

NFU's initial reaction to "Health and Harmony", the government's consultation on the future for food, farming and the environment

Defra launched its consultation on future agricultural policy once we leave the Common Agricultural Policy (CAP) on 27th February. The command paper containing the government's proposals can be viewed at the dedicated section of the NFU's website (www.nfuonline.com/news/eu-referendum) along with a number of supporting documents.

The consultation closes on 8th May 2018. The NFU will be providing a full and comprehensive response on behalf of its members, and is also encouraging farmers and others to respond directly to Defra with their own views. To assist in both of these endeavours as we engage with our membership in the coming weeks, this briefing sets out our initial reaction to the consultation's proposals.

NFU's vision for industry

The overarching principle that should inform our response to the government's proposals, now and in the future, is encapsulated in our vision for the farming industry: we want sustainable, profitable and progressive farm businesses delivering for the market and our society, respected and rewarded fairly for the goods they deliver, embedded at the heart of the UK food system, and with an enhanced reputation at home and abroad.

As we engage with members, stakeholders and policy-makers in responding to the Command Paper, we will observe the following key principles as we seek beneficial reform of agricultural policy:

- It should be fair to all active farm businesses irrespective of size or system,
- It should provide sufficient time and certainty for active farm businesses to plan, and opportunities for them to adapt and invest, and
- It should lead to a more profitable, progressive and sustainable farm sector respected by society for its high standards of food production, environmental care and animal welfare.

Initial assessment of the Command Paper

The NFU has identified seven key tests against which we can measure the government's plans for future policy. The government's plans should:

- **Be ambitious:** does the government set out ambitious objectives for farming and food production?
- **Be comprehensive:** does it cover the NFU's cornerstones for agricultural productivity?
- **Promote competitiveness and financial resilience:** will farming be more productive competitive and resilient as the result of this consultation?
- **Reduce the administrative burden:** does the consultation recognise non-regulatory approaches, minimises bureaucracy, complexity and tests scheme deliverability?
- **Maintain a level playing field:** will farmers across the UK operate within a similar regulatory framework so that there are no competitive distortions within the UK and that regard is given to operators elsewhere in Europe?
- **Provide fair award for environmental goods:** will farmers be rewarded fairly for the true value of environmental goods?
- **Facilitate a smooth transition:** is there time for farm businesses to anticipate and adapt to change proposed?

Applying these tests to the command paper proposals, and recognising that this is a consultation process in which government policy is subject to future change, we have made the following assessment:

1. **Ambition** – while the rhetoric and aspiration is ambitious, setting out a vision for fundamental and far-reaching reform of agricultural policy, the government sets no hard targets or objectives in the command paper. Neither farmers, nor consumers, nor environmentalists can be assured that this proposal will necessarily deliver a better outcome than the policy it replaces. The firmest proposals relate to the process by which reform will occur, for example the year one redistribution of BPS funding (possibly in 2020 subject to the Brexit agreement). The consultation is more detailed in describing options for a new environmental land management scheme, whereas outputs from farming such as food production play a more marginal role with no hard targets set and ambition only to retain and improve high (regulatory) standards. Given our desire for a farming sector embedded at the heart of the UK food system, we would hope for a policy that is as ambitious about food production as environmental delivery.
2. **Comprehensive** – it is important to recognise that Defra’s consultation paper makes reference to most aspects of policy set out by the NFU over the last 18 months; the NFU’s three policy ‘cornerstones’ of environment, productivity and volatility, plus sections on labour, trade and regulation, all feature. So in a topical sense the paper covers the bases. However, in nearly every respect, apart from the environmental proposals, Defra does not directly respond nor build on the NFU’s policy proposals (a good example being the section on labour which omits solutions for seasonal agricultural work). It is important to recognise that government responsibility for many of these important areas is not the sole preserve of Defra – indeed we must maintain our current engagement with, for example, BEIS on productivity, the Home Office on labour and No.10, HM Treasury and Cabinet Office on agriculture as a public policy priority. Nevertheless, the consultation paper appears lop-sided in its focus on environmental issues, and it is important that Defra recognises the role of food production in its portfolio as we prepare for life outside the EU.

In some areas, Defra has brought forward different solutions in the command paper to those we have proposed previously, which will require our consideration. These include Glenys Stacey’s on-farm inspections review, the Animal Health Partnership pathway and measures to improve fairness in the food chain, such as increasing the number of Producer Organisations. But even in these Defra flagship proposals critical detail is missing.

3. **Competitiveness and resilience** – the paper says that farm businesses will need to become more competitive and resilient in the years ahead. While acknowledging farming’s improvements in this regard, the paper argues that the CAP, especially direct payments, has held farm productivity growth in check. Defra notes that while all sectors could use a transition period to improve productivity which “could enable farms to remain profitable”, this will be more challenging for some sectors than others, notably grazing livestock (although failing to note that grazing livestock manages a significant proportion of the countryside).

To boost farming’s resilience the command paper places most weight on measures already available, such as 5 year tax averaging, diversification, tax efficient savings and improved business management (e.g. benchmarking and skills improvement). It sees improvements in farm productivity as a means of improving resilience and reducing reliance on direct support and weather and commodity price shocks. Positively, the paper acknowledges the role of government in facilitating data availability and possibly mandating price reporting. However, this latter point is seen as the means by which industry discovers its own insurance based models, as the sugar sector has done, rather than Government as provider.

4. **Administrative burden** – taken at face value the government’s proposals for lessening the administrative burden farming are encouraging. However, we should take care not assume that better regulation equates to fewer regulations or lower standards – in both respects the opposite may be the case. Aside from a review of farm inspections, the consultation highlights moves to more proportionate sanctions, more effective risk based inspections (perhaps utilising input from membership and inspections under farm assurance schemes) and replacement of cross

compliance with a new, better-targeted and proportionate regulatory baseline. Many members will recognise very similar aims from earlier rounds of regulatory review (e.g. Macdonald, Haskins etc).

