

Chief Executive
Policy & Resources Department



HUMAN RESOURCES COMMITTEE

24th January 2002

Agriculture and
Fisheries:
Policy Report
2001
(P.126/2001)
Amendments -
comment.
1331/11(52)

C.E.
A.F.C.(2)
T.O.S.
C.I.Aud.
C.E., P&R
P.R.E.O.
P.R.C.C.

A3. The Committee, with reference to its Act No. B4 of 10th September 2001, considered a report dated January 2002, from the Chief Executive Officer concerning the "Agriculture and Fisheries: Policy Report 2001 (P.126/2001) - Amendments" and a suggestion as to how the Committee might wish to comment thereon.

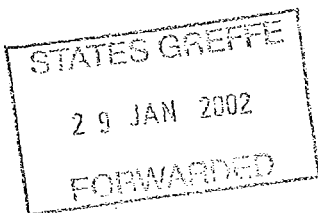
The Committee, having recalled that its views had not been sought on P.126/2001 as the Agriculture and Fisheries Committee had considered that the original projet had no manpower implications, further recalled the comment it had made. However, it was clear that there were manpower implications arising from the amendments proposed by the Agriculture and Fisheries Committee, by which it undertook to address the "size and cost of the Agriculture and Fisheries Department" and, in particular, "to reduce the manpower of the Department by at least 25 per cent." The Committee further noted that the Report of the Agriculture and Fisheries Committee went on to propose a reduction in the cost of provision of services by at least £0.75 million over three years. This would 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.

The Committee decided to comment on the proposition, as follows -

"Whilst the Human Resources Committee would welcome any considered proposal to reduce staff in a States department, and will most certainly lend support to the Agriculture and Fisheries Committee 'to examine all services provided by the Department with regard to efficiency and value for money', the Human Resources Committee is obliged to draw attention to the following -

- (i) there is insufficient detail in the Report concerning the proposal to reduce manpower by at least 25 per cent on which the Committee could comment;
- (ii) transferring some services, with staff, to other States departments does not reduce overall States manpower;
- (iii) it will be difficult to transfer services to non-States organisations until an outsourcing framework had been introduced; and
- (iv) as at the date of publication of the amendment, there had not been any meaningful consultation with the Trade Unions and Staff Associations on the proposals to reduce staff."

The Greffier of the States was directed to make the necessary arrangements for the Committee's comment to be presented to the States, and to send a copy of this Act to the Agriculture and Fisheries, Finance and Economics and Policy and Resources Committees.



CM Redmond
Greffier of the States

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POLICY & RESOURCES DEPARTMENT

MEMORANDUM

TO: PRESIDENT LE SUEUR

FROM: ROBERT BUSHELL

SUBJECT: AGRICULTURE: NEW WORKING PARTY UNDER
CHAIRMANSHIP OF JURAT NICHOLAS HERBERT

COPY: SENATOR HORSFALL
SENATOR WALKER
JOHN MILLS
IAN BLACK
DEPUTY VOISIN
MICHAEL ROMERIL
ELLEN LITTLECHILD

DATE: 20TH FEBRUARY 2002

I promised to provide a briefing note which would set out the principal P&R reservations with respect to the Report and Proposition (jointly the "Policy Report") which was lodged by the Agriculture and Fisheries Committee on the future of agriculture in Jersey. I have tried to represent the views of both P&R and F&E, since their views are not far apart.

The briefing note is attached. I saw in your note that the next meeting of the Working Party is scheduled to take place during the afternoon of 28th February. I am afraid that I shall be attending a meeting of the Audit Committee during that afternoon, from 1515 hours, but would be very happy to attend any of the meetings which you have scheduled for March.

ROBERT BUSHELL
ECONOMIC ADVISER
(Direct Line: 01534 603424)

BRIEFING NOTE

POLICY AND RESOURCES COMMITTEE

POLICY REPORT FROM THE AGRICULTURE AND FISHERIES COMMITTEE: KEY P&R CONCERNS WITH RESPECT TO THAT REPORT

P&R and F&E welcome the general principles set out in the A&F Report, particularly on the environment...

The general principle of providing financial aid to agriculture is certainly agreed. The idea of an Agri-Environmental Programme is consistent with developments in Europe. Agriculture plays a key role in Island culture and in shaping the Island countryside. It is a major element in the Island's quality of life. The countryside should be preserved and the agricultural community is well placed to do an important part of that job. The principle of public funding is accepted, though this has to be consistent with broader economic policy. The proposed movement away from production-related subsidies towards a Programme to include environmental outputs is welcomed.

...but any development of the principles in the A&F Programme should involve a much more rigorous approach

The Report and Proposition contains some important statements of principle. But A&F are proposing a major break with the past in terms of States support and policy towards agriculture. This is of considerable importance to all the people in the Island and should involve much careful thought and analysis. It should involve a working dialogue between the A&F Committee and those other States Committees with a major interest in economic and environmental policy in the Island. Objectives should be crystal clear and should be agreed by all stakeholders. There should be a mutual understanding of what the States would be trying to achieve with respect to agriculture, and wider economic and environmental policies, if it were to adopt these proposals.

Spending on agriculture has to be funded within existing cash limits...

The A&F Committee is proposing an increase in support for the industry of about £15 million over a 5 year period, compared to current provision. The Island is already facing a major deficit in its budget figures and there is no additional money available for further spending on agriculture during the planning period. Even if the structure of the new Programme were accepted as it stands, the first priority would have to be to fund it within existing cash limits agreed by the States for agriculture and fisheries.

...or by taking money away from another Committee

Alternatively, it might be decided that a request for additional money to fund agriculture and fisheries could be met through the diversion of resources away from other spending Committees. This could only be done through the priorities process. F&E is currently developing this process in consultation with other Committees. This diversion would have to be justified through proper analysis of the benefits to the Island from the A&F proposals, compared against other activities/outputs in and from other Departments. The wider economic effects would have to be assessed. The Report from A&F as it currently stands would not be adequate for that purpose.

Expected benefits from the new Programme are very unclear...

