

AGRICULTURE AND FISHERIES: POLICY REPORT 2001

**Lodged au Greffe on 2nd July 2002
by the Agriculture and Fisheries Committee**



STATES OF JERSEY

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PROPOSITION

THE STATES are asked to decide whether they are of opinion -

- (a) to endorse the future strategy for the agriculture and fisheries industries, as set out in the Policy Report 2001 of the Agriculture and Fisheries Committee, dated 9th August 2001 and, in particular, to approve -
- (1) policies to safeguard and enhance the environment;
 - (2) the policy to improve the marketing of produce;
 - (3) policies to provide direct financial support;
 - (4) policies to provide infrastructure and support services;
 - (5) the continued provision of a legal framework and related statutory services;
 - (6) policies to support the fisheries industry;
- (b) to endorse the recommendation of the Agriculture and Fisheries Committee that additional funding, additional to the 2002 funding, amounting to £2.574 million should be granted, as indicated below, for Year of the 3-year funding programme set out in Annex 1 of the accompanying Report.

(i)	Direct Financial Support for the dairy sector	£65,000
(ii)	Direct Financial Support for the outdoor cropping sector	£88,000
(iii)	Direct Financial Support for the protected cropping sector	350,000

(iv)	Interest subsidies	292,000
(v)	Support for improvement of marketing	200,000
(vi)	Safeguarding and enhancing the environment	700,000
(vii)	Provision of support and statutory services (reduction)	(161,000)
(viii)	Support for the fisheries industry	40,000
(ix)	Closure of the enterprise support policy	1,000,000
(x)	Net additional funding	2,574,000

- (c) to endorse the recommendation of the Agriculture and Fisheries Committee that funding for subsequent years be reduced as indicated in Annex A and should be subject to Biennial Reviews; and
- (d) to request the Finance and Economics Committee to make the necessary funding available as soon as possible to enable full implementation of the new policies.

AGRICULTURE AND FISHERIES COMMITTEE

REPORT

This Report provides background to the Proposition and in particular explains the Agriculture and Fisheries Committee's revised funding proposals with regard to the policies contained in the Policy Report 2001. States members will be aware that a Review Group was set up in February 2002 to review the Agriculture and Fisheries Committee's Policy Report 2001 in the light of the issues raised by the Policy and Resources Committee and the Finance and Economics Committee in February 2002.

The Agriculture and Fisheries Committee welcomes the Report of the Review Group published in June 2002 and appreciates the work undertaken to review the Committee's proposals in the Policy Report 2001 and the rationale for them. The Committee believes that the Review Group's report provides the necessary independent critique of the policy proposals that should give members of the States confidence when these proposals are debated.

The Committee endorses and draws particular attention to the comment of the Chairman of the Review Group in his Foreword -

“There is no doubt that without help the rapid decline of the industry, in whole or in part, is certain. Unless the playing field is levelled with additional funding in the immediate future, the prospects for farming as a whole are bleak.”

On this point, and on a great many others, the Committee finds a high level of agreement with the Review Group's analysis and conclusions.

With regard to the proposed ***framework of policies*** (as set out in Section 10 of the Policy Report) there are no areas of disagreement. The Committee does not, therefore, propose to change this framework.

With regard to the ***level of funding*** needed in future to implement the policies successfully the Review Group has, however, raised a number of questions and has been mindful of the need for financial constraint at a time when the Jersey economy as a whole is under pressure. The Committee notes, and agrees, the Review Group's comments that confirm the inadequacy of funding since 1993 -

“Had support at the levels agreed in 1993 been given in subsequent years (adjusted for inflation) the industry would today be in a healthy state.”

The Agriculture and Fisheries Committee fully recognises the need for financial constraint. With this in mind, and as a year has passed and some elements of the industry's circumstances have changed since the Policy Report was completed, the Committee has now reviewed its funding proposals in detail. The Committee believes that the case for increased funding is overwhelming, as confirmed by the comments of the Review Group quoted above.

This Report now summarises the Committee's revised funding proposals (A.) and seeks to put them into perspective in terms of States expenditure, historical trends and comparisons with other countries (B.).

