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Post-Brexit plans for agriculture

Wendy Kenyon

This briefing sets the scene as the UK agriculture bill is introduced into Westminster. It provides information on agricultural policy now, under the Common Agricultural Policy in the UK and Scotland. It summarises the proposals set out by Defra and the devolved administrations on how the CAP may be replaced with domestic policy in the coming years.

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Executive Summary

When the UK leaves the EU, it will leave the Common Agricultural Policy (CAP). Defra and the devolved administration will then design and implement their own policies. Scotland, England, Wales and Northern Ireland have published proposals for how agricultural policy might change in the coming years. The CAP will also change after 2020.

Under the CAP, UK agricultural policy shares a common framework, although with considerable regional variations. A UK-wide framework for agriculture to replace the CAP is being negotiated. A UK Agriculture Bill is expected in September 2018. This will enable a break from the CAP, and provide the UK with the ability to set out a domestic policy.

A budget of €4,574 million from the CAP funds agricultural and rural activities in Scotland between 2014 and 2020.

The Scottish Government has set out proposals to replace the CAP up to 2023. There is no indication of policy beyond. In Scotland, basic payments will continue in 2018 and 2019. In 2020-2023 there will be continued payments for current recipients within the CAP architecture, with some possible changes, such as capping.

Scottish Rural Development Programme schemes will continue to run under CAP rules to 2020 if the withdrawal agreement is ratified. From 2020-2023 many schemes will continue. Some changes may be made to improve policy outcomes.

In England, a agricultural transition phase has been announced from 2020 for a number of years. Basic payments and greening support will continue during this time, but Defra may seek to make changes such as reducing the largest payments by a maximum cap or a sliding scale of reductions. A simplified Countryside Stewardship scheme is proposed. A new domestic policy for England is planned after the agricultural transition period. Basic payments will end. A New Environmental Management Scheme will be implemented based on public money for public goods.

In Wales proposals for a transition period between 2020-2023 have been set out with a phased withdrawal of basic payments. A new Land Management Programme from 2024 will include 2 schemes: an economic resilience scheme; and a public goods scheme.

In Northern Ireland it is proposed that a regime similar to the CAP will continue until 2022. From 2022 onwards funding may be progressively reduced from area based payments (similar to basic payments and greening) to other options, such as farm income insurance measures, environmental payments, and interventions for cooperation and collaboration within the supply chain. It is proposed that some level of direct support or basic payment scheme will continue to provide income support and act as a measure against market volatility.

Proposals for a new CAP programme for the EU 27 from 2020 - 2027 have been published. From 2021 to 2027 it is proposed that direct payments remain, but will have greater emphasis on smaller and medium-sized farms. Under Pillar 2 it is proposed that rural development funding will be similar to current schemes.

Agricultural policy frameworks for the UK

Under the CAP, UK agricultural policy is part of the EU’s common framework setting the rules and options on the regulation and support of agriculture and rural development. Within that framework there is considerable regional flexibility on implementation, which has led to differences in CAP implementation within the UK.

The UK, Scottish and Welsh Governments agreed the principles that will guide how the UK Government will approach common frameworks at the Joint Ministerial Committee on EU Negotiations on 16 October 2017 [1] . On 9 March 2018 [2] , the UK government indicated that agricultural support is one of the policy areas where legislative common framework arrangements are needed. But, no further announcements have been made on these legislative common frameworks for agricultural support.

Other agricultural related topics are included in the UK Government's analysis of the areas that may require legislative common framework arrangements, such as fertiliser regulations and animal welfare.

Whilst UK agriculture is likely to work within a common framework, the design and implementation of the policies themselves are devolved. Proposals have been published by each administration for how agricultural policy might change in the coming years. Proposal for a new CAP in the EU after 2020 have also been published. These are summarised in this briefing.

A UK Agriculture Bill

A UK Agriculture Bill was introduced into the UK Parliament on the 12 September 2018. A SPICe briefing which examines this will be published soon. The bill will enable a break from the CAP, and provide the UK with the ability to set out a domestic policy. The Queens Speech, 2017 [3] stated that -

> In line with the manifesto, the Bill will ensure that after we leave the EU we have an effective system in place to support UK farmers and protect our natural environment. The Bill will:
>
> - provide stability to farmers as we leave the EU;
> - protect our precious natural environment for future generations;
> - deliver on the manifesto commitment to “provide stability for farmers as we exit the EU.

