

AGRICULTURE AND FISHERIES: POLICY REPORT 2001 (P.126/2001) - AMENDMENTS

**Lodged au Greffe on 18th December 2001
by the Agriculture and Fisheries Committee**



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For paragraph (b) of the proposition substitute the following paragraphs -

- “(b) to request the Finance and Economics Committee to set up an Agri-Environment and Marketing Development Fund in the sum of £10.7 million, which includes the funding of Organic Waste Recycling (composting) in the sum of £700,000 each year in 2002 and 2003, to enable the policies in sub-paragraphs (i) and (ii) of paragraph (a) to be funded over a period of three years commencing in 2002;

- (c) to agree that the policies and provision in sub-paragraphs (iii), (iv), (v) and (vi) of paragraph (a) be funded from the Agriculture and Fisheries Committee cash limits.”

AGRICULTURE AND FISHERIES COMMITTEE

REPORT

This Report summarises a proposed amendment and two additional commitments by the Committee. It also summarises the issues that have led to the amendment and to the additional commitments. The Report also includes three Appendices - the rationale for the proposed level of funding (Appendix 1); the 10 Point Plan developed by the dairy sector (Appendix 2); and chart showing net revenue budgets since 1993 (Appendix 3).

The proposed amendment

1. To establish an **'Agri-Environmental and Marketing Development Fund'** in the sum of £10.7 million.

This would provide the funding for an Agri-Environment Scheme and a Marketing Support Scheme, as described in the Policy Report, and would enable Organic Waste Recycling (composting) to be funded for the years 2002 and 2003.

2. To fund all the other policies from the Committee's existing cash limit, i.e. direct financial support; the provision of infrastructure and support services; the provision of a legal framework and related statutory services; policies to support the fisheries industry. For the year 2004, funding for composting would be provided from the cash limit.

Additional commitments

The Committee also proposes -

1. To establish an Agriculture and Fisheries Advisory Body, to include representation of all industry sectors and with terms of reference to advise on policy issues, as an early priority.
2. With regard to the Agriculture and Fisheries Department -
 - (a) to reduce the manpower of the Department by at least 25 per cent;
 - (b) to examine all the services provided with regard to efficiency and value for money;
 - (c) to reduce the costs of provision of services by at least £0.75 million over three years, and that such savings, as soon as they are able to be implemented, would result in a reduction of the cash limit. (The timing of implementation will largely depend on the States policies on outsourcing being properly agreed and in place.)

The issues leading to the proposed amendment and to the additional commitments

Since the Policy Report was published in August 2001 the Agriculture and Fisheries Committee has been in intensive discussions with representatives of the industries and with the Policy and Resources and Finance and Economics Committees. A number of issues and concerns have been discussed, as summarised below.

1. The proposed level of financial support Do the industries actually need the increased level of financial support proposed and what benefits can the Island expect from the increased support?

The Committee, having examined the current profitability and trend for each sector of the industry, is convinced that this support is needed and that the Island will receive substantial benefits. The rationale and the benefits are summarised in Appendix 1.

2. Funding the policies How would any increased funding be structured to ensure that best value principles are adhered to?

The Committee proposes an Agri-Environmental and Marketing Development Fund in the sum of £10.7 million for three years, commencing in 2002.

The Agri-Environmental Scheme will require a financial contribution from participating farmers and growers and will deliver considerable 'environmental goods' as identified in the OPM Report. All funding areas will be agreed with the Treasury prior to the launch of the Scheme.

The Marketing Support Scheme will be used to develop marketing initiatives designed to increase the profitability of the sectors (as described in Section 10 of the Policy Report). All applications will be assessed by an independent

Panel, comprising people with business experience, which will make recommendations to the Committee. The guidelines will be agreed with the Treasury prior to implementation.

3. Size and cost of the Agriculture and Fisheries Department To what extent could the Department be reduced in size and financial savings be achieved?

