



Dear Colleague

## February Briefing 2008

A few notes which I hope may be helpful in your conversations with farmers. There was no January briefing. This briefing outlines some of the key policy developments and changes that will be discussed in the coming months.

### Defra Minister outlines priorities

Hilary Benn, the Secretary of State at Defra, has outlined his priorities for the immediate future and two things dominate his thinking. The first is the rising cost of animal health issues and who should pay for them, and the second is the "health check" (changes) to be made to the Common Agricultural policy.

#### 1. Animal health

A consultation document had been produced by the government in response to the rising cost to the taxpayer of animal health issues, including BSE, foot and mouth disease and, more recently, bluetongue and avian flu. This is also set against a background of a declining budget for Defra following the Comprehensive Spending Review in which the government's budget is agreed for the next two to three years. Although the Defra budget is scheduled to grow from £3.5bn to £3.96bn by 2010-2011 the extra money available has been allocated to various priorities, and in particular flood defence, so that Defra will need to save £200m this year and £270m in 2009 from other areas of work. The proposal is that the farming industry should share the costs of disease control, and in return producers would have a greater say in how these controls should be implemented. In practice it requires the industry to contribute £40m a year either through a disease levy or through insurance schemes against major disease outbreaks. This is expected to save Defra £121m over three years.

#### 2. CAP reform

More details of the CAP "Health check" have been published by the European Commission. The CAP is radically different from 15 years ago when producer support was targeted almost entirely through schemes to support agricultural products. Gradually the support offered to farmers has been shifted towards wider environmental issues and "de-coupled" from specific commodities (such as oil seed rape, numbers of cattle etc). As a result farmers can make decisions that are more attuned to market demand and it is felt that the competitiveness of EU agriculture is increasing as a result. Paradoxically the EU is the largest agricultural exporter, mainly of high value products, and also the largest agricultural importer, particularly from developing countries. The challenge for the politicians is to make the Single Payment Scheme (SPS) more effective; to cope with a CAP that transcends twenty seven member states, rather than the six when it was originally conceived; and to incorporate issues such as climate change and water management into the new regime.

Various types of SPS operate across Europe including a "historic" model (payments are based on the individual payments that used to be made), a "regional" model (an area-based scheme) or, as in England, a mixture of the two. In addition, newly joined Member States operate different rules (a "simplified" Single Area Payment Scheme (SAPS)) than the EU-15 (the members before the last round of enlargement). In order to qualify for SPS farmers must demonstrate that they are farming in environmentally sustainable and beneficial ways. This is known as "cross-compliance". However it is felt that the cross-compliance system is unnecessarily complex, on the one hand, and does not adequately address what society needs

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on the other. Thus the health check will attempt to simplify cross compliance and make the targets more relevant to society's demands.

The other major area of concern is to look at the ways the Commission balances production with demand, and also provides a "safety net" to the industry. These take the form of quotas, intervention prices and price support, and refunds. The present market situation suggests that cereals, in particular, will have a buoyant future as world demand for food and fuel increases. Set-aside, therefore, which was a mechanism to take land out of production when there was over-supply, may be abolished. The downside is that set-aside produced a number of environmental benefits e.g. for ground nesting birds, and these will need to be safeguarded.

Milk quotas are also likely to end. Quotas were introduced at a time when the demand for bulk commodities was stagnating, whereas there is now a growing demand for high value products especially cheese and fresh dairy products. Quotas are due to end on 31<sup>st</sup> March 2015 but there are likely to be transition arrangements put into place to help those areas where a move to a completely open market would cause problems. These include mountainous regions which are not globally competitive in dairy production but for which the dairy industry is a major part of the economy.

The UK government's response is to want to increase the rate of returning to more open market conditions for agriculture, so that set-aside would be abolished and modulation rates (a mechanism to transfer money from the SPS "pillar" of the CAP and target it to wider environmental and rural concerns) would be harmonised across Europe. In addition milk quota would be phased out and intervention prices would be reduced (these are prices which are triggered if market prices fall to what is considered to be an unacceptably low level, and which constitutes a safety net for the industry).

#### **What are the likely impacts?**

A recent study commissioned to look at the impact of CAP reform on farming in the West Midlands identified a continuing decline in the number of dairy farmers (up to 25%), but a steady increase in the size of herd of those remaining so that overall the fall in productivity would be less (up to 20%). Other important issues for the sector will be animal health and biosecurity. CAP reform will have a major impact on beef and sheep production, where many producers have only survived due to the support payments. Beef numbers are predicted to fall, with a corresponding impact on supply chain businesses, such as cattle markets, slaughterers and processors. The fall in beef and sheep producers is likely to be greatest in "less favoured areas" (usually uplands) and may result in changes in the way the land is managed. In the arable sector it is predicted that there will be fewer farmers, but those remaining will be larger and more specialised.

Horticulture and the pig and poultry sectors were largely outside of the CAP regime anyway so that changes to CAP are unlikely to have major impacts. Other policy issues such as animal welfare and pollution control regulations will have a direct effect. For example, new caged bird regulations will reduce the laying hen flock and there is an increasing demand for free-range eggs but it is difficult to obtain planning permission for outdoor units. The growing effect of high feed costs, already being felt, is pushing some units towards only marginal profitability. Horticulturalists have gained from the introduction of SPS since many have become eligible for support for the first time. However the availability of seasonal workers is becoming a major issue, currently filled by Eastern Europeans this labour pool is likely to diminish and/or become more expensive.

Interesting times!

Best wishes,

**Nick Read**