The Defra consultation on future agricultural policy in England [4] , states that the forthcoming Agriculture Bill "could provide legislative powers, including:

1. to continue making payments to farmers and land managers, with power to amend eligibility criteria for payments
2. measures to strip out unnecessary bureaucracy and strengthen the delivery landscape
3. to create new schemes for one or more of the following purposes:
    a. promoting and increasing agricultural productivity and resilience
    b. preserving, protecting and enhancing the environment
    c. providing support to rural communities
    d. animal and plant health and animal welfare
    e. public access
4. to establish a new basic compliance or inspection regime
5. to take emergency measures to provide aid in extreme events
6. to retain UK-wide frameworks where we need commonality
7. to provide for continuity during the ‘agricultural transition’ period for some elements of the current CAP."

The Defra press release about the Bill states that "the introduction of the Agriculture Bill now means that all the necessary measures will be in place for the start of the agricultural transition in 2021, delivering a smooth transition to the new domestic policy."

Relevance of the UK Bill to Scotland

In evidence to the Rural Economy and Connectivity Committee on 27 June 2018, Mr Gove Secretary of State for Environment, Food and Rural Affairs [5] said -

> " Ideally, we want to bring forward our own agriculture bill in order to make provision specifically for England. We have shared some of the clauses of the bill with ministers and officials in the Scottish Government. I do not want to tie the hands of the Scottish Government, but I imagine that it will want to bring forward its own agriculture bill alongside, or just after we have brought forward, our agriculture bill, in order to explain how direct payments and some of the criteria that are associated with them should be policed. I noted that Fergus Ewing indicated that he would like to remove some of the onerous EU bureaucracy that is tied to some of the payments. Should he wish to do so, we might want to disapply that bureaucracy across the UK, or he might want to go further than we do. That is a matter for discussion. If Fergus Ewing wants to go further, that would only reinforce the appropriateness of there being a separate Scottish farming bill in the Scottish Parliament."

The Scottish Government Programme for Government 2018-19 does not include plans for an Agriculture Bill.

Current UK Common Agricultural Policy funding

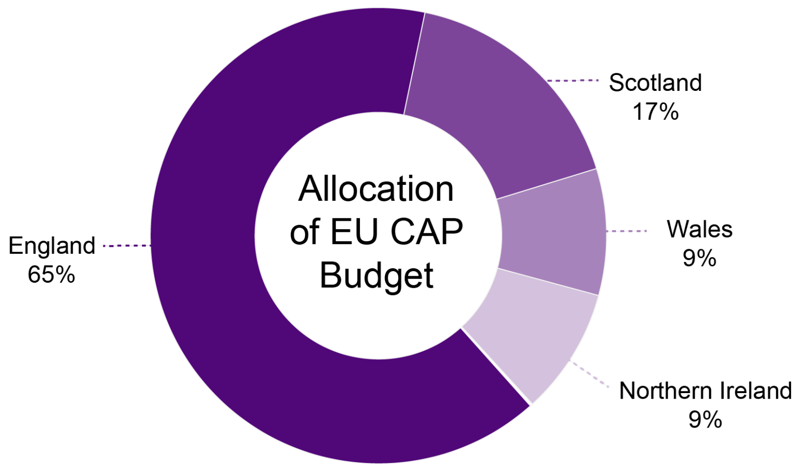
Over 2014-2020 the UK was allocated €27.6 billion from the CAP. €4,574 million was allocated to Scotland overall (UK Government, 2013). [6]

Scotland was allocated a pillar 1 (direct payment) allocation of around €4,096 million, and a pillar 2 allocation of around €478 million between 2014 - 2020.

