

A new Countryside Policy for the UK following secession from the European Union

Conservative Rural Affairs Group

Executive Summary

A replacement for the Common Agricultural Policy following the UK's secession from the EU cannot be developed in isolation. The key points are:

- 1. Trade.** Whether or not the UK retains links with the Single Market, trade agreements will have to be negotiated with many other countries. The priorities for agriculture and the food and drinks industry must not be sacrificed for other gains in those negotiations.
- 2. A new Countryside Policy** should ensure:
 - A profitable farming industry that can compete on world markets whilst producing high quality food for our population. Direct payments should be capped then, as the market allows, phased out in favour of mechanisms to give farmers more resilience to market volatility and the impact of climate change to ensure that the average farmer can at least break even.
 - An effective agri-environment scheme that delivers a countryside where wildlife may flourish and that pays farmers for public benefits.
 - An effective and adequately funded flood defence and water resource management scheme.
 - An adequately funded grant scheme that delivers greater farm productivity by encouraging research and exploitation of the results.
- 3. The Environment** must be a priority. Policies need to be developed that improve soil, air and water quality, reverse the decline in wildlife and improve landscape as an amenity.
- 4. Rural Economy.** Farm diversification, country sports and recreation, and tourism are vital elements of the rural economy. Planning policies and practice should encourage such enterprises.
- 5. Regulation.** The burden of regulation must be reduced with more flexibility.
- 6. Detailed Policies.** It is intended that CRAG should hold five seminars over the coming months at which detailed policies will be explored. The five themes might be:
 - Direct payments, Insurance and Safety Net policies.
 - Environmental policy
 - Planning and the Rural Economy
 - International Trade
 - Innovation and the implementation of scientific advances.

1. Food and Farming

1.1. The Priority – Food Security

Food security does not mean a drive towards self-sufficiency. It means improving the productivity of British farms, exporting our surplus production and importing those foods we cannot grow in the UK. That can only be achieved by a vibrant agricultural industry that is competitive and profitable, producing food that is of the highest quality to exemplary standards of provenance, safety and animal welfare.

Farmers are also guardians of the countryside and it is essential that the environment is enhanced with a reverse in the decline of wildlife. It is reasonable that public benefits for which there is no market mechanism, such as landscape, wildlife, public access and recreation, should be paid for out of public funds.

1.2. Direct Payments

Farmgate prices are so low at present that a large proportion of farmers only survive because of the Basic Payment. The Farm Business Survey conducted for Defra shows that the average farm business in England in 2014/15 made a loss of £19,134, offset by income from agri-environment schemes of £5,710, from farm diversification of £8,044 and from the Single Payment, now the Basic Payment, of £22,452¹.

This shows that a New Zealand approach of abolishing all subsidies immediately after Brexit would, at current farmgate prices, drive many farmers into insolvency.

However, it is widely agreed that direct payments are unsustainable in the longer term and thus the aim must be to phase them out, to be replaced by more focussed support. Nevertheless, should direct payments be phased out in this country whilst still significant in the EU, it may put our farmers at a competitive disadvantage.

1.3. Capping

The UK has always been opposed to the capping of direct payments within the European Union. It would cause a massive disadvantage to British farmers as our farm structure is so much larger than in many other member states and thus we would receive a much lower proportion of the total budget. However, once out of the CAP, direct payments could be capped so that smaller scale family farms receive a higher proportion of the budget than large scale agribusinesses. There could also be weighting to benefit less favoured areas such as the uplands.

1.4. The Future of Farm Support

Depending upon the market conditions at the time, direct payments could be phased out over a period, to be replaced by mechanisms that help farmers to cope with price volatility and natural disasters. These include taxation, a safety net, insurance and futures markets.

1.5. Taxation

Options to allow farmers to average out profits, should there be any, over a number of years already exist. This could be taken further by allowing farmers to pay any potential tax into a fund that can be drawn down at times of loss. Australia has such a scheme.

1.6. Safety Net

This involves the creation of a fund that can be used to support farmers in time of need. The money could come from a levy paid by every farmer on the sale of his produce, similar to the way that the Agricultural and Horticultural Development Board is funded now. This fund must then be matched by the Government to create a fund adequate for its purpose. HM Treasury is unlikely to accept an open-ended commitment so it is recognised that such state funding would be circumscribed.

