

## **SCOTTISH LAND & ESTATES/SCOTTISH ENVIRONMENT LINK WORK ON FUTURE AGRICULTURE AND RURAL DEVELOPMENT POLICY**

### **Compare and Contrast exercise and roundtable discussion**

The attached report is the final output of a piece of work jointly commissioned by Scottish Land & Estates and Scottish Environment LINK, although in due course we are likely to build on this work. Discussions on next steps are going on at present. The report was compiled by Dr Andrew Moxey of Pareto Consulting, Andrew is an economist who specialises in agriculture, agri-environmental and rural policy issues.

Dr Moxey initially undertook an exercise to compare and contrast the various positions being communicated by stakeholders (mainly but not limited to Scotland) in relation to future policy post-Brexit. He helpfully set this in the wider socio-economic and political context of the decision to leave the EU as it relates to land-based business and activity. This initial paper, which makes up the bulk of the attached final output, informed a roundtable discussion held on 12 June with a very wide range of stakeholders who have an interest in how rural land is managed and supported. The paper was then updated following the event to reflect discussion, thus creating what is attached.

The exercise was aimed at finding out how closely aligned or otherwise various interests were in terms of their ideas for future policy, since there appeared at least superficially to be a reasonable amount of common ground. The day perhaps revealed that once the initial layers were scraped a little, that organisations had very different questions that they wished future policy to answer. Loosely, land owners, managers, farmers and foresters were primarily asking how future policy could support their livelihoods; environmental NGOs were asking how environmental objectives could be better met; and those with a landscape interest were interested in how their preferred landscapes could be achieved. The debate was of course not as polarised as this may suggested, and there was a fair degree of understanding of each others perspectives. However, the discussion did crystalise that any future policy would need to address a range of asks.

Future work is likely to focus on examples of policy mechanisms that might enable of these asks to be met in a balanced way.

## **Briefing note for Stakeholders' Roundtable Discussion of Future Farming and Land Use Policy**

*This short Briefing note was prepared to support discussions at a roundtable event with invited stakeholders on Monday 12<sup>th</sup> June 2017 at the City of Edinburgh Methodist Church. Held under Chatham House rules, the event aimed to help progress discussions about post-Brexit farming and land use policy in Scotland. The note briefly rehearses the significance and challenge of Brexit for agricultural and related interests before summarising the stated positions of various Scottish stakeholder organisations and offering some discussion points to stimulate constructive debate. A summary of the subsequent roundtable discussion is appended as Section 4.*

### **Section 1: What Brexit means**

#### Introduction

1. Brexit matters for Scottish agriculture for three main reasons. First, access to export markets offers opportunities for foreign earnings but also reduces downward pressure on domestic prices by providing an additional outlet for domestic production. In the longer term, potential post-Brexit deals with new trading partners may improve upon current arrangements to yield net gains. However, given the dominance of current trade flows with the EU, in the short to medium term it is more likely that new EU tariff and/or non-tariff barriers will reduce the value of exports and depress domestic prices. Even a favourable “soft Brexit” would still have some negative effect.
2. Second, domestic prices for agricultural outputs (e.g. beef, lamb, cereals) and inputs (e.g. fertilisers, machinery, labour) are also influenced by the availability of imports, which in future will depend on trade arrangements secured by the UK government. It is possible that availability of imports and domestic prices will remain similar to current levels under a “soft Brexit”. However, under a “hard Brexit” defaulting to WTO tariffs, imports would decline and domestic prices would probably firm. Yet under a “hard Brexit” with unilateral elimination of import controls, import volumes would increase and domestic prices would fall. This range of possible trading possibilities creates considerable uncertainty.
3. Third, direct support payments made under the ring-fenced CAP budget represent a significant component of Scottish farm incomes. Withdrawal from the EU will expose agricultural expenditure under domestic budgets to greater scrutiny and possible reductions, potentially exacerbating existing income problems and interacting with any additional pressures arising from new trading arrangements.
4. The position of agriculture within land use, supply-chains and rural economies means that the effect of Brexit on Scottish agriculture has implications beyond the farm-gate. For instance, on the intensity and mix of different land uses (e.g. forestry, conservation), the demand for upstream goods and services plus supply of materials for downstream processing (e.g. seeds, feeds, fertilisers, vets, hauliers, mills, abattoirs) and rural communities (e.g. farm livelihoods, residency). As such, consideration of the impacts of Brexit should extend beyond the immediate agricultural effects to also encompass broader land use, environmental and rural development issues.

### Some further uncertainties

5. At this stage, the outcome of any trade negotiations is uncertain, reflecting the inter-play between not only the interests of an array of different countries but also different sectors within countries. With respect to agriculture, which is frequently a sticking-point in trade deals, uncertainty over possible arrangements for tariffs and non-trade barriers is accompanied by a lack of clarity over how some other specific existing arrangements will be transferred from the EU to UK and onto Scotland.
6. For example, under existing trade deals with third countries, some quantities of some agricultural imports (e.g. lamb from New Zealand) are exempt from tariffs (through so-called Tariff Rate Quotas, TRQs). The procedures by which existing TRQs should be split between the UK and the remaining EU27 do not appear to be fixed, yet how the allocation is made may affect the degree of future competition with domestic production. Similarly, calculation of the UK's share of the current EU's permitted level of potentially trade-distorting agricultural support (the Aggregate Measure of Support, AMS) under WTO rules could be made in various different ways and could limit the nature and level of domestic policy support post-Brexit.
7. Moreover, whereas the EU's use of decoupled area payments as non-trade distorting ("green box") support has not been formally challenged, it may be that a referral to the WTO is made with respect to the UK's continued use of the same approach post-Brexit, to act as a test case on whether area payments should actually be treated as trade distorting "amber box". It is also possible that ad hoc arrangements such as the EU's ban on hormone-treated beef, which is not WTO compliant but is accepted by the USA in return for a TRQ on non-hormone beef, will not be transferable to the UK: WTO rules do not allow for discrimination on the basis of production methods and third-countries may be less accommodating of UK preferences than of those of the larger EU.
8. Separately, irrespective of international negotiations, intra-UK relationships post-Brexit are also as-yet unclear. In particular, there is a lack of clarity on the extent to which existing devolved responsibilities for agricultural policy would continue or would be constrained by a common UK-wide framework regarding the level and type of permitted support.<sup>1</sup> It should, however, perhaps be noted that the common framework of the CAP has allowed for somewhat divergent domestic policies in different parts of the UK, so a common UK framework need not necessarily be restrictive.
9. However, there is also as-yet no indication of how funding for Scottish agriculture would be determined. For example, whether as a discrete (ring-fenced) allocation from Westminster or via an addition to the Barnett formula or simply from Scottish taxation.<sup>2</sup> Different allocation methods have different implications for the likely budget magnitude and its susceptibility to competing claims from other public policy areas.

### Known Challenges

10. Notwithstanding the uncertainties and complexities associated with intra-UK and international negotiations regarding Brexit, some thought has to be given now to future domestic agricultural policy

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<sup>1</sup> The UK government's preference for agricultural policy has, for some time, been to reduce direct support payments and focus funding on agri-environmental issues. This is reflected in, for example, the HMT position paper from 2005, the UK's approach to the most recent round of CAP reform and negotiation over the EU budget, and the allocation of RDP funding in England.

