

NATIONAL ASSEMBLY FOR WALES

REPORT FROM THE FINANCE COMMITTEE

Report on the Financial impact of the Foot and Mouth outbreak on the Welsh Assembly Government budget

Introduction

1. Standing Order 14.2 states:

The [Finance] Committee may also consider and, where it sees fit, report on:

- (i) *financial information in explanatory memoranda accompanying proposed Assembly Measures;*
 - (ii) *the timetable for the consideration of budget proposals and budget motions and on the handling of financial business; and*
 - (iii) *any other matter relating to or affecting the expenditure of the government or other expenditure out of the Welsh Consolidated Fund.*
2. There has been wide ranging concern about the impact of the Foot and Mouth disease outbreak on the farming industry in Wales. Compensation for animals slaughtered due to foot and mouth has not been an issue for the Welsh Assembly Government because there were no cases of the disease in Wales. Nonetheless, the crisis has had a major impact on the farming industry and has inevitably led to a need for action by the Government to mitigate its effects. This in turn impacts upon Government expenditure and the Finance Committee therefore decided to launch a short inquiry into the issue using its powers under SO 14.2 (iii)

Background

3. An outbreak of foot and mouth was discovered in Surrey on 3 August 2007 and this was followed by immediate GB-wide restrictions on animal movements and trade. While no farms in Wales were directly affected by the disease, the movement and other restrictions did apply to them and caused considerable disruption to farmers throughout Wales.
4. The export ban was lifted on 25 August but reimposed on 12 September when a second outbreak was discovered. There was no further recurrence and domestic restrictions were gradually lifted. By 17 October they had been completely removed in Wales. Restrictions on the export of meat and meat products were lifted from mid-November but the ban on live exports remained until 13 December.
5. As there were no cases of the disease in Wales there has been no requirement to meet the cost of compensation for animals slaughtered. However, no compensation is automatically paid to farmers affected by measures imposed to stop the spread of the disease. In particular, any disease outbreak is likely to have a significant effect on the markets for meat and meat products and in turn to affect farmers adversely and the industry

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more widely. There have been many calls for the Welsh Assembly Government to intervene to mitigate all the uncompensated effects of the disease.

Evidence

6. The Finance Committee held a meeting on 22 November at which it took evidence from witnesses representing the key unions and representative organisations in Wales involved with the farming sector:

Dr Nick Fenwick	Director of Agricultural Policy Farmers Union of Wales
Gareth Vaughan	President, Farmers' Union of Wales
Dai Davies	President National Farmers Union Cymru
Mary James	Deputy Director/Head of Policy National Farmers Union, Cymru
Gwyn Howells	Chief Executive Hybu Cig Cymru - Meat Promotions Wales
Rees Roberts	Chairman Hybu Cig Cymru - Meat Promotions Wales
Dyfrig Siencyn	Chairman Welsh Livestock Auctioneers Association

7. The Minister for Rural Affairs, Elin Jones, AM, also attended the meeting and listened first hand to the evidence presented by the representatives from the industry. She responded to the views expressed at the meeting by the other witnesses and the Finance Committee very much appreciated her willingness to do this immediately.

Impact of outbreak

8. The effect on the Welsh farming industry was immediate and severe. This was the peak marketing time and the restriction on movements meant animals could not be slaughtered. It was also disproportionately higher in Wales because of the size of the sheep sector here. This left farmers with not just a loss of income but an additional unexpected cost for animal feed the price of which rose. The loss of export markets meant that many animals remained in the UK creating a strong downward pressure on prices. Interestingly, retail prices did not fall significantly, suggesting profits were being made elsewhere in the chain – and perhaps that the impact of the outbreak was most severe in relation to farmers.
9. The Farmers Union of Wales stated that the monthly average producer price for finished lamb fell by 20% between July and October. The NFU estimated lamb prices declined by 33% between August and October 2007 compared with 3% in 2006. Alongside this the on-farm costs of production increased with wheat prices 97% higher in August 2007 compared with August 2006; and the costs of straw and fertilizer up by 25% and 10% in the year. On top of the additional costs of having to feed unsold animals there were also significant ongoing and potential welfare problems as a result. In some cases the result of the delay was that lambs have grown too large to be sold in their specific market.

