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MEMORANDUM E (20) 73 (C)

FROM: EDWIN POOTS MLA
MINISTER OF AGRICULTURE, ENVIRONMENT AND RURAL AFFAIRS

DATE: 22 APRIL 2020

TO: EXECUTIVE COLLEAGUES

FINAL EXECUTIVE PAPER - NORTHERN IRELAND EXECUTIVE: (1) IMPACT OF COVID-19 ON FARM INCOMES AND (2) IMPACT OF COVID-19 ON PRODUCERS IN THE ORNAMENTAL HORTICULTURE SECTOR

Issue

1. I am bringing this paper to highlight the emerging serious threat to Northern Ireland farm incomes due to falling agricultural prices triggered by COVID-19 and the significant risk that this could pose to the existence of otherwise viable farm businesses. I also want to highlight the substantial losses that are currently being suffered by Northern Ireland producers in the ornamental horticulture sector who will effectively lose the total value of their unsold seasonal stock as a result of the COVID-19 restrictions.
2. If agricultural prices fall to the extent being predicted and farms are not supported through these difficulties, otherwise viable farm will experience severe financial difficulties that cause the business either to cease trading or to be significantly damaged. Many ornamental horticulture businesses are already in dire need. DAERA will need to be in a position to act quickly both to address the problem and to provide suitable reassurance to the broader sector. DAERA is continuing to monitor closely the impact of COVID-19 on the agricultural industry and the ornamental horticulture sector and is developing its approach to the potential additional support that appears likely to be necessary.

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3. This paper is set out in two sections, Section A provides detail on the emerging impact on Northern Ireland farm incomes. Section B provides detail on the losses that are being suffered by Northern Ireland producers in the ornamental horticulture sector.

SECTION A: IMPACT OF COVID-19 ON FARM INCOMES

Background

4. To date, COVID-19 has impacted agricultural markets due to initial panic buying in retail, a sharp shift in consumer demand away from food service to retail due to the closure of the hospitality sector, market restrictions, food service products being stored, and uncertainty in the wider economy (e.g. unemployment, declining growth etc.). These effects are only now beginning to manifest themselves in falling prices for farm produce. The first milk processor to announce its price for March raw milk intake has indicated a drop of 1.5p/litre from the previous month and, given the dramatic impact of Covid-19 on international dairy markets, further sharp reductions are predicted for the months ahead. Beef prices have also started to fall, with quotes currently around 17p/kg (5%) lower than those of four weeks ago and further reductions widely expected.
5. These falls in agricultural prices are very concerning and if they were to continue, this would significantly impact farm incomes and thereby pose a significant threat to the existence of otherwise viable farm businesses. At this stage, there has not been a collapse in agricultural prices, however, predictions are beginning to emerge from independent experts that suggest large negative impacts on agricultural prices in the months ahead. For example, Rabobank have recently updated its dairy markets outlook for the next year to take account of COVID-19. This indicates long lasting impacts, with prices for some milk products being 30% below the levels prior to COVID-19. Price falls of this size in dairy commodity markets would lead to farm process well below the cost of production. For the beef sector, industry sources have indicated significant carcass balance issues with the closure of food service outlets and changes in retail demand (i.e. high value cuts that would otherwise have been marketed through hotels and restaurants cannot be sold and are being frozen and stored). AHDB analysis has shown

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that if the resulting proportion of the carcase that was sold as mince increased from 43% to 64%, this would equate to a loss of 65p/kg of carcase weight (approx. 20% fall)¹.