<sup>2</sup> Current Scottish agricultural support would equate to approximately 1p in the £ on Scottish income tax rates.

arrangements. In the first instance, this reflects the need to have something in place at the point of formal Brexit (presumed to be 2019), but beyond that land managers need some indication of the likely direction of travel such that business plans can be made with at least some confidence regarding future policy priorities and signals.

11. To an extent, the challenges facing Scottish agriculture are already well known.<sup>3</sup> For example, productivity levels are poor and support payments are a significant component of farm income. Equally, although some positive environmental outcomes (e.g. biodiversity in semi-natural habitats) are attributable to agriculture, so too are a range of negative externalities (e.g. reduced biodiversity in many areas, soil degradation, water pollution). Moreover, agriculture is a major source of greenhouse gas emissions and will itself have to adapt to the effects of climate change.
12. Separately, various recent delivery problems (e.g. payments via IT Futures) and the persistence of disjointed rather than integrated land use policies reveals that the necessary institutional capacity (e.g. the right people, adequately resourced in the right organisational structures) to design effective policies and to implement them efficiently is not always currently in place. Equally, attempts to mitigate the extent and pace of changes to the distribution of funding have increased the complexity of some schemes (e.g. LFASS, BPS), posing further implementation challenges."
13. A variety of underlying factors contribute to the challenges summarised above. For example, a lack of skills development across the farm workforce, imperfect land markets, a lack of succession management, adversarial supply-chain relationships and current support mechanisms all tend to inhibit innovation and structural adjustment. Similarly, austerity cuts to public sector staffing levels, retention of policy silos and tensions between the principles of subsidiarity and public accountability all impinge upon policy design and delivery.
14. Different outcomes of Brexit negotiations are likely to influence domestic policy priorities and/or the ability to deliver against them. For example, increased import competition would exacerbate farm income problems whilst a restrictive UK policy framework would limit the scope to address Scottish-specific aspects. Yet waiting for negotiated outcomes to resolve the various uncertainties will delay preparatory work on domestic policy design, potentially hindering responsiveness when new policy arrangements would actually have to be implemented.
15. Hence, whilst recognising that not all details can be specified in advance, that the relative emphasis on particular challenges is partially conditional on the outcome of trade negotiations and that the freedom and budgetary resources available in Scotland will depend on intra-UK relationships, it is prudent to identify domestic policy objectives and preferences in advance and to consider how these might best be met. This is essentially what several stakeholder and other organisations have already attempted to do, as summarised in the next section.

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<sup>3</sup> See Annex 1 for some example facts and figures.

## Section 2: Summary of various stated positions

### Introduction

16. A number of organisations have issued position papers outlining their views on how support arrangements for agriculture and related sectors should evolve in Scotland following Brexit. Different interest groups frame the challenges in different ways, placing different degrees of emphasis on particular issues and potential policy responses.
17. Nevertheless, there is a reasonable degree of commonality with respect to overall objectives and the type of interventions sought. To help illustrate this, brief summaries of several position papers are offered below and also in Table 1 for ease of comparison.

### Scottish Land and Estates

18. “A New Direction for Scottish Land Management” sets-out a vision of profitable land-based businesses contributing to resilient rural economies whilst protecting and enhancing the environment. This is to be achieved through better integrated land use, greater flexibility and dynamism, and closer cooperation/collaboration between (e.g.) businesses, regulators and researchers.<sup>4</sup>
19. The focus on profitable businesses as the means through which community and environmental outcomes are delivered places an emphasis on the need to raise productivity and to accept a degree of structural change. The latter needs to be carefully managed with transitional support to avoid overly abrupt disruption and to help individuals, businesses and communities to adjust.
20. The need for clear and consistent signals on the direction of travel is noted, but (recognising the breath of possibilities) specific policy options are not presented in detail. Over the longer-term, the overall budget is expected to reduce and the justification for support to be increasingly based on delivery of public goods. As with market productivity, the efficient delivery of public goods will also require skills-development, innovation and more flexible approaches.

### Scottish Environment LINK

21. “Renewing Scotland’s Rural Areas: A Role for Future Farming and Rural Land Use Policy” presents a vision of a thriving countryside in which the full range of ecosystem services are recognised and valued such that integrated (and varied) land management to deliver multiple benefits is fairly rewarded and sustains people and communities.
22. It is proposed that the current agricultural support budget be retained, but reshaped to more explicitly target public money at environmental public goods but also at equipping land managers to adapt and raise productivity in terms of both market returns and environmental performance. The need for a period of transition is acknowledged, as are linkages to other areas of government policy.
23. Baseline regulations would be retained, but current area payments replaced by more targeted support for sustainable land management and specific farming or woodland systems (including collaborative actions). Grants would also be made available to facilitate change through capital investments whilst

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<sup>4</sup> Position papers from the CLA for England and Wales offer similar perspectives.

more general support for R&D and knowledge exchange processes would also be provided to encourage the skills-development and innovation needed to improve performance.

#### Scottish Wildlife Trusts

24. The draft “Land Stewardship Policy” promotes a sustainability perspective, focusing on safeguarding and enhancing the stock of natural capital to maintain and increase the flow of desired ecosystem services. The clear emphasis is on non-market ecosystem services, although (e.g.) food and timber production plus farmers/crofters and communities are mentioned.<sup>5</sup>
25. It is proposed that the current agricultural budget is retained, but its justification switched explicitly to public goods. The bulk of expenditure still accrues to agriculture, but a higher share goes towards (native) woodlands and towards other specific areas (e.g. peatland restoration). A transition period of 3-5 years is envisaged. To reflect geographical variation in environmental conditions and needs, regional land use partnerships aligned to river catchments would be used to integrate land use policy.
26. A four-tier system of intervention is suggested, with the first tier comprising regulations (mostly existing, but with some additions – including for grouse moors) with financial support then made available through higher tiers. Tiers 2 (natural capital maintenance) and 3 (natural capital enhancement) are non-competitive, offering area payments in exchange for adhering to management prescriptions beyond basic regulatory compliance. Although the suggested prescriptions are tighter, these Tiers closely resemble the current approach to Pillar I Greening. Tier 4 (natural capital restoration) is competitive and similar to current Pillar II agri-environment schemes.

#### NFUS

27. “Beyond Brexit: A Policy Framework for Scottish Agriculture” sets-out initial thinking on policy options, stressing the need for clear signals to reassure farmers and crofters about continued and simplified policy support in the face of significant post-Brexit uncertainties. The contribution of agriculture to the agri-food sector, to the environment and to rural communities is highlighted.<sup>6</sup>
28. Current reliance upon direct payments (both Pillar I but also Pillar II LFA support) is offered as a reason for their retention, or at least the avoidance of any significant and rapid move away from them. Moreover, direct payments should be restricted to active<sup>7</sup> farmers and crofters, to make best use of limited budgets, with proportionate cross-compliance used to deliver relevant public goods. To avoid competitive disadvantage, per hectare payment rates should be comparable to those available elsewhere in the UK and wider EU and coupled headage payments should be used where appropriate. However, WTO constraints on the types of permitted support are acknowledged.
29. Although retention of direct payments is a central proposal, funding for other measures is also required. For example, for targeted land management measures, advisory services, R&D, knowledge transfer and new entrants. These are needed to raise market and environmental performance through encouraging positive structural change, innovation and productivity improvement.

