

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

Conservative Rural Affairs Group

Summary and Recommendations

In June 2016, the people of the United Kingdom voted in a referendum to leave the European Union. With a strong policy formulation remit, the Conservative Rural Affairs Group embarked on developing a UK agricultural policy to replace the European Common Agricultural Policy.

An initial paper was presented to George Eustice MP, Minister of State for Agriculture, Fisheries and Food, at the Conservative Party Conference in October 2016. At his suggestion, a series of seminars have been held in the last fifteen months to flesh out the details. This paper, the culmination of that process, puts forward policy recommendations supported by chapters covering each seminar.

Priorities.

A new countryside policy should ensure a profitable farming industry producing food for the nation. In an unstable world, especially in the context of climate change, food security is a fundamental priority. It is important to improve productivity, especially to reverse the degradation and loss of soils, to farm in a sustainable way.

An equal priority is the environment; the Government is committed to this generation leaving the environment in a better state than it inherited. So we have to produce more food using less land, less water and fewer inputs of fertilizers and pesticides.

There is also a social priority, to ensure a thriving rural economy with adequate housing for those who live in the countryside.

Direct Payments.

Since the effective decoupling of subsidies from production, direct payments only act as an income supplement. As such, they are remarkably inefficient, giving more money to those who need it the least. There can be no justification for direct payments and they should be phased out over five years. During that time, the budget must be reduced so that funding can be redirected to other programmes, particularly agri-environment and innovation grant schemes.

Capping. This can be achieved by capping the Basic Payment. The rate of the Basic Payment could be reduced across the board but a more effective way of phasing it out is to lower the cap threshold each year. Thus the maximum payment per

applicant might be set at £250,000 in year 1 (2019/20) and reduced by £50,000 each year down to £50,000 in year 5 (2023/24).

Exit Bonds. The loss of the Basic Payment will inevitably lead to restructuring in the industry. Farm businesses may grow as consolidation continues but farmers may find other ways to restructure, especially in the context of innovation in such areas as robotics. Those farmers who wish to leave the industry should be able to do so with dignity. It is suggested that they should be eligible to receive an exit bond, essentially their remaining entitlement to the Basic Payment. Such a bond could be traded to realise a capital sum or the owner could receive the income each year. This bond scheme could be extended to those wishing to raise capital for restructuring and investment in innovation but the conditions would need to be carefully developed to prevent abuse.

Risk Management. Government backed insurance schemes, such as those operating in the USA and Canada, were considered but rejected. WTO rules that prevent a state sponsored insurance scheme paying out unless the loss to be compensated is 30% or greater make this policy inappropriate for the UK where losses of this magnitude are comparatively rare. Insurance may be appropriate for the Government in terms of major disasters such as a widespread outbreak of Foot and Mouth Disease but not for individual farmers.

Rather, risk management should be pursued through the supply chain with risks shared along the chain. There are already some examples of good practice such as milk contracts based on the cost of production or forward contracts at fixed price or at a range between minimum and maximum price. The Government should look at measures to encourage this practice, perhaps under the auspices of the Groceries Code Adjudicator, whose powers should be extended.

The Australian scheme whereby farmers can put profits into a tax exempt savings fund to be drawn down in times of loss certainly warrants further scrutiny.

The Environment.

Wildlife Legislation. European legislation, such as the Habitats and Wild Bird Directives, have been translated into UK legislation by the European Union (Withdrawal) Act, meaning that there should be little change in the near future. There may be some amendment to wildlife legislation in the future to bring it more in line with UK priorities and conditions.

Agri-environment Scheme.

Many have spoken of natural capital, ecosystem services and public goods without any clear definition of the terms. Any regime that paid farmers for carbon sequestration, for example, would be immensely complicated and bureaucratic.

It is proposed that the main mechanism to enhance the environment is a new agri-environment scheme. There is a general acceptance that the Countryside Stewardship Scheme launched in 2014 has been an unmitigated disaster. Partly due to a lack of funding and partly due to fear of infraction by European Union auditors, the scheme is bureaucratic and restrictive. This is unfortunate because its predecessor, the Environmental Stewardship Scheme with its Entry and Higher Levels had been very successful with excellent participation by farmers. Indeed, over 70% of farmland in England was in the Entry Level. A new scheme should be developed that builds on the success of Environmental Stewardship and the new measures for Countryside Stewardship implemented in January 2018.

Entry Point. With the demise of the Basic Payment scheme, related requirements such as Cross-Compliance Conditions and Greening will no longer be applicable. Instead, it is proposed that a comprehensive and exemplary standard or benchmark be devised based on the Code of Good Agricultural Practice and incorporating cross-compliance conditions, assurance schemes and animal welfare standards. Farmers would be invited to sign up to this Entry Point, in return for which they would receive an annual payment based on area, with or without a cap. There should be three rates of payment: perhaps £25 per hectare for the majority of farmers, £50 per hectare for those livestock farmers with a proportion of permanent pasture above a certain threshold and £100 per hectare for those in the upland or Less Favoured Areas. There might be a supplement for organic farmers.