A. THE COMMITTEE'S REVISED FUNDING PROPOSALS (summarised in Annex 1)

It is necessary at the outset to respond to the frequently heard assertion that the extra funds needed by the industry could be made available by 'cutting the costs of the Department'. In fact 90% of the Department's manpower is deployed to the provision of support services and regulatory functions - which reflect Committee policies and on which the industry depends. Cutting the costs of the Department would therefore mean cutting services (such as the abattoir, AI service, etc.). The industry cannot survive without the services, so it would be obliged to pay for them itself - but analysis of farming profitability shows that they could not afford to do so. On this subject the Review Group concluded -

“Further analysis suggests that any savings are likely to be illusory.”

There is no 'easy option' here.

Direct financial support

The revised proposals take into account the comments of the Review Group, the latest information available about the

financial circumstances of the industry sectors and the need to constrain government spending as a whole. It is proposed that all Direct Financial Support payments will become conditional on adequate participation in the Agri-Environment Scheme.

For the dairy sector as a whole the Committee proposes an increase in direct financial support of £65,000. This takes into account both the recent sharp decline in profitability for dairy farmers and the reduced size of the industry as a result of the Dairy Industry Restructuring Scheme. The Committee believes that the increased level of support from government, alongside the financial improvements for the sector as a whole that should flow from the recent and proposed industry downsizing, can restore profitability for dairy farmers in the near future.

For the outdoor cropping sector the Committee proposes a small increase in support of £88,000 to underpin the sector while it adapts to new market conditions and seeks to diversify its production. This increase in Direct Financial Support (compared with the average support in recent years) should be considered alongside the significant increase the Committee proposes in the funding to support new marketing initiatives (see below). The Committee believes that this sector has good opportunities to increase net returns from the marketplace and to improve profitability significantly in this way.

For the protected cropping sector the Committee proposes a significant increase in support of £350,000 (compared with the average over recent years), to take account of the serious erosion of States support over a long period and the urgent need to address economic disadvantage compared with overseas competitors.

With regard to interest subsidies, the Committee proposes increasing the level of subsidy by £292,000 in order to restore the advantageous terms that were originally intended from this policy but which no longer exist. This support is targeted, by its very nature, to support the continuing investment necessary for the industry to remain competitive.

Outcomes and benefits expected: Taken together these measures will certainly improve profitability and so help to restore farmers' confidence in the future of the industry. This is a prerequisite for commitment to the technical innovation and marketing initiatives on which the future viability of the industry depends, to encouraging new entrants to the industry and to orderly business succession. Many other factors influence profitability, not least market prices and changes in operating costs, so that it is not possible to be precise about the effect on profitability of increases in Direct Financial Support.

Support for marketing

The Committee proposes to increase the funding available for this purpose by £200,000 and to refocus the allocation of funding by means of a new **Marketing Support Scheme**. This is intended to focus support on new market and product development initiatives in partnership with the industry. This is a key element in the policy framework.

Outcomes and benefits expected: Over a three-year period the Committee expects to see a significant improvement in marketing activity, reflected in enhancement of direct and indirect returns to farmers and growers. The increased funding will enable more marketing initiatives to be funded, for all sectors, so increasing returns from the marketplace and reducing dependence on Direct Financial Support. The Committee expects to see more dynamic, effective and efficient marketing, more local produce marketed within the Island, and a range of new initiatives for each of which specific outcomes would be expected and would be monitored. The potential benefits can be illustrated by the fact that an extra 1p per lb net return to potato growers (less than 4% increase) would add about £800,000 to their total revenue.

Protection and enhancement of the environment

The Committee proposes to launch the new Agri-Environment Scheme, on a phased basis, with funding in Year 1 of £700,000, increasing in Year 2 to £1.5 million to enable the full range of measures to be implemented. The main costs of the Scheme are associated with measures to reduce the risk of pollution from agricultural sources - from the application of slurry to farm land and from nitrate fertilisers. This new policy reflects the high priority now given to environmental measures in agricultural policies throughout Europe. It is also directly linked to the provision of Direct Financial Support, through conditionality.

