

Environment, Food and Rural Affairs Committee
Inquiry into the Work of Defra: Health and Harmony

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Awareness of removal of Basic Payment Scheme/direct payments

Most farmers and their advisers are not (fully) aware that BPS will shortly disappear (by 2025 when the agricultural transition period will most likely end). The Government must make it clear that BPS will disappear to enable farmers to prepare for the upcoming changes.

The levels of payments given to farmers will reduce in the long-term. This means that farms which are currently struggling – even with direct payments coming from the EU – will find the change in the support system particularly difficult. Many UK farms are currently profitable solely because of direct payments coming from the Common Agricultural Policy (CAP). A good rule of thumb is that direct payments pay the rent.

As a result of the miscommunication arising from the Health and Harmony Consultation Paper, there is a danger that farmers will not be given enough time to adjust to the changes that will be required of them for them to be profitable enough when BPS are removed. DEFRA should better communicate its policy plans to remove BPS to farmers.

If DEFRA perseveres with such a radical change in agricultural policy that will only support ‘income foregone’ interpreted in a strict manner, it is likely that the bottom 25% of farms that currently struggle or only survive because of the receipt of BPS will disappear. This scenario could be worse in the other regions of the UK since they rely more heavily on CAP support. The 50% of farmers in the middle will succeed in moving away from direct payments to environmental payments as they become more profitable. The top 25% will barely feel the change in policy since they are already successful. (see comments made by Ludivine Petetin at the Game and Wildlife Conservation Trust All-Party Parliamentary Group in March 2018, <https://www.gwct.org.uk/policy/appg/march-2018/>; in the Farmers Guardian, <https://www.fginsight.com/news/news/defra-makes-decision-to-let-quarter-of-uk-farms-disappear-57116>; and in UK Business Insider; <http://uk.businessinsider.com/quarter-english-farms-bankrupt-after-brexit-2018-4>)

Increased productivity would allow farms – on average – to remain profitable after the abolition of CAP payments through using targeted inputs more efficiently, investing more efficiently and diversification.

We can often hear in the news and in various documents and speeches that direct payments will disappear after Brexit. This is not accurate. Some payments under the new ‘public money for public goods’ policy will be direct payments. This includes payments for ecosystem services under environmental programmes (of the WTO Agreement on Agriculture) since direct payments should not be transferred to the agricultural producers through market operation instruments and other similar tools.

‘Public money for public goods’

Part of the current Green Brexit drive aims to modify the support farmers receive for the farming activities they undertake. Focus on ‘public money for public goods’ is under development within DEFRA. The expression ‘public money for public goods’ in agriculture is not new. It has existed in EU CAP documents since the 1990s and is not a concept created by DEFRA.

A public good is often defined as ‘a good or service in which the benefit received by any one party does not diminish the availability of the benefits to others, and where access to the good cannot be restricted’ – see for instance the 2011 UK National Ecosystem Assessment report. Clean air, soil water storage (yielding flood control), beautiful views over a landscape and rural vitality are often cited as examples of such public goods.

The term public goods utilised by DEFRA in the Command Paper does not accurately reflect the environmental outcome-based payments the government wants to create for three main reasons. First, it is often understood by stakeholders that public goods are tangible goods that are the results of processes of production or manufacture whilst most public goods are intangible. Second, the term leads to complexity when the benefits of production of marketed goods are privatised (food) and non-marketed services (including good environmental land management) are encompassed under the term. And, third, too put it simply, public goods tend to be ‘services or goods not rewarded by the market’. However, when reading the consultation, productivity appears to be identified as a public good (Consultation Paper p. 34). Supporting farmers to increase their productivity does not sit well within the new paradigm for payments for ecosystem services (PES). Productivity aims to create a more efficient and effective agriculture that can result in greater economic success. Ultimately, this success would be rewarded by the market. Misunderstanding would diminish if the terms utilised were instead environmental benefits/outcomes or ecosystem services. These terms should have been preferred since they better reflect the ongoing momentum towards agri-sustainability and the goal of supporting farmers to deliver environmental outcomes and ecosystem services.

Maintain and advance existing features, landscapes and services vs creating new environmental outcomes and services

This ‘greening’ of payments aims at improving environmental management in the farmed countryside and enhancing environmental benefits appears crucial. Farmers must be paid to **maintain and advance** the positive environmental outcomes/services they create/have created. Receiving support should **not** only be about creating new outcomes/services. When reading the Consultation Paper, it appears that only the latter will be rewarded. This is a huge worry since enhancing environmental benefits is critical to create strong buffer zones, stepping stones and wildlife corridors. Ecological and natural connections are needed between existing sites to build a resilient network with green corridors.

Further, active management from farmers and land-owners rather than passive reaction to changes should be the driver of this policy.

The more targeted an Environmental Land Management Scheme Contract will be set up, the better the outcome will be for the environment. However, such targeted approaches will constraint all parties to the agreement as well as being quite resource intensive. Further, if there are too many constraints under the new contracts then it will result in low uptake from farmers.