A&F have produced very little analysis of the benefits which they would expect to flow from the new Programme, taking the interests of the whole of the Island into account. This is a key issue. There is very little evidence yet, for example, on the outputs and benefits which might flow from the Agri-Environmental element of the overall Programme, and a comparison against the costs. More work is being done in A&F on outputs, but the results have yet to emerge. Subsidies to agriculture have wider economic effects, particularly since there is very little spare labour in Jersey. By giving more or different funding to agriculture, labour could be diverted away from industries and firms which could achieve higher productivity with the same resources. Inflation might be higher than it would otherwise have been. Overall growth in the Island might well be lower as a result of that decision.

...and the objectives of the Agri-Environmental Programme at the sectoral level need much more clarity...

The overall objectives of the Environmental part of the Programme, once set out, would need to be broken down at the sub-sector level; dairy, horticulture and Jersey Royals. There may be alternative and more cost-effective means available to achieve the same ends in these sectors. The sectors are very different. There should be a careful review of those environmental activities which should be supported through States subsidy, rather than being treated as part and parcel of normal everyday farming activities.

...and there are important issues regarding management and control

The Environmental Adviser has particular concerns over the advisory and monitoring system which would be put in place to support the Agri-Environmental Programme. This is partly to do with how the responsible Department would enforce the delivery of agreed outputs from participants in the farming community. But administration of Schemes would also require specialised advice on ecological/pollution issues. This would require specialised knowledge. There should be clarity about where this expertise would be found, and at what cost. Success in the delivery of outputs from

the Agri-Environmental Programme would depend heavily on the availability of this knowledge. There are also some important issues to consider about how the Programme would be managed after the reform of government, when new Departments would be in place.

Concerns over the Marketing Scheme...

The estimates of the overall costs of the Programme to the States rely heavily on the success of the Marketing Programme, since A&F proposals assume that greater success in marketing would lead quite quickly to lower support payments; which is the third major element in the overall Programme. Success in raising exports would indeed be a major benefit, and better marketing might be expected to contribute to that outcome. However, there is very little material on what type of marketing schemes would be introduced through the A&F initiative and their chances of success. More work is being done in the A&F Department on the details but this has yet to emerge.

...and the impact of the overall Programme on industry performance

The stated purpose of the new A&F Programme is to move agriculture and fisheries to a more secure situation, with less dependency on financial support from the States. However, this transition would require a major improvement in industry performance with respect to costs and market penetration. It is very difficult to judge from the material in the Report whether the Industry would stand any chance of achieving that result based on the specific proposals which have been put on the table.

News from **E&E** PRESS RELEASE

FOR INFORMATION ✓

FOR IMMEDIATE RELEASE

'One-off' payment to Agriculture pending review of aid system

THE Finance & Economics Committee has approved a request from the Agriculture and Fisheries Committee for an additional £500,000 in aid for Jersey's growers, pending a re-examination of all subsidies to the farming industry.

Stressing that the payment is a 'one-off', Finance has made it quite clear that further additional funding will not be available and that any future support will have to come from Agriculture's existing cash limits which have been agreed at £8 million for each of the next three years.

Welcoming the news from Finance, Agriculture president Senator Jean Le Maistre said: 'The industry will recognise this decision as being extremely helpful at a critical time and will encourage us all to work even harder to unite and face the challenges of the future.'

'The aid package will be distributed using a formula which is agreed between the committee and the Jersey Farmers Union and which targets the areas of need.'

'This is a one-off payment that will not be repeated,' stressed Finance president Senator Frank Walker. 'Following the recent service review of the Agriculture Department a major restructuring is taking place and it would not be right for Finance to undermine that process of change by rejecting this request for further help.'

'However, the department will soon have a new Director in place who, together with the States Treasury, will be examining the whole question of future aid for the farming industry, and the additional £500,000 has been given on the clear understanding that this examination takes place and that Agriculture must fund any future subsidies from within their own cash limits.'

21 February 2000

FOR FURTHER INFORMATION PLEASE CONTACT SENATOR FRANK WALKER ON 832400
OR SENATOR JEAN LE MAISTRE ON 484004

ISSUED BY PJ NEWS & PUBLISHING

REPORT OF
THE REVIEW GROUP
SET UP TO EXAMINE
THE POLICY REPORT 2001
of the
AGRICULTURE AND FISHERIES
COMMITTEE

June 2002

REPORT OF THE REVIEW GROUP SET UP TO EXAMINE THE AGRICULTURAL POLICY REPORT 2001

Chairman's foreword

The Review Group first met early in February of this year, setting itself a programme of research into the proposals of the Agriculture and Fisheries Committee as set out in its report, and to assist the members of the States of Jersey in their consideration of that report's contents. It is an exhaustive and profound document and in the early stages of research the Review Group could find little disparity between its own conclusions and those of the Agriculture and Fisheries Committee in terms of philosophy and vision, although it was well aware that this view must be tempered by the present financial restraints which govern all Committee expenditure in the immediate future.

It is necessary to reflect, however, that had the commitment made by the States to the agricultural industry in 1993 been realised by successive Committees over the ensuing years the industry would have been in a much healthier position than it is today. On the face of it, farmers have the right to feel that they have been ill-supported at a time when their competitors in Europe have been generously treated, and the facts show that Jersey's industry is not one motivated by greed but rather one beset by pressures that are not of its own making but those of circumstance.

The Group has taken considerable care to examine the policy documents in a dispassionate and impartial way and it particularly commends the new agri-environmental proposals. Undoubtedly the additional financial help required to implement these proposals come at a time when margins are particularly tight, but that is a matter for members of the States to decide. There is no doubt that without help the rapid decline of the industry, in whole or part, is certain. Unless the playing field is levelled with additional funding for the immediate future, the prospects for farming as a whole are bleak.

In the light of this well-founded prediction, the Review Group presents the following review which it trusts will assist members of the States of Jersey in their decisions on the future of Agriculture and in many ways the future image of the Island.

June 2002

REPORT OF THE REVIEW GROUP SET UP TO EXAMINE THE AGRICULTURAL POLICY REPORT 2001

Introduction

In February 2002, by agreement between the Presidents of the three committees concerned, and recognising that there existed some differences of opinion regarding the Policy Report of the Agriculture and Fisheries Committee and its Report and Proposition (P.126/2001 as amended), a working party was set up, to review the position, comprising the following:

Jurat Nick Herbert	(Independent chairman)
Senator Terry Le Sueur	(Policy and Resources Committee)
Deputy Gerald Voisin	(Finance and Economics Committee)
Senator Jean Le Maistre	(Agriculture and Fisheries Committee)

with support from Mr. David Griffis, chief Executive of the Agriculture and Fisheries Department, and independent secretarial support.