- England was allocated a pillar 1 (direct payment) allocation of around €16,421 million, and a pillar 2 allocation of around €1,520 million.
- Northern Ireland was allocated a pillar 1 (direct payment) allocation of around €2,299 million, and a pillar 2 allocation around of €227 million.
- Wales was allocated a pillar 1 (direct payment) allocation of around €2,245 million, and pillar 2 allocation of around €355 million.

The figure below shows the how the EU CAP budget is allocated in the UK.

EU CAP funding allocation in the UK



From UK Government, 2013

The Pillar 2 programmes in the UK are match funded by Defra and the devolved administrations respectively, to make up the full rural development programme budget for each nation.

Once the UK leaves the EU, it is unclear how a UK budget for agriculture will be allocated. Allocation of the CAP budget between the devolved administrations has been reserved to Westminster. There are many criteria upon which a UK agricultural budget could be allocated [7] and no announcement has been made as to which criteria will be used.

Within the EU, CAP funding operates in 7 year budgeting periods under the Multiannual Financial Framework. However, at a UK level there is currently no similar structure, and as yet no such structure has been proposed. This means that support for agriculture and rural development, once outside the EU, may never be guaranteed beyond Parliamentary periods.

The Common Agricultural Policy: Pillars 1 and 2

The CAP is made up of 2 pillars, each made up of a number of schemes. This defines current Scottish agricultural and rural policy. The figure below shows how these schemes work in Scotland. Pillar 1 is fully funded by the EU and Pillar 2 jointly funded by the EU and the Scottish Government.

Pillar 1

Under Pillar 1 farmers are given support for working farmland, subject to certain conditions. These are known as **direct payments** or **basic payments.** The Basic Payment Scheme acts as a safety net for farmers and crofters by supplementing their main business income.

The Welsh Government [8] have described basic payments as “annual payments [to farmers] in essence … for holding land.” And criticises them for -

- being too blunt a lever to improve economic performance
- being too poorly targeted to keep farmers on the land
- not contributing sufficiently to environmental resilience.

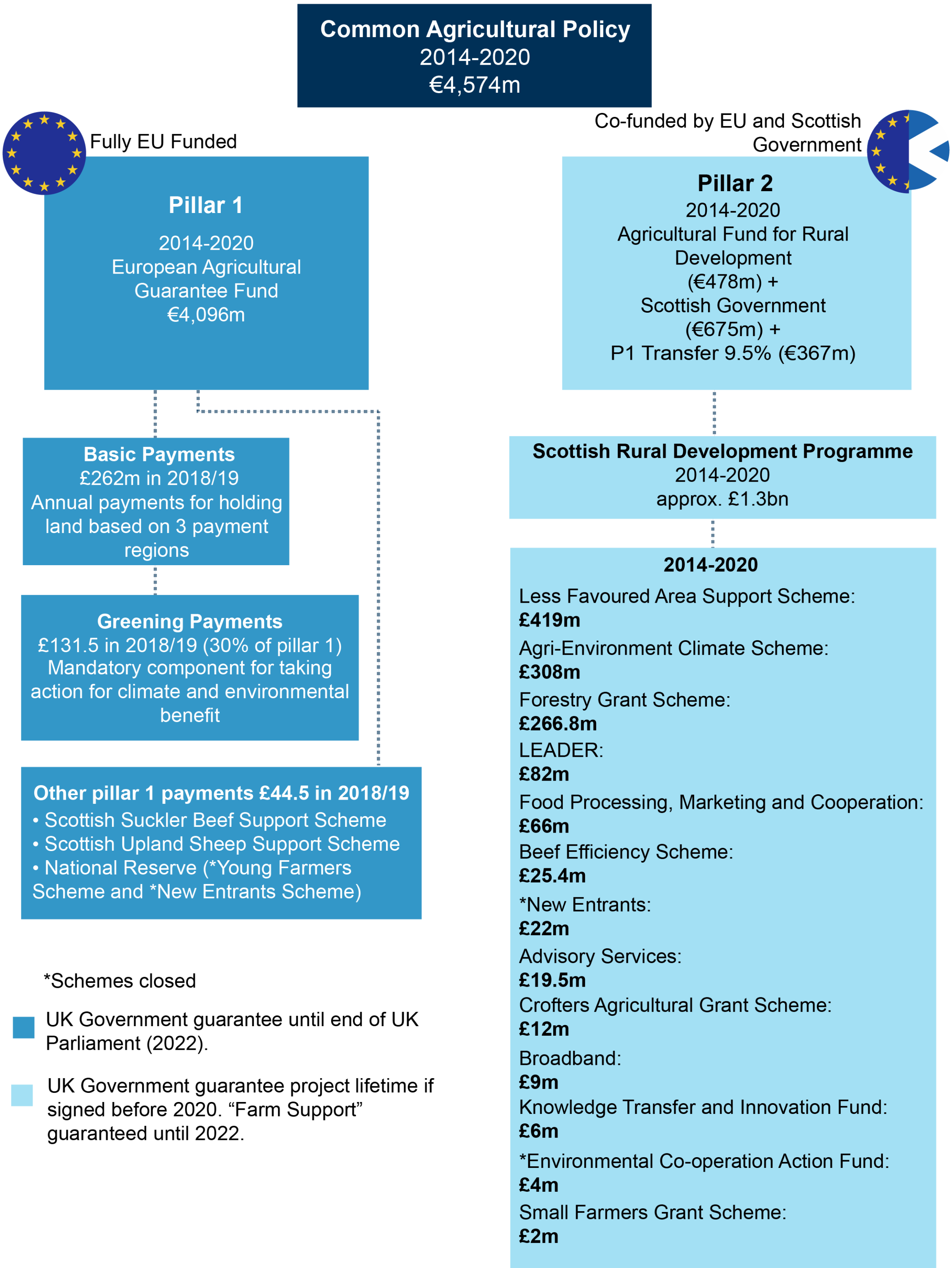
Greening payments are a mandatory component of Pillar 1. Greening was introduced with the aim of improving the environmental performance of farming. A greening payment 'for agricultural practices beneficial for the climate and environment' is paid on top of the basic payment to farmers. They make up 30% of the pillar 1 budget.