Farmers might receive payments from the fund to offset the impact of natural disaster such as drought or flood and disease. They might also receive payments to support profitability at a time of low yields or excessively low market prices. It is ironic that one possible model for this was the basis for the Deficiency Payments system in force in the UK before accession to the CAP. Markets are very different today and such a scheme is no longer appropriate, but the principle offers an interesting model. A guaranteed minimum price was set for each product and payments made to compensate for market prices below that level. The difficulty here is to balance the resources of the fund to the potential payments to farmers. There is also criticism that such a mechanism militates against innovation and increasing productivity. Canada has a scheme similar to this option.

1.7. Insurance

This is the primary mechanism of farm support in the United States. Farmers insure with designated insurance companies against low yields, low prices or both. This is guaranteed by the Government which pays a proportion of the premium. Payments are made, as in any insurance claim, when the criteria are met. The difficulty here is to persuade insurance companies that this is good business and it may require an incentive from Government that is deemed too expensive. Farmers, too, are unlikely to participate if premiums are perceived unaffordable. Experience from the US also suggests that this mechanism is vulnerable to fraud.

1.8. Futures Markets

A futures market for grain already exists in the UK and the farm Minister, George Eustice has suggested he would like to see one for milk. The principle is that virtual grain can be traded freely with the vast majority of deals cancelled out, it is estimated that less than 2% end up with delivery of the physical grain. Thus if a farmer wants a guaranteed minimum price for his wheat of £120 per tonne, he can sell at that price on the futures market if that is the market price. If the price falls to £100 per tonne, he can buy back the future and secure his margin. If the price rises to £140, he either has to buy back for a loss or deliver the physical grain at the contract price of £120.

In theory, it is an excellent hedging mechanism that should reduce fluctuations in the market. In practice, it is much less successful as international speculators play the market with vast sums, which actually increases volatility. The other disadvantage to the farmer is the cost, he has to pay a broker to trade for him and, if the market goes against him, he may be asked to deposit some of his losses. This is called a margin call.

This is not seen as a particularly effective mechanism.

1.9. Payment for Public Benefits

Please see the paragraph on agri-environment schemes below.

1.10. Research Innovation and Productivity

If British farmers are to compete on world markets, it is essential that productivity is improved. Our research capability is amongst the best in the world but this needs to be adequately funded and encouraged. British universities, in conjunction with small businesses, receive £850 million each year in grants for research from the European Union but this is dependent on the free movement of people ². Already collaborative projects with other European countries are in question following the referendum and it is vital the British Government guarantees continued funding.

Without the constraints of short-sighted European attitudes to biotechnology, it is tempting to think that we could surge ahead, adopting the latest technology such as genetic modification. However, the danger is that this is thwarted by restrictive trade policies imposed by the EU. Please see the section on trade.

However advanced our research, it is only of benefit if adopted on farm. Innovation and the exploitation of new technology is essential so there should be an adequately funded grant scheme to incentivise research and, equally important, extension to farmers and adoption on farms.

1.11. Forestry and Fisheries

Since the introduction of the Forestry Commission in 1919, increasing the area of woodland has been a Government priority. This should continue with an effective grant scheme to encourage further planting. However, funding under the new Countryside Stewardship scheme is far too focused on social and environmental objectives and this needs to be addressed, as does the excessive complexity and bureaucracy involved. There are environmental benefits from new tree planting, such as in flood prevention, but new woodland should not be established on quality farmland. Timber is a valuable resource for a number of uses, notably fuel and construction, and the economic factors should be recognised.

As we leave the Common Fisheries Policy, there is the opportunity to develop new measures both offshore and inland that can encourage a more profitable yet sustainable fishing industry.

2. Environment

2.1. Wildlife Legislation

As we leave the European Union, we will no longer be bound by European legislation such as the Habitat and Birds Directives. However, we will still be bound by international treaties such as the Bern Convention. UK legislation will also still be on the statute book that transposes European legislation into UK law. There will be no hurry to repeal these Acts as the objectives will still be priorities in this country, for example cleaning up our rivers and lakes in compliance with the Water Framework Directive. However, the Wildlife Bill developed by the Law Commission in recent years could be put before Parliament with amendments to reflect secession from the EU. Legislation should reflect specific UK priorities and ensure a balance between environmental, economic and social aspects.

2.2. Agri-environment schemes

As we leave the EU, we will no longer be constrained by measures in the current CAP. Cross compliance should be abolished as direct payments are phased out. Much of its provisions are covered by regulation in any case and, if necessary, further regulations could be introduced to cover any gaps.

