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Looking ahead to the next CAP Reform - are there lessons to be learned from the UK experience?

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Summary

As attention turns to the reform of the Common Agricultural Policy (CAP) beyond 2027, the perennial issue of how to secure real systemic change in agricultural practices to achieve more sustainable farming systems is once again on the table. Despite changes in the CAP's architecture over the years, the fact remains that what is delivered on the ground does not go far enough to bring about the changes required to address the environmental and climate challenges facing the EU.

Now they are outside the CAP, the four UK countries have the freedom to redesign their agricultural support frameworks and this has been seen by many as one of the more concrete opportunities to arise on leaving the EU, including with a view to enhancing possible environmental benefits.

To date, England is the most advanced in its development of a new system of payments to farmers within the UK. A new Agriculture Act is already in place, with the provision of public goods stated as the main objective of funding. The policy mechanisms to pursue this goal are being changed as well; direct payments are being phased out over time, as a new suite of schemes is phased in.

This short briefing looks at what has been proposed in England, sketches progress to date and considers what lessons can be learned for increasing the environmental and climate ambition of the CAP and particularly for phasing out direct payments.

State of play in the UK

Agricultural policy is a devolved responsibility in the UK. This means that each of the four countries (England, Scotland, Wales and Northern Ireland) has responsibility for designing and implementing their own systems of support and legislating for this. However, the budget for agriculture remains a UK responsibility under the control of the Treasury (in charge of the economy), placing some constraints on what can be done in practice.

As an EU member, the UK Government long argued for an end to direct payments for a variety of reasons[1] and in England at least, leaving the EU has been seen as the opportunity to do so, even by some farmers. In clear contrast to most other elements of Brexit, a fresh start outside the CAP was also supported by the majority of environmental NGOs. There has been a similar appetite to move in this direction in Wales. However, Scotland and Northern Ireland have chosen rather to mirror more closely the evolving CAP, partly because the arguments for tracking EU policy have been stronger in both nations but also as a consequence of different political circumstances, with farming interests more powerful in relation to environmental stakeholders than in England[2].

As noted above, so far England is the only part of the UK to have put new fundamental agricultural legislation in place and to lay down an entirely fresh set of objectives, not without some debate. This takes the form of the Agriculture Act 2020. Wales currently has a new strategic Agricultural Bill going through the Senedd (the Welsh Parliament)[3] and Scotland is due to bring a Bill forward this year. This primary legislation provides the underpinning legal framework for the policy design and specific support schemes that are then put in place. Effectively, it replaces both the agricultural policy objectives in the EU Treaties and the more changeable and contemporary objectives for the CAP set out in successive reforms.

The significance of the Agriculture Act in England is that the objectives for agricultural support are primarily the provision of 'public goods', a consciously rather radical departure from the CAP. Reference to other objectives is very limited – increasing agricultural productivity is the only other one of significance. There are no objectives that relate to rural development, as there are in in the CAP. The focus is therefore narrower than the EU Treaty objectives for agriculture and the current suite of ten CAP objectives, which cover economic, social and environmental concerns. The Agriculture Act is primary legislation and it is designed to provide enabling powers for the government rather than lay down the policy measures that must be applied and as such it leaves it open for ministers to decide on the types of interventions that are permitted and eligible for public funding. Once these policies are designed, they are put into law via secondary legislation (Statutory Instruments in the UK). Achieving food security does not appear as a policy objective but the Agriculture Act includes a duty on Ministers to report on food security once every three years.

[1] HMT and Defra, 2005, A Vision for the Common Agricultural Policy

[2] In Scotland this is due to the SNP-led government in Scotland which has longer-term aspirations of re-joining the EU and a commitment to 'keep pace with the EU' in policy developments. In Northern Ireland this is due to close competition from the Republic via an invisible border and the influence of the 'all Ireland' economy.

