

# Brexit and agricultural policy

Updated: 20 March 2017

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The vote to leave the European Union has created the first opportunity in over 40 years for the UK to design its own agricultural, and environmental, policies. This is an exciting opportunity as, although the Common Agricultural Policy has some supporters, it is widely viewed in the UK as bureaucratic, ineffective and not producing as much benefit for farmers and the general public as it could.

Strutt & Parker will produce a series of papers on the future British agricultural policy to keep readers up-to-date with what is being proposed by the government and other bodies (like the National Farmers' Union, National Farmers' Union Scotland, Country Land and Business Association, Tenant Farmers Association, National Trust, and leading thinkers).

We will critically review how the proposals might affect what happens on farms and profitability.

This first paper summarises what a number of organisations have said they want from the new policy. It will be regularly updated.

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## The Government

**(Mainly from George Eustice, pre- and post-Brexit)<sup>1</sup>**

- Defra will consult with farmers over time over how much funding was required by the industry.
- Investment in agriculture could be cut to £2bn pa, from £3bn, due to budget savings from leaving the EU.
- Replace the current land-based payment system with schemes that set objectives on food security, improving productivity and agri-environment schemes.
- Suggested a government-backed insurance scheme to help farmers cope with weather-related disasters.
- Suggested a futures market to help farmers cope with price volatility. He likes the simplicity of the Canadian AgriStability scheme, which provides income support when a producer experiences substantial falls in earnings. Defra has set up a team to explore how to develop a futures market for the dairy sector, possibly modelled on the Chicago cash-settled market for dairy products.
- Eustice has supported levy bodies' roles in disseminating information and facilitating skills' development, for example by providing support for benchmarking.
- Defra had no plans to encourage farmers to retire proactively, but it had started to consider ways to help farmers minded to do so, such as allowing homes for retirement to be built, contract and share farming.

**From George Eustice's speech at the Conference on Countryside Sports and Management, 3 November 2016**

- How to best achieve market stability (and continuity)
- Environmental benefits ('ecosystem services' in policy speak)
- Flexibility of administration (to enable constant evolution)
- New technology (and how that can be encouraged)
- Introducing fairness to the supply chain (spreading the risk)
- Animal welfare (to enable our high standards to be sold to the world)

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<sup>1</sup> Sources include Responding to price volatility: creating a more resilient agricultural sector. House of Lords European Union Committee, HL Paper 146, 16 May 2016.



**From Farming Today, 5 October 2016 (from George Freeman, chair of PM's policy board which will develop policy ideas, speaking at an event organised by the Social Market Foundation at the Conservative Party Conference on 3 October)**

- If the public was asked where it would want money to go, the likelihood of them saying NHS [compared with farming] is quite high
- In no sector [farming] will the shake out be more profound.
- The industry has not made the case for the same level of payments post Brexit. It needs to explain why it is a key strategic sector.
- The level of subsidy to everybody is likely to change – to support farming that would not work without support - but there is a bigger challenge to justify support for other sectors.

**From Andrea Leadsom's speech at the Conservative Party Conference, 3 October 2016**

- Her overriding message was green – opportunity to be “the first generation to leave our environment in a better state than we found it”. “Nothing more important than the food we eat, the air we breathe and the water we drink.” Farming has key environmental role to play.
- Excited to develop policies tailored to our most precious habitats and wildlife, not a one-size fits all approach for 28 Member States.
- Rural people to have the same life opportunities as those living in cities – by keeping villages thriving and growing.
- Will still produce 25 year food and farming plan, and 25 year plan for the environment.
- She did not mention EU workers but has acknowledged their importance at a fringe meeting, possibly including a new SAWS-type scheme.

**From George Eustice and Andrea Leadsom's speeches at the Oxford Farming Conference, 4 January 2017**

- He talked about removing thinking about pillars 1 and 2, and instead thinking about three legs to policy: environment; building local communities; and producing food, with one pot available for anyone to apply for.
- “Existing Pillar 1 support would come to an end in 2020, and farmers would instead receive payments for carrying out environmental measures.” Thus restating the principle of using public money to deliver public goods.
- In terms of how much money might be available, he said that the way there were thinking was to decide what outcomes they wanted, and then design policies and decide the budget to deliver them, which is a much more sensible way of allocating money than an arbitrary figure based on past spending.
- She identified nine key markets in the international action plan, including China, US, India, UAE and Australia.
- She mentioned cutting “rules that hold us back” but “upholding our high standards for plant and animal health and welfare”. The three crop rule will be abolished.
- She mentioned increasing productivity – “35% of farm businesses generate 90% of the total output – so there is plenty of scope for improvement. – through skills, innovation and exports.