The greening measures introduced in the current CAP regime are totally inappropriate for the UK and should be scrapped as soon as possible. They were introduced to bring some environmental benefit from Pillar I direct payments but we have had well-developed agri-environment schemes for many years.

The current Countryside Stewardship scheme has been little short of a disaster. It is far too bureaucratic and many farmers have been put off from participation. The Entry Level of the previous Environmental Stewardship scheme was criticised for delivering few benefits but it achieved a coverage of over 70% of farmland in the UK and encouraged the vast majority of farmers to become involved in conservation measures.

Fear of disallowance by the European Commission for failing to apply the rules effectively has led to a climate of caution and over-interference in Defra and Natural England. However, the Government must guarantee that existing contracts will be honoured and payments made, which it appears to have done.

A new, more flexible, inclusive and effective scheme should be introduced as soon as possible and existing contracts transferred into the new regime. This should be a graduated and all-welcome scheme that ranges from simple options for limited payment through to more comprehensive programmes attracting higher levels of funding. This would be similar to the previous Environmental Stewardship with the distinction between Entry and Higher Level removed, so that each option would attract a grant with no flat rate payment. Outcome should be more of a priority so that, for example, payment for a cover crop depends to some extent upon how effective it is in providing food and habitat for the target species.

Water resource management measures should be excluded from this scheme and subject to a separate programme, see below. There is a case for heritage measures to be removed as well so that the focus of the scheme is entirely on the environment and biodiversity, but it is unlikely that incentives for heritage features such as historic buildings, dry stone walls and the like would be adequately funded if taken out of this scheme.

2.3. Enforcement

Please see the section on regulation.

2.4. Water Resources and Flooding

As our weather becomes ever more extreme as a result of climate change, it is essential to bring in an effective flood defence and water resource management strategy. Rushing flood water down rivers to the sea as quickly as possible is not the most beneficial solution, especially if drought follows a few months later.

There are a range of factors involved, not least the management of farmland and agricultural husbandry practices that limit run-off. Thus cropping programmes need to be carefully thought out and soil compaction avoided.

Good soil structure allows the absorption of rainfall without run-off, facilitates drainage but also allows moisture to be retained which reduces the impact of drought.

Where siltation of watercourses does take place, that silt should be removed so that the capacity of the stream is maintained. Natural flood plains should be allowed to flood and all development must be prevented in those areas. In addition, farm-scale reservoirs or water-holding projects should be encouraged, again to hold up water at times of high rainfall or flood surge to alleviate flooding downstream. Flooding can also be minimised by land use measures, such as planting trees or the latest grass varieties that allow the soil to absorb more water.

This is a complex subject; sufficient funding and expertise must be a priority to implement adequate measures.

2.5. Soil and Air Quality

Soil has become a priority amidst warnings that there are fewer than another hundred harvests before the world's soils are exhausted. The state of our knowledge of soil chemistry and microbiology is remarkably limited considering the length of time we have relied on soils for our food. There must be effective research with farmers given the necessary advice to improve soil quality. A combination of carrot and stick, regulation and grant incentives, should be employed to reverse the decline of soil health.

Air quality, too, has become a priority amidst recent reports of air pollution by farming. This should be addressed as with soils, but regulation must be effective and proportionate, see section on regulation.

3. Rural Economy

According to Newcastle University, rural areas contribute at least £211 billion to the national economy every year ³. 28% of businesses are rural, responsible for 19% of Gross Added Value. These include a large number of start-up and SMEs (small and medium sized enterprises). It is essential that this entrepreneurial activity is encouraged.

3.1. Farm Diversification

According to Defra's Farm Business Survey results for 2014/15, the majority of farmers in England (61%) have diversified their businesses in a wide range of activities that contribute over 30% to total farm income, an average of £15,200 per diversified farm. The conversion and re-use of farm buildings is the most common (41%) bringing an average income of £16,100, followed by renewable energy (18%) £3,900, sport and recreation (12%) £4,600, processing and retailing of farm produce (10%) £6,400, tourist accommodation and catering (5%) £7,700 and other activities (9%) £4,600 ¹. By any measure, this is significant.

However, the contribution to total farm income is only a small part of the story. The re-use of farm buildings provides premises for other businesses that also contribute towards the rural economy. On one estate in Oxfordshire, there are over sixty businesses accommodated employing over 300 people.