Options. Any farmer who signs up to the Entry Point should be eligible to participate further by choosing from the options, which would be broadly similar to those of the current and past schemes. This would not be competitive, but open to all with a minimum of bureaucracy and no long term contract. So a farmer simply signs up to grow ten hectares of winter bird food for example and receives the grant accordingly. Monitoring should be by satellite imagery without the need for frequent visits to the farm. Capital grants would be available as now.

The list of options should be extended to include enhancement of soil structure and fertility. This is likely to include an increase of spring cropping in the rotation with green manures or cover crops over winter.

The scheme must be bottom up rather than dictated from above. Natural England's new approach of asking farmers what wildlife they would like to see on their farms is a huge step forward. Grants should include an element of payment by results along the lines of Natural England's Yorkshire Dales pilot project.

Participation by other interested parties should be encouraged, especially where this can increase the funding available. An excellent example of what can be achieved is the Upstream Thinking Project in which South West Water and the Westcountry Rivers Trust are working with farmers to ensure cleaner water in streams and rivers.

Priority objectives will vary from area to area and options should vary accordingly. For example, the Norfolk Broads will have very different priorities to Dartmoor or the New Forest. Each area should, in effect, create its own scheme with options to match environmental targets, similar to the old Environmentally Sensitive Areas.

Farmer Clusters. Farmer clusters and other collaborative projects should be encouraged to meet Sir John Lawton's exhortation for conservation to be 'more, bigger, better and joined up'. Natural England's Facilitation Fund is extremely important as a source of funding for those advising and coordinating these groups and should have sufficient resources to meet demand.

Other Priorities. Options will include measures to meet other priorities such as water resource management and heritage features. Whilst grants should be available to enhance water quality and minimise pollution, there must be close correlation with flood defence and water resource management measures in other programmes, which have their own substantial budgets. The ring-fencing of budgets for elements such as heritage features should be considered in order to ensure adequate funding.

The Rural Economy.

17% of UK residents live in rural areas, where economic activity is worth around £237 billion to the UK economy each year and employs some 3.4 million people.

Diversification is a critical source of income to many farm businesses, indeed, 62% of all farms have some diversified activity, according to Defra's Farm Business Survey. The average farm business in England in 2015/6 made a loss of £27,044, offset by income from agri-environment schemes of £5,359, from farm diversification of £9,020 and from the Basic Payment of £21,145. When the Basic Payment is phased out, income from diversification will become even more essential.

Most diversified enterprises require planning consent and are supported by policies in the National Planning Policy Framework. Yet, planning issues are still cited as the biggest barrier to diversification. Changes to Permitted Development Rights have helped to some extent but do not apply in designated landscapes. The Government should continue its attempts to remove barriers in the planning system.

The lack of capital can be another barrier, especially if interest rates are to rise. Access to full reliable mobile telephone signal and superfast broadband are critical to businesses in rural areas and the Government must continue to push for better coverage.

Environmental constraints often cause barriers to development, especially in designated landscapes and Green Belt. Whilst the British countryside is one of our greatest assets, recognised as such in the National Planning Policy Framework, and

must not be compromised by inappropriate development, alternative strategies such as biodiversity offsetting should be explored.

The housing crisis is acute in rural as well as urban areas, especially access to affordable homes in villages. The Government must continue its drive for greater housebuilding and find ways to remove blockages in the process. There should be more flexibility in granting planning consent to allow those working on farms to live on their land provided the need can be demonstrated. Small holdings growing produce for local markets should be encouraged.

Taxation and business rates can throttle new enterprises in rural as in urban areas. The Government should look at tax incentives and relief from business rates as a way of encouraging economic activity in rural areas.

Innovation.

Farm productivity in the UK has been relatively static for over thirty years and now lags behind many other countries, notably the United States. This is partly due to the degradation of soils which must be reversed.

The use of sensors and satellites has brought precision farming with a consequent reduction of applications of fertilizers and pesticides. In livestock production, too, similar technology can improve productivity. The use of robotics will increase rapidly with small scale machines carrying out much of the tillage and livestock husbandry functions.

Scientists in our research institutions are leading the way internationally in many areas of research, especially biotechnology, and yet the benefits are not being realised on farms.

Gene technology can bring significant steps forward if it is allowed to be harnessed. This requires a shift in political will in this country but will also be affected by conditions of any future trade deals, especially with the European Union.

It is essential that investment into research and development is maintained and expanded. The Government should facilitate this both by direct funding and by encouraging other investors.

But this research is only useful if the results are exploited on farms. An effective extension service should be set up funded, but not controlled, by Government. Natural England's Facilitation Fund for collaborative conservation projects is a model that merits consideration.

A comprehensive Innovation Grant Scheme should be established as soon as possible to provide incentives to farmers to adopt new technology and techniques.

Funding must be substantial if productivity is to be increased significantly. The Farm and Horticultural Development Scheme of the 1970s and 1980s offers a precedent to consider.

International Trade.

