



**Cyfoeth
Naturiol
Cymru
Natural
Resources
Wales**

Call for evidence on the UK Government's Review of the Balance of Competences between the United Kingdom and the European Union - Agriculture Report

This paper summarises the contributions made by those NRW staff who participated in the UK Government's "Balance of EU Competences" review in relation to Agriculture. A Defra-led seminar on this topic was held at Cathays Park on 3rd December. The comments set out below are not intended to form a comprehensive NRW response to the Defra consultation, but are designed to provide additional material that may assist colleagues in the Department of Natural Resources and Food in formulating an overall Welsh Government response.

General

1. Should the EU have competence for agriculture and plant health?

The answer to this question depends on where the balance of advantage is felt to lie under Question 2.

Much of the discussion at the Defra seminar in Cathays Park on 3rd December revolved around the fact that so much of the CAP budget – at least within the UK - is focussed on Pillar 1. From an environmental perspective, it then appears that it might be better if the UK had overall competence in agriculture so that more money could be allocated to Pillar 2. On the other hand, UK competence for agriculture could result in the Treasury allocating less to the overall agricultural budget – with the result that any Pillar 2 type allocation might be even smaller than at present

In seeking to identify the disadvantages/advantages of the way that EU Competence is being applied it's important to avoid placing too much emphasis on the specifics of the way the UK has chosen to implement EU policy in the past. For instance, the UK's Pillar 2 allocation is relatively small in comparison to other Member States for purely historic reasons connected with the way that the UK budget rebate has operated. Also UK Governments can still choose to do a range of things within an overall framework of EU competence. One example of this would be the way that the balance of RDP spending on forestry type measures differs within the UK countries by comparison with Sweden, Finland, Austria etc.

In considering whether or not competence should lie with the EU, it will be important to try and address the counterfactual. In particular, what sort of policies would apply in the absence of EU competence? Comparison with other European countries outside of the EU such as Switzerland, Norway and Iceland would be instructive. In particular, what kind of national measures would be needed in the event that UK agricultural commodities had to reach the animal welfare, food production and environmental standards required for them to enter the EU market?

In addressing these questions it would be helpful to adopt a less value laden analytical framework than the one provided by the consultation questions. A more productive way of looking at where competence is best located could involve looking at a series of issues (such as support for greater agricultural competitiveness or the provision of more environmental public goods) and considering the extent to which EU competence helps or hinders delivery of the policy objectives. Aggregating these kinds of analyses would make it possible to look at more general questions such as should the EU have competence or not.....

Finally, looking at EU competence in agriculture in isolation from other issues, risks neglecting wider political and economic considerations. For instance, agriculture may be something of a pawn during WTO negotiations, at least as far as the EU is concerned¹. Trading off Latin American access to EU agricultural markets in return for greater European access to the service and manufacturing sectors in other trading blocs, is likely to be an advantage to the overall EU economy, even if it appears as a disadvantage when viewed from the perspective of agriculture per se. From a UK perspective, such “strategic” gains are likely to be much more difficult to attain in the absence of the common standards and broader negotiating framework provided by the CAP.

Advantages and disadvantages

2. What evidence is there that the EU approach to agriculture:

i. benefits the UK national interest?

The Common Agricultural Policy (CAP) provides added value through enabling the UK to form part of a larger negotiating bloc in terms of trade production standards e.g. global negotiations such as WTO and those on GHG emissions targets as well as bi-lateral trade negotiations such as Mercosur.

Participation in the CAP ensures that a common framework of regulation and incentive is applied across the entire EU. Such a “level playing field” helps to reduce barriers to trade. For example, a common framework for cross compliance has helped to reduce perceptions that farmers in different parts of the EU would be treated differently in terms of the standards they would need to meet and the penalties they might face if identified as non-compliant. Common standards at EU level avoids the need to devise separate UK production standards that would still be acceptable to EU trading partners

A common European framework ensures that the agricultural sectors within each Member State have access to results of EU wide research programmes (such as Horizon 2020) as well as knowledge transfer systems such as those now being promoted by the European Rural Development Network (ERDN) and the European Innovation Partnership (EIP) processes.

An EU wide approach helps to ensure better consideration of the transboundary issues arising as a result of agricultural production, in particular greenhouse gas emissions and the management of water resources, water quality and biodiversity².

¹ See: <http://www.iatp.org/news/back-to-the-future-with-the-wto-debacle>

² The concept of “EU Added Value” in relation to the CAP and other EU policies has been explored in greater depth by the Institute for European Environmental Policy (IEEP). <http://www.ieep.eu/work-areas/agriculture-and-land-management/future-of-the-cap/2010/07/paper-3-developing-a-more-comprehensive-rationale-for-eu-funding-for-the-environment>

Whilst not all of these transboundary issues are relevant in the context of an island economy such as the UK, the general principle of working in partnership to achieve common goals still holds good in that such an approach reduces the risk of “free-rider” behaviour in which one party minimises its contribution whilst gaining from the contributions made by others. Exactly the same arguments are now being used in the context of developing co-operative approaches to UK agri-environment contracts.