5. **Level playing field** - the consultation includes an important section on policy at a UK level. This follows on work agreed at the Joint Ministerial Committee of the UK Government and devolved administrations to establish which current frameworks should be operated at UK level. Of particular relevance for farming are those that would be required to ensure the UK meets its international commitments, can negotiate new trade deals and safeguard the management of common resources. The consultation is not clear whether these UK standards would include animal health and plant health standards and border controls. There is clearly much work still to be done in establishing the boundaries between common frameworks and devolved powers which will have a significant bearing on agriculture in the UK and the integrity of the internal market.
6. **Environmental delivery** – the consultation is very clear that the principal public good the government wishes to support is environmental protection and enhancement. The paper provides choices for which elements of the environment should be prioritised for schemes. It recognises particular places, like the uplands, and systems, like organics, that deserve “recognition” and it links environmental action with production efficiency (the NFU has made a similar link, albeit in reverse). Significantly the government refers to WTO green box obligations when framing a future scheme (i.e. rules on income forgone) but also sets out a positive range of elements for the new scheme including monthly start dates and monthly payments. This section also moots innovative mechanisms such as reverse auctions, tendering and business to business agreements. What is not present is recognition that tenants have significantly curtailed options to participate in what is expected to become the flagship means by which farmers can be rewarded for public goods.
7. **Conditions for change** - the consultation is less clear on the detail of the transition from CAP than it may first appear from Michael Gove’s recent statements. Even though there is a clear intention to reduce direct payments in the first year of transition (potentially 2020), and to eliminate them entirely by the end of the transition, the method is not. Three options are proposed (although the third is really a hybrid of the first two), all of which focus the biggest cuts on the largest claimants – an approach that NFU has always opposed. The consultation does not state how long the transition should last (e.g. 5, 7 and 10yr transitions are modelled in the evidence paper), nor the scale of reductions. In a positive sense this provides an opportunity to shape and influence what is a critical financial support for many farm businesses and a source of considerable uncertainty for current recipients. Compounding this uncertainty, two options for the conditions for receiving direct support during the transition are presented: simplification of cross compliance rules, and decoupling payments for historic recipients so that active land management is no longer required.

The paper is also silent about what account will be taken of external circumstances in deciding these crucial transitional arrangements. The NFU has consistently argued that the shape of future agricultural policy and the pace at which we implement reform must reflect the wider trading environment for farming post-Brexit. This could be very different depending on the nature of the agreement reached between the UK and EU, and related developments with regard to our future independent trade policy and immigration system.

Other observations

The command paper is not always clear in its structure, but a close reading reveals the government’s intentions for reform have two key elements: firstly, a transitional period phasing out direct payments (more on which below), managing change, piloting new schemes and improving productivity in the sector to bolster resilience; and secondly, a future, independent agricultural policy, based around an environmental land-management scheme providing public money for public goods, regulatory baselines and the possible extension of the polluter pays principle. It’s important that respondents to the



consultation address both of these elements, and resist the urge to focus on the more immediate challenges and impact of the transitional parts of the proposal.

The paper also struggles to manage the inherent tension in its desire to maintain and enhance environmental and welfare standards while reducing support to farmers, alongside a trade policy that promotes lower prices for consumers. As we will continue to compete with farmers around the world who, by and large, receive financial public support, the UK government will need to be clear how its policy aims around production standards can be squared with its international trade policy.

It is also worth mentioning the foreword, which highlights the apparent shortcomings of the current system, drawing a line between the failings of the CAP and the negative impact UK farmers have had on the natural environment. While it would be wrong to dismiss this narrative entirely, it diminishes the enormous amount of positive work farmers have done within (and arguably enabled by) the CAP in recent decades. If we are to build on the positives farmers have achieved in recent years, particularly with regard to environmental performance, we must be careful not to misdiagnose any failings, nor overlook their successes.

NFU initial response to Defra's proposals on phasing out of BPS

Notwithstanding, the importance of focusing on both the transition and the future policy framework, the paper's proposals on phasing out BPS deserve specific comment.

While the NFU welcomes the provision of a transition period to design, develop and prepare for new policy, we are concerned at the apparent lack of Defra focus on the economics and importance of domestic food production. This is something that must be redressed as the government further develops the detail of its future agricultural policy.

As the process of introducing that policy gets underway, the industry must be given sufficient time to adapt, particularly in light of the ongoing Brexit uncertainties such as our future international trade relationships. In light of this, 10 years to phase out the BPS and replace with a proven policy based on public goods would not be unreasonable.

Direct payments through the BPS remain a vital income for many farm businesses, and while the NFU recognises the government's desire for major reform of the system, the timing and scale of transition must match the ability of farm businesses to manage change and meet the Government's laudable intention to retain high domestic standards.

In the short to medium term, the main features of the current system should remain in place as the primary measure to support farm incomes against volatility and the failure of the market to deliver a fair return for farmers. In the longer term, we are keen to engage with the process of devising a better targeted and more market orientated approach to managing the impacts of market volatility on farm businesses, alongside greater resilience through improved productivity and reforms that create fairer markets.

Once there is greater clarity on the nature of the Brexit settlement, the transition from BPS to future policy should be based on the following principles;

- It should remain equitable and fair for all active farmers
- It should not compromise the UK's safe, secure and traceable domestic food supply base
- Reductions in direct payments must be commensurate with a realistic ability to redirect spending effectively and productively in a way that maintains support for active farmers

We will advocate a common UK framework for policy to ensure we retain equitable treatment of farm businesses across the UK internal market.