Access to Russian markets is denied at the present for political reasons but others, particularly China, are opening up. We have made good progress and there is great scope to expand exports of food and agricultural products further outside the EU, exploiting our reputation for quality and high welfare standards.

However, over 60% of our trade is with the EU and far higher for some products. For vegetables, for example, around 5% is exported but that rises to 15% for beef and almost 20% for wheat and barley. 28% to 30% of the UK lamb production is exported, up to 40% seasonally, and 96% of that is to the EU.

If there is no trade deal with the EU, WTO tariffs will apply. The rate on most goods is set at below 10% but on food and agricultural produce it is much higher, with meat at the top end. The tariff on sheepmeat, for example, is up to 50% depending on the cut, with beef even higher, 87% on frozen boneless cuts. Most dairy products and many cereals are at similar rates. The sheep sector is most at risk due to its dependence on exports to the EU.

The UK benefits from the 25 free trade agreements that the EU has with 31 other countries. It is by no means certain that our participation can continue when we leave the EU and it may be necessary to renegotiate some or all of them.

It takes a very long time to negotiate a free trade deal. It took seven years to conclude the recent treaty with Canada and there is no agreement with the USA after years of negotiations mainly due to deadlock on agricultural produce. British farming must not be sacrificed in an attempt to secure a speedy outcome.

The lack of a comprehensive free trade agreement with the EU that aligns our regulations will mean a physical border between the UK and other European countries with customs checks. Quite how the issue of the border with the Irish Republic can be resolved without a customs union is still unclear.

Any outcome other than the maintenance of the status quo by staying in the customs union will bring disruption to trade and increased costs. Failure to reach a free trade agreement with the EU will have a far greater impact for British agriculture and could be catastrophic in some sectors.

Recommendations.

Direct Payments.

1. The Basic Payment Scheme to be phased out over a five year period to 2024.
2. Capping to be introduced from the outset with a maximum payment per applicant of £250,000 per annum.
3. This threshold to be reduced by £50,000 each year: £200,000 in year 2, £150,000 in year 3, £100,000 in year 4 and £50,000 in year 5, 2023/24.
4. Those farmers wishing to retire to be offered an Exit Bond, their remaining entitlement to the Basic Payment. Such a bond could be traded to realise a capital sum or the owner could receive the income each year.
5. Risk Management should be encouraged by Government in the context of shortening the food supply chain and fixed price forward contracts with an enhanced role for the Groceries Code Adjudicator.
6. The Australian model of allowing farm profits to be put into a tax exempt savings fund to be drawn down in times of loss warrants further scrutiny.

The Environment.

7. A new agri-environment scheme to be developed to replace Countryside Stewardship. A comprehensive and exemplary standard or benchmark to be devised based to create a voluntary Entry Point.
8. Any farmer who signs up to the Entry Point to receive an area-based payment: £25 per hectare as a base, £50 per hectare for those livestock farms with a proportion of permanent pasture over a certain threshold and £100 per hectare for those in the uplands or Less Favoured Areas.
9. Farmers can then choose from a menu of options as now but with a minimum of bureaucracy and no fixed contracts. Open to all, not discretionary.
10. Those options to be extended to include measures to enhance soil structure and fertility.
11. Capital grants to be available as now.
12. Farmer Clusters and other collaborative projects to be encouraged by means of the Facilitation Fund.
13. Participation by other interested parties, such as water companies, to be encouraged, especially if that increases the available funding.
14. As priorities vary in different areas, options should reflect targets, in effect a scheme tailored to the specific landscape.
15. The budget to be adequate to meet the demand so that the area of land involved in conservation is increased significantly. Ring-fencing of elements of the budget to be considered.

The Rural Economy.

16. Economic activity in rural areas is a key component of the national economy for which Government support is essential.

17. Further reform of the planning system may be required to remove barriers to farm diversification.
18. Enhancing the environment is rightly a top Government priority but a flexible approach, such as biodiversity offsetting, to be taken to ensure that economic activity is not stifled.
19. The Government to ensure adequate mobile telephone and superfast broadband coverage in all rural areas.
20. The Government to continue the drive for more housing, especially affordable homes in rural areas.
21. The Government to consider tax incentives and business rates relief to encourage economic growth in rural areas.

Innovation.

22. Improvements in farm productivity to be a priority, which may require changes in political will, notably in attitudes to biotechnology.
23. Investment in research and development to be increased both from public and private funding.
24. An Innovation Grant Scheme to be established as soon as possible to provide incentives to farmers to adopt new technology and techniques. Funding to be adequate to achieve significant improvements in productivity.
25. An effective extension service to be set up, funded but not controlled by Government to inform and encourage farmers to innovate.

International Trade.

26. The Government to recognise the contribution of the food and drinks industry and the importance of British agriculture to international trade and the national economy.
27. Given the vulnerability of British agriculture to any disruption of trade with the EU, a comprehensive free trade agreement that aligns regulations is essential.
28. British agriculture must not be sacrificed in trade negotiations with non-EU countries, such as the USA, in an attempt to secure a speedy deal.