The EU approach to agriculture forms part of a broader approach to setting policy objectives which help to ensure synergy between sustainability, rural development and environmental policies. Through contributing to greater cohesion at EU level, agricultural policy therefore helps to create an improved market for a wider range of UK goods and services.

i. disadvantages the UK national interest?

It can be argued that the so-called “level playing field” in terms of a common approach to regulation and incentive may be a great deal less level than supposed..... Bearing in mind that Pillar 1 and Pillar 2 are applied in very different ways across the EU, agricultural businesses might well have shown a greater tendency to migrate to certain MS in preference to others if only they were more mobile (and could convert assets into capital more quickly). On the other hand, the fact that the CAP is now such a flexible instrument can also be seen as conferring national advantages as well as disadvantages.....

Looking at the overall costs of the CAP in terms of assessing the impact on the UK economy and UK households only makes sense if it is possible to determine the kind of agricultural policy the UK might have in the absence of EU competence i.e. to what extent would market support, direct payments and rural development programmes be available within a UK policy framework? In particular, a large number of UK animal health and welfare standards would be needed in order to ensure that UK products had the same level of access to major trading partners as they do now. Negotiating common UK standards acceptable each of the Devolved Administrations would involve a further level of complexity.

3. Do you think the UK's ability to champion a competitive food and farming sector would benefit from more or less EU action? Please provide evidence or examples to illustrate your point.

No comment.

4. How far do the benefits of access to the single market outweigh the risks to UK biosecurity resulting from the free trade in plant products?

No comment.

5. What evidence is there that current competence over forestry policy:

i. benefits the UK national interest?

ii. disadvantages the UK national interest?

NRW will be submitting separate comments on these issues via the Forestry policy team in the Department of Natural Resources and Food.

Where should decisions be made?

6. How might the UK national interest be better served by action being taken on agriculture and plant health at a different level of governance - either in

addition to or as an alternative to EU action? For example, regionally, nationally or internationally.

In terms of agriculture, decision-making at regional or national level could lead to an erosion of the level playing field in terms of the balance between regulation and incentive and the overall competitiveness of certain types of businesses. For example, the application of different types of regulatory baseline (or different penalties for non-compliance) holds out the possibility of sparking a “race to the bottom” in terms of the standards applied to animal welfare and environmental management. Whilst this might confer some initial advantages in terms of competitiveness, the longer term impacts are much more likely to be negative, not least as European producers will increasingly need to compete on quality at a global level rather than on price.

7. What evidence is there that the balance of decision making between the Council of Ministers and the European Parliament on the areas covered in this report:

i. benefits the UK national interest

ii. disadvantages the UK national interest?

Under the terms of the Lisbon Treaty, the European Parliament (EP) now has powers of co-decision in relation to CAP reform. In terms of its current representation, the EP seems likely to continue to emphasise the need for direct payments under Pillar 1. This contrasts with the previous CAP reform trajectory of seeking to move a greater proportion of the budget into Pillar 2. Recognition of the EP’s position may well have led the European Commissioner down the route of trying to green Pillar 1.

Having examined the range of Pillar 1 greening options now available, most UK Governments now seem likely to place more emphasis on transferring funds into Pillar 2. It can therefore be argued that the current balance of decision making favours maintenance of the current structure of the CAP (in broad terms) whilst acting to slow down moves towards more radical reform. In other circumstances, however, this tendency might be seen as an advantage.....

The external dimension

8. Agreements with non-EU countries (multilateral and bilateral free trade agreements) play a significant role in UK agriculture. How do these agreements and the EU’s role in negotiating them help or hinder the UK national interest?

The key issue is the extent to which the UK would be able to negotiate effectively as a single entity in terms of the various multilateral and bilateral trading agreements currently in existence. There are significant risks associated with negotiating as a “lone player” and it is likely that the UK would need to establish new alliances in order to secure a satisfactory outcome. The establishment of any such new alliances is likely to involve making new kinds of concessions.

In the absence of EU competence, a number of existing rules that appear to emanate from the EU would still apply. For example, the “income foregone plus costs” formula that applies to the calculation of agri-environment payments forms part of the EC Rural Development Regulation, but in reality the RDR is simply repeating the requirements the WTO Green Box.

Single market and economic growth

9. Considering the single Common Market Organisation:

i. How successful are current arrangements in striking the right balance between the goal of a level playing field and the flexibility to meet local and national needs?

ii. How could they be improved?

No comment

10. What evidence is there that access to EU markets and adherence to common standards on agriculture, plant reproductive materials and plant health benefits or hinders UK consumers and businesses both domestically and when exporting abroad?

No comment

11. What evidence can you provide which shows the effect, or lack of effect, of EU biofuel support policies on agricultural commodity markets and food prices?

No comment

Funding

12. How far do rules around support to UK farmers and growers through EU funds help or hinder the UK in meeting its objectives for the sector? You may wish to focus your answer around one or more of these areas specifically (i) direct payments (ii) single common market organisation (iii) rural development.

