

ANNEX 3

States of Jersey

Agri-environment Policy

OXERA

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August 29th 2001

1. Introduction

This note reviews the proposed new agri-environment support scheme that is being drafted between States departments, and is scheduled to be piloted next year before being introduced in 2003. The details of the scheme are presented in the Agriculture and Fisheries Committee's Policy Report, August 2001, pp. 89–91.

The support scheme is designed along similar lines to the Countryside Stewardship Scheme in the UK.¹ In the UK scheme, farmers prepare management plans, which are converted into management agreements. Payments are made for the environmental services of managing habitats, restoring cultural and habitat features, enabling public access, planting hedges, planting trees, and for management advice. In total, the UK government subsidies for agri-environment schemes are 3% of farm receipts, 47% being production and area subsidies, and the remainder, 50% sales of produce.²

The Jersey scheme proposes a regime whose objectives are similar—to plant trees and hedgerows, to manage habitat, to encourage integrated crop management (appropriate use of production inputs), to provide access to the public, and to support conversion to organic farming. By basing the scheme around Farm Environmental Plans and direct payments, the States would establish a mechanism similar to the Countryside Stewardship Scheme.

¹ Ministry of Agriculture, Fisheries and Food (2001), 'The Countryside Stewardship Scheme: Information and How to Apply'.

² These figures exclude the costs to the government of one-off events, such as BSE and foot-and-mouth disease.

2. The Jersey Agricultural Sector

The agricultural sector in Jersey exports most of its output, with vegetable exports of £32.6m and flower exports of £1.6m in 2000, compared with domestic consumption of about £0.5m. Total dairy production was £14m in 1999, of which an unknown fraction was exported. Agriculture is therefore an important revenue earner for the Island, and operates in an internationally competitive market, competing in particular against UK potato producers.

Of the £8.1m spent on agriculture in 2000 by the States of Jersey, just over half was on direct and indirect support. Staff costs accounted for £2.1m, and environmental schemes, dominated by composting, totalled £1.1m.

It has been difficult to ascertain, in a short time, exactly how these forms of aid operate, or the way in which they influence production, capitalisation of income in land values, and competitiveness of export prices. However, it is clear that, with a monetary value close to 20% of agricultural production, but focused on particular sectors, the support is significant. It is also noticeable that the staffing costs (running at over 25% of the support budget) are much higher than might be expected. These could be benchmarked against wider experience in Europe.

3. Objectives and Criteria

The objective of most policy is to increase welfare, in this case for the population of Jersey, or to change the distribution of welfare. The objective of agri-environment policy is often to do both. It is to increase the total level of welfare by removing negative externalities (detriments) from agricultural production, such as the leaching of pesticides and fertilisers into drinking water, and to improve habitats and give greater access, both of which are valued by the public at large. It is also to maintain rural incomes and protect a proportion of income from exposure to commodity price risks and production risks, such as disease and adverse weather.

Any change in agri-environment policy, such as that proposed, can be evaluated against some simple criteria, including:

- change in the measure of the objective of the policy;
- the increase in welfare created by the policy (the cost-benefit test);
- the cost of the policy per unit of output measured (the cost-effectiveness indicator);
- the distributional impact of the costs and benefits generated by the policy.

It is necessary to consider all the above in comparison to the changes or benefits that would have been experienced in the absence of the policy (ie, the incremental changes caused by the policy). The distributional impact is sensitive to the choice of policy instrument, and often reduces to the assignment of property rights. For example, in a regime where there is a principle of the polluter paying, subsidies to support environmental programmes would have to be financed by the polluters. However,

since farm incomes have fallen sharply over the last ten years—in the case of the UK by 35% since 1990—then it is difficult to argue that farmers are in a position to pay.

4. Options

There are a number of options for modifying the impact of agriculture on public access and the environment. The types of instrument are command and control (a series of duties or requirements backed by enforcement penalties); a system of tradeable rights (credits or quotas); a tax on an activity, input or output; or a subsidy on an activity, input or output.

The choice of instrument is based on a judgement involving the evaluation of a number of elements, such as the consequence of failing to meet policy targets, the cost of compliance, the flexibility required, and the desired distribution of costs. Agri-environment policy is especially complex for a number of reasons. These include the fact that wages are low; businesses are often heavily indebted with high fixed assets; prices are heavily distorted by intervention policies. Moreover, there is very poor information on the impact of agricultural practice on the environment (for example, no systematic records have been kept of many flora and fauna in the UK). Nevertheless, some points can be observed about a policy of subsidies or environmental services payments:

- it is likely to significantly affect behaviour only where the farmer is better off with the subsidy (or payment for services) than without;
- some of the value of the subsidy would be capitalised in the value of the land, and passed to the land owner—in the long run, the subsidy may raise the fixed costs of production by increasing the rent commanded by land owners;
- it has high monitoring and enforcement costs because the incentive is to 'cheat'—ie, to take the subsidy but not produce the required environmental benefits—and the information requirement are substantial;
- the distribution effect is that the taxpayer pays the polluter, which will raise some objections because it is in contravention of the polluter-pays principle;
- on the other hand, the taxpayers, all residents and visitors, are beneficiaries of the environmental improvements, and there is a case for beneficiaries to pay;
- once in place, the subsidy tends to become embedded, as farmers adjust their long-run costs to optimise production under the subsidy regime—removal of the subsidy would leave the farmers with higher costs than before. The experience of the EC Common Agricultural Policy has been that it is very difficult to remove subsidies once they are in place;
- there would be instances where outputs that would have been provided without the subsidy become subsidised (deadweight loss). There is evidence, arising from research into the Countryside Stewardship Scheme, that it has been fairly effective in preventing deleterious changes that might otherwise have taken place, but there is less evidence of it delivering enhancements;
- the subsidy has no impact on some market failures, such as information provision to consumers.

Whereas the main concerns with subsidies are the distributional impact (the taxpayer paying the polluter), the payment for existing outputs and the cost of administration, there may be other problems if the subsidy system is badly designed.

Probably the most serious of these occurs when the subsidy specifies the manner of delivering the objective. Subsidy schemes tend to evolve with complex sets of eligibility rules in order to reduce the deadweight loss they cause. As a result, the production methods eligible to achieve the outcome tend to become prescribed. For example, the UK set-aside scheme specifies that each farm can set aside a proportion of its land, rather than that a proportion of agricultural land nationally can be set aside. As a result, the cost of placing land out of food production is higher than it would have been under a national scheme.

Furthermore, environmental subsidies would be paid to the farmer for forgoing the value of production subsidies, as well as the costs of the environmental activity. To the extent that agricultural production is already subsidised, then recompensing the farmers for their opportunity costs generates no environmental benefits. It may be assumed the landowner will continue to extract some of these subsidies from the farmer in the form of rent.

The main contenders as alternatives to a farm-by-farm subsidy scheme are a national (Jersey-wide) tradeable quota system and a tax. In the first case, the objective would be specified, and farmers could exchange quotas with each other, in return for payment. The quotas might be set in terms of headage of livestock, tonnes of nitrogen, or length of hedgerow per unit area. In this way, the objective would be delivered by those farmers with the means to deliver it most cheaply. This type of approach allows the extensification of some farms, together with the intensification of others, if that is what the market arranges, rather than the deliberate planning of changes in agricultural practice across all farms. Tradeable quota, permit or credit systems are one of the instruments in contention for reforms of the EC's Common Agricultural Policy.

The second case is an environmental tax introduced to improve the environmental quality of agricultural production. In the UK, the government considered the introduction of a pesticides tax, but narrowly rejected it after fierce lobbying, primarily in recognition of the low level of farm incomes, and because of the price inelasticity of pesticides use. Nevertheless, the policy research raised concerns that agro-chemical inputs to production were often overused by farmers, even before their environmental impacts were taken into account. The replacement of the proposed tax by a voluntary agreement from the agro-chemical producers can be criticised as offering nothing more than good practice, without any enforcement mechanism to deliver it. The case for environmental taxes in agriculture remains open.

5. Conclusions

The criticisms of the proposed agri-environment support scheme are as follows:

- it is a long-term commitment on behalf of the taxpayer;

- it is likely to have a high administrative cost, especially given the high administrative costs of the existing agri-financial measures in Jersey;
- it will be difficult to enforce the delivery of outputs;
- there is no clearly defined objective or overall vision, and it may therefore not address the environmental priorities of most value to the welfare of Jersey;
- the proposed elements do not deal with intensity of land use, or use of agro-chemicals;
- the proposed criteria of 'appropriateness' and 'adequacy' are probably too vague to be operable, and might be open to interpretation such that the objective of the scheme might not be delivered;
- if there is a possibility that funding in any given year falls short of funding applications by farmers, as suggested in the report, then some farmers will be dissuaded from applying by the costs of application and uncertain success; finally, and importantly,
- if the financial contribution from the States is less than the typical cost to a farmer, as suggested in the report, then farmers will not opt for the subsidy, and the scheme will fail. The scheme will have to be financially attractive to the farmer to be successful.

Much of the detail of the proposed agri-environment support scheme remains to be specified, and, as indicated above, the detail of any scheme is likely to have quite a significant impact on its success (or failure). It would therefore appear useful for the following steps to be taken if it is decided to go ahead with this policy:

- revisit the objectives of the scheme—the available evidence suggests that the proposed scheme may be successful in preventing further environmental decline, but might not deliver enhancements;
- if an aim is the delivery of the objective at minimal cost, then the scheme might be expensive, whereas Environmentally Sensitive Area-type schemes have shown higher value for money in cost-benefit tests;
- if the constraint of farm incomes prevents the polluter-pays principle being exercised, then it might not be possible to introduce a tax, whereas a quota system may be more acceptable to industry than a tax;
- any subsidy or environmental services payments scheme should be introduced with *great* care because the costs are likely to become embedded.