Outcomes and benefits expected: The benefits will be directly related to the measures available under the Scheme that farmers choose to undertake. They will include improvements to the visible landscape, increased biodiversity and wildlife, reduced risk of pollution from agricultural sources, less intensive farming (including more organic production) and increased access to the countryside. Although quantifying these benefits is difficult, the Committee expects, with regard to reducing risks of pollution, that within 3 years all livestock farmers will have facilities that virtually eliminate the risk of pollution from animal slurry, and that reduced applications of nitrate fertilisers will be reflected in steadily reducing levels of nitrates in water. Recent scientific studies show that the latter is difficult to predict, but the Committee is confident that within 5 years of implementation of the policy the measurements of water quality will show an improving trend and that within 10 years Jersey is unlikely to be at risk of breaching international guidelines on water quality.

Provision of support and statutory services

A **reduction** in funding of £161,000 is proposed for Year 1, and of £261,000 for Year 2 and subsequent years. The reductions are to be achieved through a combination of scaling down some services, transferring operational responsibility for others to the industry, and increasing charges. This will allow the Department's manpower to be reduced by at least 25%. It should be noted that about 90% of the Department's manpower is deployed to the provision of services on which the industry's operations depend.

Outcomes and benefits expected: The benefits will flow from the industry taking greater responsibility and from an increase in charges. These changes will apply pressure on the services and this will result in improved cost-effectiveness and value for money. The Department will be smaller, providing fewer services but more strategic guidance and support, and the cost of providing services will be reduced by at least £250,000 per annum. The industry will be enjoying a supportive legal and regulatory environment, achieving high standards of animal welfare, and it will be complying with the Island's trading obligations.

Support for the fisheries industry

The Committee proposes a small increase in funding, of £40,000 to enable an enhanced protection role to conserve fish stocks and to provide support for the economic development of the local industry.

Outcomes and benefits expected: Apart from the benefits from enhanced protection activity to conserve fish stocks, we expect the industry to benefit financially from increased awareness of market opportunities.

Closure of the enterprise support policy

The Committee proposes to close this policy in Year 1. The policy has always involved payments (usually in February) to growers in relation to crop production in the **previous** year. It should be noted that up to and including 1996 the payments were made from a provision in the budget for 'current' year i.e. the year of production. Since 1997, however, the payments have been made from the budget for the year in which the payments have been made i.e. the following year. This means that in order to close the policy (in Year 1) the Committee has to make the payments (for the previous year) from the budget for Year 1. The Committee proposes in future to make the support (area) payments, on a phased basis, **during** the year of production.

Total funding

The net increase in funding for Year 1, based on the above details, is £2.574 million, of which £1 million would be for the closure of the enterprise support policy. The net increase in funding for Year 2 would be £2.274. The first Biennial Review would be undertaken in time to influence funding for Years 3 and 4.

B. THE COMMITTEE'S FUNDING PROPOSALS IN PERSPECTIVE

(a) The Committee's budget as a proportion of total States expenditure

The following table shows that the Agriculture and Fisheries budget has declined significantly as a proportion of the total States budget. The table reflects the fact that the industry has become a smaller proportion of the total economy as other business activity has grown.

Net Revenue £ million	A&F Budget £ million	Total States (*) £ million	A&F as percentage
1973	0.49	10.50	4.6
1983	3.18	60.63	5.2
1993	7.73	172.03	4.5
2001	8.09	323.55	2.5
2002	8.14	360.99	2.3
Year 1	10.71	?	3.0 (% of 2002)

* The figures for 1973 and 1983 in the table were not produced on exactly the same basis, but are broadly comparable with 1993-2002.

The Committee proposes an increased budget for Year 1, to address economic disadvantage and to introduce new policies followed by a gradual reduction. For Year 1 the Agriculture and Fisheries budget would become approximately 3% of the total States budget.

The trends for the States and the Committee's net revenue budgets are shown in Annex 2. The chart shows clearly the increasing trend for States expenditure, in both current and real terms (i.e. adjusted by the changes in the retail price index), whereas the Committee's budget has been flat in current terms and declining significantly in real terms. **Since 1993 the States total budget has increased in real terms by 40%, whereas the Agriculture and Fisheries Committee's budget has declined by 20%.** Moreover, during this period the Committee has taken on some additional responsibilities.