## National Farmers' Union<sup>2</sup>

- Consulting its members from mid August 2016.
- Claims most farmers do not want a subsidy.
- Get the best possible access to markets in the rest of Europe, as our major trading partner for the foreseeable future, as well as securing the benefits the UK gets from more than 50 trade agreements with countries in the rest of the world.
- The UK is not open to imports which are produced to lower standards.
- Access to labour from anywhere in the world, subject to visas.
- A new agricultural policy adapted to our needs that is easy to understand and administer.
- Our farmers receive support on a par with that given to farmers in the EU.
- A rural development policy which focuses on enhancing our competitiveness.
- Better agri-environment schemes as the current ones “are currently running out of steam - in part because of over prescriptive EU rules.”
- Regulation is proportionate and based on sound science.

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<sup>2</sup> Based on NFU launches biggest farming conversation for a generation, 9 August 2016.



- For arable crops, the priority is to protect UK arable markets where tariffs and anti-dumping measures exist. Also to move to self-regulation, with outcomes focusing particularly on water quality, pesticides, biotechnology and climate change.
- For dairy, the priority is to make sure UK dairy gets a fair deal throughout the supply chain, with retailers and food labelling.
- For horticulture and potatoes, and for poultry, the priority is access to labour from anywhere in the world, subject to visas.
- For sugar, the priority is for suitable trade agreements so the UK sugar has a place in the UK and overseas markets.

## National Farmers' Union Scotland<sup>3</sup>

- Leaving the EU gives Scotland a unique opportunity to build a new domestic agricultural and rural policy which is adapted to Scotland's needs, is targeted at activity and innovation, that is easily understood and is simple to administer.
- The importance of Scottish agriculture is listed as:
- Farming is part of whole food supply chain which, from primary producers to retailing and food services, supports 75,000 businesses and 360,000 jobs (65,000 jobs in farming alone).
- It manages the environment (1 million hectares of environmentally important designated sites)
- Generates incomes and jobs beyond the farm gate (although it is not clear whether these are included in the food chain figures)
- NFUS states that CAP support payments are hugely significant to the viability of Scottish agriculture, with the majority of farm business highly dependent on Pillar 1 direct support payments (74% of TIFF equates to the amount of support Scottish agriculture receives. It also states that direct support for active farmers and crofters will remain vital to sustain communities.
- NFUS states that that any future farming system should:
  - Be 'on a par with the rest of the UK and the EU' per hectare, based on a basic de-coupled area (land) based payment.
  - Be only paid to 'active farmers' and for 'active farming'.
  - Be linked to cross-compliance.
  - Include supplementary payments for farming in more disadvantaged and remote places.
  - Be as the minimum be compliant with WTO rules.
  - Include effective advisory services, practical research, tailored education, meaningful knowledge transfer, and support for innovation and new entrants.
  - Be simple (to understand and apply)
- Allow farmers to take more back from the marketplace, so they are more financially resilient
- In terms of future trade, the NFUS wants the following principles:
  - It must actively seek to prevent any form of 'cheap food policy', as importing more food would effectively export food production (reducing self-sufficiency) and food manufacturing and all the associated employment (reducing food security).
  - The UK has the best possible access to markets in the remaining EU (but it is talks about reciprocal access to markets, which may mean something like the current situation).
  - The all imports fully meet the standards adhered to by UK producers (i.e., a level playing field).

## Tenant Farmers Association<sup>4</sup>

- The TFA has set out a series of policy objectives for the new policy. Its fundamental justification for any agricultural policy which supports primary producers should be to correct market failures:
  1. Correct market failures. The TFA says that richer societies spending a lower proportion of income on food, which translates to farmers receiving a lower proportion of national spending, is a market failure; I don't think this is a cogent argument – imagine applying it to cars or coal or steel. It also wants the Groceries Code Adjudicator to have wider and deeper powers to investigate malpractice within the groceries supply chain. It also wants fair access agreements for UK farm products into EU markets and assurance that agriculture is treated fairly in trade deals.
  2. Reduced reliance upon imported produce to enhance food security, and for the government to state what level of food self-sufficiency it wants. It also wants public food procurement policies to favour British produced food

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<sup>3</sup> Based on Beyond Brexit: A Policy Framework for Scottish Agriculture. October 2016.

<sup>4</sup> Based on A Post EU Farming Policy for Britain, updated June 2016.