Our Ref: PFH/jmb

COPY

10th September 2001

Senator J A Le Maistre
La Maison de la Trappe
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Dear

Policy Report 2001

As you may be aware, the Policy and Resources Committee gave consideration to the Agriculture and Fisheries Committee's Policy Report 2001 at its meeting yesterday morning.

I have to say that I am afraid that, whilst generally welcoming many aspects contained within the policy document, in particular the agri-environmental ideas, it was felt that much more detail needs to be provided as to how the proposed schemes might actually work before real consideration can be given as to whether, or how much, support might or should be provided. In particular, the Committee was disappointed that advice of its advisory officers has, perhaps, not been taken due account of and that, as a result, further work appears necessary on specific and measurable outputs which might be achieved by the schemes in return for the proposed level of investment. Until that work is completed and the required level of detail can be understood, it is clear that my Committee will feel unable, therefore, to support the proposals as presently presented.

The Committee, in recognising that the Finance and Economics Committee is not due to consider the report until its meeting of 17th September, asked that I write to you to convey the Committee's sentiments, to copy to you the papers which were presented for consideration to the Committee and to invite you to meet with me and Senator Walker, as soon as can be arranged after the 17th September, in order that we might discuss how this important issue should be taken forward.

If you agree with this suggestion, please contact me so that we can ensure an early meeting is put into our busy diaries.

Yours sincerely

SENATOR P F HORSFALL, OBE
PRESIDENT, POLICY & RESOURCES COMMITTEE

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14th November 2001

Dear Presidents,

Agriculture and Fisheries Policy Report 2001 Responses to comments and questions from the Policy and Resources and Finance and Economics Committees

This letter and the attachments responds to:

1. The letter and attachments from the President of P&R, dated 10th September.
2. The letter and attachments from the President of F&E, dated 27th September.
3. Further points made in the joint meeting of the Committees on 4th October, with myself, the Vice-President of the A&F Committee and the Chief Executive of the A&F Department.

This response has been delayed by a number of important issues that have needed to be addressed, as follows:

1. **The need for the industries and sectors to decide whether, or to what extent, they support the proposals in the Policy Report.**

You will recall that this issue was discussed at some length in the joint meeting on 4th October. It was noted at that meeting that the messages coming from the sectors at that time were mixed. It could not be said at that time that the industries were indicating support for the policy proposals.

I think it is fair to say that the level of understanding of the proposals was generally not high, in part due to a number of false assumptions. As the level of understanding has risen, so has the level of acceptance. I am pleased to be able to say that meetings with representatives of all the major sectors of the industries have now been held - outdoor cropping, protected cropping, milk production and fisheries - and agreement has been reached on all the main elements. It can be easily understood that there may have been concern in some sectors who may have been looking for even more financial support than is being proposed and also due to the fact that the implementation details are not contained in the Policy Report. But there is now clear support from all the sectors for the proposals in the Policy Report. The dairy industry has produced a "Ten Point Plan" which was accepted by my Committee at the meeting on 6th November 2001. Although there has been support at 'grass roots level' since the Report was published in August, it is quite understandable that the representatives of the sectors have wanted clarification and reassurances about the implications of the proposals.

It is unrealistic to expect every member of the industry to agree with all the proposals and I believe that any opposition is now confined to a small group of farmers whose interests and vision for the future of Jersey agriculture may not coincide with the majority. I have to say that this dissatisfaction appears to be based largely on persistent misunderstanding of the proposals and continued criticism of points that are not proposed, and never have been.

2. The need for details of implementation.

There has been criticism of the lack of detail in the Report about the operation of the new schemes and of the headage and area payments. This criticism is understandable, even though the Policy Report describes a strategy and it would be unusual to provide details of implementation before consideration can be given to the strategic proposals. The Policy Report makes it clear that details would be developed by the Autumn. They have been developed and are now available for scrutiny and discussion and I would emphasise that expert advice has been taken in the design of the various schemes.

3. Concerns expressed about the services provided by the Department and, in particular, the manpower of the Department.

There have been concerns on these points, both inside and outside the industries, for many years, based on the perception that at least some of the services provided are unnecessary and that the manpower at the Department is excessive. These concerns were raised again early in October. I would like to make it clear that the Committee had examined all the services provided by the Department and is proposing changes. These are described in the Policy Report (Section 8). Concerning manpower, an Organisational Review commenced in June with a view to rationalising the Department's manpower in line with the Committee's proposals. A paper had already been discussed (in September) with the Human Resources Committee - a paper which pointed to a reduction in Department manpower of 20% or more during 2002. Early in October, however, concerns continued to be expressed, to the point that it was being said that the industries would not support the Policy Report unless the subject was addressed again. I was also hearing that this was a significant issue for at least some members of the House.

It was therefore decided to conduct another review of the services and manpower, under the chairmanship of Deputy Le Herissier. A working party was set up, with representation of the sectors of the industries, of the environmental interests and the general public, and with wide terms of reference. In effect the working party was asked to revisit the Committee's earlier decisions and to make recommendations for further change as appropriate. The working party has completed its work and the report (copy attached) will be available widely for comments. The report presents a number of options/choices for reducing the services provided, and therefore the Department's manpower and costs.

It will be seen from the report that there are no easy choices. The Department's manpower and costs can, of course, be reduced, but since 90% of the Department's manpower is employed fairly directly in providing and supporting the various services, this reduction can be achieved only by stopping or scaling down the services or by transferring the responsibility and all or part of the costs to other organisations or to the industries themselves. Those services which will need to be continued in future will result in the relevant manpower and costs also having to be continued. If they are not provided via the Department, they will need to be provided by some other organisation. The Department's costs may be reduced by, in effect, transferring the costs to other bodies and/or to farmers and growers.

There has, unfortunately, been a widespread misunderstanding of the Department's work, manpower and costs. A lot has been said and alleged, but seldom based on facts. The working party's report now presents the facts and at least some of the choices. None of these are easy choices particularly where there could be environmental risks.

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The A&F Committee takes the view that the industry must, at some stage, make its views clear as to which of the support services it will require in future and whether or not they should be provided by the Department or by some other organisation. The Department's manpower and costs can then be changed accordingly. The issue concerning the possible transfer of Department staff out of the public service ('outsourcing') will require the full support of both the Policy and Resources and Human Resources Committees. This will need to be addressed urgently to enable implementation of changes.

If the outcome of this latest review is that costs can be reduced the Committee welcomes this and undertakes that the cost reductions will be translated into reductions in the Committee's annual budget.

These three issues have caused delays, which the A&F Committee regrets. We take the view, however, that until they had been addressed, and now hopefully resolved, it would have been premature to ask the House to debate the Policy Report.

With regard to the comments and questions raised earlier by the P&R and F&E Committees, responses are now attached. The A&F Committee now requests opportunities to discuss these responses and any remaining questions that your Committees may have. When this has been done and a way forward with regard to funding has been found I propose to request a date for the debate.

I enclose with this letter:

1. Response to the minutes of the P&R Committee - item B6, 6th September 2001. (Page 4)
2. Response to the comments in Mr. Bushell's Memorandum dated 30th August 2001. (Page 6)
3. Responses to the 3 annexes to Mr. Bushell's memorandum

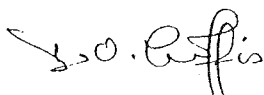
Annex 1: Economic Assessment of the Proposals (Page 9)

Annex 2: Comment of the Environmental Adviser on the Agri-Environment Scheme (Page 11)

Annex 3: OXERA Comments on the Agri-Environment Policy (Page 12)

4. Response to the questions from the F&E Committee - attached to letter from Senator Walker dated 27th September 2001. (Page 16)

Yours sincerely



P.P. J A Le Maistre
President, Agriculture and Fisheries Committee
12th November 2001

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1 Response to Policy and Resources Committee comments and attachments - letter (from Pierre Horsfall) dated 10th September

Reference is made here to the P&R Committee paper B6, dated 6th September, which identifies three 'key points' namely the Agri-Environment Scheme, the State Aid issue, and the Finance issue.

1. Agri-Environment Scheme

The P&R Committee was asked "to recognise the lack of rigour and credibility that the A&F Committee has put forward". It noted that "the States Environmental Adviser is generally supportive of the concept but critical of what the A&F Committee has, or rather, has not proposed. Further comparisons with similar types of schemes in other countries would provide potentially interesting data for consideration, but will take some time to prepare."

Response: *The comment is critical of the lack of detail of the operation of the Scheme as presented in the Policy Report. The Policy report sets out the principles of the proposed Scheme in paragraphs 10.10 to 10.19 and states (paragraph 10.16) "Details of the Scheme are being drafted in consultation with other States departments, with NGOs and other interested parties and will be issued for further consideration later in 2001." This being the case it was, perhaps, harsh to criticise the Policy Report for lack of detail available at that stage. Much detail has been developed meanwhile and is available for scrutiny. It should be borne in mind also that, in developing the Scheme, advice has been obtained from the well respected Institute for European Environmental Policy (IEEP) and in particular from Dr. Janet Dwyer, an individual fully conversant with the details of such schemes across Europe. She wrote a critique of the proposals as they existed in July (copies available) which amount to a strong endorsement of the proposals. It is difficult to reconcile this with "lack of rigour and credibility".*

Concerning comparisons with schemes elsewhere, this has been done by Dr. Dwyer as part of her advice. There is surely no need for the States to expend further time and resource on repeating these comparisons.