After its initial meeting, the working party (hereafter referred to as "the Group") agreed its terms of reference as follows:

1. to review the current Agriculture and Fisheries Committee policy proposals and recommend alternatives or changes as appropriate
2. to consider the questions and issues raised by the Policy and Resources Committee and the Finance and Economics committees, to identify any areas of disagreement, and to comment as necessary

It was expected to achieve this by:

- gaining an understanding of the nature and current circumstances of the various sectors of the industry
- considering alternative 'visions' of the future of the industry, identifying the preferred vision and identifying objectives to achieve it
- considering policy alternatives to achieve the objectives and identifying preferred policies
- recommending alternatives or changes to the proposed policies contained in the 2001 Policy Report

The proposed activities of the Group in coming to its conclusions may be summarised as

- to review the Policy Report 2001
- to examine other relevant information available from external sources
- to consult representatives of the industry
- to consult other relevant individuals or organisations

It was intended that this work should take about six weeks. Sadly, the process has taken longer than expected, exacerbated by various holiday periods.

The Group has met on 16 occasions since its first meeting on 23rd February, and appreciates the accommodation and advice provided by the Department of Agriculture and Fisheries. The President (and/or his Department) have been responsible for organising meetings with industry representatives as well as independent external advisors employed by the Department.

These comments summarise the findings of the working party set up to review the proposals of the Agriculture and Fisheries Committee contained in their proposition P.126/2001 and as amended by them in December 2001. They are not intended to signify approval (or otherwise) of those proposals, but rather to identify and highlight points of concern.

The starting point for the review centred on a clearer definition of the strategic aims of the Agriculture and Fisheries Committee. This really raised a further issue of the needs of the Island, and led to a view that the Island's history and traditions were steeped in a rural environment which was appreciated by residents and visitors alike. This environment was felt to be so fundamental to the character of Jersey as to make its retention a key aim.

Retention in this sense did not imply a 'freezing in time' or a continuation of all activities exactly as they exist today. Indeed there are clear indications, both in the re-structuring of the dairy industry and the proposed exit plan for the glasshouse industry, that change is both inevitable and necessary. One of the aims of the policy proposals was seen to be the need to support and encourage change in such a way as would maintain and enhance the intrinsic rural nature of the Island. It seemed to the review group that Agriculture is fundamental to the character of 'the real Jersey' and needs to continue, albeit in a way related to current circumstances.

The levels of support elsewhere in Europe are worth stressing, as it is also clear that, given the levels of support available to competitors elsewhere, the industry locally would be unable to survive without **some** level of support. This was recognised in the policy report of Agriculture and Fisheries approved by the States in 1993. Sadly for the industry, the levels of support envisaged in 1993 have not been reflected in the Agriculture and Fisheries Committee budgets in subsequent years.

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.

By contrast, many aspects of the local agricultural industry are currently in a parlous state. This is certainly true of the dairy sector and the protected cropping (indoor tomato) sector, where producers are not generating sufficient profits for necessary investment and re-investment. Although the Group had difficulty establishing a clear definition of 'profit' (e.g. depreciation ; interest ; rents) it was clear that by any yardstick, returns in recent years (calculated on a rolling basis) have been poor. It is a policy decision to be taken by the States as a whole as to whether the Island continues to have a viable agricultural industry, but it is clear that this will not be achieved without adequate levels of funding.

	1993 <i>£ million</i>	2001 <i>£ million</i>
Total States net revenue expenditure	180.37	294.57
Agriculture & Fisheries Committee budget	7.73	8.09
Ag. & Fish as percentage of total expenditure	4.3%	2.7%

On the assumption that (all things being equal) it is desirable, and indeed fundamental to the ethos of the Island that an agricultural industry should continue, it is then a matter of deciding how the limited resources of the States can be applied to best advantage. The Agriculture and Fisheries policies, like any others, should aim to produce best value for money (whatever the level of funding). In this respect the Agriculture and Fisheries Committee policy report which accompanied P.126/2001 is detailed, but not as clearly structured and explained as perhaps it could have been. Consequently in an attempt to clarify the issues, the working party has attempted to unpick, and re-weave, the various threads of that report, recognising the inter-relationship of many seemingly discrete components.

General Discussion

Although those components can be analysed in various ways, it may be helpful to analyse them in terms of the following headings:

- Environmental services, including composting, etc.
- Dairy industry
- Protected crops (indoor tomatoes, flowers, etc.)
- Outdoor crops (potatoes, courgettes, cauliflower, etc.)
- Fishing industry
- Support services, including abattoir, A.I., etc.
- Policy development / legislation / policing and statutory requirements

Environmental matters

Without an active agricultural industry, the countryside as we know it will change, and policy should not seek to oppose change. Whilst primary responsibility for environmental matters may rest elsewhere, it appears incumbent on all committees, but especially Agriculture and Fisheries, to promote policies which support and improve the local environment. The absence of any form of commercial agricultural activity would soon lead to serious and possibly unacceptable levels of degradation of the countryside, for which the cost of remedial action and ongoing maintenance would be very substantial.

It may be questioned whether Agriculture and Fisheries have a duty to provide financial aid to enhance the environment, but this is the method adopted elsewhere throughout Europe to deal with and improve the rural environment. Certainly its policies should be framed in such a way as to avoid environmental deterioration.

There is potential conflict in that in order to improve returns on outdoor cropping, increased levels of nitrate may be applied, beyond recommended levels. Conversely, reduction of nitrate levels (desirable to avoid water pollution) is unlikely to be welcomed by the outdoor growers if it eats into an already slim profit margin. Nevertheless it is necessary to justify whether environmental support in the manner proposed in the agri-environmental support scheme, however desirable it may appear, is compatible with a climate of economic constraint. Certainly, if it is to be introduced, it is important to make sure that the principles of 'conditionality' apply. Agri-environmental schemes are now common throughout Europe, and are an integral part of agricultural support policies favoured by the E.C.