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10. Some 830,000 light lamb carcasses are exported annually between August and February – some 300,000 of these are of the lighter category for which there is no market in the UK. The NFU said that 35% of Welsh lamb is exported and it is simply not possible to find new markets for that level of output overnight. Hybu Cig Cymru put it very neatly when they said that although some progress has been made with marketing and England and Wales lamb sales have increased by 8%, “we could not eat our way through our mountain of lamb”.
11. The lifting of exports the ban between 25 August and 12 September had only a limited benefit as only limited volumes were exported during this period.

Cost estimates

12. The cost of all these is difficult to assess at this stage. Hybu Cig Cymru gave an estimated figure of £30.9 m for the impact of the exports ban and the fall in prices. The NFU gave a detailed calculation and concluded that when additional consequential costs arising from movement restrictions are taken into account, the industry is “facing a bill well in excess of £40m . The FUW estimated that the cost was even greater than this. The Finance Committee notes that in her evidence on 30 November to the Rural Development Sub Committee, the Minister for Rural Affairs accepted that Hybu Cig Cymru’s figure of a cost then of £30m to the sheep sector was quite robust.
13. These are only the costs that can be identified and assessed at present. The outbreak is however continuing to affect the farming industry as farmers have to cope with the direct consequences of restricted animal movements, longer term damage to markets and cash and other financial problems due to disruptions to farm incomes.

Responsibility for compensation

14. There is very strong evidence that the cause of the outbreak is a leak of virus from premises at Pirbright licensed by the Government to produce vaccine for FMD. This is the conclusion from independent investigations by the HSE and by Spratt. In due course there will be further research and the causes and impact of the outbreak eventually set out in great detail and blame established clearly.
15. But for the industry and Government this is not the immediate issue. The need is to provide help and support for an industry suffering from an outbreak of a disease which has come, as the Minister for Rural Affairs said, “at a very difficult time for the industry, namely the industry’s main annual marketing period”. The Welsh Assembly Government clearly recognises this by its actions. The Minister told the Finance Committee that it had made two decisions on expenditure: the provision of £6.75m for the light lamb disposal scheme and £1m to promote red meat, especially lamb.
16. The Minister told the Finance Committee that she had not ruled out further support to the Industry and that discussions with the Treasury were ongoing. However there was a difference of opinion between the Welsh and UK Governments in relation to responsibility for compensation and “who should be required to pay the bill”.

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17. The Finance Committee clearly welcomes and supports the Welsh Assembly Government's initiatives, although it notes that expenditure on the first of these has, at around £3.75m, been substantially less than forecast. Moreover, even if this had not been the case, or if the Welsh Assembly Government channels this money into alternative recovery schemes, as has recently been called for by the unions, the level of support to the industry in Wales would have been far less than has been given in Scotland which is facing similar difficulties in a similar situation.
18. The Scottish Government has provided a payment of £6 per sheep to farmers which, on a pro rata basis in Wales, would amount to support of £27m compared with the £7.75m (or £4.75m actual) provided so far. The Minister acknowledged that this could well be construed as a better deal for Scottish farmers than that which has been agreed for Welsh farmers
19. The key difference here is that in Scotland payments have been made from reserves in anticipation of reclaiming it from the Treasury.

Conclusion

20. The Finance Committee has not examined in any detail the figures put forward for the cost to Wales of the foot and mouth outbreak. It notes the Minister's conclusion that Hybu Cig Cymru's November figure of a £30m cost to the sheep sector was quite robust and supports the view put forward by NFU Cymru that, when additional consequential costs arising from movement restrictions are taken into account, the industry is likely to be facing a bill in excess of £40m. The Finance Committee notes that the cost is continuing to rise and recommends that the Welsh Assembly Government ensures that a full and detailed assessment of the costs of the outbreak is prepared at the appropriate time.
21. The Finance Committee welcomes the efforts made by the Welsh Assembly Government to support the industry but notes the disappointment within the industry at the level of support actually provided.
22. The Finance Committee notes that WAG admits that the impact of the foot and mouth outbreak on the industry in Wales has been severe and has come at a very difficult time for the industry, namely its main annual marketing period. Although the outbreak has arisen because of failings entirely outside Wales, regardless of issues of blame, there is a role for the Welsh Assembly Government to help.
23. The Finance Committee feels the Government should properly and fairly assess the needs of the farming industry to overcome the impact of the foot and mouth outbreak and provide such help as is necessary and appropriate. It notes the arguments by NFU Cymru that compensation should be of the order of £40m to offset all the losses already identified but, given the resources available, feels this is unrealistic. It does however recommend that significant additional funding from reserves should be offered.