Pillar 1 in Scotland also includes (amongst other things - see below) the Scottish Suckler Beef Support Scheme (SSBSS), the Scottish Upland Sheep Scheme. These schemes are unique in the UK to Scotland and couple (or link) payment to livestock production. The SSBSS has variable rates which acknowledge the additional production costs of farming on Scottish islands.

Pillar 2

Under Pillar 2 farmers and other rural businesses can apply for funds to carry out particular activities, often related to the environment, climate change, woodlands or wider rural development. Pillar 2 in Scotland is known as the Scottish Rural Development Programme (SRDP). The figure below shows the different schemes within CAP.

Common Agricultural Policy in Scotland 2014-2020



Adapted from Audit Scotland 2016 using Scottish Government draft budget 2018-19, UK Government 2013, SPICe Briefing 16/89, UK Government technical notes, Scottish Government pers comm.

There is uncertainty surrounding the guarantees of funding from the UK Government, and the colour coding in this figure is based on assumptions - see below.

UK funding guarantees

The UK Government has published two farming related technical notes on preparations for a no-deal Brexit [9] :

- Farm payments if there's no Brexit deal
- Receiving rural development funding if there's no Brexit deal.

These notes repeat guarantees about CAP funding but offer no additional clarity. There are two main funding commitments.

> 1. "the government has pledged to continue to commit the same cash total in funds for farm support until the end of this parliament, expected in 2022: this includes all funding provided for farm support under both Pillar 1 and Pillar 2 of the current CAP. This commitment applies to the whole UK."

This seems to guarantee Pillar 1 funds to 2022 although there are at least 3 issues that are unclear.

- What is meant by "farm support"? And which Pillar 2 schemes are considered farm support?
- What is meant by "the same cash total… until 2022"? And how this relates to the allocation of CAP funds by the UK Government for the 2014-2020?
- What is meant by 2022 - scheme year, calendar year, financial year?

> 2. the UK government has guaranteed that any projects where funding has been agreed before the end of 2020 will be funded for their full lifetime … The guarantee also means that Defra and the devolved administrations can continue to sign new projects after the UK leaves the EU during 2019 and 2020, up to the value of programme allocations.

