for the construction industry. The Road Haulage Association has reported an increasing number of hauliers choosing to furlough workers and giving Statutory Off Road Notifications (SORN) to the DVLA. By taking these actions they reduce labour costs and can obtain road license refunds for the vehicles mothballed. The grain trade has reported delays as a result. An additional concern is that a heightened demand for haulage when restrictions on economic activity begin to ease could coincide with peak harvest demand. This would exacerbate the logistic issues already described.

30. NFUS recognises that the approach outlined in the Scottish Government's *Framework For Decision Making* allows scope to ensure that distilleries and breweries can operate as businesses that can effectively implement safe social distancing whilst remaining in production. This is vital: otherwise, should restricted distilling or brewing capacity continue into the longer-term, the cropping sectors could face major market pressures. There will also be a significant capacity issue for whisky production should such a situation come to pass – an undesirable outcome for a flagship and high-value Scottish industry.

Specialist Crops

31. Growers of non-edible ornamentals have felt an immediate impact with the closure of garden centres which cut off sales not just of plants and plant associated goods but also those of other goods stocked in many outlets. Some growers have been able to conduct a limited amount of sales by home delivery and online orders. Whilst garden centres are reopening from early June, the loss of sales throughout the usual period of peak demand in the spring, paired with write-offs of stock, mean that many plants that will not be saleable later in the season. The value of stock at risk runs to many millions of pounds.

32. Growers of ornamentals have reported problems accessing the UK Government's Coronavirus Business Interruption Loan Scheme as they are subject to the EU state aid rules that apply to agriculture. The limits on aid set out in those rules mean that only a small fraction of the losses and costs they have incurred can be assisted. NFUS believes there is a case for a targeted package of financial aid to assist those businesses that have incurred significant losses.

33. For fruit and vegetable growers the main concern remains access to sufficient workers to harvest their crops. The industry employs approximately 10,000 migrant workers each year but the lockdown in the UK and in the countries of origin of the workers took place when only a small proportion of those workers had arrived. Of particular concern is the potential for returning workers (who in many cases act as supervisors and trainers for new staff) to be stymied in their efforts to travel to the UK due to continued travel bans in their home countries. The picking season for strawberries is well underway, with the peak of the fruit-picking season looming through June, July and August.
34. Growers, with the help of NFUS and others⁵ have mounted a significant recruiting drive which has resulted in many thousands of enquiries from prospective workers. Some workers from the domestic population (students and furloughed individuals) are now working successfully but the strike rate has been low with as many as 90 per cent not responding to initial replies from employers. Information on workers who have been employed is anecdotal but loss rates do appear to be significant. Reasons have included the finding of alternative work closer to urban centres, or the end of furloughing.
35. As a result, growers do not have nearly enough workers to cover themselves for the peak periods and as a result the industry still desperately needs access to workers from the EU as well as from the countries allowed to participate in the UK Government's Seasonal Workers pilot scheme where it is safe and permissible for these workers to travel to the UK. NFUS is working with UK Government posts overseas to ensure that those who had been contracted to travel to the UK, either from an EU Member State with a valid job offer or from outside the EU as part of the Seasonal Agricultural Workers Pilot, are facilitated to travel as smoothly as possible.
36. NFUS has worked very closely with both the UK and the Scottish Government to publicise guidance⁶ to growers on how to ensure safe social distancing for workers is put into practice on horticultural units. The guidance sets out specific

⁵ <https://www.nfus.org.uk/coronavirus/employment-opportunities-on-farms.aspx>

⁶ <https://www.sasa.gov.uk/covid-19-guidance>

measures regarding the transport and accommodation of workers. NFUS has also worked with both governments to ensure an exemption to the quarantine guidelines for workers arriving in the UK to undertake work on farms providing edible produce. As such, arrivals from outside the UK will be permitted to undertake work on the host unit segregated from the rest of the workforce for the 14 days following their arrival.

37. With the end of the Brexit transition period, and with it the end of free movement, still scheduled for the end of 2020 growers are increasingly looking for assurances that the Seasonal Agricultural Workers Scheme Pilot will be made permanent from 2021 onwards and expanded to the 70,000 workers that the UK horticultural industry needs each year.

Potatoes

38. Again, the potatoes sector has experienced key impacts resulting from the loss of the hospitality sector. The loss of demand for some processing varieties (to create chips) meant that some growers who would normally be supplying 2019 crop to processors have been left with immovable stocks. Looking for an outlet, some of those potatoes will have been diverted into retail sales.

39. Retail sales of potatoes are reported to be up but not sufficiently so to make up totally for the reduction in sales for processing. Although the majority of Scottish production is for the fresh market any extra potatoes entering the market will exert downwards pressure on potato prices. Average prices are currently down from this time last year, particularly for 'free-buy' i.e. spot market sales. Prices for the latter are down by nearly a third, whereas the overall average is down by just five per cent.

Pigs and poultry

40. NFUS members have noted some impact on the availability of PPE for staff working with pigs and poultry. PPE is always needed to protect workers working within potentially hazardous environments, but stock has become hard to come by due to a redirection of these materials to the front-line health workers. PPE for use in the pigs and poultry sectors has now been added to a Scottish

Government-specified list of essential uses which NFUS hopes will ease pressures on supplies for the sector.

41. The egg sector has been hit hard by the collapse of the food service sector.

Although sales are high through retailers the industry relies heavily on the food service sector as a market for class B and smaller eggs that the retail sector do not want. Whilst some that have traditionally sold large trays of eggs into the catering sector they have adapted and found additional retail outlets, such as through veg box deliveries or local shops. Their efforts however have been limited by difficulties in obtaining the correct type of packaging materials to sell them as prepacked eggs, rather than on trays. There remains large volumes of class B and small eggs with no market.