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<sup>5</sup> Brexit-related papers issued by Wildlife Trusts in England do not appear to have the same level of detail, although the high-level sentiments are similar.

<sup>6</sup> The NFU position for Britain (not just England) is similar, but has a slightly different tone and presents direct payments as a buffer against volatility.

<sup>7</sup> Clarified in the subsequent discussion as active land management for market or non-market goods.

### Roger Crofts

30. “Stewardship is the Key to the Future of Scotland’s Land and Environment” presents the case for redefining land management in terms of stewardship roles and responsibilities, to deliver an array of public benefits. Land management would be subject to basic codes of practice but also rewarded with positive payments (not subsidies or compensation) for delivering public benefits from the private asset that is land. Better, and regionalised, policy instruments will be needed to achieve this.
31. The need for better integrated policy making is stressed, noting that there is no shortage of strategies, policies and schemes but (notwithstanding the Land Use Strategy) no effective mechanism for prioritising or reconciling inevitable conflicts. Overcoming this may depend more upon jettisoning old (silo) mindsets and “thinking out of the box” than changing intuitional structures.

### RISE Foundation

32. Although focusing on EU rather than UK or Scottish domestic policy, “CAP: Thinking Out of the Box” is a reminder that the CAP is itself likely to evolve. The report argues for a clear, strategic approach in the face of (global) challenges and a transition away from indefensible area payment entitlements to contracts for delivering public benefits. Institutional structures may need to evolve to facilitate such a shift in emphasis.
33. Public intervention is justified by market imperfections and failures, and should be delivered in a variety of forms including advice, training, capital grants and (proportionate) regulation. A four-tier multi-annual payment structure is proposed, with Tier 1 for transitional support, Tier 2 for marginal areas and Tiers 3 and 4 for agri-environmental and climate change actions.

### Other

34. Various other individuals and organisations have also offered views on the future of agricultural policy. In many cases, the views expressed are broadly similar to those summarised above. For example, as with expert evidence offered to the recent House of Lords European Union Committee and the National Assembly of Wales Climate Change, Environment and Rural affairs Committee, or suggestions made by the Tenant Farmers Association.
35. However, other views that challenge the status quo further have also been offered. For example, the Adam Smith Institute favours full and rapid removal of all Pillar I support whilst the New Economics Foundation presents the case for a minimum income payment (combined with grants for regional infrastructure and support for local public goods). Such radical ideas invite stretching of the Overton window that defines plausibly acceptable policies.

### Summary

36. Overall, there are more similarities than differences across the various position papers in terms of objectives, challenges and policy prescriptions. Where differences are apparent, they are more to do with perspectives and relative priorities rather than necessarily irreconcilable tensions. Nevertheless, some ambiguities, potential inconsistencies and practical challenges are apparent. Hence the next Section offers some points for discussion arising from the various position papers and the more general literature and commentary on agricultural policy.

Table 1: Comparison of selected aspects of selected position papers from Scottish stakeholders and other sources<sup>8</sup>

	SLE	SEL	SWT	NFUS	Roger Crofts	RISE
Primary focus	Profitable businesses	Public goods	Natural capital for ecosystem services	Active farmers & crofters	Stewardship	Sustainable agriculture
Sectoral focus	Integrated land use	Integrated land use	Varied land use	Agriculture	Integrated land use	Integrated land management
Budget	Likely to fall	Held constant	Held constant	Per ha parity with other countries		Likely to fall
Transitional period	Yes	Yes	3-5 years	Yes		Yes
Retained regulation	Yes	Yes	Yes, enhanced	Yes, reduced	Yes, enhanced	Yes
Retained area payments	Short-term	Short-term	Yes	Yes		For marginal areas
Targeted payments	Yes	Yes	Yes	Yes	Yes	Yes
Structural adjustment	Yes			Yes		Yes
Productivity support	Yes	Yes		Yes		Yes
Public goods	Yes	Yes	Yes	Yes	Yes	Yes
Regionality			River catchment		Yes	

<sup>8</sup> Table entries are necessarily brief and should be read in conjunction with the summaries offered in the main text.



### Section 3: Points for Discussion

#### Sectoral vs. Societal expectations?

37. In abstract, two different perspectives are implicit in the various position papers. Crudely, one considers the need for policy support primarily from the perspective of current recipients of support, stressing the need for stability to avoid disrupting businesses and livelihoods and to mitigate undesirable knock-on effects for wider rural economies, supply-chains and the environment. The other approach starts with consideration of what society wants from rural areas, with land managers then presented as central to delivering desired services but farm employment and income being a result of this rather than being the primary purpose of support. This distinction can perhaps be characterised in terms of whose expectations (entitlements?) are presented most prominently.
38. In practical terms, the significance of this distinction is perhaps limited – as illustrated by similarities in the suggested policy prescriptions that flow from both perspectives. However, the distinction is nonetheless perhaps important in presentational terms if loss of the ring-fenced CAP budget exposes agricultural and land use expenditure to greater domestic scrutiny. For example, whilst the need to support individuals, businesses and communities to help them adapt to change or to deliver well-defined policy objectives is widely accepted, the intrinsic merits of unconditional, continual support are perhaps not.
39. Similarly, policy interventions are increasingly judged against generic rather than industry-specific criteria, as exemplified by the Scottish Government’s National Performance Framework.<sup>9</sup> This means that special pleading (“agricultural exceptionalism”) may be less effective in securing budgetary resources and justifying intervention measures than demonstration of how policy measures can contribute towards overall national outcome objectives such as (e.g.) increased employment, improved environmental conditions and sustainable places.
40. The latter approach places greater emphasis on the rationale for both policy objectives and the choice of particular policy instruments. Market imperfections and failures offer a strong justification for policy intervention to, for example, secure environmental public goods and overcome tendencies for individuals and businesses to under-invest in knowledge, skills and innovation. Imbalances in supply-chain power can also justify policy intervention, although this is typically tackled through competition law rather than agricultural support. Other cited justifications such as population retention, food security and income inequality are not strictly market failures and, moreover, are not necessarily amenable to agricultural rather than other policy interventions. For example, food security also relates to consumption habits and waste whilst income inequalities are hard to define and more generally fall within the remit of means-tested welfare support.
41. However, heterogeneity of rural areas in terms of environmental conditions, land use patterns and farming structures (e.g. size and type of farms) coupled with complex inter-relationships between land use and environmental outcomes but also with employment and incomes means that policy requirements may not be uniform across geography or business structures. For example, land management can generate both positive and negative externalities whilst concerns about low farming incomes should presumably be conditional on overall farm household income (i.e. to include other income from sources such as pensions, investments and off-farm employment). This heterogeneity

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<sup>9</sup> A National Outcomes Framework focused on well-being has also been adopted in Wales.

contributes to uncertainty over the nature and extent of (co)dependencies between land management and particular objectives, but should be a reason to consider a wide range of policy options rather than simply default to familiar ones.