(b) International comparisons concerning aid for agriculture

Agricultural industries throughout the world receive significant direct and indirect aid. The purpose of this aid is mainly to sustain agriculture locally where it is perceived that unfettered market forces would destroy or significantly undermine local agriculture. By common consent the level of aid in the western economies is too high, and a consequence is damage to economies in other countries that depend more on agricultural exports. Attempts have been made, over several decades, to reach multilateral agreements to reduce the level of aid, and some progress has been made. The level of aid/protection in most western economies, however, remains high and there are no indications that this situation will change quickly in future. Meanwhile, if an individual country decides to act unilaterally by reducing aid to its own agriculture, there is a high risk that its agriculture will become uncompetitive and will decline. A reduction in aid can, of course, be achieved quickly by cutting budgets, or more slowly, as in Jersey, by ignoring inflation and so allowing the value of the budget to decline in real terms.

The OECD publishes 'producer subsidy equivalents' (PSEs) which measure the aggregate assistance given to farmers. PSE is calculated by totaling the value of price supports, direct payments, indirect support and other transfers to agricultural producers. Percentage PSE is a measure of the rate of assistance to producers expressed as a percentage of the total production, valued at internal (local) prices.

OECD PRODUCER SUBSIDY EQUIVALENTS (percentages)

	86-88	92-94	95	96	97	98	99	2000
All OECD	45	42	40	35	32	37	40	34
E.U.	48	48	49	43	38	45	49	38
U.S.	30	21	13	15	14	22	24	22
Switzerland	79	80	79	77	68	73	73	71
Japan	73	74	76	71	61	63	65	64

The table shows, for example, that in 1998 farmers in the E.U. received 45% of their total 'revenue' from support of one kind or another.

How does Jersey compare? PSEs for Jersey have not been calculated, but can be roughly estimated, for 2001, to be well below 20% for the agriculture industry as a whole. Information is not available separately for the U.K., but their PSE is unlikely to be significantly different to that for the EU as a whole.

This data demonstrates that support for agriculture in Jersey is significantly lower than in the E.U. and many other developed countries. The Committee's proposals would increase the PSE in the short term (to less than 25%), but it could be expected to decline again thereafter.

(c) The need of the industry for increased Direct Financial Support

The purpose of Direct Financial Support is to address -

- (1) **economic disadvantage** - the difference in the costs of production and marketing compared with competitors (mainly the U.K.); and
- (2) the need for **a sufficient level of profitability to ensure viability** of individual businesses.

All sectors of the industry have suffered increased costs since 1993 and competitiveness has been weakened by the higher rate of inflation prevailing in Jersey compared with the U.K. At the same time the level of Direct Financial Support has been reducing - by 25% overall, but by more than 35% for the cropping sectors. The sectors are currently suffering low profitability and this is partly a consequence of this reduction in Direct Financial Support. The latest estimates of profitability indicate that dairy farmers are barely in profit in 2002; outdoor cropping is experiencing another poor year (after good results in 2001) and is only marginally profitable; protected cropping is experiencing a better year than 2001, but profitability will again be much lower than needed to maintain viable businesses. The objective in increasing Direct Financial Support is therefore to address economic disadvantage in order to give the sectors the opportunity to compete and to help restore adequate profitability. The increase would not insulate the sectors, or individual growers, against competition, and so it would not protect the inefficient, but it would give the local industry the chance to compete on something akin to a level playing field.

(d) The Committee's revised funding proposals compared with the Policy Report 2001

£ million	Year 1	Year 2	Year 3
Policy Report 2001	12.120	11.050	10.500
Revised funding proposals	9.709	10.409	10.209
Closure of enterprise support	1.000		
Total	10.709	10.409	10.209

In conclusion

The Committee confirms its view that the proper aim for government in relation to the agriculture and fisheries industries is to achieve, through its policies, an economic environment in which those involved in the industries can develop their businesses on a commercial basis, responsive to market forces.

The Committee's aim is therefore -

To achieve, by implementation of appropriate policies, an economic environment for the agriculture and fisheries industries, in which competent entrepreneurs can maintain viable businesses, consistent with satisfying the reasonable demands of society with regard to safeguarding the environment and satisfying relevant statutory provisions.