It is also relevant to refer to policy C8 of the draft Island Plan, which states: *"The Planning and Environment Committee will prepare an Island Landscape Management Strategy as a key element in the stewardship of the countryside, and will set out a programme of conservation, management, enhancement and restoration of landscape and wildlife resources. This will be undertaken in conjunction with the Agriculture and Fisheries Committee, other agencies, interest groups, landowners and farmers"*. Whilst the agri-environmental proposals may go beyond the above policy, and do not refer simply to the visual landscape, there needs to be clear understanding between the parties of their respective roles as to implementation.

Consideration could also be given to the creation of an Environmental Commission, not directly part of governmental structure, in order to obtain a separation between policy and statutory matters on the one hand and operational matters on the other hand. It had been hoped to pursue this point, and indeed the whole agri-environmental proposals, with Dr. Mike Romeril, the environmental adviser to the Policy and Resources Department, but due to illness he was unfortunately not available at the relevant time.

Dairy industry

Support for the dairy industry arises partly from a desire to maintain a pleasing visual backdrop of brown cows in green fields, partly from the unique status of the Jersey breed and its role as an ambassador for the Island, and partly because of the benefit derived from crop rotation. Certainly visibility seems important here, and there is likely to be much less support were cattle merely to be housed indoors and nourished entirely on cattle feed, even if (which is questionable) this were to be more economically viable.

There are proposals within the current Agriculture and Fisheries Committee proposition to provide the industry with financial assistance towards the construction of slurry pits to reduce the risk of water pollution. It is arguable whether the taxpayer should contribute towards funding an individual's requirement to comply with the Water Pollution Law, but it is understood that at the time of debate on that law it was acknowledged that assistance would be required. It also depends on the future size of the industry how significant a problem this is. However it is clear from independent studies that without some form of subsidy the members of the industry would be unable to fund the necessary expenditure in the present economic climate.

Returns to the industry are currently low - the retail price of milk in Jersey is relatively high and so are production costs - and existing levels of direct financial support manage to keep some sort of balance. Nevertheless a fall in market returns has coincided with more efficient methods of production, and the nature of the global marketplace is such as to make the viability of the local dairy industry less and less tenable. Something more radical than simply enhancing the level of direct financial support is likely to be necessary if the industry is to be sustainable. There has been a move in this direction with financial support for a reduction in overall cattle numbers, and this is an important first step in dealing with the core problem of the imbalance between supply and demand. There are also important questions relating to importation of semen and also milk imports, which would also impact on overall numbers. Further steps towards restructuring are likely to be necessary, but the fact remains that at the present time some form of direct aid is a fundamental need for those remaining in the industry.

To the extent that direct financial support continues, the review group supports the notion that this should be on a 'headage' basis (possibly 'stepped') rather than related to the volume of milk produced. The review group also welcomes the idea of 'conditionality' and suggests that any direct financial support should be linked to a certain level of environmental benefit.

Protected cropping

Turning to the protected cropping sector, it appears that the only potentially viable crop (without great subsidy) is the (indoor) tomato, and indeed the industry has developed this sector to a state of very high efficiency. The continuing existence of this sector of the agricultural industry was reinforced in 1990 by the provision of financial support (by way of subsidised loan interest) for the renewal of outdated glasshouses. This support was repeated in the Agriculture and Fisheries Policy Report adopted by the States in 1993. Sadly, the financial support promised to this industry sector at that time has not been maintained, with the result that profits have either been eliminated or reduced to a level which does not permit reinvestment and which will result (at best) in long term decline and extinction. It is likely that this decline might be more rapid if the necessary 'critical mass' of production can no longer be achieved. Financial aid here may not deliver best value for money.

It should be questioned as to whether the Island should continue to give financial support to an industry which does not appear to give any direct economic benefit, relies on immigrant labour and is visually unattractive. Using the 'what if' principle, what would be the likely effect of not providing increased financial support? In extreme cases, banks might foreclose on their security (usually assets other than the glasshouses, which have low collateral value). In other cases, the growers would simply cease production, allowing the glass to decay in an unsightly manner (witness the situation in Guernsey except in the limited cases where there is an alternative land value).

There are also unseen economic benefits to the Island in maintaining a tomato export business. Apart from the harbour dues on both outward (produce) and inward (fuel, packaging, fertiliser, etc.) movements, there is a likelihood that inward freight rates would rise. Jersey is a net importer of goods, and shipping charges might be more costly were it not for regular outward consignments of indoor tomatoes (which are shipped for about ten months of the year). The working party has not been able to put an economic value on these costs, but they are certainly a factor to consider before cutting off, or not increasing, the proposed direct financial support to this sector. Deciding to withdraw support to the indoor cropping sector could therefore be likened to cutting off one's nose to spite one's face.

Outdoor cropping

Despite various attempts to find additional suitable crops, in the present climate of support levels within Europe the only potentially viable outdoor crop remains the Jersey Royal, which is a unique brand and capable of commanding a premium price. It has always generated a volatile return, with three or four poor years' returns being salvaged by one 'bumper' year. Competition is becoming fiercer, and one cannot simply rely on the name of the product to guarantee good sales at top prices. The review group welcomes the notion that the sector should do more to help itself, by improved marketing giving higher returns and making the producer less reliant on States' funding. It is suggested in the proposals of the Agriculture and Fisheries Committee that there should be additional marketing support available in the short term to enable direct financial support to reduce over the longer term. Some may question whether

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this is sound investment or wishful thinking, but a recent independent report does endorse the concept of product and marketing development. However it seemed to the group that this sector offered the potential for good 'value for money' Again, if direct financial support is to continue, the review group supports the notion that this be on 'acreage' rather than on a 'tonnage' basis. This support should also be conditional on the producer meeting certain relevant environmental criteria. The review group agrees that what those criteria might include should continue to be the subject of discussion in a wide forum representing all stakeholders.

Over recent years the level of direct financial support to both the indoor and outdoor sectors has reduced in value, and hence profitability has declined. It is also a natural consequence that (agricultural) land prices have fallen similarly. This leads to the question of whether government subsidies actually improve profitability or simply get capitalised into land values. Analysis suggests that only a minority of such subsidies pass to the landowner, the bulk remaining with the producer.

Fishing industry

This is a relatively small, self contained operation, generating turnover in the region of £8 million p.a., which in recent times has benefited from international agreement on the location of, and increased size of, local territorial waters. There continues to be a requirement to monitor and police these waters, with the aim of safeguarding fish stocks in a sustainable manner. The industry does receive support for its infrastructure requirements, such as a fish quay, adequate for its needs. The review group endorses the proposals of Agriculture and Fisheries.