The Committee proposes -

- (a) to reduce the manpower of the Department by at least 25 per cent. This will require assistance from the Policy and Resources, Human Resources and possibly Finance and Economics Committees with regard to implementation issues (outsourcing and costs);*
- (b) to examine all services provided by the Department with regard to efficiency and value for money;*
- (c) to reduce the cost of provision of services by at least £0.75 million over three years. This will be achieved through a range of measures including the termination or scaling down of some services, the transfer of some services to other departments or organisations, and the development of the 'user pays' principle as appropriate.*

4. Support from the industries To what extent do the industries and sectors support the proposed policies?

The Fisheries industry and the cropping sectors of the agriculture industry have declared their full support for the policies. The dairy sector have put forward a 10 Point Plan (see Appendix 2) as the basis for their support. At its meeting on 6th November 2001 the Committee agreed all ten points in principle, and in particular is committed to establishing, as an early priority, an Agriculture and Fisheries Advisory Body to include all sectors of the industry and to advise on policy issues.

5. Vision of the future structure of Jersey's agriculture Is the strategy simply aiming to maintain the current industry structure and practices through increased subsidies?

No. It is a strategy for change, but which aims to sustain an industry and a countryside that is fundamental to the nature of the Island.

The strategy is not proposing 'standing still' or propping up the industry, but is encouraging restructuring to improve economic performance and business profitability, to enable new entrants to the industry and orderly business transfer and succession. It is not proposing a transition to industrialised farming, because this would threaten both the environment of the Island and its fundamental characteristics, such as small fields and abundant hedgerows - examples of the Island's heritage (see also 'benefits' in Appendix 1).

BACKGROUND INFORMATION

(a) Historical perspective

The table shows the Agriculture and Fisheries Committee's budget as a proportion of total States expenditure.

Net Revenue	Agriculture and Fisheries Budget £ million	Total States £ million	Agriculture and Fisheries as percentage
1973	0.49	8.55	5.8
1983	3.18	57.01	5.6
1993	7.73	180.37	4.3
2001	8.09	294.57	2.7
2002 proposal	11.12*	333.69	3.3

* Excludes £1 million direct aid payable for the 2001 season as the conclusion to the enterprise support policy.

It can be seen that the Agriculture and Fisheries budget has declined significantly as a percentage of the States budget. The strategy proposes an increased budget for 2002, to address economic disadvantage and to introduce new policies, followed by a gradual reduction.

The trends for the States and the Agriculture and Fisheries Committee's net revenue budgets are shown at Appendix 3. The chart shows clearly the increasing trend for States expenditure, in both money and real terms (i.e. adjusted by the changes in the retail price index), whereas the Agriculture and Fisheries budget has been flat in money terms and declining significantly in real terms.

(b) International comparisons concerning aid for agriculture

Agricultural industries throughout the world receive significant direct and indirect aid. The OECD publishes 'producer subsidy equivalents' (PSEs), which measure aggregate government assistance to farmers. PSE is calculated by totalling the value of price supports, direct payments, 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 prices.

OECD Producer Subsidy Equivalents (percentages)

	86-88	92-94	95	96	97	(later years not available)
All OECD	45	42	40	35	35	
EU	48	48	49	43	42	
United States	30	21	13	15	16	
Switzerland	79	80	79	77	76	
Japan	73	74	76	71	69	

This means, for example, that in 1997 farmers in the European Union received 42 per cent of their total revenue from 'support' of one kind or another.

How does Jersey compare? PSEs for Jersey have not been calculated. However, a comparable figure for 2001 is likely to be about **20 per cent** for the agricultural industry as a whole. This information is not available for the United Kingdom, but OXERA have referred to a PSE of 50 per cent currently for the United Kingdom.

*Total support for agriculture in Jersey is significantly **lower** than in the European Union.* The strategy would increase the PSE for Jersey in the short term (about 25 per cent in 2002), but it would decline again thereafter.

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

The purpose of Direct Financial Support (DFS) is to address:

1. Economic disadvantage - the difference in costs of production and marketing compared with competitors; 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 further weakened by the higher rate of cost inflation prevailing in Jersey compared with the United Kingdom. **At the same time the level of DFS has been reducing - by 25 per cent overall, but by more than 35 per cent for the cropping sectors.** The objective, in increasing DFS, is therefore to address this economic disadvantage and so to give the sectors the opportunity to compete. The increase would not protect the sectors, or individual farmers and growers against competition, and so would not protect the inefficient.

(d) The costs of the new policies and the scope for economies

For details see Section 10 and Annexes B and C of the Policy Report.