Based on this aim **the Committee's strategic objectives are** -

1. To ensure that the industries address positively the public interests in countryside and marine environmental issues.
2. To achieve effective and efficient marketing by the industries.
3. To maintain economically competitive industries.
4. To maintain the infrastructure of the industries.
5. To maintain a satisfactory legal and regulatory framework.

The Committee fully recognises the need for the industries to adapt to changing circumstances and to respond to new opportunities. The Committee's role is to facilitate and encourage the industry's development, while at the same time underpinning the industry by means of appropriate support policies that aim to achieve a 'level playing field'. The Committee

is convinced that the proposed framework of policies will enable this to happen, provided that sufficient funding is made available to enable the policies to be implemented.

An important element in the Committee's proposals is encouragement of the industry to take greater responsibility for its future development, for example with regard to marketing and the provision of support services. At the same time the Committee also recognises that the agriculture industry in Jersey is extremely small by international standards and that the practical and pragmatic way forward is to develop a close working relationship between the industry and government. The establishment of an Agriculture and Fisheries Advisory Board, as proposed earlier by the dairy sector as part of its 10 point plan (see Annex 3) will be important in developing this working relationship. The Committee agreed the ten points in principle and is committed to establishing the Advisory Board as an early priority.

Perhaps the most important element in the Committee's proposals is the introduction of the Agri-Environment Scheme, and the link (conditionality) between it and the receipt by farmers of direct financial support. The Committee expects a very high level of participation by farmers and growers and that the benefits will include not only visible improvements to the countryside and greater access to it. Benefits will also include increased biodiversity and wildlife, and much reduced risks of pollution from agricultural sources. This will result in an enhanced reputation for the industry, its products, and the Island that will bring tangible benefits to the economy as a whole.

THE DAIRY SECTOR'S 10 POINT PLAN

'Support for active management, by farmers, of the Jersey countryside through a clearly defined land use policy.'

- (1) **Land classification:** Introduction of a system of land classification, or grading, in relation to quality and use. This will also assist the Planning and Environment Committee with its policies as outlined in the 'Island Plan'.
- (2) **Countryside Management Agreements:** Introduction of management agreements, CMAs, between government and farmers to ensure management to accepted standards of environmental 'best practice'. CMAs will be independently audited on a regular basis, as is common practice with the product based farm assurance schemes, which are simple to administer.
- (3) **Financial support:** Financial recognition of the value of CMAs by government as a support payment to the industry for the delivery of 'public goods' and the phasing in of payment decoupled from production.
- (4) **Financial information:** The industry will introduce a system of independently audited aggregate financial reports, using data from all producers to enable government to assess the level of financial support required to ensure sustainability.

'Securing a future for the Jersey cow in its Island home.'

- (5) **Improvement and promotion of the breed:** Support for the initiatives designed to maintain and improve the breed is essential for the long-term health of the island herd. Recognition of the value of the breed to the Island through support for initiatives that bring international recognition and encourage visitors to the Island, thus supporting tourism. These initiatives include, for example, cattle shows, the World Jersey Cattle Bureau and publicity etc.

'Support for restructuring the industry to maximise efficiency to ensure best value for the consumer.'

- (6) **Capital investment:** To ensure that the industry maintains a sound infrastructure and continues to invest for the future, enact a reduction in the agricultural borrowing rate with the ability for the restructuring of current loans. Special terms should be available for investments that do not contribute to profitability but do bring environmental benefits.
- (7) **Industry structure:** The establishment of an effective scheme to facilitate the necessary entry and exit of producers to and from the industry. This would, for example, include preferential terms on loans to young farmers, re-training grants etc.
- (8) **Marketing structure:** Support grants should be available for projects that bring clear benefits to primary producers, in line with current E.U. support.

'The re-alignment of government activities and services to ensure best value to the public purse'

- (9) **Support services:** A thorough evaluation of the support services delivered to the industry should be undertaken to ensure the most efficient delivery and best value to the public purse, taking account of principles of 'user pays' and 'industry provision' where appropriate.
- (10) **Agricultural Advisory Body:** The establishment of a body with membership elected from the representatives of the industry to sit with the Agriculture and Fisheries Committee to enable policy formulation and implementation in a real and effective partnership.