6. While price falls to date have been relative modest, there is a widespread belief that the pressure on dairy commodity and beef markets will increase in coming weeks. If these fears are realised, then we believe that in a worst case scenario, prices for milk will fall to 19.3p/litre² by June (i.e. the level where markets would be supported by EU market intervention measures) against an average cost of production of around 24 p/litre, whereas, prices of beef will fall by 65p/kg (20%) from pre-COVID-19 levels. Once prices fall to these levels, it is unlikely that recovery would be rapid after COVID-19 social distancing restrictions are lifted because of the impacts on the economy and continuing reluctance of consumers to return to food service sector establishments because of second COVID-19 surge concerns. Therefore, depressed beef and dairy prices could last until the end of 2020.
7. The latest estimates show that average Farm Business Income is forecast to decrease from £28,600 in 2018 to £24,700 in 2019, i.e. a fall of 23% (Table 1)³. For 2020, factoring in the price changes of the worst case scenario would results in average incomes falling to just £6,200 in 2020 (Table 2). In particular, it is anticipated that dairy and cattle & sheep farms will be particularly severely affected.
8. Price levels of the level and duration feared will ultimately lead to a severe reduction in cash flow, increased borrowings and potential business failures for the farm sector. Average bank borrowings by farm type for 2018/19 are shown in Table 3.

¹ <https://ahdb.org.uk/news/the-cost-of-higher-mincing>

² <https://ahdb.org.uk/news/eu-public-intervention-open-but-psa-still-closed>

³ <https://www.daera-ni.gov.uk/publications/ni-agricultural-incomes-2019>

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Table 1: Average Farm Business Income by type of farm (£ per farm)

Farm Type	2018/19	2019/20 (forecast)	% change
Cereals	64,088	47,116	-26
Dairy	57,798	51,964	-10
Cattle & Sheep (LFA)	14,368	10,418	-27
Cattle & Sheep (lowland)	12,274	9,809	-20
Pigs	57,978	84,863	46
Mixed	34,093	29,790	-13
All types	28,612	24,679	-14

Source: Farm Business Survey

Table 2: Forecast Average Farm Business Income by type of farm (£ per farm)

Farm Type	2019/20 (forecast)	2020/21^{1,2} (forecast)	Absolute change	% change
Cereals	47,116	46,315	-801	-2
Dairy	51,964	16	-51,948	-100
Cattle & Sheep (LFA)	10,418	6,039	-4,380	-42
Cattle & Sheep (lowland)	9,809	3,111	-6,698	-68
Pigs	84,863	83,469	-1,395	-2
Mixed	29,790	10,023	-19,766	-66
All types	24,679	6,156	-18,523	-75

1. Assumed price reductions: Milk price falls to 19.3ppl by June until December (20% decline in annual price); and the beef carcass price falls by 65p/kg between June to December (15% annual decline).
2. Sensitivity analysis: A further 1ppl fall in the producer milk price yields a further fall in Dairy income by £6,881 per farm (i.e. forecast income of minus £6,865 for 2020/21).

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Table 3: Average bank borrowing per farm by type of farm 2018/19

Farm Type	2018/19
Cereals	9,981
Dairy	104,894
Cattle & Sheep (LFA)	10,404
Cattle & Sheep (lowland)	20,130
Pigs	47,468
Mixed	70,290
All types	43,374

9. Price volatility is a feature of agricultural markets, but price reductions of this scale are beyond the capacity of farm businesses to absorb. This is a highly uncertain time for the farming sector. The key unknowns are the levels of the price reductions and their duration, but there is every possibility and substantial indication that the reductions will be deep and long-lived, and that the existing Treasury schemes, such as the Self-Employed Income Support Scheme and CBILS, will simply not address the problem.

State Aid Considerations

10. State Aid rules apply when Government decides to intervene in the market. The UK operates under EU State Aid rules during the transition period up to end of 2020. The EU Commission extended the State Aid framework to help deal with COVID-19. The new temporary framework allows farms to receive up to €100k per farm, in addition to €20k under de minimis allowances, but payments cannot be linked to current levels of output going onto the market (though payments reflecting levels of production from previous years might be permissible). DAERA is developing its potential support measures to operate within the confines of the State Aid framework. Any calculations related to State Aid payments per farm would not have to factor in support payments

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received from Treasury schemes, such as CBILS or the Self Employment Income Support Scheme as these schemes are non-selective and therefore not State Aid⁴.

Financial Implications

11. Initial estimate is that funding of approximately £100+ million could be needed, but work is ongoing to refine the estimate.