#### Support (re) distribution

42. The current distribution of support payments still largely reflects arrangements prior to the introduction of decoupling. Yet implicit within a service-delivery rationale is that the distribution of support payments is likely to change. The shift away from historic to flat(ter) rate payments was already leading to some redistribution of support, but greater targeting of public goods and adjustment needs could – depending on how funding criteria are determined and how businesses respond - also see a significant redistribution in terms of payments to individual businesses and regions.<sup>10</sup>
43. This is likely to reignite concerns about “winners and losers”, which would be understandable but would (again) misdirect attention to support recipients rather than the purpose of support (and the distribution of costs and benefits across wider society). This is not to deny the significance of support payments to business viability and possibly household income, nor that the personal impacts of redistribution on individuals need to be accounted for (see Transitional arrangements and Productivity enhancement below), but the rationale for preserving either the historic distribution or the (equally arbitrary) flat-rate distribution is weak (i.e. area payments are ill-suited to address any of the objectives often assigned to them: income support, risk management, environmental improvement).
44. Redistribution may also be motivated by policy objectives that are not strictly related to market failures. For example, population retention or reducing income inequalities. In such cases, the effectiveness of land-based support relative to other policy instruments should be considered. For example, affordable housing, non-farm employment and means-tested welfare support.

#### Structural adjustment

45. The original architects of the CAP recognised the inevitability of pressures for structural change in agriculture, for evolution of the size and number of farms and the reallocation of labour to other sectors of the economy, if farm incomes were to keep pace with those in the wider economy. Yet measures to encourage structural adjustments were never adequately introduced, and the structure of many sectors inhibits overall productivity and farm incomes. Moreover, different structural patterns have different implications for sectoral performance in terms of delivering across the range of ecosystem services associated with land management. For example, aggregate provisioning of food and timber but also water and climate regulation.
46. The nature and distribution of support can facilitate or resist structural change. However, addressing the need for structural adjustment requires acceptance that it equates to the redeployment of existing resources, which may be socially and politically uncomfortable. For example, some current farmers and farm workers will need to fully or partially leave the sector, either through retirement, diversification into other activities and/or non-farm employment. The effects of this on livelihoods, ways of life and community cohesion may be painful. However, as in other sectors, the policy focus

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<sup>10</sup> It is, however, possible that the distribution of support payments would remain skewed towards larger businesses if, for example, their scale generates significant public good benefits.

needs to be on how best to help individuals, businesses and communities to adapt to such possibilities rather than ignore them – much will turn on provision of advice and retraining but also efforts to encourage the creation of alternative opportunities outwith agriculture (which links to non-agricultural policy).

47. Acceptance of structural change necessarily distinguishes between a sector in terms of the ecosystem services it generates and the resources (land, labour, capital) currently deployed to do so. For example, the same level of agricultural production might be generated from fewer farms employing less labour and/or with less autonomy following horizontal or vertical integration whilst some environmental outcomes might be delivered more efficiently by other types of land manager (e.g. forestry or conservation bodies). If preservation of existing structural patterns (e.g. small family farms) is itself a policy objective, the consequences of this in terms of on-going support needs and trade-offs with other policy objectives has to be acknowledged.

#### Transitional arrangements

48. Notwithstanding references to distributional and structural change, the need to allow for a transitional period of policy adjustment is accepted in all of the position papers. This acknowledges time lags in many land use systems, reflecting the longevity of business planning and investment cycles (e.g. livestock breeding, afforestation, longevity of buildings) and the desirability of avoiding abrupt disruption. Indicative transition periods range from 3-5 years to 10-15 years, although the basis for specific time periods is not explicit.
49. Pragmatically, retention of current area payment support (i.e. Pillar I but also Pillar II LFASS) for a transitional period may also be necessary given possibly constrained capacity to design and implement radically different support arrangements in the short-term. However, the relative bluntness of area payments as an instrument for achieving stated policy objectives is generally regarded as leading to their gradual removal, with at least some funding transferred to more targeted support.
50. It is, however, sobering to recall that the original pre-cursors to area payments under Pillar I were themselves intended (in 1992) to be transitional support to be removed after a short period. Similarly, LFASS has persisted in its current form for far longer than was envisaged. As such, transitional periods are often somewhat elastic in duration: commitments to change have to be followed-through.

#### Productivity enhancement

51. The nature of suggested transitional and longer-term support encompasses both retention of current passive area payments (to cushion against income shocks) but also more active support to improve productivity and, at least implicitly, encourage structural adjustment. Raising productivity is a key challenge and fundamental to reducing farm income dependency on support payments. It is also relevant to improving environmental performance, where efficiency gains relate to enhancing natural capital and the resulting flow of benefits.
52. Measures envisaged to support productivity improvements include advice and training plus capital grants to encourage investments. Equally, horizontal collaboration between land managers and vertical integration along supply-chains have the potential to improve both market and environmental performance. However, relatively little detail is offered about the precise nature of such measures and consideration should be given to experience of analogous support in recent years. For example,

modes of delivery such as monitor farms and SEPA's catchment officers appear to have had greater impact than some more traditional models of knowledge exchange.

53. However, although technical improvements (i.e. how well resources are used) will contribute to productivity gains, so too will structural improvements (i.e. how resources are allocated across land managers and land uses). For example, the land available to individual managers to adjust land use and/or exploit economies of scale or the ease with which new entrants can replace existing land managers. Whilst reductions in direct support may increase the pressure for change, overcoming structural inertia may require more positive encouragement for current land managers to review and act upon their relative prospects within and outwith the sector. In this context, restricting (to the extent that this is WTO-compliant anyway) support to "active" land managers may be counter-productive if it inhibits structural change.<sup>11</sup>

#### Agri-environmental schemes

54. The failure of markets to deliver most environmental services provides a strong rationale for public intervention to secure such services, leading to the slogan "public money for public goods".<sup>12</sup> Indeed, this is the basis for agri-environmental schemes and "greening" elements of direct support under Pillar I. Moreover, if direct support payments are to be reduced, the hope is that increased funding of agri-environment schemes will be able to simultaneously improve environmental performance and bolster land managers' incomes.
55. Unfortunately, two problems arise with this. First, the effectiveness of many agri-environment schemes is often monitored inadequately and can be ambiguous. For example, standardised management prescriptions are sometimes ill-suited to securing environmental gains across heterogenous farming circumstances, and effectiveness is often dependent upon the availability of good quality advice. As such, a simple call for more agri-environment funding may be less effective than hoped for if not accompanied by revisions to how schemes are designed and implemented. For example, with a greater focus on outcomes rather than management practices and with more proportionate inspection regimes.
56. Second, the scope for bolstering land managers' incomes through agri-environment schemes is constrained by WTO rules. Under the Agreement on Agriculture (AoA), payments under agri-environmental schemes are limited to compensation for additional costs (including some transaction burdens) incurred plus any income foregone. As interpreted, this means that such schemes should only offset any losses, not provide a net income gains to participants. As such, the scope for them to replace direct funding as a source of farm income is severely limited.<sup>13</sup>
57. This latter problem could possibly be addressed through seeking clarification from the WTO on how more generous payment rates would be viewed in contexts where commercial land management is

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<sup>11</sup> Separation of support payments from land offers a potential solution to this apparent quandary, for example, as with the idea of "Tangermann Bonds".