2. The State Aid Issue

The P&R paper states "...it is almost certain that the package would have to be notified under EU Article 88 before it could be implemented (assuming, that is, it was agreed). The paper continues "it is clear that much work will need to be undertaken in London and/or Brussels to determine what can be achieved and how such matters could be taken forward without States decisions being possibly subject to scrutiny and interference by Brussels. "

Response: *It is not clear from these comments whether or not there is a need to consult London and/or Brussels. Earlier advice (verbal) to A&F was, I understood, to the effect that the Policy Report would have to go to Brussels, who would then have 2 months or so to "comment". The advice was that such comment could have some significance if Brussels did not like the proposals. The A&F Committee does not wish to see any delay in obtaining Brussels comments. The Committee is confident, however, that the thrust of the Policy Report proposals is entirely consistent with the trend of agricultural policies in the EU, and so does not anticipate adverse comments - quite the reverse. It needs to be recognised that if the current policies were referred to Brussels, there might well be adverse comment. The earlier report provided by OPM indicated the trends of policies in the EU and these trends have strongly influenced the proposals in the Policy Report - for example: decoupling direct aid, greater emphasis on agri-environmental measures and 'conditionality', encouragement of improved marketing.*

3. The Finance Issue

The P&R paper states "...this is actually a matter for Finance and Economics to determine and on which to advise the States, each Committee needs to inform the other so that major policy decisions are taken within a strategic response and plan to address, realistically, the difficulties faced by the agriculture and fisheries industries."

Response: *The A&F Committee recognises F&E's responsibility for advising on the financial issue and also recognises the difficult financial circumstances for the Island in which the future of agriculture is being debated. The A&F Committee takes the view, however, that it is essential to safeguard an industry which is so fundamentally important to the Island's cultures, traditions, commerce and environment. The Committee sees great advantage in the P&R and F&E Committees liaising closely in considering the Policy Report.*

2 Response to Robert Bushell's comments in his Memorandum dated 30th August

Comment 1. "The Report contains surprisingly little analysis of the outputs which should be expected to flow from the proposals. This is a particular weakness in the presentation of the agri-environmental and marketing initiatives. It has therefore been very difficult to compare the overall benefits which would be likely to emerge from the Programme against the costs."

Response: *The Report could have said more about expected outputs from the two schemes (Agri-Environment and Marketing Support) - at least to illustrate the outputs expected. It was assumed, however, that the nature of the outputs would have been obvious from the information provided in the Policy Report (paragraph 10.14) which lists 8 options to be included in the Scheme. It needs to be recognised, however, that quantification of the likely outputs from the two schemes would be difficult and highly speculative. This is not say that there would not be substantial outputs and benefits, but it is not straightforward to anticipate the extent of them. It is important to note that both schemes would, by their nature, involve decisions/choices by the applicants. As the scheme is not compulsory the wide range of choices available and the different level of 'take-up' of them by individual farmers would obviously make the quantification of outputs speculative.*

The following paragraphs provide further information about the outputs to be expected from the 2 schemes.

a) Agri-Environment Scheme The stated purpose of the scheme is (paragraph 10.10) "to encourage farmers and growers to adopt more environmentally-friendly practices , to encourage biodiversity and to enhance the landscape." The encouragement would take the form of a financial contribution from the States to the "provision of environmental goods" as described in the earlier OPM report. Participation in the Scheme would be voluntary, but receipt of Direct Financial Support (area payments, headage payments and interest rate subsidies) would be conditional on adequate participation in the Scheme. Participating farmers would develop a Farm Environmental Plan appropriate to their farm, selecting voluntarily from a large number of options/measures. The range of options is illustrated (paragraph 10.14) to include 'increasing the capacity of store for farm waste products (e.g. slurry); planting trees; planting new hedgerows; renovating and maintaining existing hedgerows; providing and managing field margins; etc.'. Details of the proposed Scheme have now been developed and are available for scrutiny. There is currently a list of 42 options and the list is likely to expand gradually, thus providing farmers with many choices.

Each option would be expected to lead to its own particular outputs. For example, the measure to increase the capacity of slurry stores would result in increased storage capacity (which is required by the Water Law) and therefore much reduced risk of pollution from slurry spreading. Outputs could be expressed in terms of extra storage capacity or possibly in terms of reduced risk of water pollution. It would clearly be difficult to quantify reduced risk, however, without making a range of assumptions about future weather, field conditions etc. To take a second example, the option to plant trees would have certain obvious outputs, namely the existence of more trees, orchards etc., and these would benefit the landscape and biodiversity, but quantification of the latter would be very difficult. Each of the options provided in the Scheme could be analysed and outputs could be quantified, to some extent, for some of them. This could be attempted if P&R considers it to be essential, but I would like to suggest that the nature of the outputs is largely self-evident.

b) Marketing Support Scheme The stated purpose of this Scheme is (paragraph 10.21) "To achieve effective and efficient marketing by the industries by encouraging and assisting them to market produce based on identified market requirements and the maintenance of high quality standards, with the aim of achieving appropriate market share and premium prices." The operation of the Scheme was outlined in paragraph 10.23. A fundamental feature of the Scheme is that the industry would be required to come forward with 'projects' designed in one way or another to improve marketing. The specific outputs from

the operation of the Scheme would thus depend on the nature of the projects that gained support and were implemented. It is therefore possible only to illustrate the outputs that might arise. To take an example, it is likely that a project will be proposed to support the marketing of Jersey Royal potatoes. This project can be expected to include promotion and advertising initiatives. The types of outputs that are possible from initiatives of this kind can be described - increased awareness by consumers, increased market share, increased sales, increased market prices, improved returns to primary producers, reduced unit costs of marketing activities etc., but quantification would be highly speculative. The speculative nature of outputs from marketing initiatives is well understood, I believe, by all the people engaged in them.

Comment 2 “The overall costs of the Programme over the five years rely heavily on the sources of the marketing programme but there is very little material in the Report on what type of programmes would be introduced and how they would be expected to affect profits.”

Response: *As explained above (Comment 1) the projects introduced would depend on the proposals brought forward by the industries. Each sector of the industry can be expected to come forward with at least one project, and there may also be proposals from individual farmers. The projects would all be concerned with improving marketing and so can be expected to address (in a unified or coordinated way) such matters as advertising and promotion, quality improvement, packaging and presentation, cost reductions etc. Investment in marketing is widely recognised to be an ‘act of faith’ because it is rarely possible to trace the direct effect of marketing initiatives on profit. There are many other factors influencing profit and it is not possible to separate the effects of them.*

Comment 3 “The details of how the marketing programme would be administered in practice are scarce, and there is no indication of how cash limits would operate in individual cases. What rules would be attached to payments? Would they be limited to a percentage of turnover? This should be an important issue on the financing side of the Programme.”

Response: *Details of the administration of the Marketing Support Scheme were not presented in the Policy Report partly because the Report was intended to be a strategy document and because the details were still to be developed. They have subsequently been developed, based on similar schemes in other countries, and they are available for scrutiny. Essentially, the applicant is required to submit a Marketing Development Plan (for which detailed guidance is provided); the Plan is scrutinised by an independent Panel, who recommend acceptance or otherwise to the Committee. The Scheme documentation explains the rules that would apply. Awards to applicants would not be limited to a percentage of turnover - this would be an arbitrary and inappropriate criterion - but would be based on the need for support funding required by the project - which would, in all cases, need to be demonstrated in the details of the application.*

Comment 4 “There is only a descriptive reference to the situation of the protected crop growers. However, one section of this sector has done work on an exit strategy in view of its very difficult prospects, even if the growers has substantial States support. It would be helpful if some detail were to appear in the Report.”

Response: *The references to protected crops in the Policy Report (paragraphs 6.68 to 6.75) include a reference to the ‘exit strategy’ ideas put forward by the glasshouse tomato growers. It was not possible to provide detail of the exit strategy because this was not available - it had not been developed by or for the growers. With regard to detail of future States support, it was decided (we believe for good reasons) not to include details of possible future levels of payments, for any sector, in the Policy Report. The level of payments for the year ahead must, in principle, take into account, at the time they are decided (December of the preceding year, after the Budget Debate), the latest available information about economic disadvantage and the future prospects. We believe it would have been a mistake to have*

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indicated even the possible levels of payments under consideration, because to have done so would in all probability have provoked divisive and destructive arguments between and within the sectors as to 'fair shares' without even knowing whether the States would support the overall policies.

Comment 5 "It is also surprising that the costs to the consumer of the milk import ban have not been included as part of the cost of the overall programme. This issue is to some extent controversial. The costs were estimated by OPM in their Report earlier this year and were shown to be substantial. The industry disagrees with the OPM estimates. But the milk import ban is an important element of policy for agriculture and is a part of the overall picture."

Response: *The view taken in estimating the future costs of the proposed strategy is that the costs presented in the Policy Report should be restricted to the budgetary costs to the States. This is consistent with the budgets prepared by all other Committees. Consequently they do not include any other costs, actual or notional, that might be attributed to the industries. These costs, were they estimated, would certainly include the higher prices paid by Jersey consumers for liquid milk, and they could include other less obvious costs that OXERA and others have attempted to estimate (see below).*

The milk import ban is certainly "an important element of policy for agriculture" etc. The view taken in the Policy Report is that the ban is absolutely fundamental to the continuation of a dairy industry in the Island based on the Jersey breed. As to the cost of the ban to the consumer, OPM made their estimate, and the industry has disagreed with it. If a reliable figure were available it would throw further light and so could be taken into account by policy makers. The same would of course be true of support provided by the States in other, non-agricultural, contexts. In the case of the dairy sector, further clarification of the cost to the consumer would not remove the fundamental question: Are the States prepared to provide the financial support necessary to maintain a dairy industry in the Island based on the Jersey breed?

Comment 6 "The stated objective of the new initiatives for agriculture is to move agriculture and fisheries to a more secure situation, with less dependency on financial support from the States. However, the 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 proposed initiatives would be able to achieve this objective or whether the industry would soon become dependent on the higher level of support which is being proposed."