The Consultation Paper is very similar to the 25 Year Environmental Plan rather than a bill. It sounds more aspirational and lacks a real drive towards actual change and establishing relevant tools and mechanisms to deliver agri-sustainability.

A lack of consideration for rural development

This emphasis on ‘public goods for public money’ or PES means a lesser focus on rural development. The Consultation Paper does not seem to focus on rural communities/rural vitality/rural employment contrary to what currently exists under Pillar 2 of the CAP. Further, it does not embrace a comprehensive and holistic approach to agriculture. The Consultation Paper appears to uphold the stigma that rural areas are perceived as ‘left behind’ places and should become more like urban areas to become more attractive and to develop economically. This perspective has often been the position of the UK government approach towards rural areas. Rural areas and their communities are not viewed for the intrinsic values, goods and services they create. This new focus on PES could change this approach and lead to a regeneration of rural areas and their thriving communities. This can be achieved if support is targeted towards four main characteristics and features of rural development: to provide employment; to generate economic activity related to farming; to maintain economic viability and sustainable vitality in remote areas; and to provide environmental and cultural amenities.

Devolution

The Health and Harmony Consultation Paper barely touches upon devolution. Agriculture and environmental protection are devolved competences according to the devolved settlements. Four different agricultural policies across the UK could be adopted with different schemes established across the devolved regions. It is likely that the design of a new agricultural policy in Wales will be driven by the ‘sustainable management of natural resources’ and its holistic and value-driven approach to environmental protection, as enshrined in its legislative framework – notably the Well-being of Future Generations (Wales) Act 2015 and the Environment (Wales) Act 2016.

The absence of the principle of subsidiarity can be felt within the Consultation Paper where it is replaced by the principle of commonality, which is now at the centre of UK Government policies. This modification in the framing of policies away from the regions (with subsidiarity) towards the centre (with commonality) forces the regions to conform to the will of the centre rather than formulating their own policies. This radical change could be detrimental to the devolved administrations and their powers and could place them at a disadvantage with a lack of input into UK-wide policies. In the long term, this reversal in the framing of policies and in principles will negatively impact the rights that the devolved regions had under EU law (see further: A. Engel and L. Petetin, ‘International Obligations and Devolved Powers – Ploughing through Competences and GM Crops’ (2018) 20(1) *Environmental Law Review* 16-31 - <http://journals.sagepub.com/doi/abs/10.1177/1461452918759639>)

The implications of the Wales and Scotland EU Continuity Bills need to be considered in detail as well as the impact of the Common Framework Document.

The allocation of funds for agricultural support across the four nations of the UK will impact on the design of agricultural policies in the devolved administrations. The justification of costs to Treasury will most likely be based on some kind of ‘public money for public goods’ formula. But any new fund and programme created should allow for some differences and disparities within the UK. However, the question must be asked as to whether any new established formula would reflect the geographical, topographical and economic differences across the devolved administrations.

A lack of emphasis on food production and food security

Crucially, food production and food security are not identified as public goods or as central pillars of the Consultation Paper. There are clear dangers with such an approach. To solely focus on the delivery of environmental outcomes by farmers and to support farmers to remove cattle, lamb and other livestock from production would negatively impact on levels of food production. The moral acceptability of financing programmes that diminish food production will need strong justification to stand public criticism at times of food insecurity.

The WTO Agreement on Agriculture and the future of agricultural support in the UK

Since the establishment of the Agreement on Agriculture, a conservative interpretation of ‘income foregone’ under Annex 2 for environmental programmes has been adopted by the EU. However, what is the baseline for measuring support? What do we measure? How do we measure it? The text of the Agreement on Agriculture is silent on these factors. The counterfactuals are unknown. Thus, there is no reason why the UK should adopt a strict interpretation. The strict interpretation adopted by the EU does not set a precedent. Further, income foregone focuses on financial and economic incomes not environmental outcomes.

The immediate notification of payment for ecosystem services post-Brexit under the green box could negatively impact on the UK if the schemes are not consistent with the criteria under the green box. Other countries could seize the opportunity to challenge these schemes in front of the WTO to set a precedent against the (ab?)use by powerful countries of the green box. Keeping the support under the amber box for a short period of time whilst transitioning from area/land-based payments to ecosystem/environmental services payments would allow for the new schemes to be tested and framed in compatibility with the green box in the long term.

Relying on the amber box for a transition period only (rather than indefinitely) would be more politically acceptable to WTO members who do not benefit from the AMS. Thus, the amber box could provide a pathway for transition from area/land-based payments to environmental outcome-based payments. In the long term, the green box provides the best opportunity to secure WTO compatibility for UK domestic support post-Brexit - but only to the extent that payments are not restricted to ‘income foregone’ interpreted in a strict manner.

Further, UK farmers are protected by EU tariffs. Once the UK is removed from this protective bubble, UK farmers will be subject to price volatility in world markets where the price of

commodities changes on a daily basis. Post-Brexit UK farmers are going to have to compete on the world scene and it is going to be a very harsh environment for them.

Trade policy should be clearer before the Agricultural Policy is designed. Overall, UK trade policy should support UK agricultural policy.

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