Infrastructure and support services

There is a range of necessary activities carried out by the Department at the Howard Davis Farm and elsewhere, and a perception felt by many people that these could be scaled down, delivered elsewhere, or costed on the 'user pays' principle. Further analysis suggests that any savings are likely to be illusory. The notion of 'user pays' only works where the user can afford to pay, and in many cases the services provided (e.g. the abattoir facilities) would, if charged back to the producer at anything like full cost, make an already marginal industry even less profitable (or more unprofitable). Equally, doing away with such services does not seem to be an option either. As with (for example) an Island bus service, the small size and complex nature of the Island makes their provision more costly, but are still necessary for the good of the public generally, not just for the industry itself. A balance has to be struck between what the consumer can legitimately be expected to pay commercially, and what the taxpayer generally might be expected to subsidise. The review group welcomes the proposals of Agriculture and Fisheries to increase the level of payment charged to users, to the extent that the industry can realistically afford. This reflects the view that the services should support and follow the industry needs, rather than try to pre-judge them.

On the question of research and development, the review group noted that trials had been seriously curtailed in recent years, and further noted that research and development were an integral part of the development programme of most industries. Failure to invest some funds in this area could prove counterproductive in view of the need to keep abreast of the marketplace, but trials should only relate to those areas which are potentially viable and where there is a demonstrable need.

The review group also recognised that plans to 'outsource' certain activities were being frustrated by a lack of a clear States' policy on outsourcing. Whilst the direct financial benefits might not be significant, the principle is one which should be pursued.

The review group also heard the view that the area and facilities at the Howard Davis Farm were probably under-utilised, and welcomed a suggestion that if this is the case then there should be a dialogue aimed at moving towards greater sharing with other States' and Parish departments. Again this might not have a great effect on the budget of Agriculture and Fisheries, but should lead to greater efficiency for government as a whole.

Legislation, policing, etc.

It seems inevitable that there will continue to be a need for adequate legislation, and policing of relevant aspects of that legislation, as well as the development and review of policy. The review group was of the opinion that the costings shown in the Agriculture and Fisheries budget were not unrealistic.

Financial implications

It is clear that the Island is entering a period of increased financial constraint. It is not for the review group to judge, in isolation, how much of government expenditure should be directed to the Agriculture and Fisheries Committee budget, but it does feel that that Committee, and indeed the industry, must, as with all other States' Committees, be more realistic in its expectations of what can be provided. From a purely moral stand, the industry might be entitled to expect that the policy proposals adopted by the States in 1993 (and still in force), and indeed the commitment given in 1972 at the time of negotiations regarding EU accession, should be reflected in the budget allocation agreed at that time (adjusted for inflation). On the other hand, some will argue that an industry contributing proportionately less and less to the Island's Gross National Product cannot expect funding to continue at the same level. It should however be acknowledged that agricultural output has actually increased over the same period, even if returns have not kept up.

If members of the States insist that the required levels of funding set out in the Committee's proposals are not of a sufficiently high priority, they must also recognise the consequences to an industry which is already in many cases on a metaphorical knife-edge. It is clear that making equal cuts across all areas of the Committee's budget will not be sensible. Certain sectors will not survive without a certain minimum level of support. If there are insufficient funds to meet the minimum requirements in all areas, then one has to make the difficult choice of which sector is the first to be 'expendable'. This choice should be made on the basis of 'best value for money'. It appears to the review group that with less than adequate funding, support for environmental improvements could be the first casualty. If the knife had to fall again, the only three areas where significant savings could be achieved are the three core sectors of the industry, i.e. dairy, protected and outdoor cropping. There are compelling (but different) reasons why each of these should be retained, and the argument (if there is to be one) would not be purely on economic grounds. If however the grounds for retention are sufficiently compelling then funds would have to be found by savings generated in another Committee's budget, or by increased taxation.

Detailed comments on Policy Report proposals

In terms of the nature of financial support to the three key sectors, this seems to fall under three main headings, viz.:

- Agri-environmental funding
- Marketing support
- Direct financial support

and four further headings, viz.

- Infrastructure and support services
- Statutory and regulatory services
- Fisheries support services
- General overheads

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Comments on the Policy Report proposals

1 Concerning the provision of Direct Financial Support

The policies proposed in the Policy Report:

(a) To *decouple* support payments from levels of production, in order to remove any incentive to increase production.

(b) To address the *economic disadvantage* of Jersey farmers as follows:

Cropping sectors - by means of area payments - to be paid for a wider range of crops and not just for crops exported.

Dairy cows - by means of headage payments; an additional 'extensification premium' to be paid if stocking rate is adequate.

Area and headage payments to be '*stepped*', to take account of economies of scale.

Area and headage payments not to be '*capped*'.

Payments to be made *during the year* to which they apply.

(c) **Agricultural loans:** to restore *advantageous terms* - by increasing the interest rate subsidy.

(d) **Conditionality:** to make the receipt of direct financial support by individual farmers conditional on:

- adequate participation in the Agri-Environment Scheme;
- provision of information about business profitability.

(e) To '*ring fence*' the budget for direct financial support.

(f) To *increase the total budget* for direct financial support from (current) £2.5m per annum to £3.8m in year 1, and to *reduce* the total budget progressively from year 2 onwards - on the basis of improved returns from the marketplace.

The Review Group's comments:

Unlinking support from production levels is welcomed.

There is scope here for different levels of area payment depending on the crop grown.

Headage payments do not encourage any reduction in herd size, but are better than support based on output.

In the present situation, support for a reduction in intensification may be considered desirable.

'Stepping' is reasonable as long as it does not distort the market. We have seen no evidence that larger herds are more profitable per cow.

'Capping' could be a future option.

It is clearly just to match support to the current year.

This policy is questionable on economic grounds but may be justified on moral grounds. If support is to continue, then interest support is preferable to increasing direct aid.

The principle of conditionality is warmly welcomed. However it implies that funding for both direct aid and agri-environmental support is available at levels sufficient to encourage producers to comply.

Agreed.

Past experience suggests that increased budgets are seldom reduced in subsequent years. This proposal only succeeds if marketing support (or other activity) manages to improve returns sufficiently.