Response: *It is fair comment to say that it is difficult to judge whether or not the proposed initiatives would "move agriculture and fisheries to a more secure situation". It is also fair comment to say that the transition would require major improvements in industry performance. The initiatives are designed to give the industries an opportunity to put themselves onto a more secure footing and to give them much greater responsibility for the necessary actions. The initiatives are designed both to stimulate more determined efforts by the sectors themselves and to provide assistance with their initiatives - depending on their merits.*

The suggestion that the industry might become dependent on higher level of support raises two points. First, the Policy Report does not propose a permanently higher level of support. In fact it proposes a progressively reducing level of support after the increase in 2002. Second, it begs the question as to the level of support that would be needed in future to sustain a reasonably profitable industry. It needs to be recognised that the level of support has declined significantly over the past decade and this at least partly explains why most sectors are suffering low profitability or even financial crisis. The view taken in the Policy Report is that current levels and trends of profitability certainly point to the need for increased Direct Financial Support, even if only for the short term.. The Policy Report also proposes a pragmatic way forward involving reviews of profitability and trends, and of support levels, at two-yearly intervals.

Economic effects

Reference is made to a (computer-based) simulation undertaken by OXERA and the University of Strathclyde. Before commenting on their findings ("provisional estimates") it is necessary to ask about the reliability of the computer model used. Has it been validated (taking account of the peculiarities of the sectors in Jersey) in the way that simulation models sometimes are - by demonstrating, using historic data, that it is capable of predicting past 'results' with acceptable accuracy? Without some kind of validation - in the agricultural context - there is a danger of attaching significance to an unproven method. For the purposes of this response, however, it will be assumed that the model has been validated.

The findings were:

- a) "... the effect of raising taxation to finance the programme would be to reduce Island Income by a cumulative total of about 1.5% over 10 years."
- b) "Assuming that output in agriculture increased by 30% as a result of the spending, the effect on activity in other sectors would lead to a further decline in Island Income of about 0.2% over 10 years."

Response: *Output can be expressed in physical terms (volume of produce) or financial terms (value of produce). If the assumption made in the simulation was a 30% increase in physical output, this is highly questionable. It is very doubtful whether the Island could, because of physical limitations, sustain a 30% increase in production. This would be an extreme assumption and the findings would need to be seen in that light. This does also raise a question about other assumptions made in the simulation - they were not checked for credibility with the Department of Agriculture.*

- c) "There would also be effects on inflation. The displacement of resources to agriculture as a result of support for that industry ... would lead to an additional increase in the price level over 10 years of about 0.5% compared to what it would otherwise have been without the programme."

Response: *We must leave it to others to judge the significance of these figures for the Island economy. (Do we understand them correctly to mean on average 0.15% and 0.02% reduction in Island Income per annum and an increase in the level of inflation per annum of 0.05%?) The impact of the policies, assessed only in these terms, may well be negative - as would no doubt be the impact on the economy of a good many other 'transfers' within the economy. But we need to note that the scope of this analysis is inevitably limited by the scope of the model - which presumably did not assess the benefits to the Island from protecting and enhancing the environment, for example. One of the benefits from the A-E Scheme would be expected to be progressively reduced levels of nitrate in drinking water. Did the simulation take this into account - for example the savings that could arise by not running the denitrification plant?*

Some Analysis of the Specific Elements in the Package

1. The Agri-Environment Scheme

It is reasoned that because "farmers would have to incur additional costs which would be likely to exceed the cash value of those payments this might raise doubts about whether farmers would wish to participate in the Programme."

Response: *This observation completely misses the point of 'conditionality' (see paragraph 10.17 of the Policy report) - whereby the receipt by individual farmers of Direct Financial Support payments will be conditional on adequate participation in the A-E Scheme. Because the level of Direct Financial*

Support is highly significant in the economy of individual farm businesses, it is very likely that most, if not all, farmers will choose to participate in the Scheme.

2. Marketing Support

The comment is made that "successful marketing schemes should be expected to raise output in the industry. But it is very difficult to form a judgement about whether this would happen since there is very little detail on the marketing schemes which might be put in place. The impact of profit and farm viability is therefore unknown."

Response: *This is fair comment, but it would be quite wrong to assume that the Scheme would have no impact. It may not be possible to quantify the impact with any precision, but there is very likely to be one. It is a feature of the proposed Marketing Support Scheme that the nature of the 'schemes' (projects) that would be supported would depend on the initiatives/projects proposed by the industries themselves. These obviously cannot be predicted precisely but there are likely to be initiatives relating to the major sectors of the industry (outdoor crops, protected crops, milk production, fisheries etc.). For the same reasons the effects of the initiatives on profit and viability cannot be predicted at this stage. It is also very difficult to assess the impact after the event, because many other factors also influence the 'result' and analysis to separate these effects is seldom possible or attempted.*

In general it is very difficult to assess the likely impact of investment in marketing initiatives. Very substantial investment in these initiatives nevertheless takes place. Investment in marketing is widely accepted to be an 'act of faith' because the results cannot clearly be seen.]

3. Headage and area payments

The comment is made that the measures "should be expected to lead to an increase in the price of land devoted to agriculture."

Response: *This is true, and the principle is equally valid in other contexts. For example, a rent subsidy (for housing) is very likely to increase the level of rents charged and the market value of the properties etc.*

The significance of the effect on land rents and values should not be exaggerated, however. Rent is a relatively small component of the total costs of production (typically about 10%), so that even a 50% increase (an extreme assumption) would increase total costs by only 5%.

The same general point could, of course, be made about almost all forms of support/subsidy for agriculture. If farm incomes are improved by whatever means, this can be expected to lead to some increase in rents and land values. If the inference were that support (headage and area payments, for example) are a mistake because rents would increase, one would conclude that practically every country in the world is wrong in supporting agriculture.

4. Loan rate subsidies

Response: *The comment is made that reducing the interest rate applying to agricultural loans would raise "doubts over whether the loans would find their way into farming activities." Agricultural loans are in fact provided for specific and identified purposes. If the point being made is that there may be some indirect 'leakage' of the loans to non-farming activities, this is just about plausible, but the risk should not be exaggerated. The purpose of loans and the circumstances of the business applying for them are thoroughly scrutinised by the Agricultural Loans Board. The main problems that have arisen in the past have been mainly concerned with "unauthorised" (discretionary) loans or grants. The necessary controls and proper measures are now in place and all the concerns raised in the Audit have been fully*

addressed and a close working relationship established with the Treasury on these and other financial matters.

Response to Annex 2

Comments of the Environmental Adviser: 17 August 2001

The general comment made is supportive of the increased emphasis on agri-environmental measures and the concept of an Agri-Environment Scheme.

The comment is made, however "I am concerned that the A&F proposals have not been fully worked up and leave too many questions unanswered."

Response: *That was fair comment at the time it was made (mid-August). It should be noted, however, that the Policy Report says (paragraph 10.16) that "Details of the Scheme are being drafted in consultation with other States departments, with NGOs and other interested parties and will be issued for further consideration later in 2001." These details have subsequently been drafted and are available for scrutiny.*

The comment is also made that "some of the scheme proposals (e.g. slurry tanks) are about measures that one could argue should be part and parcel of the normal operations of a farm holding."

Response: *It needs to be recognised that compliance with new laws (e.g. the Water Law) will involve farm businesses in significant additional costs, of which increasing the capacity of slurry stores is one example. It could be argued, as the comment implies, that farms should carry the total cost of compliance. That line of argument does not take into account whether or not the farm business could afford the costs of compliance (are the businesses profitable enough to pay for the capital works and the increase in running costs?), nor the benefits that are expected to accrue for the community at large. It could be argued that if the community requires higher standards to be met and will benefit from the higher standards then the community should make some contribution to the extra costs.*

This line of argument also raises an important underlying question for policy makers - which approach to policy is likely to be the most effective in practice - carrot, or stick, or a combination? Experience elsewhere shows that a combination of stick (legislation and the possibility of penalties) and carrot (financial contribution to the cost of compliance, plus information and advice) can be very effective.

Concern is mentioned about the "advisory and monitoring system that might operate."

Response: *The importance of the advisory and monitoring roles in relation to the A-E Scheme is fully described in the Policy Report (see paragraphs 11.6 to 11.9) and attempts have already been made to address the need for independent monitoring of the costs and effectiveness of the proposed Scheme. Some financial provision has also been made in the budget for the cost of these activities (paragraph 11.9. role 5). Discussions on this subject to date have highlighted the basic shortage of resource (particularly with first-hand experience of an agri-environment scheme) in the Island to undertake the role. But the 'problem' is not insuperable. Expertise in this area is readily available in the UK and could certainly become available under contract. Neither should the amount of resource required for this purpose be exaggerated. The Jersey A-E Scheme will, in practice, be a very small scheme by international standards.*

A comment is also made about "a failure of the scheme to take on board the consideration of any potential changes likely to ensue with the machinery of government proposals that will inevitably bring some change to departmental structures."

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Response: *Changes in the machinery of government were assumed to be outside the remit of the Policy Report 2001. It has also been assumed that forthcoming changes in the machinery of government will not necessarily affect individual policies - for example, the detail of a Marketing Support Scheme or an Agri-Environment Scheme. It can be assumed, presumably, that if agriculture is to continue in the Island and if there are to be policies in future to support and influence it, there will need to be a 'department' in existence to develop and administer policies. In the context of the Agri-Environment Scheme it is important to recognise that schemes of this kind are almost always, in other countries, administered by departments that also administer other agricultural policies - for the very good reason that these policies are very closely intertwined. To separate these responsibilities would be to ignore experience elsewhere and would certainly risk creating unnecessary problems for Jersey.*

Response to Annex 3

OXERA Comments on Agri-environment policy: August 29th 2001

The following responses follow the structure of the OXERA paper.