<sup>12</sup> Schemes for "payments for environmental services" (PES) under which private funding is used to secure various ecosystem services are currently attracting considerable international interest, including in the UK. For example, the Woodland Carbon Code and the Peatland Code. However, their general applicability is somewhat limited and public intervention remains the primary means of securing environmental public goods.

<sup>13</sup> In practice, the use of fixed payment rates across participants with heterogenous cost structures means that some participants will have a net income gain, but the broader point remains valid.

clearly unviable such that there is no income foregone and costs incurred essentially encompass all costs (including labour)<sup>14</sup> of maintaining the farming system. Moreover, for marginal land, the volume of commodity production associated with such farming systems is unlikely to be trade-distorting. However, assuming that the UK does gain WTO membership, the extent to which a UK government would wish to pursue this line on behalf of the Scottish Government is unknown. As an alternative, subject to WTO acceptability, retention of area payments but with more stringent cross-compliance requirements would perhaps avoid the potential loss of farm income derived from support payments, but at the risk of less precise targeting and less scope for flexibility to suit local circumstances.

### Simplification

58. The CAP is complex and bureaucratically burdensome for both administrators and support recipients. Yet recurrent calls for simplification are typically hindered by accompanying calls for greater flexibility, regionalisation and integration across sectors plus the on-going requirement for public accountability of how funds are disbursed (which becomes harder if methods and outcomes are not standardised). Hence, whilst exiting from the CAP may offer some opportunities for bureaucratic revision, some fundamental tensions will remain and some trade-offs will be inevitable.
59. One approach to resolving some administrative difficulties may be to encourage more collaborative approaches between regulators, land managers and researchers. For example, stepping-away from the often adversarial nature of current inspection regimes to jointly explore locally-relevant solutions to specific issues. Equally, current efforts (e.g. under the Land Use Strategy) to better integrate across different land uses could be usefully extended. However, the institutional capacity available across both public sector and stakeholder bodies may not be sufficient to support such moves.

### Risk management

60. One of the original motivations of the CAP was to help insulate farmers from risks associated with, for example, price volatility, variable weather conditions and natural disasters. The need for risk management remains, but greater emphasis is now put on avoidance actions (i.e. adopting less risky practices) and mitigation planning (e.g. savings and insurance) at the farm-level, plus disaster relief at the government level (e.g. flood recovery measures).
61. To an extent, risk management can be accommodated within efforts to improve productivity and (in some cases) links to agri-environmental improvements. However, wider policy choices can still influence exposure to some risks. For example, import inspections, livestock traceability systems, disease surveillance systems, flood defence expenditure. This is (another) reminder that support payments do not exist within a vacuum and their effects are contingent on a raft of other policy choices.

### Conclusion

62. The above discussion points, based on comparison of selected stakeholders' position papers and more general commentaries on treatment of agriculture post-Brexit, are offered here to stimulate constructive debate at the roundtable event. The intention is to identify points of agreement and disagreement, and to understand the basis for the latter such that policy development can progress.

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<sup>14</sup> Indeed, a case could be made that the opportunity cost of non-farm wages foregone should be relevant.

## Section 4: Summary of Roundtable Discussion

### Introduction

63. Following a presentation of the themes identified in the Briefing note, participants were invited to discuss the emerging challenges and opportunities. The discussion was loosely structured around an initial (approximately one-hour) session on policy objectives – the “ends” – and a subsequent (approximately two-hour) session on policy instruments – the “means”. Throughout, there was an open exchange of views that revealed a number of similarities but also differences in the perspectives held by different participants.
64. The discussion was held under Chatham House rules, so the views expressed are not attributed here to any individuals or organisations. Moreover, the discussion did not proceed linearly but flowed backwards-and-forwards, returning to and drawing linkages between various issues. Consequently, the summary presented here is not a sequential transcript but an attempt to provide an overview of the main points discussed, gathering discussion threads together. Where appropriate, footnotes to relevant supporting evidence cited in discussions have been added.

### Title

65. As at a similar SRUC-hosted workshop held a few weeks earlier, the event’s title was criticised for focusing too much on farming rather than other land uses. This was accepted as a valid point, but an initial focus on farming was nonetheless defended since agriculture dominates rural land use and, whilst representing only a small proportion of total public expenditure in rural areas, the CAP is the main source of funding for land use policies. As such, the consequences of Brexit for agriculture will materially shape rural land use.
66. Broader rural development issues were also raised, noting the greater share of employment accounted for by non-farming activities and the importance of other policy interventions. For example, transport, broadband and housing. As with the CAP budget, other EU funds (e.g. ERDF, ESF) will be lost through Brexit and their replacement under domestic arrangements is uncertain. Equally, farming clearly links into the Food & Drink Strategy and to nutritional and health policies (including international effects), and multifunctional land use and sustainable food production are not necessarily mutually exclusive.
67. However, attempting to encompass all such considerations simultaneously adds significant complexity to any discussions. Food security issues are particularly complex since they encompass consideration of, for example, security of what for whom (barley for whisky production?), relative reliance on imported inputs and progressive taxation funding vs. food prices.

### Brexit uncertainties

68. The uncertainties surrounding Brexit are pervasive, with trade arrangements, funding levels and devolved responsibilities all likely to be subject to some degree of change. It should also be noted that the Scottish Government’s official position remains one of seeking continued membership of the EU in some form – which would constrain deviation from the CAP (although the CAP itself is also likely to evolve).

69. With respect to the WTO, it is perhaps helpful to note that its role is different to that of the EU. In particular, rules are not rigid and subject to institutional audit but rather represent the prevailing consensus about what is and is not permissible. Hence various existing ad hoc agreements do not adhere strictly to formal rules. This means that current continued deployment of CAP instruments by a post-Brexit UK may be challenged by other members of the WTO, but also that there may be scope for the UK to test the acceptability of new policy instruments (e.g. different payment calculations for agri-environment schemes). Split from the EU, notions of multifunctional UK agriculture may be more exposed to third-party challenge.