This seems to guarantee all Pillar 2 funds to the same extent that they are guaranteed now under the CAP, since the current CAP programme ends in 2020.

There is no clarity on what funding will be available beyond 2022, how it will be determined or how it will be allocated within the UK.

Post-Brexit plans for agriculture in Scotland

The Scottish Government published Stability and Simplicity proposals for a rural funding transition period [10] in June 2018. It sets out proposals for a agricultural transition period to 2024, assuming an EU Withdrawal Agreement is finalised. No proposals are included for policy beyond 2024. No announcement of Scottish legislation on agriculture is included. There is no indication that the Scottish Government may seek to have Scottish-specific provisions in the UK Agriculture Bill, as the Welsh consultation has indicated.

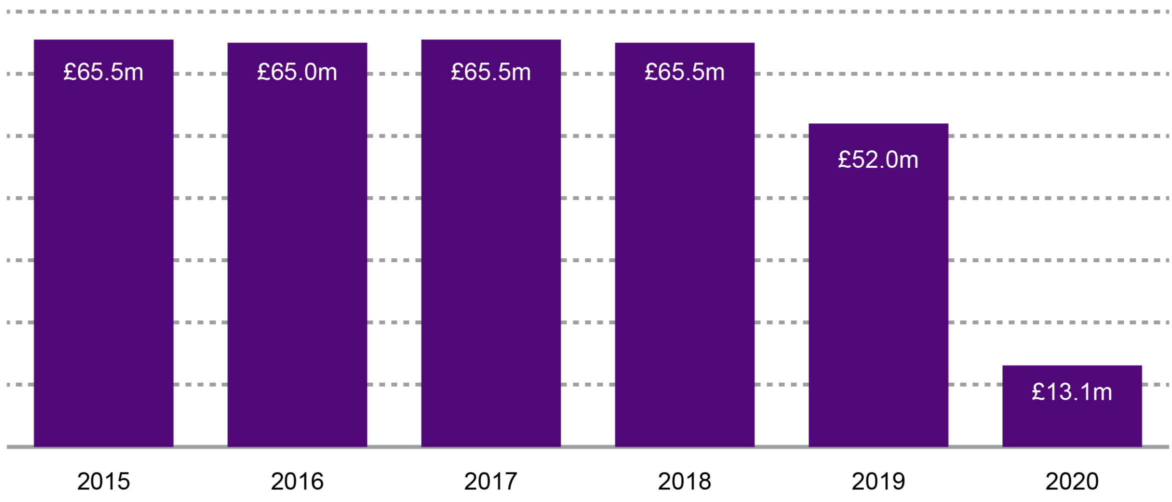
In summary, Scottish Government proposals state for Pillar 1 that:

- The basic payments scheme will continue in 2018 and 2019
- Beef scheme, upland sheep scheme and greening will continue under CAP rules for 2018 until 2020
- A simplification task force to run from Autumn 2018
- In 2020-2023 there will be continued payment for current recipients within the CAP architecture. Possible changes may be made including: capping of payments; streamlining applications, inspections and accounting; funding (from possible capping) used for new entrants, innovation, climate change and the environment.

Scottish Government proposals state for Pillar 2 that:

- SRDP schemes will continue to run under CAP rules to 2020 if the withdrawal agreement is ratified
- From 2020-2023 many schemes will continue. Some changes may be made to improve policy outcomes
- The less favoured area support scheme (LFASS) is a special case. CAP rules mean that funding is required to reduce in 2019 and 2020. In 2018 LFASS will continue with 100% (£65.5 million) funding. In 2019 LFASS can be allocated 80% funding, and in 2020 20% funding (around £13 million). There will be potential to change from LFASS from 2021, but there is no information about this at the time of writing.

Less Favoured Area Support Scheme Funding 2015-2020



Source: Scottish Government draft budgets and PQ S5W-10973, August 2017

The Scottish Government has said that EU rules and standards will continue to apply until 2020 with the withdrawal agreement, except those covered by basic payment regulations, which end in 2019 scheme year.

