

## Environment, Food and Rural Affairs Committee Health and Harmony Inquiry

### Background to CIWEM

CIWEM is the leading independent Chartered professional body for water and environmental professionals, promoting excellence within the sector. The Institution provides independent commentary on a wide range of issues related to water and environmental management, environmental resilience and sustainable development.

CIWEM welcomes the opportunity to respond to EFRA on its inquiry on the Health and Harmony consultation. This response has been compiled with the assistance of members from our Natural Capital Network, Water Resources Panel, and Water Supply and Quality technical Panels.

### Summary

- We strongly support a natural capital approach underpinning future agricultural policy and would like to see it deliver against the polluter pays and beneficiary pays principles. Historic loop holes and existing pollution should also be challenged. We welcome the forthcoming consultation on how EU environmental principles will be reflected in UK law as this will be highly relevant to how agriculture and the environment are managed after Brexit.
- Our top priorities for environmental delivery are, improved: biodiversity, water quality, soil health, drought resilience, flood resilience, and amenity.
- We would like to see land managers supported during the transition period through productivity and business resilience advice, and access to increased options under a Government run agri-environment scheme. Current plans on Continuing Professional Development are too vague to be able to provide comment. There may be lessons to learn from the CAFRE Business Development Groups Scheme in Northern Ireland, covered in para 2.3.
- Where decreases in direct payments are incremental, we believe a minimum five-year transition would be necessary given the extent of the proposed changes. The transition period needs to be short enough to encourage immediate action but not so short as to cause panic within the sector, which might distract from delivering sustainable food and environmental husbandry.
- In the long term, we envisage environmental benefits being funded through the private sector where beneficiaries are identifiable and via the Government where

benefits are truly public. This will require a well-developed and administered system of natural capital accounting.

- The Government should be actively involved in supporting the development of a private market for ecosystem services through: researching and promoting valuation methods, acting as a first loss investor in flagship projects, providing guidance on how to deliver environmental benefits, and addressing the current lack of suitable metrics for delivery.
- We would like to see a review of the role of the supply chain in enabling sustainable production. Any review should cover production standards, including waste of imperfect produce, and financial returns across the supply chain.

## **Response to inquiry questions**

### **1. What will the consequences of the withdrawal of Direct Payments be?**

- 1.1 The environment is a priority for CIWEM. It is also important for the nation, providing the raw materials and services needed by businesses and individuals. The Government must ensure that no environmental deficit is created during the transition to no Direct Payments. Sustainable food production is costly and must be funded appropriately. If Direct Payments are not replaced by other income sources during the transition, we anticipate that environmental damage will occur.
- 1.2 The impacts of withdrawing Direct Payments on individual farm businesses are likely to vary based on factors such as; profitability, sector, farm size and level of diversification. Impacts will also vary depending on the transition period length, how transition is managed, and what the industry transitions to. The transition period is covered in response to question 5.
- 1.3 Profit margins vary across sectors. Less profitable sectors, such as upland sheep farming, will be more exposed to the withdrawal of support than others. It may be that small farm businesses, who do not benefit from efficiencies of scale, are also at risk of being impacted more greatly than others.
- 1.4 Small farms contribute to the structure of the farming industry by providing diversity and are often an important stepping stone for entrants to the farming profession. They allow farmers to build up their experience and asset base, both of which can act as reassurance to landowners looking to let their land. The let sector provides important opportunities for farmers to access land. Where landowners do not feel confident letting their land they may choose to have it contract farmed instead.
- 1.5 Farmers who are unprofitable are likely to suffer financial hardship as Direct Payments are withdrawn. Assistance in sustainably improving productivity and profitability could reduce the impact of Direct Payments withdrawal.