[3] Welsh Parliament, Senedd Research, Agriculture (Wales) Bill, Bill Summary, published February 2023

In England, the Agriculture Act has been followed by the development of the new agricultural policy framework, the core of which consists of the building up of a new generation of voluntary 'Environmental Land Management' (ELM) schemes. These will provide payments to farmers for the provision of a range of environmental public goods. The schemes have started already and will both evolve and expand in scale as the direct payments that were provided to farmers under the CAP are gradually phased out in steps, disappearing entirely by 2028 (see Box 1). Like many agri-environmental schemes in different parts of Europe, ELM consists of a number of schemes with a tiered approach, offering farmers a range of choices from relatively undemanding requirements in the lowest tiers to more environmentally ambitious stipulations in the upper tiers where payments for participants are higher. The highest tier, Landscape Recovery, represents a novel element of the ELM package. This goes beyond previous schemes since it will fund groups of farmers to carry out bespoke, longer-term, larger scale projects to enhance the natural environment, often involving land being withdrawn from conventional agriculture in favour of nature restoration.

The lowest tier and easiest for farmers to enter, is the 'Sustainable Farming Incentive' (SFI). This is a new, basic, environmentally 'broad and shallow' scheme consisting of different 'standards' that all farmers are expected to be able to access (not to be confused with conditionality standards acting as a regulatory baseline as understood in the EU context). Defra, the ministry in charge of both agriculture and the environment in England, has stated that by 2028 the aim is to have 70% of farmed land and 70% of all farms under ELMS (including the schemes in all tiers)[4]. This appears to be the only publicly available target for uptake or results announced to date. In many respects this target is akin to the CAP's output indicators and focuses on farmer participation in schemes rather than any environmental outcomes achieved on the ground.

Wales is also designing a new policy framework that will result in the phasing out of direct payments and the introduction of a new set of 'Universal Actions' which all farmers will need to undertake to gain access to further tiers of funding under a new 'Sustainable Farming Scheme'. These universal actions and the payments attached to them are aimed at supporting farmers to become more sustainable.

In contrast, the frameworks under development in Scotland and Northern Ireland retain direct payments and, although they place sustainability considerations more at their core than previously, are more akin to the measures in the CAP in its current format.

For the purposes of thinking about the future CAP, the English and the Welsh examples are the most interesting. Since England is most advanced in the development of new approaches and schemes (constructed over a period of years with several rounds of consultation, pilot schemes and some significant revisions) this is the experience examined a little more closely below.

[4] Defra Policy Paper, Environmental Land Management (ELM) update: how government will pay for land-based environment and climate goods and services, updated 15 February 2023

Box 1: The new agricultural support framework in England (April 2023)

Direct payments: are being phased out progressively over a seven-year period from 2021-2027 with the money redirected into the new schemes and grants available to farmers and other land managers, who are also eligible.

From 2024 the area based 'Basic Payment Scheme'(BPS) will be replaced by delinked payments, which means that no land or entitlements will be required to receive the payments as they are phased out by the end of 2027. Consequently, farmers will be able to receive these delinked payments even if they stop farming. In addition, farmers were able to apply for a 'Lump Sum Exit Scheme' by the end of September 2022, which enabled those that wanted to leave farming or retire to apply for a lump sum payment requiring them to:

- transfer out their rights to the land (they could keep 5 ha) or plant the land with trees under the Woodland Creation Scheme;
- transfer grazing rights on common land;
- give up all BPS entitlements.

The main area-based support that will be available to farmers is formed of the following three-tiered **Environmental Land Management (ELM) schemes**:

- the Sustainable Farming Incentive (SFI) will pay farmers to adopt and maintain sustainable farming practices that can protect and enhance the natural environment alongside food production, and also support farm productivity (including by improving animal health and welfare, optimising the use of inputs and making better use of natural resources). SFI agreements last for 3 years. In 2023, in addition to the main payments, an SFI Management payment was introduced which pays £20/ha for the first 50 ha to all farms entering the scheme to 'recognise the cost of planning for and participating in the SFI'.
- Countryside Stewardship (CS) will pay for more targeted management actions relating to specific locations, environmental features and habitats. There will be an extra incentive for joint participation through 'CS Plus' benefitting land managers who agree to join up management actions on several farms within local areas to deliver bigger and better results. There is also a capital grants element to this scheme which can operate separately to an agreement for managing the land. CS is not confined to agriculture and also includes a scheme of grants for creating a 10-year woodland management plan as well as a system of Woodland Tree Health Grants.
- Landscape Recovery, the highest tier scheme with a relatively limited budget, will pay for bespoke, longer-term, larger scale projects to enhance the natural environment, including more ambitious nature restoration and significant reductions in agricultural output. It applies to groups of farmers. A first tranche of 22 projects were chosen to go ahead in Summer 2022 in the first round of the scheme and a second round (25 projects) will start in 2024.