Government guidance and local planning policies have encouraged this activity over many years and it is important that this support is continued with the minimum of bureaucracy. Policies in Government guidance and Local Plans may be supportive but this must be carried through to the consideration of individual planning applications by planning officers and committees.

3.2. Broadband and Mobile Telephone Coverage

Despite the promotion and financial support from Government for the roll-out of superfast broadband coverage, progress has been disappointing. The success of the businesses described above depends upon good communications, indeed farmers have been unable to let premises where there is inadequate coverage.

3.3. Planning and Landscape

Both the coalition and the current Governments have amended planning law and regulation in an attempt to encourage entrepreneurial activity in rural areas. This has been controversial, changes have been condemned by some individuals and organisations such as the National Trust and Campaign to Protect Rural England. At a national level, planning is strategic, mostly involved in land use. For that reason it should come within Defra rather than the Department for Local Communities and Local Government, an idea supported by Lord Deben, a former Secretary of State for the Environment.

3.4. Rural Tourism

According to Visit Britain, the value of tourism was £127 billion in 2013, 9% of national GDP, although that appears to have contracted to £106 billion in 2015. There are conflicting figures for rural tourism, presumably because there are varying definitions. A Defra report puts the total figure at £25 billion with domestic rural tourism worth £11.7 billion ⁴, but an EFRA Committee report suggests a total of £17 billion ⁵. It would be helpful to have some definitive figures that Defra relies upon for policy formulation. However it is measured, rural tourism makes a significant contribution to the national economy that should be encouraged. One of the main attractions is the British landscape with its patchwork quilt of small scale woodland, arable fields and pastures. It is important the maintenance of this landscape is encouraged.

3.5. Affordable Housing

There is a massive shortage of affordable housing, especially in rural areas. Planning policies must reflect this as a priority.

4. Trade

International trade is one of the key aspects of the British secession from the European Union. Defra statistics show that the value of our exports of food and drink was £18 billion in 2015. Our largest export markets are the Irish Republic (17%), France (11%), the USA (10%) and the Netherlands (7%). Total imports of food and drink were worth £38.5 billion in 2015, giving a trade gap of £20.5 billion ⁶. For this reason alone, it is vital that international trade is continued after Brexit.

The CLA puts exports to other countries in the EU in 2014 at \$21 billion, £16 billion at today's exchange rate, amounting to 62% of agri-food exports. 70% of our agri-food imports came from the EU in the same year. However, trade is more significant for the UK than other member states. Agri-food imports from the UK account for only 3% of the total whilst our imports only account for 8% of their total exports ⁷.

These totals cover significant trade in certain commodities with certain countries. For example the UK exports up to 40% of its sheep meat production, much of which goes to Europe, over 50% to France alone. Trade with the Irish Republic is important for both countries.

The UK has very high standards of food safety and animal welfare. These add to production costs so it is important to control the importation of cheap produce that does not meet our high standards.

4.1. The Single Market

In the context of trade, it would be to our advantage to remain within the European Economic Area or single market. However, that is likely to involve the payment of a significant sum for the privilege, a requirement to obey the rules with little influence over them and free movement of EU citizens across our borders. This is known as the Norwegian model. Unless a compromise can be negotiated, this is likely to be politically unacceptable, not least because very little would have been gained by secession.

Assuming the UK leaves the single market, negotiations would have to take place for a new trade deal with the EU which might be long and difficult, at least as far as agriculture is concerned. There are various models but, essentially, we would start from scratch. One major concern in negotiations for trade deals with the EU and other nations is the priority given to agriculture and food and drink products. Access to the UK for imported produce may be given as a trade-off for exports of goods and services. This must not be allowed to happen.

4.2. Constraints on Innovation

As stated above, European agriculture has stagnated in comparison with the rest of the world. It is essential that productivity is improved but that can only be done by exploiting biotechnology. It is tempting to think that, free of the shackles of the CAP, the UK can make progress in this regard, not least because we have world-leading research capability. However, that could be prevented by restrictive trade conditions imposed by the EU. For example, if the EU banned the import of any food that had been produced by means of genetic modification, that would seriously hamper attempts to increase UK productivity. This must be a priority in trade negotiations.