3. High standards of food safety applied equally to domestic and imported products.
  4. Equal production standards applied to domestic and imported products, by requiring that all food sold in the UK is subject to meeting Red Tractor Standards and mandatory country of origin labelling on all food sold through major retailers.
  5. Assistance towards reasonable standards of living for farmers.
  6. Increase the productivity of agriculture
  7. Assistance with input and output price volatility.
  8. Efficient delivery of public goods in terms of landscape, biodiversity and public access. This includes a new framework for supporting livestock farming in the uplands.
- Keep the £3bn that agriculture currently receives, equally split between:
    1. A new voluntary agri-environment scheme 'judged' based on outcomes, not the means of achieving the outcomes, with specific upland options.
    2. A Farm Business Development Scheme to provide annual grants of up to £25,000 per farm to assist with the implementation of approved five-year plans for farm development covering investment in fixed equipment, cost reduction initiatives, processing capacity, diversification, marketing, cooperative initiatives, producer organisations, climate change adaptation, environmental improvement etc.
    3. A package of near market research and development, technology transfer, promotion, market development, brand development and other supply chain initiatives focused on supporting British produced food.
  - Implementing the TFAs plan for longer and more sustainable farm tenancies as follows:
    1. Restricting IHT relief to tenancies of 10 years or longer and allow the landlords' income to be taxed as trading income and not rent.
    2. Clamp down on artificial arrangements, with contract farming agreements named, where the land owners takes no risk or has no management input.
    3. Reform stamp duty land tax to end the discrimination against longer tenancies.
    4. Introduce more practical provisions for handling tenancy breaches in tenancies of 10 years or longer.

## Country Land and Business Association<sup>5</sup>

- For the Department for International Trade (headed by Liam Fox) to ensure agriculture is treated fairly in trade deals.
- The CLA argues that the amount of support that farmers receive should be based on:
  1. The cost of providing what the public wants and that the market will not provide.
  2. The need to ensure that UK farmers have a 'level playing field' compared with their competitors, particularly in the EU.
- The four national governments should work with the sector to produce the policy.
- The policy should recognise that rural areas make a major contribution to jobs and growth and providing a good quality of life for those who live and work there.
- Food security means securing access to EU and world markets, at minimum trade barriers, so that the UK has sufficient, reliable and varied supplies of food.
- Direct intervention in markets should only be used in exceptional circumstances, such as a disease outbreak, as it is incompatible with promoting farming as a market-led industry.
- Climate change, flood risk management, biodiversity conservation are global and national issues that farmers' behaviour can affect. The CLA argues that it is unreasonable to ask the farming industry to contribute to these public benefits without proper reward for the labour and capital cost to do so.
- The CLA recognises that the way water and soils are managed needs to be improved.
- The CLA argues that farmers in the uplands or High Nature Value areas should receive support that enables them to generate a commercial return and / or leads to desired land use change.
- It also argues that in some areas, again probably the uplands or High Nature Value areas, support should help maintain economic activity where otherwise it would not be high enough to support rural communities.
- The CLA argues for a multi-tiered system of support to continue.
  - The first tier will make direct payments to farmers for a number of purposes:
    1. sustaining farm incomes where public interest supports it, for example in maintaining soil and water health and animal welfare.

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<sup>5</sup> Based on Towards an agriculture and land use policy, June 2016.



2. cushioning farmers against volatility (which could be replaced with risk management tools over time).  
The CLA says that the government should explore insurance and risk management tools as a partial or total supplement or substitute for direct payments. This will help farmers manage volatility but also provide 'a clear justification for support'.
  - The second tier should provide enhanced support where the public interest requires it, such as for conserving a landscape or biodiversity. The payments should be through voluntary agreements and should encourage positive management behaviour (not just cover income foregone).
  - The third tier should support more environmentally beneficial forms of farming or measures that enhance existing forms of farming. For example, agri-forestry in areas of soil erosion that affects water quality or tree planting for flood risk management.
  - The fourth tier should support specific environmental outcomes, such as ensuring the good management of nature conservation sites.
- All payments should be subject to cross-compliance, which should be proportionate and have proportionate penalties.
- No payments should be capped, as a cap is arbitrary and the payments are for delivering public services, which happen irrespective of the size of a claim.
- Rural development, such as promoting tourism, is not seen as part of this policy and should be dealt with through other policies.
- The CLA does not expect to see significant reductions in the amount of regulation, as UK consumers will continue to demand high standards from its producers. The difference between UK standards and those elsewhere is another justification for supporting UK farming.
- Regulation should be based on an 'innovation principle' as well as a 'precautionary principle', so that regulation is proportionate to risks and so that innovation is encouraged.