#### Ends and means

70. Irrespective of uncertainties surrounding Brexit outcomes, there was agreement that preparations had to be made now for post-Brexit policy, partly because the timetable was already tight but also because land managers need some indication of at least the direction of travel such that business plans can be made. There was, however, some acceptance of the need to allow for flexibility of domestic responses, to allow for their adjustment according to how Brexit unfolded. For example, in relation to trading arrangements or available funding.
71. Focusing on “ends”, on what is being sought from rural land use, was viewed by some participants as fundamental to policy design – starting from first principles to better align policy to desired outcomes and to promote sustainability rather than continuing with the current happenstance bundle of outcomes. Conversely, other participants suggested that we were not starting with a blank sheet of paper but inheriting a situation in which any rapid and radical change would materially damage the livelihoods of many current land managers and potentially impair abilities to secure a range of outcomes. It was also noted that the institutional capacity (e.g. numbers of civil servants and their organisational arrangement) was already stretched and hence not necessarily sufficient to embark upon immediate radical reforms.
72. In practice, this difference of opinion perhaps reflects short-term vs. long-term concerns, with the need for short-term transitional arrangements and stability to avoid pulling the rug out from underneath current land managers dependent on support having to be balanced against the need to better address the longer-term challenges facing land use (e.g. climate change, social change, sustainability).
73. Various “means” can be envisaged to deliver desired outcomes. Most land is privately-owned and current policy predominantly relies upon voluntary enrolment in schemes offering financial incentives (e.g. Pillar II agri-environment schemes, Pillar I & II area payments tied to some conditions). This is supplemented by grant-aid for training and capital investments, robust regulation and the provision of advice (the latter highlighted repeatedly as important, see below). These types of approach were envisaged as continuing, albeit probably in different ratios. However, it was also noted that wider application of the “polluter pays principle” to land use could see greater use of regulatory controls - although the effectiveness and administrative costs of such controls might vary with how inspections and enforcement were approached. It was agreed that a mix of tools would be required to engage with a range of land managers differing in their aptitude and willingness to engage with a changing policy agenda. It was noted that psychology had a role to play in determining land managers’ perceptions of and engagement with different aspects of multifunctional land use.

74. There were also several pleas to remember that, whatever funding, and devolved powers are available post-Brexit, it is not possible to achieve everything and objectives will need to be prioritised. Equally, how should support be distributed in terms of geography and sectoral structures? For example, should particular sizes (e.g. small?) or types (e.g. sheep) of farm be prioritised and should more attention be focused in more remote or accessible areas, or indeed upon landscapes or biodiversity? It was noted that some outcomes already have explicit targets. For example, in relation to the condition of water bodies or (at the aggregate level) reductions in GHG emissions.

#### Structural change

75. All participants agreed that a degree of structural change was inevitable, if only to secure the profitability of remaining businesses – and profitable businesses were required to deliver a range of desired policy outcomes. However, although a move towards fewer but larger farms was perhaps likely, it was felt important to recognise that size was not necessarily a guide to ecosystem service delivery. For example, the skills and motivation of individual land managers are also important determinants of performance and, moreover, different ways of operating (e.g. contracting, cooperation, vertical integration) can mask actual managerial structures (they can also make it difficult to identify responsibility for decision making). Indeed, a diversity of structures might be useful in securing different but better integrated outcomes, which links to the Land Reform agenda (although whether diversity is in-and-of-itself desirable is contested).
76. Family farms were mentioned explicitly as a key structural element of not only land management but also the social fabric of rural areas. There was some debate around whether scale or location should determine support levels, with support in marginal areas being more necessary than in accessible areas. Diversification of income sources was suggested as a universally relevant structural change. This includes the full range of land uses, highlighting repeated calls for better integration between different land uses and for recognition of the potential for (e.g.) woodland, renewable energy and tourism to contribute to policy goals.

#### Public goods

77. Although the concepts of multifunctional land use and public goods provide an intellectual rationale for policy interventions, the terms are often used more loosely and slips into political interpretations of public interest. This means that policy is almost inevitably pulled in various directions, not all of which will be consistent or coherent in terms of objectives or instruments yet may have political backing. For example, issues of food security, population retention and income inequality. This places an onus on stakeholders and researchers to help inform political debate, if only to clarify objectives, choices and trade-offs.
78. Informing debates partly involves clearer articulation of the positives already delivered through land use, but also acknowledgement of various negative effects and the scope for improvement through doing things differently. For example, the long history of agri-environmental schemes stretching back to ESAs is rightly applauded, yet several environmental indicators are declining (e.g. upland bird species, soil health). Equally, whilst contributions to other socially valuable goods are acknowledged, it is possible that, for example, food security and population retention goals could be achieved more effectively through different policy mechanisms. Despite most participants citing



similar types of outcomes sought from rural land management, it was apparent that the relative importance attached to particular outcomes varied somewhat.

79. Reference was made to previous evidence-gathering exercises which will remain relevant to the current debate around economic, environmental and social benefits. For example, the Pack review, the Rural Land Use Studies and the Beauty, Beast and Biodiversity project.<sup>15</sup> It was noted that there are evidence gaps in relation to, for example, the farm income position of smaller farms (including crofts) and to the household income of farming families – without which it is difficult to objectively assess the need for income support measures.

#### Transition periods

80. The nature of land use enterprises means that decision making cycles span several years. For example, the biological processes involved in producing livestock or nursery tree stock. As such, sudden policy changes are difficult to accommodate and more orderly adjustment requires a transition period. Moreover, the capacity to change will vary considerably across different businesses and reliance on support payments would be challenging to overcome. Consequently, there was agreement that a transitional period would be required (further reinforced by likely delivery capacity constraints in the short-term).
81. The appropriate duration of any transition period was difficult to define, but it was noted that a seven-year period for phasing-in of area payments in England seems to have been reasonable – long enough to allow for businesses to adapt but short enough to ensure the need for change couldn't be ignored.
82. Importantly, any transition period should not simply be marked by a gradual unwinding of current support levels but also by purposive efforts to help individuals, businesses and communities to prepare for change (although some participants suggested that opportunities and support for adjustments already existed and not all businesses were waiting for the removal of Pillar I before changing). The provision of advice and training would be central to this, together with appropriate support for capital investments and for continuing R&D activities in Scottish research institutions. Whole farms plans were mentioned several times as a desirable compliance requirement of any support.

#### Choice of instruments

83. Consideration of transition periods leads onto choices between policy instruments, between “carrots, sticks and sermons”. It was agreed that a mix of policy instruments would be required, including regulation. In the first instance, it was generally accepted that area payments under Pillar I (i.e. Basic and Greening) and Pillar II (i.e. LFASS) should continue in order to provide continuity of support. Over time, these might be reduced and/or eliminated with funding switched to other forms of support, notably agri-environment schemes and productivity-enhancements. The possibility was raised of passing some of the responsibilities for the latter over to the Enterprise Networks.

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<sup>15</sup> See <http://www.gov.scot/Topics/farmingrural/Agriculture/inquiry>, <http://www.gov.scot/Topics/Research/About/EBAR/RLUS> and <http://www.gov.scot/Publications/2004/09/19892/42598>

Regulation might be enhanced, providing a base level of public goods with financial incentives then securing higher levels stretching across a compliance continuum.