(g) To *announce payment levels* (i.e. headage and area payments) for 'next' year, following the December budget debate.

Agreed.

The proposed payment levels

The Review Group's comments

Dairy sector:

To increase the total level of payments by about £114,000, to £1.08m, based on a herd of 4000 cows (i.e. after the industry restructuring) at £270 per cow, with the payments to be made as (stepped) headage payments. (An additional £50,000 would be paid from the Agri-Environment Scheme as extensification premia for stocking rates above 2.75 and 3 verges per livestock unit. This payment would also be made on a headage basis.)

If herd size reduces, the size of this budget would be reduced if the figure of £270 per cow remained.

Given the need to ensure that the countryside is well occupied, support to reduce intensification may now be necessary given the likely substantial reduction in overall numbers.

Outdoor cropping:

To increase the total level of payments by about £333,000, to £1.2m. (but note that direct subsidies in connection with lime, PCN and blight control, totalling £250,000, would cease.)

The net increase to the producer is not large, but may be better applied in this manner.

Protected cropping

To increase the total level of payments by about £350,000 to £750,000 (of which tomato growers would receive about £650,000).

It is unlikely that the sector can survive in the long term without support at a greater level. Thus if the industry is to remain in existence this level of support, at least, appears necessary. Survival (for many) is also linked to interest support detailed below.

Interest subsidies

To increase the total amount of subsidy by about £280,000 to £600,000 (based on an interest rate of 3.5% instead of 6.5%).

This proposal reinforces the message of encouragement given to the industry in 1990 and 1993, although some have queried its economic justification.

Total level of Direct Financial Support

The revised total support summarised above is £3.635, compared with £3.81m, in Annex B of the Policy Report 2001. The revised increase is £1.08m as against £1.32m

These levels can be varied to suit available funding levels by adjusting individual components. However over-reduction will simply encourage producers out of business.

The above changes in payment levels are indicative. They need to be decided finally, for the year ahead, in the light of the latest information available on economic disadvantage.

2 **Concerning support for marketing**

The policies proposed in the Policy Report:

To introduce a **Marketing Support Scheme**, to replace all current methods of supporting marketing, to encourage more effective and efficient marketing and to encourage a unified approach to marketing Island produce.

The Scheme would provide States financial support for new marketing initiatives (to include not just promotion and advertising, but market research, market and product development etc.), submitted by the industry (as Marketing Development Plans) and that satisfy the criteria applied by an independent assessment panel. Financial awards would be less than the total cost of the project, to ensure financial commitment from the industry to the initiatives. Marketing Development Plans could be submitted by groups or organisations involved in marketing agricultural or fisheries produce and also by individual farmers, growers and fishermen, but to be approved they must not conflict with the need for a unified approach to marketing.

There would be no financial 'quotas' for industry sectors. Awards would be made according to the merit of the proposed initiatives and taking into account the needs and scope of the industry sectors

The proposed level of financial support is:

A total fund of £1.8m to be available in year 1, declining thereafter by £0.1m per annum, to £1.4m in year 5. This compares with a current budget of £1.25m (2002). The increased funding recognises the need for increased investment by the industry in marketing and will enable more initiatives to be supported in the short term. The proposed progressive reduction in funding after year 1 assumes that financial benefits will flow from the initiatives and that these will allow the industry to contribute more to the cost of the projects - probably by means of levies.

The Review Group's comments:

The principle of rationalising all forms of marketing support is welcomed.

The Group welcomes the notion of an independent (but knowledgeable) assessment panel.

The group also welcomes the notion of partnership with the industry involving a financial contribution from the latter.

To the extent that marketing support should increase returns to producers the Group questions whether such support could be by way of (interest free ?) loan rather than grant.

Whilst the group recognises the aim of support being based on the merit of initiatives, it is also aware that the support should best be directed to areas with the greater likelihood of increased returns.

The Review Group's comments:

The Group notes that not all of the marketing support for any year will necessarily be spent (indeed, if no proposals met the criteria, no money should be spent) but questions whether an initial increase of 50% in this area can be justified commercially.

Investment in marketing inevitably is uncertain in its success, but subjecting requests to independent scrutiny should at least help.

The policies proposed in the Policy Report are:

(a) **To continue to provide services which safeguard the environment** (such as the safe disposal of waste agrochemicals and containers, organic waste recycling, and the disposal of used plastic) and to introduce charges for at least some of these services, consistent with the 'polluter pays' principle.

(b) **To introduce an Agri-Environment Scheme** to encourage farmers and growers to deal effectively with risks of pollution (from nitrates and farm waste products), to encourage biodiversity (of flora and fauna), to protect and enhance the landscape, and to provide increased access to the countryside.

Participation in the Scheme by farmers and growers would be voluntary, but farmers would forgo all direct financial support payments if they decided not to participate to an adequate extent in the Scheme (conditionality). Participation would involve developing an annual Farm Environmental Plan - by selecting a range of 'measures' from a wide range of choices - and then implementing the plan.

For each measure implemented there would be a financial contribution from the States (less than 100% of the cost to the farmer), recognising that the Scheme is 'purchasing additional environmental goods' for the wider community. An important principle is that farmers would not receive payments to undertake measures that they are already required to undertake by law or that are required for 'good agricultural practice'. The measures in the Scheme are *additional* to those that farmers should already undertake.

The future evolution of the Scheme would be determined by a process of consultation, involving all stakeholders. The operation and cost-effectiveness of the Scheme would be monitored independently of the Department of Agriculture and Fisheries.

The Review Group's comments

These services will continue to be necessary, but greater emphasis on the 'user pays' principle may reduce profligacy.

There may be further scope for collaboration with Public Services and others, but this is not likely to generate any substantial savings.

Such agri-environmental schemes are commonplace throughout Europe, and the principle is welcomed. The details of such a scheme should be discussed by all interested parties and monitored independently.

The Group welcomes the linking of direct financial support to participation in the scheme, and further welcomes the financial contribution to be made by farmers themselves.

The Group did not feel competent to judge the efficacy of the measures proposed, but did not find them unreasonable.

The Group endorses the view that the contribution from the States should be less than 100%. It questions the extent to which the Agriculture and Fisheries should have 'community' responsibility, a task which might better with an environmental agency or commission.