## National Trust

- The NT set out six principles that any new system must deliver for the public:
  1. Public money must only pay for public goods, with income support payments removed, after a transition period.
  2. 100 per cent of any public payment should be conditional on meeting higher standards of wildlife, soil and water stewardship.
  3. wildlife, recreation and the services the environment provides should be abundant everywhere - in the lowlands as well as the uplands.
  4. Planning and policies should be at the landscape level, with farmers working collaboratively to set plans based on clear outcomes.
  5. Farmers and land managers who get the most public money should be those who deliver the best outcomes.
  6. Public money should help create ways of farming that benefit nature and help develop new markets to reward farmer for storing carbon, preventing floods and promoting biodiversity.
- Quotes from Director-General, Dame Helen Ghosh:
  1. "Unless we make different choices, we will leave an environment that is less productive, less rich and less beautiful than that which we inherited."
  2. "Taxpayers should only pay public subsidy to farmers in return for things that the market won't pay for but are valued and needed by the public."
- Quotes from Peter Nixon, director of land, landscape and nature:
  1. "For a sustainable farming future, we need to reward farmers for generating clean water, maintaining healthy soil and caring for nature."
  2. "In the long run there's no conflict between maintaining our ability to grow food and looking after the land and nature on which it depends. The first is utterly dependent on the second."

## The Labour Party<sup>6</sup>

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6 From its 170 questions on the Government's policy for Brexit, published 12 October 2016.



The Labour Party sent David Davis, Secretary of State for the Department for Exiting the European Union, a list of 170 questions (one for each day until the Government triggers the Article 50 process before the end of March 2017). Below are the questions that directly mention or affect farming or rural areas are:

### Free movement of goods and services

13. How would the government ensure that any bespoke free trade agreement with the EU would include continued free trade in: (i) services; and (ii) agricultural and fishing products, and how likely does it believe it to be that EU member states will accept that?

### Free movement of people

20. What assessments have the government made of the impact on different sectors (e.g. the NHS, agriculture, food production, etc.) of imposing the government's new system for managing migration from the EU to the UK, and will the government publish those assessments?

### Agriculture and Fisheries

39. How does the government propose to replace and reform for the long-term the current system of direct payments for farmers funded through the Common Agricultural Policy (CAP)?

40. Will that replacement system retain the contribution of additional support to younger farmers, will it retain qualifying criteria related to standards of environmental protection and animal welfare, and will it scrap the 'three-crop rule' that applies under the current CAP system?

41. How does the government propose to replace for the long-term the funding currently provided for the stimulation of the rural economy through the EU's Rural Development Programmes?

42. How does the government propose to replace for the long-term the funding currently provided by the European Union for agricultural research programmes?

47. Will responsibility for determining the rules governing the payment of (and qualifying criteria for) agricultural subsidies be left to the devolved administrations in Scotland, Wales and Northern Ireland after these are no longer determined uniformly by Europe, or will this responsibility be centralised in the Westminster government?

### The Environment and Climate Change

59. Will the government guarantee to maintain current environmental standards in relation to clean bathing water, the protection of rare birds, the protection of habitats threatened by major infrastructure projects, and the cleanliness of rivers and lakes?

64. Will the government remain committed to meeting the requirements and achieving the targets set out in the 2030 EU Climate and Energy Framework, even after Britain leaves the EU?

## The Game and Wildlife Conservation Trust<sup>7</sup>

- The GWCT does not feel we must develop a new countryside policy from scratch because we already have some of the building blocks:
  - two robust British reviews (the 2002 Food and Farming Report by Don Curry, and the 2010 Making Space for Nature, chaired by Sir John Lawton, which summarised the needed approach to nature conservation as more, bigger, better and joined.
  - Some good initiatives that flowed from them, including support for the Red Tractor food label, the evolution of agri-environment schemes and, more recently, Nature Improvement Areas (NIAs).

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7 In an article by Alastair Leake, GWCT Director of Policy, 8 November 2016.



- The GWCT feels what needs to happen next is to go back and review the ideas that were not actioned – for both farming and wildlife, such as:
  - Conservation covenants: which is voluntary form of delivering conservation management, as recently reviewed by the Law Commission. An advantage is that the participants are willing engagers.
  - Biodiversity offsetting: so any damage done to habitats or species due to development is ‘offset’ or compensated for elsewhere.
  - Commercial incentives or market-led initiatives: so that farmers receive something for producing environmental benefits. This could be a higher price for their products, or it could be training or information or R&D.
  - Direct payment for environmental benefits (or ‘ecosystem services’ and ‘natural capital’): this now seems like established thinking within government. The challenge is how to develop functioning financial markets, where the market can pay, and also how to deal with things that the market will not pay for.
- The GWCT asks what is likely to happen to future farm funding:
  - Existing Basic Payment Scheme will probably go. Transitional arrangements are not clear.
  - Direct farm payments replaced with environmental payments.
  - Upland farming support is more likely to remain.
  - Reduced payments to larger farms? The government has said no to this.
- The GWCT sees this as a golden opportunity to improve environmental policy, by better use of species protection (either increasing or decreasing it) and by better management of habitats.