84. Some element of area payments might be retained in the longer-term, to provide a basic income and/or buffer against volatility. This might involve revisiting degressivity rates and/or limiting area payments to marginal land. It was, however, noted that WTO compatibility of area payments – including Greening payments – was not certain, and limits might be placed on the extent to which they could be used in future.
85. Productivity-enhancements might take various forms, including advice, training and capital grants. These could be available on an on-going basis, but should perhaps be the focus of short-term efforts to facilitate transitional adjustments. Area payments were regarded as having stifled entrepreneurship and innovation, promoting instead inertia and complacency. Importantly, improving productivity is relevant to the full range of ecosystem services, not just to market goods. For example, appropriate knowledge, skills and investments underpin climate, biodiversity and water regulation services as well as provisioning of food and timber. However, past experience suggests that the effectiveness of delivering advice and training, or of running competitive grant schemes, can vary considerably – suggesting care may be needed in the design of future schemes. The mode of advice provision adopted under SEPA’s priority catchments and SNH’s Peatland Action was repeatedly cited as a good example to follow.
86. It was noted that productivity also rests on market prices, and that increasing the share of supply-chain margins accruing to primary producers was desirable – although this raises issues of vertical relationships and informed consumer choices. The potential of seeking private funding for public goods was also mentioned (e.g. as with the Woodland Carbon Code and the Peatland Code or pension fund investments).
87. Agri-environment schemes were widely cited as a justifiable form of public funding, with the potential to substitute for support currently offered through Pillar I. However, it was acknowledged that this would require a change in the way payment rates are currently calculated, to move away from the costs incurred/income foregone approach. Although various alternative calculation methods could be envisaged (e.g. full cost of activities, value of non-market outputs), it was accepted that these would need to be tested against the views of other WTO members. It was suggested that the “payment-by-results” approach currently being trialled across the EU perhaps offered some potential for agri-environment schemes, but also more broadly.
88. For both productivity enhancements and agri-environment schemes it was suggested that the current prescriptive nature of scheme options hindered entrepreneurship and innovation. A more flexible approach, working with land managers to jointly (co-produce) identify context-specific solutions to problems would achieve more and (potentially) facilitate better integration across different land uses and between different outcomes (e.g. food and environment). It was, however, acknowledged that this would inevitably incur additional administrative costs.
89. On-going support should be restricted to land managers actively bearing the costs and risks of contributing to ecosystem service delivery (not just owners of land). However, transitional support to assist current land managers seeking to leave the sector through, for example, diversification, other employment or retirement should be made available.

## Capital Markets

90. One point not covered explicitly by the Briefing paper but raised as an issue in discussion was the role of capital markets in land use. Specifically, the current high (by historical standards) level of debt in agriculture. Although still lower than for other sectors, the ability of farm households to service current debt levels was a concern given the likelihood of interest rates rising in the near future. Moreover, the sectoral average masked considerable variation and some individual businesses will be significantly more exposed.
91. This led onto some discussion around the influence of support payments on land prices. Whilst it was agreed that payments are capitalised into land values, the influence of other factors was noted. In particular, the demand for land by non-farming buyers (e.g. investors, residential buyers) and the tax treatment (e.g. roll-over relief, inheritance tax) of land were regarded as contributing to land values bearing little relation to market returns from farming. High land prices were acknowledged to be a barrier to new entrants. Again, this links to Land Reform issues.

## Simplification

92. There was agreement that current support arrangements under both Pillars of the CAP were overly complex and bureaucratic, imposing burdens on administrators and applicants alike. Unsurprisingly, there was a general desire for simplification and a belief that leaving the CAP would allow a redefinition of what was actually required. For example, EU audit requirements impose a low tolerance of financial risk which leads to very onerous on-farm measurements requiring considerable effort by both farmers and inspectors; post-Brexit domestic requirements might perhaps require less precision, trading-off reduced costs against a slightly higher risk of financial inaccuracy. It was, however, noted that some current difficulties did not appear to be replicated elsewhere (e.g. with respect to LEADER in Scotland vs. England), suggesting some scope for improvement even within the CAP framework.
93. However, it was also acknowledged that simplification was often difficult to achieve in the face of simultaneous demands to also make support arrangements more flexible and regional in nature whilst still retaining accountability for how public funds were spent. That is, there are trade-offs between targeting and implementation costs: effectiveness may improve, but so will administrative complexity and effort. Moreover, previous attempts to reduce regulatory complexity have generally revealed that few requirements are universally regarded as unnecessary – most regulations have a purpose.
94. Nonetheless, it was hoped that improvements could be made to do things smarter. For example, adopting a less adversarial approach to inspection by seeking to identify solutions rather than immediately impose penalties (SEPA's approach to priority catchments was again cited as an example to follow). Equally, tick-box compliance requirements (e.g. nutrient management plans) could be replaced by more meaningful agreed actions.

## Regional Land Use Forum

95. The need for a more integrated and partnership approach to land use was mentioned repeatedly, but was felt to be inhibited by the absence of appropriate decision-making fora. Without these, it was felt that it was difficult to get the right people together to agree roles and responsibilities and to

force through compromise solutions. There needs to be greater transparency/candour about differences in objectives and the nature of trade-offs and concessions that are required.

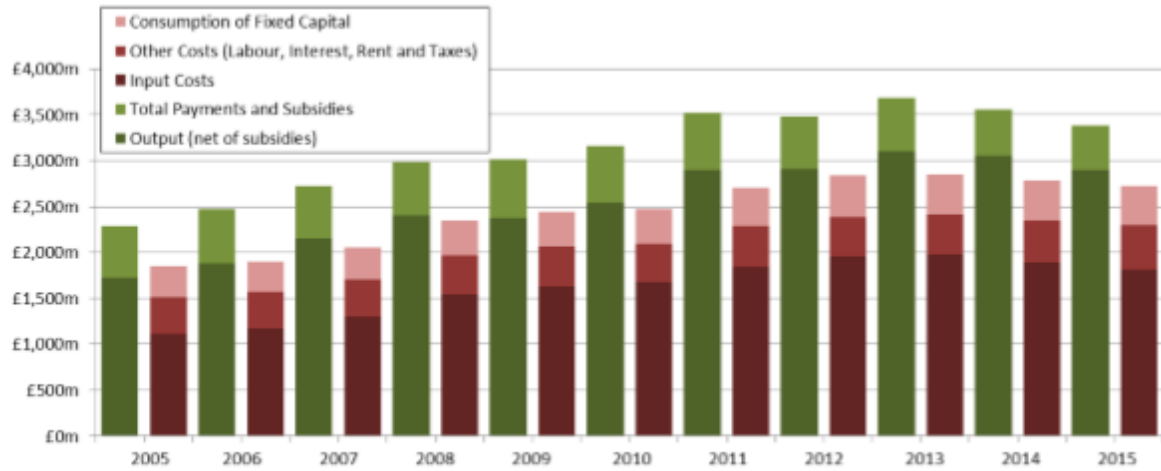
96. Regional partnerships, as suggested under the Land Use Strategy, were suggested as a suitable type of forum – with the Tweed Forum cited as an existing good example. Presentation of evidence was considered fundamental to specifying (and mapping) land use opportunities at a regional level, to underpin the identification of priorities and to allow indicative planning. However, it was noted that establishing effective partnership requires concerted effort, even where administrative and functional spatial units coincide (e.g. as with the Borders local authority and river catchment). It was also suggested that the relationship within a regional partnership are likely to be shaped by whether it is purely an evidence-gathering body or one responsible for actual budget allocations.