Recovery from Covid-19

42. NFUS has valued the communication of the Scottish Government in its

development and roll-out of its *Framework for Decision Making*, and throughout the process has outlined that a phased approach to unlocking will mean constant readjustment for the supply chain and therefore management from governments in communicating with all links of the chain. NFUS considers that a phased approach could provide as much instability if there is a lack of forward-planning in terms of logistics (haulage, storage) and supply and demand dynamics for all parts supply chain from primary producer through to point of purchase. So that industry is enabled to be proactive rather than reactive, engagement and intelligence between governments and industry about the unlocking strategy must continue and be actively facilitated.

43. NFUS believes that lessons are already being learned from the circumstances that have been illustrated in this submission, but that recovery is likely to take many years. It is clear that Scottish agriculture and all that it underpins will have to change and adapt to what is and will be a very new operating environment which will not be 'business as usual'.

44. This will be very challenging for the agricultural sector, as markets and supply chains have to adapt to survive and thrive, and agricultural support is realigned in light of tighter financial constraints and amended policy goals. Furthermore, public funding will inevitably be severely limited. NFUS acknowledges calls for a 'green recovery' from Covid-19. Climate change remains a critically important issue for Scottish agriculture, and as a major land use in Scotland, it is clear agriculture has a role to play. Scottish farmers and crofters remain committed to producing high quality food in environmentally and climate-friendly manner. NFUS recognises that the wider economy's emergence from Covid-19 will perhaps mean that Scottish agriculture will be asked to do more to meet these ambitions, but with less funding.

45. However, NFUS believes there is significant opportunity for the sector within this challenge. The resetting and restarting of food production, processing and distribution, while meeting a raft of major government policy objectives, will provide the catalyst for change. NFUS' primary goal within the longer-term economic recovery is to secure a profitable and sustainable agricultural industry that acts as a cornerstone to economic, environmental and social benefits: producing high quality food and products that its customers want; seeking growth in new export markets; lead in the delivery of climate ambitions and a flourishing environment; driving sustainable rural development, helping rural communities thrive and prosper; and contributing to key objectives on animal health and welfare as well as promoting human health and well-being.

46. NFUS believes that one positive legacy for the industry has been in terms of the support that consumers have demonstrably shown for food and drink that is produced locally. NFUS members have taken seriously their role as producers of food and drink during the pandemic, and are encouraged by the excellent support for the sector that has arisen from the rise in farm shop deliveries, doorstep deliveries, and the actions of some retailers in using the opportunity to source and support domestically-produced produce as far as possible. NFUS appreciates that the UK and Scottish governments, too, have highlighted their support for domestic production at this time.

47. Moving out of the shadow of the pandemic, for NFUS it is vital that industry and governments work together to ensure a clear and consistent message continues to be received by the general public of the important role played by farmers, crofters and growers – not just in terms of ensuring security of food supply but also with regard to the extremely high provenance of the domestic food and drink offering, produced to exacting standards. For many years NFUS has advocated policies which reconnect Scottish consumers with local food producers through educational measures in the national curriculum which teach children in their early years about food production and seasonality.

48. For the same reason, NFUS believes that a legacy of the pandemic should be a focus on public procurement tendering practices to ensure that ingredient origin is accounted for in local buying and that there is stronger support for local sourcing. At present, European law doesn't allow public bodies to stipulate origin on public procurement contracts. NFUS believes this area of law does not have public support and as such would welcome any flexibility which allows public bodies in Scotland and the UK to choose to source Scottish and UK produce in the recovery phase.

49. NFUS therefore believes greater flexibility on public procurement is vital, and had suggested that the measures proposed for the Scottish Government's Good Food Nation Bill could address this subject. Whilst noting the postponement of this particular piece of legislation due to the Covid-19 situation, NFUS believes the situation has only underlined the importance of governments showing that there is substance behind their statements in support of Scottish and UK agriculture by exercising policies which would better support domestically-produced produce.

50. Scotland's agricultural, rural and food and drinks sectors have huge potential but are currently unagile due to a number of key constraints. Looking to the future, NFUS will work with policy-makers to address shortcomings in the following key areas:

- Building supply chain, business and human resilience
- Utilising Scotland's land as an asset through optimal land use

- Fully integrating land use and economic activity
- Enabling the provision and effective deployment of financial, natural, human and social capital
- Enabling productivity growth
- Increasing processing capacity and adding value
- Improving connectivity and ensuring digital requirements are met
- Developing export opportunities in the food and drinks sectors
- Diversifying and expanding domestic and international market opportunities
- Removing planning barriers via a presumption in favour
- Providing fiscal incentives for land-based businesses
- Creating diversification opportunities by utilising farm-based assets
- Improving horizontal and vertical integration through greater collaboration and cooperation
- Addressing rural demography and depopulation challenges
- Investing in people through skills and education provision.

51. The current pandemic has created myriad challenges for agriculture and food supply which will take significant effort to overcome. NFUS feels it is vital to highlight the future relationship negotiations with the EU as a further factor which could upset the equilibrium of the supply chain as much, if not more, as the current pandemic or other variables such as unforeseen weather events. With all sectors of the agricultural industry already fragile, NFUS believes it is legitimate to query how the planned date of departure at the end of 2020 will compound existing problems. NFUS asks the Committee to query UK Government on where the capacity within government is to deliver an orderly exit on 31 December 2020 in terms of government's engagement with industry.