## Professor David Harvey<sup>8</sup>

- We are likely to have a domestic agricultural policy to support farmers (what Harvey calls the farm problem phase, during which governments support sectors under pressure) and to deal with the resource and natural capital problem that the farm problem phase causes (which is the third and final phase).
- What form could agricultural policy be?
  - Simple form: which would mimic the evolving CAP, though without the requirements to contribute to the financing of the provisions elsewhere in the EU or to ratify the arrangements and schemes with the European Commission. However all main UK political parties view this policy as an anachronism with payments capitalised into rents and land prices. Its best defence is that it puts British farmers on a level playing field with European farmers. There is still virtually no solid logic or evidence that would support continued direct (and largely unconditional) payments as being a sustainable or effective policy. There are much better and more effective ways of ensuring that British farming remains competitive, and becomes both more productive and environmentally conscious.
  - Obvious: replace current direct payments (the BPS) with Pillar 2 type payments for countryside and environmental stewardship and rural development programmes. The problems with this policy are that:
    - we don’t know if the level of payments are enough (or too much) to produce the environmental outcomes wanted
    - there is, again, no reason to suppose that the current recipients (landowners) are the appropriate people to pay for this conservation, or that they will necessarily deliver what they are being paid for
    - who decides, and on what basis, what the suite of programmes should include and what can be left out?
  - Smart: End all the subsidies, and instead concentrate any spending on directly purchasing the public goods that public money is paying for. The money would be channelled directly to bodies charged with providing and enhancing public goods, which would include some farmers. This approach was suggested by Dieter Helm (2016); it makes economic sense but he does not elaborate on how it might happen in practice.
- Harvey says that a measure of the UK public’s interest and willingness to pay for their environments can be demonstrated by their donations to environmental charities. The almost 3,000 charities classed as ‘environmental’ have a total annual income of almost £3bn. This reflects ‘citizen interest’.
- A 21st Century agricultural and environmental policy should encourage and promote citizen interest and participation in generating and conserving the rural environment and associated ‘public goods’ such as animal welfare.
- Rather than ask our government to manage the environment on our behalf, we should be asking our governments to assist and support public efforts and demands for these services. How? By providing the R&D, information and communication, 3rd party verification and validation of good practices and beneficial outcomes. By making good the free rider deficit in voluntary spending by top-loading voluntary contributions (by, say, 50p in the £) on these activities, and by

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<sup>8</sup> Emeritus Professor at Newcastle University and editor of the Journal of Agricultural Economics.



providing a public ombudsman service to resolve conflicts and disputes, and ensure fair play. Such a strategy would help solve the democratic deficit – giving people control over what environmental programmes are followed, and where, and to do what.

- What would happen if direct payments to farmers ended? Incomes and profits would fall substantially, rent and land prices would fall and there would be substantial erosion of farm family pensions.
- For farm families and the farm sector to adapt and adjust to an essentially unsupported world, farmers need both the confidence and the capital to adapt and adjust appropriately. A 'compensatory government bond' would provide both the necessary capital, and the required confidence. Without it, we would be leaving the current farmers very exposed. Farmers can then either use the lump sum to carry on farming or cash it in to adjust their farming system to the new unsupported environment or to exit farming.

## International Federation of Organic Agriculture Movements<sup>9</sup>

[This paper is interesting as, although focussed on the CAP rather than the UK, it cites many of the environmental / public good arguments that will be used in the debate on UK agricultural policy].

- A single pillar structure with one budget focussed on agro-ecological outcomes.
- Payments for public goods such as protection of waterways & biodiversity should make up 80% of EU spending, with the remaining 20% for supporting measures to be phased in by 2034, they said.
- The supporting measures should farm advice, supply chain development, infrastructural investments and innovation.
- The group says the current CAP provides insufficient economic motivation for farmers to provide public goods, demonstrating the market's failure to adequately value them.

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9 IFOAM. A CAP for healthy farms, healthy people, healthy planet. Public money must deliver public goods. January 2017.