1. Introduction

Response: *The comment that the proposed A-E Scheme would "establish a mechanism similar to the Countryside Stewardship Scheme" in the UK was fair comment on what OXERA could see in the Policy Report at the time they commented. The proposed scheme does, however, differ from this UK scheme in several important respects (for example, a clear mechanism for conditionality) and takes into account experience and methods used in other European countries. Jersey is able to avoid the pitfalls experienced elsewhere, including in the UK.*

2. The Jersey Agricultural Sector

Response: *The comments are a broad interpretation of the agricultural industry in the Island and of the application of the A&F Committee's budget. The comment "It is noticeable that the staffing costs (running at over 25% of the support budget) are much higher than might be expected. These could be benchmarked against wider experience in Europe." is superficial and requires a response. Staffing costs are a relatively high proportion of the A&F budget for the simple reason that the Department provides a number of support services for the industries that require manpower - services that are normally (i.e. in most other European countries) provided by the private sector. They are provided by the Department in Jersey because the industries in Jersey are so small (by international standards) that private sector provision of these services would be totally uneconomic. The economies of scale that are available in larger countries are not available in Jersey - hence the unit costs of the services are relatively very high. Consequently there are substantial subsidies for these services so that they are affordable to individual agricultural businesses.*

It should be noted that 90% of the manpower deployed by the Department is deployed, directly or indirectly, to the provision of services. This is a very much higher figure than is the case in larger European countries. If the services have to continue (and it is clear that almost all of them are essential - for example, the abattoir, the artificial insemination service, the milk recording service etc.) manpower and other costs will be incurred; these will either be incurred by the Department or by some other organisation.

Benchmarking, as suggested by OXERA, is unlikely to throw any more light or to be a productive exercise. In other countries support services are seldom provided by government which therefore does not need to employ manpower to provide them.

3. Objectives and Criteria

Response: *There are no specific comments here on the proposed A-E Scheme for Jersey. The observation is made, however, that in the context of 'polluter pays', because farm incomes have been under severe pressure (in the UK) "it is difficult to argue that farmers are in a position to pay." That observation applies also to Jersey.*

4. Options

Response: *There are a number of general observations about "a policy of subsidies and environmental services payments." These do not, on the face of it, raise any issues except (in the first bullet point) "it is likely to significantly affect behaviour only where the farmer is better off with the subsidy (or payment) than without." This has to take into account the policy framework as a whole - not just the A-E Scheme alone - i.e. it must take into account the significance of conditionality.*

There is a worry about schemes that "evolve into complex sets of eligibility rules". The mistake has not been made in the design of the Jersey A-E Scheme.

There is reference to possible future reforms of the EC's Common Agricultural Policy that might involve 'tradeable quotas' and to past consideration in the UK of environmental taxes. Neither of these matters appears relevant to the current task of deciding policies in Jersey for the medium term.

5. Conclusions

This section presents a list of 7 criticisms of the proposed scheme.

1. "it is a long term commitment on behalf of the taxpayer."

Response: *This is true, but it would be said by many that maintaining and improving the environment in Jersey requires a long term commitment by all involved. This should be seen to be a positive feature of the scheme, not a basis for criticism. Although a long-term commitment is desirable, it would always be possible for the States to curtail or reduce funding for the Scheme because no legal obligations concerning long-term funding would have been entered into.*

2. "it is likely to have a high administrative cost, especially given the high administrative costs of the existing agri-financial measures in Jersey.

Response: *Not so. The administrative needs of the proposed A-E Scheme have been analysed in great detail and the proposed administration will be lightweight bearing in mind the substantial public funding envisaged. The total manpower required, including not just administration, but also the provision of advice, and the management and ongoing development of the scheme, is estimated to be 2.8 man-years. The reference to "high administrative costs of the existing agri-financial measures" is inaccurate and indicates a limited understanding of the A&F Committee's budget and how it is spent and administered. The administration involved in 'agri-financial measures' (i.e. Direct Financial Support) in the Department is very small: in the year 2000 the manpower involved was 0.72 man-years. The writer appears to have been confusing 'agri-financial measures' with the provision of support services. As mentioned earlier, 90% of the Department's manpower is deployed to the provision of services - but these should not be confused with agri-financial measures.*

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3. "there is no clearly defined objective or overall vision, and it may therefore not address the environmental priorities of most value to the welfare of Jersey."

Response: *This criticism is unjustified. The strategic objectives with regard to countryside environment issues is stated at paragraph 9.9 (1) of the Policy Report. The issues to be addressed are stated at paragraph 10.6. The measures to be available to farmers and growers are illustrated at paragraph 10.14. In drawing up the list of measures to be available when the scheme is launched a great deal of thought has been given to the priorities for Jersey. The highest priorities are considered to be measures to prevent pollution (from farm waste products and from nitrate applications). These are included in the illustrative list in paragraph 10.14. Important, but lower, priorities are concerned with protecting and enhancing the landscape, encouraging biodiversity and encouraging greater public access to the countryside. These are all mentioned in the Policy Report.*

4. "the proposed elements do not deal with intensity of land use, or use of agro-chemicals."

Response: *This criticism is inaccurate. Paragraph 10.14 states "Adopting crop protocols that involve reduced inputs of fertiliser and agro-chemicals and applying them more efficiently" and "Supporting conversion to organic farming". Paragraph 10.45 states "It is proposed that headage/area payments will be designed to encourage less intensive farming practices". These points are in the Policy Report as published. The details of the A-E Scheme now developed spell out these and other measures in full detail.*

5. "the proposed criteria of 'appropriateness' and 'adequacy' are probably too vague to be operable, and might be open to interpretation such that the objective of the scheme might not be delivered."

Response: *This criticism is inaccurate, which is not surprising because it was expressed before the 'operation' of these criteria had been fully documented and without asking the Department what form of operation was envisaged. Appropriateness is a criterion that exists in all agri-environment schemes, although not always labeled as such. For the Jersey scheme appropriateness will be assessed easily for the individual farm based on an initial assessment of which of the available measures would, or would not, be suitable for the farm. Appropriateness is further assured by the in-built nature of the available measures. Adequacy is a necessary criterion for eligibility of a Farm Environmental Plan to ensure that the input of public money is justified. The methodology adopted for the Jersey A-E Scheme is not vague and it is entirely operable. It is based on methodology used in some other European countries. Details are available for scrutiny.*

6. "if there is a possibility that funding in any given year falls short of funding applications by farmers, as suggested in the report, then some farmers will be dissuaded from applying by the costs of application and uncertain success."

Response: *The comment "dissuaded from applying" again misses the great significance of conditionality which is likely to persuade most if not all farmers to participate in the scheme. With regard to the possibility of funding falling short of requirements, the methodology of the scheme ensures that the only circumstance in which this could happen is for the relatively expensive measure to increase slurry storage capacity. In the event of applications exceeding available funding, some funding for this measure will be delayed until the following financial year. This would not prevent a farmer from going ahead with the work, but it would mean that he would not receive the scheme payment until the following financial year.*

7. "if the financial contribution from the States is less than the typical cost to a farmer, as suggested in the report, then farmers will not opt for the subsidy, and the scheme will fail. The scheme will have to be financially attractive to the farmer to be successful."

Response: *The comment again misses the point about the great significance of conditionality. The point has not been grasped that receipt of Direct Financial Support will become conditional on adequate participation if the A-E Scheme. Farmers will therefore have a great incentive to participate in the scheme and will not lightly opt out.*

Finally, the paper offers some guidance concerning development of the scheme. There is a reference to the Environmentally Sensitive Areas Scheme, which operates in the UK, with the suggestion that schemes of this kind have shown relatively high value for money.

Response: *In designing the Jersey A-E Scheme it has been possible to study not only the UK schemes, but also those operating elsewhere in Europe, and to take advice from the IEEP. Although coming late to the introduction of an agri-environment scheme, Jersey is fortunate in being able to take advantage of experience elsewhere. In her critique of the proposals for the Jersey scheme "Jersey's Agri-Environment Scheme: from last to first?" Janet Dwyer comments:*

"In successfully taking forward these proposals, Jersey looks set to move from a position where it is lagging behind the rest of Europe, in respect of the integration of environmental concerns into agricultural policy, to a position where it would be at the 'leading edge' of such developments."

Should your Committee wish to question Dr. Dwyer in greater detail, we would invite her to make a presentation to the Committee. I am sure that the proposals will definitely put Jersey at the "leading edge" and on such matters as important as the environment we should surely not aim for anything less!

4 Responses to questions from the F&E Committee relating to the Agriculture and Fisheries Policy Report

Attached to Senator Walker's letter of 27th September was a memorandum from Robert Bushell (dated 30th August) and 3 annexes. Responses to these are included earlier in this document. Also attached to Senator Walker's letter was a list of 14 questions, the responses to which follow below.

Strategy

1. What are the Committee's strategic objectives?

The strategic objectives are stated in paragraph 9.9 of the Policy Report 2001. In summary:

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.

These objectives follow from the Committee's perception of its proper overall aim (paragraph 9.8):

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.

For each of the strategic objectives the Report states (9.9) the *means* by which these objectives can be achieved. Section 10 sets out the *framework of policies* for each of the above objectives and Section 11 sets out in broad terms the *means of implementing* the policies.

2. What is the Committee's vision?

There is a danger that a statement of vision will be seen as simply a 'wish list'. The following is not a wish list but the *Committee's expectation* - provided that the policies are implemented as intended and the industries respond as expected.