- 1.6 Reduction of Direct Payments will make compliance with environmental regulations more challenging, likely increasing non-compliance levels. Many farmers already struggle to meet regulations where compliance requires capital investment.
- 1.7 Farmers who face financial hardship will not be able to prioritise production of high quality, environmentally sustainable food. In cases where financial hardship is severe farmers may be forced to leave the profession.
- 1.8 Where a farmer is an owner occupier, exit from the profession may include selling farmland. If large numbers of farmers face financial hardship, farmer demand for land might decrease and land could instead be purchased by investors. With only the top 25% of farmers profiting from agricultural activity, investors may choose not to produce food. On a large scale, this could impact the agri-food sector, the County's self-sufficiency and landscape character.
- 1.9 If upland farmers must leave the industry, alternative management will be required so that the landscape can continue to support tourism and wellbeing. The cost of securing alternative conservation management is unknown. The impacts on communities should also be considered. These might include increased unemployment and rural to urban migration.
- 1.10 Farmer reliance on Direct Payments stems, at least in part, from low market returns. Current food prices and market supply chains do not generally provide farmers with an adequate income, impacting their ability to produce sustainable food.
- 1.11 Government focus on affordable food has resulted in relatively cheap prices on the shelves with large external costs in the form of agricultural subsidies and payments for environmental repairs. Paying to repair damage resulting from unsustainable farming practices is not efficient. Policies and funding should focus on mitigating the risk of environmental damage from food production, not repairing damage that has been allowed to occur.
- 1.12 Despite low prices, we have also seen a trend for increasing welfare and environment production standards. If farmers are required to produce food to high environment and welfare standards, the potential benefits of this must not be mitigated by sale of cheaper imported food produced to low standards. In a global society outsourcing production of environmentally damaging cheap food should not be acceptable.
- 1.13 Farmer returns are also affected by supermarket refusal to purchase visually imperfect produce. According to the Institution of Mechanical Engineers, up to "30% of the UK vegetable crop is never harvested"<sup>1</sup> on the grounds of cosmetic imperfections or because farmers over-produced to ensure enough acceptable food could be provided to buyers. This highlights an area where farmer returns, environmental sustainability

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<sup>1</sup> [Institution of Mechanical Engineers \(2013\), \*Global Food: Waste Not, Want Not\*, page 18.](#)

and self-sufficiency levels could be improved through reducing the amount of food wasted on cosmetic grounds.

- 1.14 Changing supermarkets' purchasing will require consumer education to alter demand. Food waste has previously received attention from TV Chef Jamie Oliver and should be more widely considered. Access to the countryside could play an important role in consumer education, as demonstrated by the success of the Open Farm Sunday initiative.
- 1.15 Without any increase in food prices, the proportion of grown food purchased by retailers, or the proportion of sale value that is returned to the producer, the removal of farm subsidies will have a greater impact.
- 1.16 We would like to see a review of the role of the supply chain in enabling sustainable production. Any review should cover production standards, including waste of imperfect produce, and financial returns across the supply chain.
- 1.17 Diversified businesses will be less exposed to the withdrawal of direct support, if diversified income streams are unrelated and remain constant. To manage the withdrawal of subsidies, more farmers may choose to diversify, taking land out of food production to support alternative income generation. This will result in reduced domestic food production, increasing the need for imported food. However, whilst the amount of land needed for diversification varies, diversifications do not often require a large proportion of the farm.
- 1.18 In summary, the potential consequences of the withdrawal of Direct Payments might include: financial hardship for farmers, less compliance with regulations, environmental damage, sale of agricultural land, and reduced influence over how land is managed.
- 1.19 The management of the transition and the end destination will affect the impact of the withdrawal of Direct Payments. Impacts will also vary greatly across sectors and perhaps farm size. Poor management during the transition could result in environmental degradation, negatively impacting efforts to deliver a Green Brexit and the Government's 25 Year Environment Plan.

## **2. To what extent do the Government's proposals support farmers to improve their profitability and prepare for the new agricultural policy?**

- 2.1 The Government's proposals, as currently framed in the food, farming and environment consultation, do not provide a clear or convincing vision for the future support of farmers.
- 2.2 While the consultation raises questions on productivity and profitability, it asks for respondents to provide priorities rather than setting out a vision.

- 2.3 We note that Continuing Professional Development is seen as one way to increase productivity. The College for Agriculture Food and Rural Enterprise (CAFRE) in Northern Ireland has had success in running its Business Development Groups Scheme<sup>2</sup>, from which lessons could be learnt. The EU funded scheme provides an opportunity for small groups of farmers to meet and discuss agreed topics. The key components of the programme are maintaining a business development plan, benchmarking, attending training events and sharing information with other group members. The scheme is facilitated by CAFRE advisers and participation is financially supported.
- 2.4 Farmer to farmer knowledge exchange is an effective way of increasing best practice and productivity. We believe that farmers in England could benefit from a scheme like that run by CAFRE. Such a scheme could be facilitated by the Agriculture and Horticulture Development Board or Farming and Wildlife Advisory Group (FWAG). FWAG would be well positioned to bring in knowledge to help encourage provision of environmental benefits.
- 2.5 To allow widespread participation, any scheme will need to be well promoted and accessible in terms of time and requirements.