### **Section 5: Reflections and Next Steps**

97. The opportunity to meet under Chatham House rules and discuss issues arising from Brexit was welcomed by participants. However, notwithstanding similarities between stated positions and in the language used to describe likely challenges and opportunities, it is apparent that differences exist between different stakeholder groups in terms of the relative prioritisation of different objectives and the direction and pace of policy change sought. The absence of a decision-making forum to promote joint-ownership of problems and to facilitate progress towards compromise solutions is an acknowledged weakness.
98. In the medium-term, it may be that regional partnerships under the Land Use Strategy could act as a suitable decision-making forum, bringing different groups together to raise mutual understanding of different perspectives and hopefully identify potential compromise solutions. More immediately, as an attempt to mimic such a forum, the organisers of this roundtable discussion are considering the merits of a follow-up event at which specific policy scenarios would be presented and participants invited to consider the pros and cons from each other's perspectives.

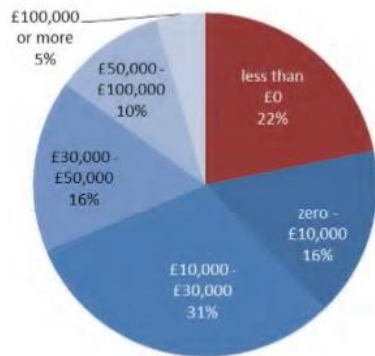
### Annex: Selected facts and figures to illustrate some current challenges

Total Income from Farming (TIFF) for all of Scottish agriculture is the difference between aggregate revenues (from market sources and support payments) and aggregate costs. In some years, TIFF is only positive because of support payments.



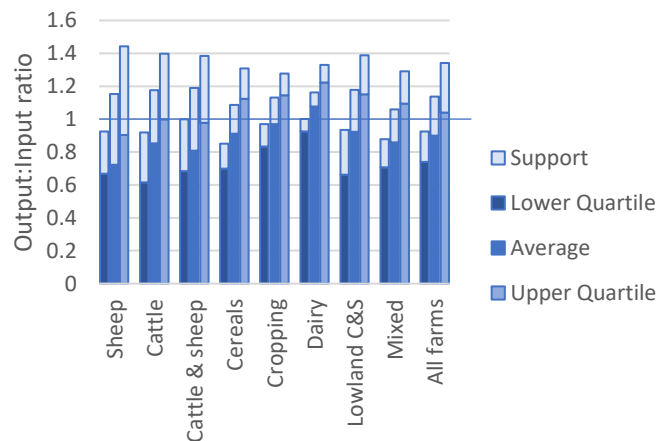
Source: Economic Report on Scottish Agriculture (ERSA) 2016

Farm Business Income (FBI) is a measure of income at the farm level. It varies with farm size, but is below £10k for around two-fifths of farms.



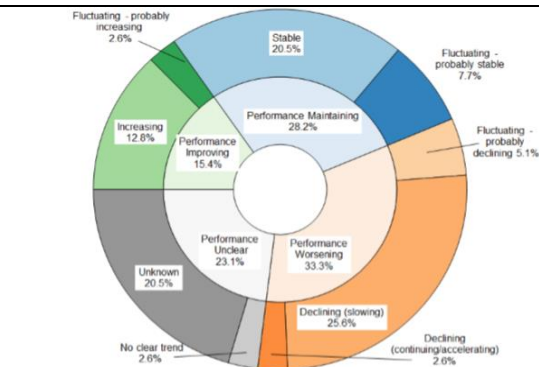
Source: ERSA 2016

The ratio of the value of outputs generated relative to costs of inputs used should exceed one. Where it does not, farming activities are reliant on support payments. The ratio varies across different activities, but also across different farms – indicating some scope for improvements, but also a tough challenge.



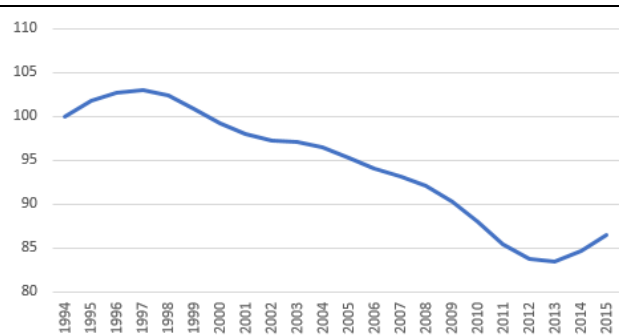
Source: ERSA 2016

As an indicator of habitat condition, the status of UK Biodiversity Action Plan (BAP) Habitats in Scotland reveals that around one-third are in decline.



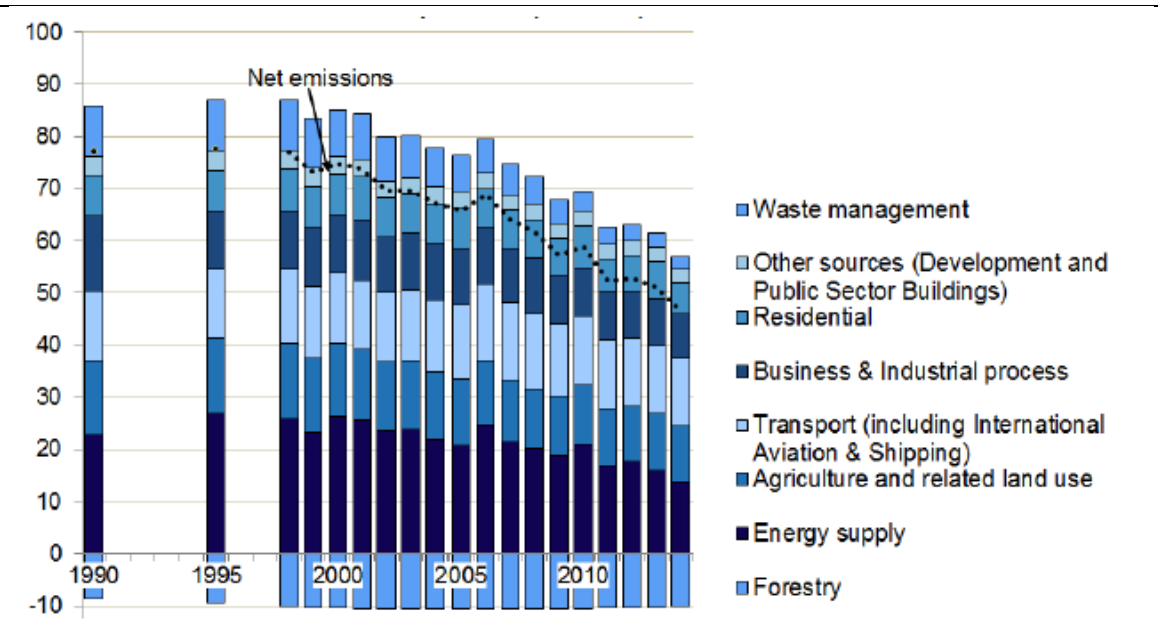
Source: Key Scottish Environment Statistics 2016

Bird species are used as a biodiversity indicator, and the index of upland bird species shows a long-term decline in Scotland.



Source: SNH Index of abundance for Scottish terrestrial breeding birds 2016

Agriculture accounts for over one-fifth of total Scottish greenhouse gas emissions (with forestry almost off-setting this through sequestration), and is likely to face calls for increased mitigation "effort share".



Source: Key Scottish Environment Statistics 2016