Industry size and structure: Agricultural industry smaller in terms of physical output; larger in terms of financial output; fewer businesses involved; land area used very slightly reduced; based mainly on family owned and managed businesses. Fisheries industry slightly larger.

Industry sectors: All current sectors continue - outdoor cropping, protected cropping (edible and ornamental), milk production, fisheries sectors.

Profitability and viability: Profitability of all sectors sufficient for efficient businesses to continue and to earn a competitive return on the capital invested in farming/fisheries activities, and to encourage new entrants and orderly business succession.

Self-reliance: Industries take much greater responsibility for their own affairs (marketing, provision of services etc.); are less dependent year by year on the States for Direct Financial Support.

Efficiency and competitiveness: Industries are technically efficient and competitive; adopting appropriate new technology promptly; fully competitive in the marketplace, based on high standards of quality, packaging, promotion, advertising, negotiation etc.

Marketing: All production is market-led; the marketing process is both efficient and cost-effective, based on a united approach to marketing overseas; achieves premium prices; strong marketing infrastructure retained in the Island despite the continuing trend to category management.

Care for the countryside: Agricultural industry maintains the countryside and the rural environment to a high standard, by encouraging wildlife and biodiversity, by maintaining and enhancing the landscape, by dealing responsibly and effectively with pollution risks. Fisheries industry similarly behaves responsibly with regard to the marine environment.

Relationship with government: The industries have a structured and businesslike relationship with government, aiming for a 'partnership' between government, the industry and other stakeholders in the countryside.

3. If the strategy is successful what will the Industry look like in five years time?

This is obviously closely related to the vision summarised at 2 above. The numbers mentioned can only be indicators. The size and shape of the industries in future depends on many factors of which Committee policies are only one.

Industry size and structure: Physical output smaller, perhaps by 10-15% overall; financial output larger, perhaps by 10-15%; fewer businesses involved, perhaps reduced by 5%; industry still based mainly on family owned and managed businesses.

Industry sectors: Dairy sector smaller in terms of physical output, the extent depending mainly on the level of market prices for dairy products; area of Jersey Royals similar to 2001; area of second crops possibly doubled; protected crops area slightly reduced, with cropping diversified but still dominated by edible crops; output of flowers and other ornamentals increased by up to 50%; fisheries output probably increased but not more than 10% - depending mainly on rate of development of fish farming.

Profitability and viability: Profitability improved for all sectors, with return on investment restoring confidence and encouraging new entrants and business succession. All sectors viable. Indebtedness of the industries reduced and reducing.

Self-reliance: Industry sectors firmly in control of marketing and managing at least some support services; agricultural industry significantly less dependent for profitability on Direct Financial Support.

Efficiency and competitiveness: Industry sectors all abreast of latest technology, technically efficient and competitive; fully competitive in the marketplace, based on high standards of quality, packaging, promotion, advertising, negotiation etc.;

Marketing: All production based on market requirements; marketing process both efficient and cost-effective; all marketing overseas based on a united approach; products are achieving premium prices sufficient to sustain profitability and business viability. Increased supplies of Jersey produce to the Jersey market, replacing at least 50% of relevant products currently imported.

Care for the countryside: All sectors maintaining the countryside and the rural environment to a high standard, delivering significantly more 'environmental goods' than currently, have virtually

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eliminated the risks of pollution from agricultural sources - including a significant (at least 15%) reduction in use of nitrate fertilisers. Dairy sector less intensive, with some increase in organic production.

Relationship with government: The sectors have a structured and businesslike relationship with government and with other stakeholders in the countryside.

4. What are the links between the Committee's vision and the proposed activities?

These links are set out in the Policy Report 2001 (Section 10) in terms of *policies* that will both support the industry and guide it in the right directions. In summary:

1. Policies to safeguard and enhance the environment

- a) Services designed to safeguard and enhance the environment (listed at paragraph 10.8).
- b) An Agri-Environment Scheme (outlined in paragraphs 10.10 to 10.19). Details of the operation of the Scheme have subsequently been developed.

These policies are linked to 'Care for the countryside' (*see Question 3 above*).

2. Policy concerning improved marketing of Jersey Produce

The proposal is to introduce a Marketing Support Scheme which will provide financial support for approved projects/initiatives. The principles of the Scheme are set out in paragraphs 10.20 to 10.29. Details of the operation of the Scheme have subsequently been developed.

This policy is linked to 'Marketing', 'Efficiency and competitiveness', 'Profitability and viability', and 'Self reliance'.

3. Policies to provide direct financial support to individual businesses

- a) Direct Financial Support to address economic disadvantage (area and headage payments, as outlined in paragraphs 10.36 to 10.45).
- b) Provision of loans to agricultural businesses (interest subsidies, as outlined in paragraphs 10.46 to 10.49).

These policies are linked to 'Profitability and viability', and to 'Efficiency and competitiveness'.

4. Policies to provide infrastructure and support services

These policies are outlined in paragraphs 10.50 to 10.55. They include provision of the abattoir, the artificial insemination service and the early bull proving scheme.

The policies are linked to 'Profitability and viability', 'Self reliance', and 'Efficiency and competitiveness'.

5. Policies to provide a legal framework and statutory services

These policies are outlined in paragraphs 10.56 to 10.58. They include the provision of inspection services and provision of the States Veterinary Service.

The policies are linked to 'Efficiency and competitiveness', and 'Marketing'.

6. Policies relating to the Fisheries Industry

These policies are outlined in paragraphs 10.59 to 10.61. They include control and enforcement of marine resource conservation, provision of on-shore infrastructure and support for the development of fish farming.

The policies are linked to 'Efficiency and competitiveness', 'Profitability and viability', and 'Marketing'.

All the policies listed above are linked to 'Industry size and structure' and to 'Industry sectors'. Implementation of all policies would be greatly facilitated by 'Relationship with government'. The Committee welcomes current thinking in the industry in favour of an Agricultural Advisory Body which would provide a forum for reviewing policies.

5. What are the performance measures for the strategy? How will it be measured in two years time whether it has been successful?

This should be considered at two levels: long term and short term:

- (i) The strategy, which is essentially a long term plan, will be monitored annually by means of *performance indicators* which relate to the five strategic objectives. Performance indicators are not 'measures' as such, but are easily assessed indicators that the strategy is on course. Examples of performance indicators are:

Care for the Countryside: the level of adoption of the measures available under the Agri-Environment Scheme; the level of additional spending on environmental measures; the number of pollution incidents; the aggregate level of nitrate usage by farmers.

Marketing: the level of adoption of the Marketing Support Scheme to support new initiatives; the extent to which a 'united approach' is prevailing; the level and trend of returns from the market.

Economic competitiveness: the trend in profitability for the industry sectors; the trend in unit costs of production compared with competitors.

Infrastructure and support services: any evidence of decline in the availability or standard of services.

Legal and statutory framework: any evidence of gaps in the legal framework; any evidence of decline in statutory services or in standards.

- (ii) The strategy will be implemented in practice through *annual plans* within which each strategic objective will have specific annual objectives. These are too detailed to be presented here, but can be illustrated.

Marketing: good quality marketing development plans exist and are being implemented for each sector of the industry.

Care for the Countryside: good quality Farm Environmental Plans exist and are being implemented by at least 90% of farmers.

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Progress will be monitored against objectives of this kind each year. In this way implementation of the strategy will be monitored and so will the results achieved.

The Policy Report also proposes a formal Biennial Review (paragraphs 9.5 and 9.6) which "will take into account all available information, including:

- Trends in profitability for the sectors.
- An assessment of prospects for profitability for the next 2-3 years ahead.
- The response of the industries to the new policies, for example uptake of the Marketing Support Scheme, and the degree of success achieved.
- Information of a statistical nature about trends in the industries: areas of crops, numbers of livestock etc.
- Information and opinions from consultation with the industry leaders and stakeholders."

It can be seen from the above that the Biennial Review will give a very good indication of the success or otherwise of the strategy.

The Report makes clear the purpose of the Biennial Review, including establishing whether there are industry problems/issues that require detailed review and (paragraph 12.36) "determining the level of payments for the following 2 years. The level of payments will then, in principle, follow the strategy that payments will be reduced (as in Annex C)."

6. **The costs of the strategy over a five year period are an extra £15.2 million in addition to the ongoing funding of £40 million. What are the benefits to the Island to justify £55 million of expenditure.**

The benefits that can be expected to flow from this average expenditure of £11 million per annum are based on maintaining the industries (agriculture and fisheries):

- contributions to the economy of the Island (direct and indirect employment, internal commerce, external trade, balance of payments);
- maintaining traditions of the Island based on a thriving rural community (relating to the Jersey breed, for example);
- maintaining the countryside and rural environment;
- helping to maintain Jersey as an attractive place in which to live and work;
- helping the tourism industry by maintaining the countryside and 'traditional Jersey';
- contributing to food supplies.

It should not be imagined that these benefits would continue in the absence of thriving agriculture and fisheries industries; or that the benefits of a beautiful countryside would continue in the absence of agriculture - without substantial expenditure by some other means. It needs to be recognised that *the countryside of Jersey is beautiful because of agriculture, not despite it.*

Level of Financial Support

1. **How has the Committee determined the total level of financial support to the industry? Is it by comparison elsewhere? If so what are the comparators?**

The total level of financial support has been determined by detailed analysis of the needs of the industry in Jersey - NOT by comparisons with support elsewhere (see also questions 2, 3 and 4 below, all of which are on a similar theme). The total needs of the industry comprise:

- the need for support to encourage marketing initiatives and a unified approach to marketing;
- the need for direct support to address economic disadvantage;
- the need for environmental services to protect the environment;
- the need for an Agri-Environment Scheme to encourage farmers to take additional steps to protect and enhance the environment;
- the need for support services to enable the industry to function and to develop;
- the need for statutory services to enable the industry to operate within a satisfactory legal framework and to meet legal obligations;

For each of these needs a detailed analysis was undertaken, leading to the proposals (budget indications) in Annexes B and C in the Policy Report.