Scottish policy beyond 2023

There is little indication of the future direction of Scottish policy beyond 2023. Stability and Simplicity states that there will be civic engagement across Scotland to help develop new and innovative approaches for agriculture, the environment and the rural economy. A new domestic policy will be developed, based on –

- CAP Greening Group: Discussion Paper
- A Future Strategy for Scottish Agriculture: Final Report by the Scottish Government's Agriculture Champions
- Environmental governance in Scotland after Brexit: report
- National Council of Rural Advisors
- Climate change legislation

Post-Brexit plans for agriculture in England

Health and Harmony: the future for food, farming and the environment in a Green Brexit sets out plans for agriculture in England. It includes proposals for 2018 and 2019, a transition period (assuming the draft EU Withdrawal Agreement is ratified) and a new policy from 2027. Defra received 43,356 responses and 127,183 signatures across 3 petitions to this consultation.

In 2018 and 2019:

- The basic payment scheme will continue
- A simplified new countryside stewardship has been offered. All landowners making a valid application are guaranteed funding
- EU rules and standards continue to apply.

From 2020 -2027

The Defra press release about the UK Agriculture Bill states that there will then be an agricultural transition period in England between 2021 and 2027 as payments are gradually phased out.

- basic payments will continue, but the EU direct payments regulation will not apply. During this time Defra may seek to: reduce the largest payments by a maximum cap or a sliding scale of reductions; remove the need for recipients to meet land eligibility rules or comply with greening to receive payment
- a simplified countryside stewardship scheme is proposed
- transition could be made without adhering to cross-compliance rules. Risk-based inspections are planned and payments may be made if domestic animal welfare, environmental and other laws are observed.

A new domestic policy for England

Health and Harmony provides some detail of a new policy once the transition phase away from the CAP ends in England. Basic payments will end. A new environmental management scheme based on public money for public goods will be designed and implemented. Five main areas for public support are proposed:

- Environmental enhancement and protection
- Animal and plant health and welfare
- Improved productivity and competitiveness
- Preserving rural resilience, traditional farming and landscapes in the uplands
- Public access to the countryside

An integrated, targeted and proportionate inspection and enforcement regime will be designed. Standards will be raised in some areas. A regime that enforces heavy penalties for minor errors could be removed.

The UK Government's 25 Year Environment Plan (January 2018) also includes detail on the proposed new environmental land management system in England, to pay farmers for providing public goods such as habitat enhancement.

Post-Brexit plans for agriculture in Wales

Brexit and our land includes proposals for a transition period between 2020-2023 and outlines a new policy for Wales from 2024. It states that Welsh legislation should be in place before the end of this Assembly term. And that the Welsh Government is considering including Welsh-specific provisions in the UK Agriculture Bill to provide powers to start the phased transition plan until Welsh primary legislation takes effect.

In summary, the proposals state that, in 2018 and 2019

- The basic payment scheme will continue
- Glastir (the Welsh rural development programme) will continue under EU rules. This comes to an end in 2020
- EU rules and standards continue to apply.

From 2020-2023

A “high-level path for transition” is proposed with 3 concurrent phases:

1. A phased withdrawal of basic payments. This may be done by reducing payments in absolute terms or proportionately, or by changing capping rates. The scheme may be simplified by removing some or all greening rules, simplifying cross compliance and inspections. These proposals will be consulted on
2. Implement new schemes - possibly by allocating funds to pilot projects to allow a phased transition from existing schemes
3. Exit Glastir. All commitments in place at the point of leaving the EU will be met so that schemes involving ongoing activity/funding to 2023 continue.

A new Land Management Programme from 2024

A new land management programme is proposed from 2024. There will be no basic payments. The new land management programme will aim to “help land management businesses stand on their own two feet.” Two schemes are proposed -

- An Economic Resilience scheme will provide investment for improvements in business’ resilience and productivity, especially for high-quality food production.
- A Public Goods scheme will provide an income stream to land managers in return for delivering additional public goods. Outcomes will directly relate to domestic or international commitments.

The importance of maintaining animal health and welfare and environmental standards was highlighted in the consultation document.

A statement on how the Welsh Government will approach post-Brexit regulatory reform is to be made in Autumn 2018.