**3. The Government plans to base the new policy on public money being used to pay for public goods. To what extent do you agree with this approach? What public goods should be supported?**

- 3.1 We strongly agree that public money should be used to secure goods for the benefit of the public. Public money might be sourced from across the public sector rather than solely from DEFRA. For example, where health benefits are provided the NHS could contribute to funding.
- 3.2 We also believe that where there are identifiable beneficiaries of a good or service they should be encouraged to fund its production or delivery. As such we believe that environmental goods should be secured through a mixed funding approach.
- 3.3 Where activities (such as pollution) impede the delivery of public goods, the polluter pays principle should be more actively employed.
- 3.4 Private funding of environmental goods is developing. Currently schemes are most commonly used where the beneficiary sees a clear cost saving from provision of the ecosystem services, which justifies expenditure and guides the financial deal. Inadequate valuation mechanisms are a barrier to the development of deals in other cases. Buyers and providers currently lack confidence in the valuation of environmental goods, which limits negotiation.

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<sup>2</sup> [DAERA \(2017\) Business Development Groups Scheme reopens for applications](#)

- 3.5 The Government could play a role in helping establish a private ecosystems market by: researching and promoting valuation methods, acting as a first loss investor in flagship projects, providing guidance on how to deliver environmental benefits, and addressing the current lack of suitable metrics for delivery.
- 3.6 Public goods we would like to see delivered include improved biodiversity, amenity, water quality, soil health, drought reliance, flood resilience, air quality, and climate change mitigation. These public goods will provide benefits to a wide range of people as well as support production in some cases.
- 3.7 The Farming Rules for Water provide a good vehicle for improving water quality in the future. Whilst the rules do not currently provide a great deal of improvement compared to the cross-compliance requirements, they do stand independently of support schemes as regulation which applies to all farmers. In future the rules could be amended to improve the best practice baseline and to widen the scope beyond water quality.
- 3.8 We welcome the new approach to enforcement for the Farming Rules for Water and believe that farmer support and education will see better results than application of fines. We believe risk-based compliance regimes could benefit from using remote sensing data to target enforcement efforts.

#### **4. How should the new policy based on supporting public goods be coordinated and delivered?**

- 4.1 Any new approach to supporting public goods should be deliverable. Past performance of the Rural Payments Agency (RPA) has been poor, hindered by IT systems that were not adequately adapted to deliver UK schemes.
- 4.2 We believe that implementation of a true Payments for Ecosystem Services (PES) approach to delivering public goods is not currently realistic because it's not sufficiently mature to be applied as widely as would be required. However, we support the direction of travel towards payments for outcomes in the longer term.
- 4.3 Current barriers to the use of a payment for outcomes approach include the need for further research on outcome measures and proxies and lack of agreement on how to account for the impact of external factors on ability to deliver outcome. Additionally, uncertain or long outcome delivery timeframes are likely to give rise to questions around appropriate timing for payments, particularly where upfront investment is needed.
- 4.4 Government use of payment for outcomes has the potential to create farmer engagement issues if a farmer has undertaken agreed actions but is not paid because the required outcome did not materialise. Payments for outcomes should exceed payments for management activities, to reflect the deliverers' increased exposure to risk, which may not be a good use of public money.