4.3. Free Movement of Labour

There is a clear political will in some circles to reduce immigration into the UK. Whatever the wider arguments, there is an important agricultural and horticultural context. Many farmers and growers rely heavily on immigrant labour and would suffer if this were to be curtailed. One potential solution would be to resurrect the Seasonal Agricultural Workers Scheme that was closed at the end of 2013 because it was considered that there were enough potential workers from other EU member states who could travel freely. A quota was set for the number of workers who could visit the UK for seasonal work such as harvest for a period of six months.

A similar scheme could allow temporary workers from anywhere in the world to come to the UK for seasonal work but must be as simple and free from bureaucracy as possible.

5. Regulation

Agriculture, as other industries, carries a massive burden of bureaucracy. The Better Regulation Executive of the Department of Business, Innovation and Skills has the task of reducing this burden but is making slow progress. It is tempting to think that leaving the EU will cut away red tape but it should be borne in mind that many EU Directives and regulations have been subject to 'gold-plating' in Whitehall. The fear of disallowance, fines paid to the European Commission for the inadequate administration of the CAP regime, creates a climate of micromanagement, interference and over-regulation. In the 2005 to 2014 CAP regime, Defra incurred fines of £642 million. That atmosphere must change for a more flexible and light touch approach to regulation.

Repealing legislation or abolishing regulation, whilst a worthy aim, should not be undertaken simply to tick boxes in a target list. For example, Defra has suggested repealing the Weeds Act 1959 and Rabbit Clearance Orders under the Pests Act 1954 because they are very rarely used. However, the very fact that the threat of prosecution exists is helpful in the control of rabbits and noxious weeds such as ragwort.

5.1. Risk or Hazard?

Legislation or regulation is often imposed because it is deemed prudent in the event of hazard. However, there is a distinction between hazard and risk.

According to TUC Worksmart, 'A *hazard* is something that can cause harm, e.g. electricity, chemicals, working up a ladder, noise, a keyboard, a bully at work, stress, etc. A *risk* is the chance, high or low, that any *hazard* will actually cause somebody harm.' In the context of farming, pesticides may be banned or their use curtailed because they represent a hazard whereas regulation should be based on risk.

For example, there are calls for the herbicide glyphosate to be banned because one study of many suggests it might be carcinogenic. This represents a potential hazard. The fact that the chemical has been used for many years without any apparent ill effects would indicate that the risk of harm is very low.

Mistakes have been made in the past, for example the licensing of thalidomide in 1956. The Silent Spring was a seminal book written by Rachel Carson and published in 1963 highlighting the harm caused by chemicals such as DDT.

Testing since then has become much more rigorous. Of course, dangerous chemicals should be banned but regulation should be based on risk rather than hazard.

5.2. Precautionary or Counter-Innovation Principle

Leading on from the above point, regulators tend to invoke the precautionary principle. If there is any doubt, then it is prudent to ban or control activity or products in case it may turn out to be harmful. That stifles innovation and can lead to reduced investment in research. As a consequence, there is interest growing, not least in Brussels, in the Counter-Innovation Principle. The Precautionary Principle considers the harm caused by taking an action that has unforeseen results whilst the Counter-Innovation Principle considers the cost of not taking action. Applying both principles should result in more balanced and proportionate regulation.

5.3. Inspection and Enforcement

A significant element of bureaucracy is the monitoring and enforcement of regulation and the use of public money. Farmers are all too aware of the numbers of forms to fill in and inspections to which they are subject. A more imaginative approach needs to be taken. For example, where farmers are participants in assurance schemes, compliance with the requirements of, for example, conservation grade promoted by Jordans and others could be taken also as compliance with statutory schemes.

Wildlife Estates is a scheme run by the European Landowners Organisation by which estates that have specific high standards of conservation can be awarded the status. In Portugal it is used as part of the agri-environment scheme; rather than having to sign up to a government scheme, a certified Wildlife Estate qualifies for the grants directly.

Whilst it is exciting to start with a blank sheet of paper, it is sobering to think of the sheer scale of the task. We may have two to three years to devise a new countryside policy but we have to get it right, the consequences of failure might be catastrophic in any number of ways. It is intended that perhaps five seminars will be held over the next year at which some of these ideas may be more fully explored. Insurance and Safety Net proposals certainly need further detailed analysis. In particular, the paper on Agricultural Commodity Insurance by the old Conservative Rural Forum warrants consideration. I hope this paper provokes further ideas and would be very pleased to hear of them.

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