In determining the level of support needed in Jersey, *comparisons with the levels of support provided in other countries is not particularly helpful*. In determining policies for Jersey agriculture the considerations must be the objectives for Jersey, the policies needed to achieve these objectives and the costs of these policies. It needs to be asked how useful/helpful it would be in this process to know whether other countries are spending more or less in supporting their industries? If it were found, for example, that Jersey spends more 'per unit' in supporting its agriculture than, say, Portugal, or Ireland, or even Guernsey, what conclusions could be drawn? Or if Jersey spends less per unit than, say, Denmark, or the USA, how should that information influence policy in Jersey?

Moreover, comparisons of this kind are notoriously difficult to make, as most agricultural economists will testify (see also question 4 below).

It should be noted that all other countries in Europe, and most countries elsewhere, support their agriculture in a variety of ways. The framework of policies proposed for Jersey is entirely consistent with the trend in policies in the UK and elsewhere in the EU.

2. **The OPM report stated, "the indicators are that the value of support received by Jersey's farmers is currently significantly greater than would be the case if Jersey was part of the European Union." Does the Committee accept this?**

The evidence is mixed. Those involved in the protected crops sector in Jersey argue strongly, and with justification, that growers here receive much less support than their counterparts in the European Union. On the other hand, potato growers in Jersey receive Direct Financial Support, whereas their counterparts in the UK do not. In making this comparison, however, it needs to be borne in mind that early potatoes are, by far, the dominant crop in Jersey - and so largely determine the profitability of the sector- whereas potatoes are a much smaller part of the farm economy in the UK. Cereals, which are a far more significant part of the farm economy in the UK, do receive financial support. They do not receive support in Jersey.

In considering the relative value of support in Jersey compared with, say, the UK it is important to recognise that the unit costs of production in Jersey are significantly higher. The costs of growing an acre of new potatoes, for example, are approximately double the costs in England. On this basis, it might be expected that the value of support in Jersey would be greater.

It should be noted, however, that in their comments (dated 29 August) relating to the proposed Agri-Environment Scheme the consultants OXERA said "In total, the UK government subsidies for agri-environment schemes are 3% of farm receipts, 47% being production and area subsidies, and the remainder, 50% sales of produce." OXERA did not state their source, but they presumably quoted official statistics from the UK. How do the figures for Jersey compare? If it is assumed that the whole of the A&F Committee's budget (approx. £8m) is 'production and area subsidies' (which it clearly is not), this would represent about 16% of farm receipts.

It is necessary to ask how relevant this question is to determining policies and levels of support for agriculture in Jersey (see answer to Question 1 above). It would be far too simplistic to argue that because support for a sector in Jersey is greater, or smaller, than in the EU, the level of support in Jersey should be adjusted accordingly. *The level of support in Jersey must obviously be determined by the objectives and therefore the needs in Jersey.*

3. How did the Committee arrive at the level of financial support (£3.2 million) for headage and area payments?

The total amount was calculated based on an analysis of the economic disadvantage and profitability of the sectors of the industry, and the underlying trends for both. The guide in making these calculations was the Committee's aim to provide sufficient support to enable efficient businesses to make a sufficient level of profit to underpin viability.

For the dairy sector, for example, financial information up to and including 2000, for a sample of herds, was analysed to assess profitability, return on capital invested in farming, and viability. The current trends affecting profitability were also identified. They show a downward trend in profitability mainly because the milk price is declining whilst production costs are gradually rising. These trends are expected to continue for at least the next two years, over which time the industry as whole aims to adjust the level of production downwards. This reduction is expected to allow some increase in the milk price paid to producers. As part of the analysis, the current level of direct support paid to milk producers (in the form of a seasonality bonus) was translated into 'headage' terms. All this information was then used to determine the level of headage payment needed for 2002 and beyond.

A similar process was followed for outdoor crops, protected crops etc.

The details of the £3.2 million for 2002 have not been disclosed for 3 reasons:

- 1) It is not possible to confirm payments for the year ahead until after the annual Budget Debate in December.
- 2) The level of payments for the year ahead need to take into account the very latest information available i.e. up to December.
- 3) It would have been a mistake to disclose provisional levels of payments because this would have provoked intense and divisive arguments throughout the industry.

The proposal is that headage and area payments to apply for the following year will normally be announced immediately after the Budget Debate confirms the funding available. For 2002, however, the payments would be announced as and when the Policy Report and funding have been agreed by the States. Concerning future adjustments to headage and area payments, paragraph 12.36 reads "It is proposed that the levels of headage and area payments will be reviewed at 2 yearly intervals (the Biennial Review) as indicated in Section 9 of the Report, with a view to determining the level of payments for the following 2 years. The level of payments will then, in principle, follow the strategy that payments will be reduced (as in Annex C)." See also the answer to question 5 below.

4. How does the level of financial support compare with that in Guernsey, Isle of Man and the European Union?

This question has not been addressed. It has been argued earlier (see question 1 above) that such comparisons are unhelpful when determining policies and levels of support for Jersey. Even if Jersey decided to link its support levels to those in another country (it would be illogical to do so and it would be necessary to decide which one!), the comparisons are very difficult to make. Interpretation of support levels in a country requires an understanding of the relative importance of agriculture in the economy; the relative importance of the sectors in the agricultural economy; an understanding of other economic and

social policies in the country and the support flowing from those policies; an understanding of the influence of currencies and their fluctuating values on agricultural support; an understanding of the policies concerning direct and indirect taxation etc. For these reasons, a difficult decision would need to be taken about the 'boundary' for the comparison (i.e. which factors to include and to exclude). That decision would itself distort the comparison.

The question suggests the European Union for comparison, but that would be totally impractical. The EU comprises many countries in which support for agriculture, direct and indirect, is not identical and other social and economic policies are not identical.

Anyone wanting to know more about agricultural policies in the UK or in the EU is referred to the respective websites for DEFRA and the EU.

5. **The report emphasises viability. Presumably any business will be viable, no matter how uneconomic and inefficient, given enough subsidy. On what basis will the level of support be determined? If profit margins fall will subsidies increase? How and when will the Committee decide to no longer support a sector?**

It is true that, given enough subsidy, any business could be made viable. It would obviously be a bad policy, however, that enabled a subsidy to be paid at such a level. The Policy Report does not propose subsidies at a level that would perpetuate inefficiency (the term would need definition). The basis for determining the level of support was explained earlier (see answers to Questions 1 and 3 above). The basis is an assessment of economic disadvantage (high costs of inputs compared with competitors) and an assessment of profitability and trends.

The proposed methods of providing Direct Financial Support (area and headage payments) are essentially decoupled from production. They are designed to address economic disadvantage and the adequacy of profitability. This does not mean, however, that if profit margins fall, the level of subsidies would automatically increase. Any decline in profitability due to competition and other 'market' influences (price levels) is intended, in the new policy framework, to be addressed by the industry itself through improved marketing with support from the Marketing Support Scheme. Any decline in profitability due to increases in relative costs is intended to be addressed in the Biennial Review when changes in economic disadvantage can be taken into account in determining payment levels for the following two years. The intention, other things being equal, to progressively reduce Direct Financial Support payments, is made clear in the Policy Report. Direct Financial Support is intended to address the need for a reasonably level playing field in terms of costs, so that farmers in Jersey have a fair chance of competing.

With regard to sectors that appear to be in financial difficulty and whose future is in doubt, the Policy Report says (in the context of a Biennial Review) "In the event that it appears that a reduction (in Direct Financial Support - according to the strategy) is not appropriate or that an upward adjustment is needed for a particular sector, the Committee will then consider whether there appears to be a fundamental and unacceptable problem. If so, the Committee will undertake or commission a thorough analysis of the profitability of the sector, and the short term and longer term prospects for improvement. On the basis of the conclusion from this review the Committee will decide whether or not to continue to support the sector, in what manner and at what level." A review of this kind could, therefore, lead to the withdrawal of support. This decision would, however, be based on a thorough analysis of the circumstances and future prospects for recovery.

The Policy report also makes it clear that it is not necessary to wait until a Biennial Review to trigger a detailed sector review. This could be initiated at any time that the Committee considered appropriate.

6. Would the agriculture industry not become more profitable if the industry reduced the scale of production and concentrate on products that are able to achieve a premium price, albeit in limited quantities?

It is incorrect in principle to generalise by referring to the 'agricultural industry' as a single entity. It consists of a number of quite distinct sectors and the question of scale of production needs to be considered separately for each of them. It is also wrong to assume, as the questions appears to do, that a reduction in the scale of production would increase profitability. The question is valid in identifying the scale of production as a very important consideration and also valid in referring to the need to achieve premium prices. The latter is necessary because the unit costs of production in Jersey are significantly higher than in the export market (the UK). (Growers in Jersey are, of course, well aware of the necessity and have been remarkably successful over a long period in achieving premium prices from the market.) But it is incorrect in principle to assume that a reduction from the current scale of production is appropriate for all sectors of the industry.

For the dairy sector the decline in the market prices of dairy products will, if it is judged likely to persist, necessitate a reduction in the scale of milk production in Jersey. For Jersey Royal potatoes, however, the 2001 season demonstrates how wrong it can be to prejudge the economic scale of production for the year ahead. There was a shortage of supplies of new potatoes in the UK, market prices were relatively high and Jersey could have sold greater volumes in the UK than were produced. This was so despite the widespread conviction in the industry - based on returns from the poor 2000 season - that the area grown had to be reduced! This emphasises the need for each sector to have highly coordinated management of both production and marketing.