In addition to these three tiers, the England Woodland Creation Grant (EWCO) provides funding to create new woodland on areas, generally farmland, that are at least 1 hectare in size.

The Sustainable Farming Initiative is the most advanced of these, being rolled out in phases since June 2022 (following trials and piloting). It is open to all farmers and provides payments to those who chose to comply with defined standards. Initially the SFI focussed on soil health and, to avoid overlap with other live agri-environment offers, only included three standards covering arable and horticulture soils, improved grassland soils and moorland. In 2023 six additional standards have been added: hedgerows, integrated pest management, nutrient management, arable and horticultural land, improved grasslands, low input grassland. The schemes are designed by Defra but mostly are delivered by the Rural Payments Agency, which continues in a role originating in the CAP.

These schemes are accompanied by a number of **capital grants and specific aid schemes aimed primarily at farmers**:

- The Farming Investment Fund (FIF) provides grants of between £1,000 and £500,000 to improve productivity, the environment and animal health and welfare.
- The Farming Innovation Programme provides grants for innovation, research and development;
- An Annual Health and Welfare Review – funding for farmers who keep cattle, sheep or pigs to employ a vet or vet-led team to carry out such a review.
- The Animal Health and Welfare capital grants scheme – due to come into place later in 2023 to provide aid to invest in equipment, technology and infrastructure.
- The Future Farming Resilience Fund, providing business support to farmers in the early years of the agricultural transition.
- The Farming in Protected Landscapes scheme is available until March 2025 and provides funding to all farmers and land managers within certain categories of protected landscapes in England i.e. Areas of Outstanding Natural Beauty, (AONBs) or National Parks who are planning projects that support nature recovery, mitigate the impacts of climate change, provide opportunities for people to discover nature, and/or protect or improve the quality and character of the landscape.
- The New Entrant Support Scheme pilots which are looking at ways of providing support to new entrants to develop successful land-based businesses in England, currently through a series of five pilots.

Source: Defra Guidance on Funding for farmers and land managers, last updated: February 2023

What can be learned from the England experience in considering the future of the CAP?

In terms of lessons to inform the future CAP debate, top of the list is the fact that **it is possible to design an agricultural policy support framework that is oriented around public goods and that does not include direct payments**. In England, placing the objective of public money for public goods at the heart of agricultural legislation has fundamentally changed the justification for providing support to farmers and hence the premise on which schemes providing payments for farmers and land managers are designed.

Having said that, change is challenging and decisions have to be made that have implications for farm incomes, farm restructuring and land use change, with the inevitability that there will be winners and losers. The level of political support for such a change has been tested in England on several occasions and the same can be expected elsewhere.

It is very early days to make any assessment of the impact of the change, whether on the rural environment, farm incomes, enterprises and structures or on food supplies. This is especially so with the compounding effects of Brexit, new barriers to trade and the volatile food markets following the war in Ukraine. However, while a sharp decline in agricultural land prices might have been expected given the demise of direct payments this does not seem to have occurred. Data on agricultural land sales in England suggests prices levelling off around 2014/15 but recently starting to rise again, with the stand still period affecting arable more than pastureland[5]. Whether the new focus on environmental public goods provision has helped to underpin the value of pasture is not clear but it might be unwise to dismiss the possibility entirely.

It is also too early to assess **whether or not this re-orientation of schemes and payments will lead to better environmental outcomes being achieved than previously, as would be expected. However, it is clear already that a key factor is scheme design**, particularly the design of any basic, near universally available payments. In England these lowest tier payments available through the Sustainable Farm Incentive (SFI) are central to the policy architecture.

Although a great deal of research and analysis was deployed in designing the SFI , many stakeholders have been critical of its current formulation. Leading environmental NGOs have decried it as showing a 'shocking lack of ambition'[6] while many have concluded that simplicity and the pursuit of a high uptake has been prioritised over and above delivering environmental outcomes [7].