In terms of rural development, one of the most significant problems is the way in which the European Commission refuses to treat certain activities as being acceptable for co-financing unless they can be verified in a way that is acceptable to EU auditors. This leads to the agri-environment measures placing a much greater emphasis on the need for measurable agricultural activities rather than on the need for specified environmental outcomes. This process then leads in turn to more rigid prescription setting, reduced flexibility and less scope for the deployment of local knowledge.

Whether increased Member State competence would lead to an improvement in this area is likely to depend in large part on the attitude of national auditors. An alternative approach would involve trying to change the nature of the rules from within – and learning lessons from the experience of other Member States.

The various UK Governments operate a number of State Aided schemes in relation to agriculture. For example, Natural Resources Wales currently administers a system of management agreements on Sites of Special Scientific Interest. The scope of these agreements may well be extended under the forthcoming Environment Bill to cover a wider range of situations. The Welsh management agreement programme was notified as a state aid in 1999 under the agri-environment and investment provisions of the Community Guidelines for State Aid in the Agriculture Sector. Whilst changes in the EC Regulations may necessitate re-notification under the State Aid rules, any such process is likely to be much easier than one which involves having to agree a series of state aid rules with other trading partners on a country-by-country basis. Whilst it might well be possible to circumvent such negotiations on the basis of some kind of *de-minimis* rule under which certain types of payments are treated as being exempt, the negotiation of such a rule could in itself prove very time-consuming.

Future challenges and opportunities

13. What future challenges and opportunities do you think will affect sectors discussed in this report?

The challenges facing agriculture from an environmental perspective include resource depletion and a range of climate change induced problems such as more frequent extreme weather events and increasing risks of disease. Safeguarding ecosystem resilience is an essential part of sustainable agriculture. Any future increases in production will be short-lived if underpinning natural systems are degraded through the loss of soil, nutrients and biodiversity as well as reductions in water quality.

Some significant opportunities are emerging as a consequence of the need to adopt more sustainable land management practices. These include enhanced profitability through making better use of scarce resources (in particular nutrients) as well as improvements in market share (for example, through reducing GHG emissions per unit of production). In a world of shrinking resources, good environmental practices and good business management are no longer seen as being mutually exclusive.

At European level, the size of the CAP seems likely to continue to decline as Member States reduce the size of their contributions to the overall EU budget. At the same time, the emphasis within the EU budget is shifting in favour of the Structural Funds in recognition of the EU 2020 Strategy. A third budgetary challenge is likely to arise from ongoing reductions in the aggregate level of agricultural support made available within the EU. Such reductions seem likely to arise as a consequence of global and bilateral trade agreements designed to enable European service and manufacturing industries to achieve greater penetration within US, Latin American and Far Eastern markets.

A combination of budgetary and environmental challenges now seem set to drive greater market orientation in the agricultural sector. Within the EU, both Rural Development Plans and the Structural Funds are likely to assume greater prominence - partly as transitional measures (helping businesses and rural communities to address change) and partly as a way of correcting the consequences of market failure, especially in relation to need to enhance environmental quality.

14. What is the right balance between action at Member State, EU and international levels to address the challenges and opportunities?

An EU level framework provides suitable conditions for negotiating production standards and tariff barriers at international level as well as for ensuring a level playing field exists in terms of trade between Member States. More focus on delivering agreed policy outcomes (rather than seeking to impose ever more rigorous audit rules) would enable different Member States to harvest the benefits of co-operation whilst retaining the flexibility to design support schemes which are best suited to local, regional and national conditions.

The consequences of removing EU competence in agriculture could be dramatic, especially if this led to the complete dismantling of financial support. The impacts of any such shift are likely to be greatest in those areas least well equipped to adopt alternative economic models. For example, a recent study of farmers in the Central and the Midi-Pyrenees regions of France suggested that around 21% of respondents would cease farming altogether in the absence of CAP support. Whilst subsidy may appear detrimental in terms of agricultural competitiveness, in those areas with few

other economic opportunities it contributes to the maintenance of the critical population mass necessary for the provision of a wide range of public services. Dramatic breaks in existing patterns of support may therefore need to be accompanied by specific transitional programmes as well as a strong emphasis on the development of off-farm opportunities³.



Ceri Davies
Executive Director for Knowledge, Strategy & Planning
Cyfarwyddwr Gweithredol Gwybodaeth, Strategaeth a Chynllunio
Cyfoeth Naturiol Cymru / Natural Resources Wales
Ffôn/Tel: (029) 20466045
Ffôn symudol / Mobile: 07818008865
E-bost/E-mail: ceri.davies@cyfoethnaturiolcymru.gov.uk
ceri.davies@naturalresourceswales.gov.uk

³ Latruffe, L, Depuy, A and Desjeux Y, What would farmers strategies be in a no-CAP situation? An illustration from two regions in France. Journal of Rural Studies 32 (2013) 10-25