Each sector should itself seek to identify the scale of production that can achieve maximum profitability, taking all factors into account. The economic circumstances for the industry sectors can be expected to change over time and so, therefore, can the economic scale of production be expected to change.

Agriculture Loans

1. Subsidised loans to glasshouse growers have not ensured a viable industry. On what basis does the Committee believe this situation will not be repeated if it continues to provide low interest loans.

It is incorrect to assume that subsidised loans to glasshouse growers were intended, by themselves, to "ensure a viable industry" or to assume that they could do so. The viability of an industry obviously depends on many factors (including competition, market prices, trends in costs of production, disease and weather effects etc.) of which investment is one - albeit an important factor.

Subsidised loans have been the method used in Jersey to support and encourage investment and modernisation. The same method has been used in most other European countries but some, notably the UK, have preferred capital grants. Hence the Jersey method has been part of the attempt to produce a 'level playing field' for growers in Jersey.

The question seems to imply that non-viability would be a consequence of continuing to provide subsidised loans. That line of argument is surely incorrect. Subsidised loans have the effect of reducing the cost of investment and (normally) of reducing the (per unit) costs of production. This will, other things being equal, improve competitiveness and the prospects of achieving sufficient profit.

2. **The OPM report did not support the continuation of interest subsidies and an agricultural loan scheme. On what basis has the Committee ignored this expert advice?**

There are two separate issues here.

First, whether or not the States should continue to provide financial support to agriculture to encourage investment and modernisation. OPM did not argue against providing support for these purposes. They appear to support continuing interest subsidies and they also refer to potential new support measures (for Jersey) in the form of capital grants. The A&F Committee is of the opinion that the industries need to receive support to encourage investment and modernisation similar to the support for this purpose provided in competitor countries. If this support is not provided, clearly the local industries will be disadvantaged. The choice of method rests between interest subsidies, as provided in many other European countries, and capital grants, as provided in others. The Committee believes that there is no overwhelming argument for changing the method. OPM referred to capital grants as a potential method of supporting initiatives relating to marketing, diversification and pro-environmental capital expenditure. The Policy Report includes proposals for grants for these purposes.

Second, whether or not the States should continue to be directly involved in providing and administering such support. OPM referred to the possibility of transferring responsibility for the Agricultural Loans Scheme to the private sector. The Committee is not opposed to this in principle. It has been explored informally with a bank which has well established agricultural business in Jersey. The bank said that they would not wish to take responsibility for the States agricultural loans and expressed the opinion that other banks would take the same view. If, however, the States definitely wished to relinquish the responsibility they would consider taking it over, but would require a substantial discount to the value of outstanding loans as a condition. The figures mentioned represented, on the face of it, a poor deal for the States. It would be less expensive to continue to manage the loans in-house. Financial management within the Department of Agriculture and Fisheries has been strengthened by employing an accountant and the management of loans is fully under control.

It should be noted also that OPM identified four 'options for change' with regard to interest subsidies and agricultural loans, one of which was to increase the value of interest rate subsidies. Although OPM pointed out some potential disadvantages in doing so (increasing budget requirement and potentially encouraging over investment) the A&F Committee is proposing increasing the interest subsidy, partly to address the current financial difficulties in most sectors of the industry and partly to restore the advantageous terms for loans that were originally intended when the Agricultural Loans Scheme was introduced. Currently the terms are not advantageous compared with other sources of borrowing.

Policy & Resources Committee
31 January 2002

Late Item

AGRICULTURE FUNDING PROPOSALS

Ahead of the debate in the States on 12 February, I attach some draft comments the Committee may care to submit to the States without however being too negative. These endeavour to reflect the main burden of the discussion that has gone on before. The Finance and Economics Committee will be considering its comments next Wednesday; it will be advised to focus on the key points that there is no additional cash available in 2002 and that any bid for 2003 and beyond should take its place alongside others in the resource allocation exercise kicked off by Presidents a couple of weeks ago. It would make sense for both Committee's comments to be submitted together on a supplementary order paper at the end of next week.

It would be possible to say a lot about the Agriculture Departments proposals, mostly less than wholly favourable. But it perhaps is best not to say too much. If nothing in practice could happen until 2003 there is time for further detailed discussion about what the precise shape of any new support schemes might look like.

An Act from HR has just come round about A&Fs plans to cut the cost and size of the Department. I will table this tomorrow. This proposal appears to be not quite as it seems.

JFM

**Agriculture and Fisheries Committee: Policy Report 2001 (P126/2001), and amendments
lodged on 18 December 2001**

COMMENTS BY THE POLICY AND RESOURCES COMMITTEE

1. The Committee, together with the Finance and Economics Committee, has spent much time lately giving careful thought to the Agriculture and Fisheries Committee's proposals. There has been a good deal of discussion between all those concerned. Analysis has been undertaken from both economic and environmental perspectives. The Committee is very conscious of the overall significance of the issues at stake. The Committee has also noted the comments of the Human Resources Committee and has coordinated issuing these comments with those of the Finance and Economics Committee.
2. The Policy and Resources Committee supports the general principle of providing appropriate financial aid to the agricultural industry. Support mechanisms for agriculture are common in all developed countries, for a range of well established reasons. Jersey, of course, already has substantial support arrangements in place: the Agriculture and Fisheries Department's net revenue budget is about £8 million. This is about 2% of the States net revenue budget in respect of an industry that contributes about 4% to Island employment and 1% to Island GNP, a favourable imbalance that can be seen to reflect the wider importance of the agricultural sector to Jersey. The question on the table for debate is not whether the current support should be reduced or withdrawn, but whether it should be increased in the manner proposed, that is by about £4 million (50%) per annum. The Committee strongly supports the view of the Finance and Economics Committee that a decision on this - and indeed on any proposed increase - can only be taken in the context of the resource prioritisation exercise that the States instructed should be pursued when they approved the current Resource Plan. That exercise has now begun and will culminate in decisions taken on the next Resource Plan, in September 2002, the States having already agreed the maximum figure for net revenue expenditure in 2003 and 2004.
3. The Committee certainly supports the aim of shifting the focus of any agricultural support away from production related subsidies towards environmentally based arrangements. The Committee remains concerned, however, about several aspects of the proposed agri-environment notwithstanding various clarifications provided by the President of the Agriculture and Fisheries Committee in response to various questions and comments having been put. It is not clear, for example, exactly what levels of financial support would be granted to participants and for precisely which activities support would be granted. It is, moreover, not clear what it is proposed should be the source of expert advice on ecological and pollution issues in support of the proposed scheme, and how such expertise should be put in place in the Island. There needs, in the Committee's view, to be greater clarity about the objectives of the proposed scheme in the context of overall policies towards the environment and how the meeting of those objectives would be assessed against expected outputs. A proper system of evaluation is obviously crucial in the context of value for money.
4. In the Committee's view such issues require further work before any scheme could properly be launched, if funds for it become available. It proposes that this should be led by the Environmental Adviser in the Policy and Resources Department, together with the

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Economic Adviser, and that the Environment and Planning Department should be fully involved along, of course, with the Agriculture and Fisheries Department. The Committee's view is that the Environment Department should eventually have responsibility for managing whatever agri-environment scheme is eventually agreed.

5. If the States agree in principle that a new package of support measures should be introduced along the lines proposed, it will be necessary for them to be notified to the European Commission under Art 88(3) of the Treaty establishing the European Community in sufficient time for the Commission to be able to submit its comments, which would be based on compatibility of any proposals with the common market in agricultural products. This requirement arises pursuant to Protocol 3 to the UK Act of Accession to the Treaty, which governs Jersey's relationship with the European Community. The need for this has been discussed extensively with the Agriculture and Fisheries Committee, and indeed the same was done about ten years ago when present arrangements were, broadly speaking, put in place. It is not apparent that there is any particular likelihood of the Commission's commenting adversely, but it is not a formality and is one main reason why it is so important to be clear about overall objectives. Case law requires the Commission to comment within two months of receiving the necessary information.
6. There is a range of other issues arising from the proposals where the Committee continues to have certain concerns. These include:

- **Marketing Support**

This is presented as a key element of the overall proposals, since success in marketing would (according to the strategy) lead to a reduction in States support spending on this and (for example) Headage payments within the first five years

Successful marketing schemes should be expected to raise output in the industry. But the Committee finds it very difficult to form a judgement about whether this would happen since there is very little detail on the marketing schemes which might be put in place and the output then can reasonably be expected of them. The impact on profit and farm viability is therefore unknown

- **Loan-rate Subsidies**

Such subsidies reduce costs of production in agriculture. Output should be expected to increase in the farming industry. There may be longer-term productivity gains through the impact of the subsidised loans on capital investment by farmers. However, the Agriculture and Fisheries Department appears to be proposing to make loans at negative interest rates and there must be a degree of doubt over whether the loans would all find their way into farming activities. The Committee is also mindful in this regard of the view expressed in the OPM study that, given Jersey's strong banking infrastructure, this kind of financial support should no longer be contemplated as a public sector activity.

In view of the fundamental resource issues to which the proposals give rise, plus the need to notify the European Commission and, in the Committee's view, to do further work on the details of an agri-environment scheme, it is in practice, impracticable to contemplate any change in agricultural support arrangements before 2003 save to the extent that the Agriculture and Fisheries Department may choose to reprioritise within its own existing budget for 2002 and indeed beyond. The time that this therefore gives needs to be used to best effect and the Policy and Resources Committee will work closely in that period with the Agriculture and Fisheries Committee, together with the Finance and Economics Committee, to seek to ensure that all relevant questions have been answered so that new arrangements can proceed in 2003 if the States agree them and if resources for them prove to be available.