The Group suggests that support for de-nitrification and slurry pits is at odds with the suggestion that aid would not be given simply to comply with legal requirements. The Group understands that during the debate on the Water Law it was acknowledged that financial assistance would be forthcoming to enable investment for the good of the public.

Agreed.

The proposed levels of funding are

(a) **Environmental services:** the proposal is to maintain funding at the current level, about £1m per annum. The major cost within this budget is the cost of organic waste recycling (about £0.7m). There is a proposal to transfer responsibility for this process to the Public Services Department: in this event, the budget would also be transferred, so that the cost to the States would not be affected. There is some scope to introduce charges towards the costs of the environmental services, but this has not been taken into account in the projected costs. Transferring costs to the industry would probably, because of the modest profitability of the industry, trigger a request for increased direct financial support to compensate for the charges: if the request were agreed, there would be no net saving to the States.

(b) **Agri-Environment Scheme:** a total budget of £0.7m was proposed for year 1, increasing to £1.8m in year 2 and then declining by £0.1m per annum to £1.4m in year 5. This cost includes the States contribution to the cost of the environmental measures implemented, the cost of Scheme management and administration and the cost of independent monitoring. The major cost of the Scheme from year 2 onwards is the States contribution to reducing the risk of pollution from nitrates and waste products. The cost of the Scheme will progressively reduce as these measures are taken in the early years.

The Review Group's comments

The Group would like to have seen a greater proportion of the costs of these services passed to the producer or consumer.

However it acknowledges that at the present time this would be likely to be offset by the need for greater direct financial support. It should remain a future aim and reviewed on a regular basis.

The Group acknowledges that the quality of the environment had declined, and requires funding to begin its restoration. The speed of the process would depend on the level of funding available, thus with less funding, improvement would be possible, but slower to achieve.

It would be difficult to determine how effective these policies might be until some years hence. It is largely a matter of faith whether measures proposed would have an impact commensurate to their cost.

In view of the likely reduction in overall cattle numbers, the need for money to fund slurry pits should decrease both on numerical grounds and on lower intensification of production. If profits ever became sufficient, dairy farmers could be reasonably expected to meet the construction costs out of profits. This is unlikely in the short term, but the problem is an immediate one.

Similar arguments apply, to a lesser extent, to de-nitrification proposals.

The Policy Report proposals are:

(a) To continue to ensure that the support services, necessary for the operation and future development of the industry, continue to be available at a satisfactory level. These services include the abattoir, the AI service, milk recording, advice, and research and development. These services are provided by the Department of Agriculture and Fisheries because the industry in Jersey is far too small to sustain the economic provision of the services by the private sector – as in larger countries. The services are heavily subsidised by the States because the industry in Jersey is far too small to pay the full costs of provision of the services.

(b) To transfer operational responsibility, for at least some of the services, to the industry: for example, the AI service, milk recording and early bull proving.

(c) To increase charges to cover at least 20% of the cost of providing the services.

The proposed level of funding is

Increasing charges and transferring responsibility for some services to the industry will allow a reduced cost to the States from year 2 onwards, but a continuing subsidy will be needed because the industry is so small that economies of scale are not available and unit costs of services are therefore inevitably high. For year 1, however, increased expenditure is necessary to address a backlog of maintenance and re-equipping that has not been affordable in recent years. This means an increase in expenditure to £1.7m in year 1 (from £1.5m currently), followed by a reduction to £1.45m in year 2 and a progressive reduction in later years from continuing efficiency gains.

The Review Group's comments

The Group acknowledges that the small size of the Island increases the costs of provision of these services. It also acknowledges that these services appear to be necessary, although not necessarily provided by the Department.

Some of the services are effectively provided to the Island generally, and should be borne by the community. To the extent that they are industry-specific, greater emphasis should be placed on cost recovery, recognising that in many cases this further reduces industry profitability & increases demand for direct support.

The Group welcomes this, and urges the creation of an adequate States' outsourcing framework.

The Group agrees with the notion of increasing charges, and emphasises the words "at least".

The Review Group's comments

The Group acknowledges that some continuing subsidy will inevitably be required.

It has not addressed in detail whether there has been a backlog maintenance and re-equipping, but questions whether such increased expenditure is necessary at this time and also whether it is appropriate in the light of the proposed transfer of certain services to the industry.

The reduction in overall level from £1.5m to £1.45m seems small and inconsistent with policy proposals.

5 Concerning the provision of statutory services

The proposals in the Policy Report are:

(a) To continue to maintain a satisfactory legal framework for the industries, working closely with the Law Officers Department and Law Draughtsmen.

The Review Group's comments:

Agreed.

(b) To continue to provide the statutory and regulatory services required by law, for example certain plant health inspection services, the States Veterinary Service, the BSE slaughter policy and safe disposal of carcasses, and fisheries conservation. Many of these services are required to meet international standards and to conform with EC Directives.

Agreed.

The proposed level of funding

The total cost of providing these services is budgeted to increase slightly in year 1 (and then to be maintained) because of increased responsibilities and activities flowing from new legislation, for example concerning animal welfare.

The Review Group's comments:

Accepted.

6 Concerning the provision of support for the fisheries industry

The proposals in the Policy Report are:

(a) To maintain a satisfactory legal framework and consequent regulatory functions.

The Review group's comments:

Agreed.

(b) To provide adequate on-shore infrastructure to enable efficient operations by fishermen

This depends on the extent to which this infrastructure might be provided by the industry itself. Apart from this the Group agrees with the policy.

(c) To encourage and assist the commercial development of the industry through improved marketing and the development of fish farming.

Agreed in principle, subject to realistic cost-benefit evaluation.

(d) To protect the marine environment.

Agreed.

(e) To support the industry through improved information relating to commercial opportunities and through assistance with public relations and liaison.

Agreed in principle, subject again to cost-benefit analysis.

The proposed level of funding is:

The cost of implementing these proposals is budgeted to increase in year 1 and then to be maintained. The increase in year 1 takes into account some underfunding in recent years and to implement some modest new initiatives, particularly with regard to the commercial development of the industry.

The Review group's comments:

The Group considers the general level of funding to be acceptable at approximately £300/350k p.a.