Post-Brexit plans for agriculture in Northern Ireland

Northern Ireland Future Agricultural Policy Framework: Stakeholder Engagement is open until October 2018 [11] . It sets out what will happen in agricultural and rural policy up to 2020, during a transition period in 2020 and 2021, and then from 2022 onwards.

In summary, it proposes that in 2018 and 2019

- The basic payment scheme will continue
- Current rural development schemes run up to 2020 and will continue. Projects and funding may run beyond 2020.

In 2020 and 2021

- DAERA will seek legal authority to maintain the status quo so the direct payment scheme continues as if under EU rules. Rules such as active farmer provisions, land eligibility rules, cross compliance, penalty regime (with some simplification), inspection regime will be kept.
- Limited simplification is possible during this time. For example, some greening rules could be dropped and payment included in basic payments.
- The document poses many questions for stakeholders such as - Is the regional reserve needed? Should new applicants be accepted for a young farmers payment top-up?

From 2022 onwards

Funding may be progressively removed from area based payments to other options. The document provides some examples of possible options that may be considered -

- Payment of basic farm resilience support which could be area based, may be considered. This may take account of natural disadvantage but with less funding than is currently available under Pillar 1 of the CAP. Cross compliance type rules could drive environmental, biosecurity, and productivity objectives. Tiering or capping could be considered.
- Environmental payments could be developed which may include ‘income forgone/cost incurred’ plus an incentive element targeted at long term environmental outcomes such as protecting and enhancing natural capital, priority habitats and species, soil quality.
- Interventions for cooperation and collaboration within supply chain eg. support for producer organisations and other partnerships.
- Farm income insurance measures may be considered (see SPICe briefing - Risk Management In Agriculture)

- Fiscal measures. For example, an income deposit and draw down scheme (on UK basis)
- A crisis response framework for the UK.

Future farm support may be linked to a farm not breaching relevant minimum environmental standards as set out in regulations.

Proposals for the CAP after 2020

In the EU the current CAP programme continues until 2020, as planned. However, some simplification of rules within the EU is underway within the current programme. Future of the common agricultural policy sets out proposals for a new CAP programme from 2021 - 2027.

It is proposed there will be a single regulation for direct payments (pillar 1) and rural development (pillar 2), where currently there are separate regulations. Each Members State will produce one plan covering direct payments and rural development for their entire territory.

It is proposed that direct payments remain, but will be focused on smaller and medium-sized farms, so that -

- payments over €60,000 a year will be reduced by an increasing percentage up to €100,000 – at which level payments will be capped
- there will be a higher level of support per hectare for small and medium-sized farms
- a minimum of 2% of direct support payments allocated to each EU country will be set aside for young farmers
- mandatory requirements are set out to ensure “higher ambition on environmental and climate action”.

As set out in a Defra Memo (21 June 2018) it is proposed that greening payments are being abolished, although to an extent they will be replicated in the ongoing requirement for measures to be taken to ensure Good Agricultural and Environmental Conditions (GAEC).

Under Pillar 2 it is proposed that rural development funding will be similar to current schemes, including support for:

- environmental, climate and other management commitments
- natural or other area-specific constraints
- investments
- risk management tools
- knowledge exchange and information.

In terms of rules and regulations, it is proposed that simplification will continue. It is proposed that the emphasis is to shift from compliance and rules towards results and performance. Member States will be able to design their own control and penalty system.

Timing and applicability in the UK

The Defra Memo (21 June 2018) states that -

> The CAP post-2020 proposals are expected to come into force on 1 January 2021...It should be noted however that specified Articles of the new delivery model Regulation are proposed to apply from the beginning of the EU 2021 financial year (i.e. 16 October 2020). Moreover, certain Articles of the Regulation intended to amend, amongst others, Regulation 1308/2013 [establishing a common organisation of the markets in agricultural products] may also apply before January 2021. In relation to all these Articles, the UK's position is that they should not apply in the UK, given the proximity to the end of the Implementation Period; the UK would propose to secure a carve-out from any application of any such Article earlier that 1 January 2021.

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