Environmental services (composting etc.): The costs are planned (in the Policy Report) to remain at current levels. The cost to the Agriculture and Fisheries budget could be reduced by transferring all or some of the services to other departments - but this would achieve no savings for the States. The cost to the States could be reduced only by reducing the scale of the services and/or by introducing charges. This would effectively be transferring costs to the users (farmers, growers and the general public) and the consequence would be increased risks to the environment.

Agri-Environment Scheme: The cost of the new Scheme is planned to be £0.7 million in 2002, increasing to £1.8 million in 2003 and declining gradually thereafter. The main costs of the Scheme are associated with measures to address potential pollution from agricultural sources - application of slurry to farm land and of nitrate fertilisers to Jersey Royals. The cost could be reduced by scaling down the Scheme, but the consequence would be slower progress in reducing nitrates in water, continuing risks of pollution, and a reduction of other measures to protect and enhance the environment.

Support for marketing: The cost of support is planned to increase in 2002 to £1.8 million (from £1.27 million in 2001) and then to reduce gradually thereafter. The Scheme will enable more marketing initiatives to be funded, for all sectors, so increasing returns from the marketplace and reducing dependence on Direct Financial Support. Any reduction in cost would mean fewer marketing initiatives and less progress in achieving increased returns from the marketplace.

Direct Financial Support: The cost of DFS in 2001 is about £2.49 million, of which about £1 million is paid to the dairy sector (seasonality premium), £1.1 million to the cropping sector (enterprise support), with the balance funding interest rate subsidies on loans. For 2002 the cost is planned to increase to £3.81 million, with an increase in interest subsidies and the balance being paid as headage and area payments. From 2003 onwards the cost of DFS would gradually be reduced, to £3 million in 2006. All DFS payments would become conditional on adequate participation in the Agri-Environment Scheme.

Provision of infrastructure and support services: These services are normally (in larger countries) provided by the private sector, but the industry is too small in Jersey to sustain private sector provision. For this reason they are provided by the Department, with substantial States subsidy. The cost of the services is planned to increase from £1.5 million in 2001 to £1.76 million in 2002 (to cover overdue refurbishment of infrastructure) and then to decline gradually, to £1.3 million in 2006, by increasing charges for services. As a result of recent reconsideration of the services and their costs, it is now proposed to reduce the total cost by at least £0.75 million over a period of three years. This will be achieved through a combination of scaling down some services, transferring operational responsibility for others to the industry, and increasing charges. This will allow Department manpower to be reduced by at least 25 per cent over this period.

Statutory policies: The cost in 2001 is about £0.7 million. For 2002 and beyond a small increase is planned, to £0.8 million to take into account both additional work arising from new legislation and also some reduction in the scale of other statutory/regulatory work.

Policies with regard to Fisheries: The cost in 2001 is about £0.28 million. For 2002 and beyond the plan is to increase expenditure to about £0.35 million to take into account new policies to encourage improved marketing and improved economic performance.

(e) Benefits to be expected from the new policies

The benefits will include -

- Improved profitability and viability of individual businesses, providing opportunities for new entrants and allowing orderly business succession.

- An innovative, technically efficient and fully competitive industry.
- Reduced indebtedness of the industry.
- An industry based on family farm businesses rather than industrialised agriculture.
- More dynamic, effective and efficient marketing of Jersey produce, achieving improved returns from the marketplace.
- More local produce marketed within the Island.
- A united approach to marketing Jersey produce in overseas markets.
- All industry sectors responsive to market requirements, aiming for high quality produce and premium prices.
- Industry more responsible for managing its own affairs, such as marketing and the provision of support services.
- Greater protection and enhancement of the environment of the Island as affected by agriculture (biodiversity, wildlife, landscape features, access etc.).
- Greater diversity of cropping.
- Less intensive farming practices generally, and more organic production.
- Reduced risks of pollution from agricultural sources, including reduced nitrates in water.
- Smaller and more focused Department of Agriculture, providing fewer services and greater strategic guidance and support to the industry sectors.
- An industry enjoying a supportive legal and regulatory environment.
- An industry achieving high standards of animal welfare.
- An industry complying with the Island's trade obligations.

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 de-coupled 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 European Union 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.