SECTION B: IMPACT OF COVID-19 ON PRODUCERS IN THE ORNAMENTAL HORTICULTURE SECTOR

Background

12. The COVID-19 pandemic has the potential to cause imminent, significant and long-lasting impacts on the domestic ornamental horticulture production sector in Northern Ireland. The sector is comprised primarily of wholesale growers of bedding plants, perennials, shrubs, ornamental plants and cut flowers.
13. In Northern Ireland, there are 210 main producers selling approximately £24 million of product per year. The main outlets for produce are direct sales, garden centres, multiple retailers, and local retailers in Northern Ireland and the Republic of Ireland. There is a narrow window for sales and a short shelf life for the product with 60% of annual sales occurring from March to June. Most plants have a 'shelf life' in the nursery of 2-5 weeks and cut flowers a number of days – thereafter, they are unfit for market.
14. Whilst garden centres are one of the key routes to market for ornamental plant products, this route to market has effectively been closed as a result of the provisions of the Health Protection (Coronavirus, Restrictions) Regulations (Northern Ireland) 2020. Other routes to market can include supermarkets and convenience stores, but it has been suggested that these retailers have shifted their marketing focus away from what may be deemed "non-essential" produce during the current pandemic.

⁴ https://www.economy-ni.gov.uk/sites/default/files/publications/economy/BEIS-Guidance-Covid-19-Temporary-Framework-UK-Authorities_0.pdf - Page 4: Action by UK Government; BEIS Position on UK wide support schemes and State Aid.

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Financial Implications

15. Because of these unique circumstances, ornamental horticulture businesses are now facing huge financial losses.
16. One of the financial support packages available from UK Government (Small Business Grant Scheme) is predicated on the rateable value of the business premises. This has precluded certain sectors, including the ornamental horticulture sector, which benefit from business rates exemptions. Ornamental horticulture businesses will be eligible for the Self-employment Income Support Scheme and Coronavirus Business Interruption Loan Scheme. However, these measures may not be sufficient to save a number of these businesses because of their scale and the amount of working capital tied up in annual bedding plants that may now have to be destroyed because there is no route to market. Particularly vulnerable are the relatively small number of specialist growers that concentrate on producing plants for onward sale to retail outlets and which have no other aspects to their business. While the first response is to seek a re-opening of the routes to market, this would require a change to legislation and there may be doubts about whether this can be done safely and to required degree. Therefore there is a case for government intervention.
17. DAERA officials are currently assessing the financial impact on the sector and the need for focussed support measures as a matter of urgency. Based on preliminary work, it is estimated that a targeted sectoral intervention to offset the losses suffered by the relatively small number of very exposed businesses would cost up to approximately £3.5 million.

Discussion with other UK Administrations

18. DAERA continues to work closely with stakeholders and other UK administrations to assess the impacts of the COVID-19 situation.

Summary

19. There are significant problems building for the farming sector, as well as problems already being experienced by the ornamental horticulture sector due to the impact of COVID-19.

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20. In the worst case scenario, the falls in agricultural prices affecting farm incomes could last to the end of 2020. Therefore, recovery in farming will take longer than in other sectors. It is estimated that targeted sectoral interventions to offset the income effects calculated in the worst case scenario would cost approximately £100+ million (work is ongoing to refine the estimate).
21. For the ornamental horticulture sector, the impact on businesses is already being acutely felt and most likely unavoidable if no route to market can be found very quickly. Should garden centres remain closed beyond the beginning of May, producers will effectively lose the total value of their unsold seasonal stock. It is estimated that a tightly targeted sectoral intervention to offset the losses incurred would cost up to approximately £3.5 million.

Recommendation

22. I am recommending that the Executive:
- i. notes the emerging impact on Northern Ireland farm incomes due to falling agricultural prices triggered by COVID-19 and the significant threat that this could pose to the existence of otherwise viable farm businesses;
 - ii. notes that COVID-19 has the potential to cause imminent, significant and long-lasting impacts on the domestic ornamental horticulture production sector in Northern Ireland;
 - iii. notes that recovery from the impact of COVID-19 will take longer in farming than in other sectors; and
 - iv. agrees that DAERA should continue to work up options for consideration by the Executive in the event that additional financial interventions are deemed necessary.
23. I am copying this letter to Executive colleagues, the Attorney General, the Departmental Solicitor and the Executive Secretariat.

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