- 4.5 We believe that the PES approach should develop in the private sector. This would allow risk taking farmers to trial the outcomes-focused approach, incentivised by higher returns. Alongside this we propose that the Government should support the delivery of environmental measures on a payment for management actions approach, particularly in the case of priority areas where environmental improvement is urgent.
- 4.6 As confidence in monitoring and delivery increases, risks of a payment for outcomes approach will become better understood and managed. This should improve farmer acceptance of payment for outcome approaches and increase the delivery of environmental benefits, through growth in the number of PES agreements.
- 4.7 As delivery through PES increases, Government support schemes could be reduced to a point where they only provide public benefits where there is no identifiable beneficiary, or group of beneficiaries, who could reasonably be expected to pay for its production. Actions the Government could take to support a PES approach can be seen in para 3.5.
- 4.8 Within a PES approach, individual agreements might require benefits to be delivered at different scales. For example, delivery of water quality benefits could be best achieved through a catchment approach, whereas carbon offsetting credits could be provided by planting trees within a relatively small area.
- 4.9 If a PES approach is to provide maximum benefit, separately commissioned projects at different scales need to overlap to provide landscape wide coverage. The Government could provide funding to assist the development of partnerships with the purpose of supporting integrated approaches to delivering environmental benefit.
- 4.10 The Government support scheme should facilitate wide participation through the provision of several appropriate management options for each sector. This will help provide more sites managed for environmental benefit. It may also act to assist farmers with the transition to no direct support by providing a diversification option that can work well alongside existing farming practices where designed appropriately.
- 4.11 We believe it would be appropriate for the Government scheme to continue to operate on a two-tier system, allowing wide participation at a base level and focused participation to provide high quality environmental benefits. Provision of areas of better quality habitat is important in meeting the principles of the Lawton report<sup>3</sup>.
- 4.12 The facilitation fund has been viewed as a positive way to increase farmer collaboration to provide environmental benefit over bigger areas. Supporting partnership approaches generally, including initiatives outside any Government scheme, would be beneficial in the provision of public goods.

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<sup>3</sup> Professor Sir John Lawton (2010) *Making Space for Nature: A review of England's Wildlife Sites and Ecological Network*

4.13 To ensure the longevity of benefits provided by private PES agreements, the Government should consider the introduction of conservation covenants operable between landowners and other individuals or companies, rather than just “responsible bodies” as recommended in the 2014 Law Commission report<sup>4</sup>. Long term agri-environment schemes would provide farmer confidence, and so possibly gain better participation rates, and secure management for longer periods.

**5. The consultation indicates a transition period will be needed. How long should this last and what lessons can be learnt from previous implementation of agricultural policy?**

5.1 The transition period will need to strike a delicate balance, being neither too short to give reasonable opportunity for farmers to adapt nor so long that farmers do not feel motivated to plan and make changes to adjust to the withdrawal of support.

5.2 The time frame for planning decisions varies between sectors. We believe five years will be the minimum acceptable transition period. However, acceptability of that timeframe will be affected by how the transition is managed and the timing and details of trade deals that can be secured. The ability of DEFRA and the RPA to adequately communicate the vision, objectives and timeframe for the proposed changes will be critical.

5.3 We believe that reducing only large claimant’s payments initially will not help smaller farmers in the long term. Steady reduction of all claimant’s payments on a proportional basis will give a manageable decline over the transition period encouraging farmers to engage early and adapt their practices to manage the resulting financial consequences. Conversely reducing large claimant’s payments first and smaller claimants payments at a later stage suggests that phasing out the payments would feel more like a cliff edge which would be far harder for farmers to manage if they have not taken the initiative to forward plan.

5.4 The main learning point from the implementation of previous agricultural policy is that IT systems must be fully operational before they are launched. Adjustments to the system and late payments cause considerable inconvenience.

5.5 During the transition, farmers are likely to be under greater financial pressure, so payment delays may be more detrimental to cash flow than in previous years. If there are to be delays, capacity to deal with financial hardship cases should be increased and banks should be encouraged to provide bridging loans.

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<sup>4</sup> [Law Commission \(2014\), \*Conservation Covenants\*](#)

**6. In which areas should the Government seek agreement with the Devolved Institutions to ensure a common approach across the UK?**

- 6.1 Threats to the environment transcend national boundaries so complementary approaches across the devolved nations are necessary to ensure suitable protection. Policy divergence within a framework may provide benefit through allowing space for innovation and learning from practice. Relevant bodies must have sufficient funding and resources to be able to implement a common framework and learn from each other.
- 6.2 Environmental issues that require a common framework include water management, air pollution, climate change mitigation and biodiversity.
- 6.3 In assisting farmers to deliver widespread public benefits it will be important that farm businesses across the UK are adequately supported by public money.

We hope that these comments are helpful to you, if you would like us to expand on or clarify any of the points made, please don't hesitate to get in touch with us.