7 Concerning the 'overhead' costs of the Department of Agriculture and Fisheries

The proposals in the Policy Report are:

To continue the current activities but to seek opportunities to improve efficiency and reduce costs. The 'overhead' costs are those for which there is no sensible basis for allocation to other Departmental activities. They include the salaries of the senior officers (for example, the Chief Executive, the Finance Director, the Head of Legal Services and Administration, secretarial support), the costs of building maintenance, insurance, heat, light, power, telephones, stationery etc.

The proposed level of funding is:

For 2003 the sum of £900k, reducing by £50k p.a. in subsequent years

The Review Group's comments:

The Group is aware of external concerns about the level of overhead costs within the Department. Proposals to seek efficiency and cost savings are welcomed, but need to be more clearly spelt out. Costs should be related to benefits provided. It appears to the Group that there is scope for rationalisation of overheads with other Departments and with Parishes, although the direct savings to the economy are likely to be small.

The Review Group's comments:

This shows a small but welcome decrease over 2001 and 2002.

Summary of financial implications

The levels of funding for each of these areas is shown in the Annex C to the policy report and clarified in the December amendment. It is outside the terms of reference of the review group to ascertain whether the expenditure as shown is an accurate reflection of cost allocation, and we have concentrated rather on the alternative policy options.

Indeed it is necessary to examine firstly the policy options to see if they are sound and cohesive, and then judge their relevant financial merits against competing demands.

Agriculture and Fisheries Advisory Body and additional commitments

The review group welcomes the proposal to set up an advisory body as a step in the right direction. also welcomes the proposal to reduce manpower levels by 25% or more through transfer of activities, and to examine and make efficiency savings.

Funding proposals from OPM

The review group considered the three scenarios put forward by Oxford Policy Management as part of their survey of the industry. The group considered that the analysis of the effects of the three scenarios was sound, although not based on any detailed economic analysis. It did not of itself indicate which scenario, if any, should necessarily be followed. All three scenarios acknowledged that without adequate support the numbers in farming would decline. It is questionable whether such decline would be reversible, but the opinion of the review group, after talking to members of the industry, is that it would not.

The review group welcomed the views of O.P.M. as set out in section 5.30 of the report, indicating some ways in which the nature of support might change, and the objectives which might be sought. In particular it noted the increased emphasis being placed on environmental support as compared with other support arrangements.

Key points to consider

- The agricultural environment is fundamental to the character of Jersey.
- The industry is well placed to play its part in sustaining the rural environment.
- In the absence of a viable industry, the rural environment will decline quite sharply to unacceptable levels.
- The industry is competing in a global marketplace.
- Many, if not all, its competitors receive a higher level of financial support.
- The Jersey Cow is a unique breed and is an 'ambassador' for the Island ; however the industry cannot survive in its current state.
- The Jersey Royal has a 'niche market' status which could be better exploited, but only a brief season in which to compete.
- The indoor cropping industry is a highly efficient year-round operation but unlikely to be able to compete (and hence survive) without more support.
- The size of the Island militates against many economies of scale available elsewhere.
- Financial support for the industry has dwindled in real terms since the Policy Report agreed in 1993.
- The contribution of the industry to the Island economy has declined in proportion to other sectors, but has consistently increased in (unweighted) monetary terms.
- Policies need to be judged against a variety of criteria, not just financial.
- The current financial constraints of the States cannot be ignored.

Strategic objectives

One of the questions facing the Group from the start of this review has been to identify the key objectives of the Agriculture and fisheries Committee. These can be extracted from, and are clearly enunciated in, section 9 of the Policy Report, where the broad aim is stated as:

"To achieve, by the 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".

The Group endorsed and supported this aim.

The Group also noted that in section 9.16 the policy report had identified key changes which were required, and in section 9.18 the need for a close working relationship with the industry. It is questionable whether such a close working relationship exists beyond the public façade, and there seems to be a reticence amongst various factions of the industry sectors to unite in dealing in a united manner with a problem which is in many ways common to all of them.

Conclusion

The review group has been acutely aware of the frustration felt by the various sectors of the industry, both at the delay in coming forward with a policy debate but also in the failure to deliver the funding to support the policies agreed a decade ago. Whatever proposals are finally adopted by the States, they need to be costed and funding earmarked for at least three years ahead if they are to give the industry any basis on which to plan for the future. Indeed, the Report goes further and proposes five year funding targets. This is a clear example of where three-year budgeting, once an aim of the States, is of direct relevance. The review group therefore welcomes the idea of a biennial review, and a general industry review at not less than five yearly intervals.

In terms of the response to the terms of reference of the Group, these may be summarised as follows:

A. To review the current Agriculture and Fisheries Committee policy proposals and recommend alternatives or changes as appropriate

1. Gaining an understanding of the nature and current circumstances of the various sectors of the industry

The Group is confident that it has a clear understanding of the nature of the various sectors of the industry. Circumstances change on an almost daily basis, but the Group has a clear view of the long term (perhaps not so long?) trends of the various sectors of the industry under existing policies and funding levels. It is also aware of levels of support available to sectors of the industry in other locations, and of the additional burden of high export costs.

2. Considering alternative 'visions' of the future of the industry, identifying the preferred vision and identifying objectives to achieve it.

The group acknowledged the inevitability of change, and the impact of factors external to the Island. The preferred 'vision' was not based on Agriculture so much as the Agricultural Environment, and the need to maintain this for the benefit not just of the industry but of the Island as a whole.

This could best be achieved by a viable and vibrant industry, but not necessarily an industry in its present size and shape.

3. Considering policy alternatives to achieve the objectives and identifying preferred policies.

The Group felt that it was not within its ability to propose policy alternatives, but rather to comment on those currently proposed by the Agriculture and Fisheries Committee. Any policy alternatives should be picked up and addressed by the Committee. Failing this, the issue will come up on the floor of the States at the time of debate.

4. Recommending alternatives or changes to the proposed policies contained in the 2001 policy report.

Nevertheless in commenting on individual elements of policy proposals the Group has indicated those areas in which it feels that an alternative approach might be adopted.

B. To consider the questions and issues raised by the Policy and Resources Committee and the Finance and Economics committees, to identify any areas of disagreement, and to comment as necessary

The Group is of the view that the concerns of the relevant committees have been adequately dealt with in the above report. The Group now urges the Agriculture and Fisheries Committee to make any amendments it sees fit to the current proposals, and then ask for a debate on this policy at the earliest possible date, particularly to allay the fears and frustrations of the industry.

13th June 2002