This is not an unusual critique of lower tier schemes in many countries but in this case, there is an important additional factor. The Government has explicitly planned to phase out direct payments while simultaneously phasing in environmental payments, with the funds saved from direct payments being used to fund the expansion of ELM schemes over time. This has led to a perception by land managers that they should be able to access the money they are 'losing' from direct payments via the new schemes without too much difficulty. Furthermore, the size of the agricultural support budget, which initially was set at a broadly similar level to that which was established in the CAP, is not guaranteed in England for a period beyond the current Parliament and is subject to change from around 2024/25. This adds an element of uncertainty to the future of both the schemes that will be in place in as few years' time and farm incomes. Whilst some farmers are perhaps inclined to enrol in schemes to reduce their exposure to fluctuating market conditions and revenues, the uncertainty may make other farmers wary of tying up their land in schemes, particularly higher tier schemes that include prescriptions that could constrain future production.

Concerns about farmer reactions, participation levels and potential declines in farm incomes have influenced the balance of the ELM package before it is fully in place. Changes in policy decisions have affected the proportion of the budget to be allocated to the different ELM schemes, with far more now going to the lower tier SFI than had been originally proposed: the design and content of the SFI also has been changed.

The SFI is now likely to consume the majority of the budget that is redirected from direct payments, which will leave a much smaller proportion of these funds available to incentivise 'darker green'

[5] Strutt and Parker 2023 English Estates and Farmland Market Review. Spring 2023.
[6] The Wildlife Trusts, the National Trust and the RSPB www.wildlifetrusts.org/news/brexit-farming-promises-broken
[7] House of Commons Environment, Food and Rural Affairs Committee, 2021, Environmental Land Management and the agricultural transition Second Report of Session 2021–22

actions under other parts of ELMS. The decision in January 2023 to provide all farmers entering the SFI with a £20/ha payment for the first 50 hectares of land for 'transaction costs' associated with entering the scheme[8] is an attempt to address income issues and has been welcomed by farmers but has only led to further scepticism from environmental stakeholders about the value for money of the scheme. One lesson here is that it is important to find policy solutions that avoid conflating the phase out of direct payments with any new types of payments being introduced where this can be avoided.

Focussing funding on public goods outcomes also requires **greater data and monitoring efforts** than for simple income support schemes. This applies both to the detailed design of schemes and to their management and future development. It is important both to have baseline data on the state of the environment and then for this to be regularly updated to measure progress towards achieving the outcomes that have been targeted by the schemes. This requires investment by public authorities and in some cases by farmers as well. Moving towards a new system of support also requires careful evaluation to ensure that perverse effects do not occur. This involves not only looking at whether the public goods outcomes have been achieved, but also what the economic and social impacts have been.

Turning to the design of a core broad and shallow scheme which is open to all, one significant lesson from the development of the SFI is **the importance of designing a scheme which does not offer farmers an open menu but that steers them to choosing 'bundles of actions'**. This can be done either by combining actions that deliver more for the environment with those that are rather straightforward to implement, or by combining actions that can deliver greater results in combination than they could do singly. In England the SFI started out by offering genuine bundled 'standards' in 2022 (for arable and horticulture soils, improved grassland soils and moorland). However, this changed in 2023 and farmers are now free to choose whichever actions they wish from the menu available. As already shown with the CAP's Ecological Focus Area greening measure, which operated from 2015 – 2022, a free choice of options almost invariably leads to farmers picking those that are easiest and cheapest to implement and so limits the environmental benefits obtained[9].

An important element to consider when combining new schemes with the progressive removal of direct payments, is **how to pitch payments for environmental schemes sufficiently high to attract enough participation and secure the target environmental outcomes**. Achieving the optimal balance between achieving sufficient environmental ambition to meet targets and securing sufficient uptake is not a new problem but it becomes even more central when direct payments are being removed and the environmental scheme is the primary form of support available to farmers. In England, generally, there has been a failure to think creatively about how to deal with this situation through novel approaches to payment calculations. Payments for the new schemes remain based on the principle of paying for profit foregone plus additional costs. This has limited the appeal of new schemes to many farmers, particularly in the uplands. 'Purer' policy approaches to purchasing environmental public goods, such as reverse auctions and payments for ecosystem

[8] Government to pay more to farmers who protect and enhance the environment, Speech by the Rt Hon Mark Spencer MP to the Oxford Farming Conference, 5 January 2023
[9] Commission Staff Working Document, Evaluation of the Regulation (EU) No 1307/2013 of the European Parliament and of the Council of 17 December 2013 establishing rules for direct payments to farmers under support schemes within the framework of the common agricultural policy and repealing Council Regulation (EC) No 637/2008 and Council Regulation (EC) No 73/2009 concerning the greening in direct payments {SWD(2018) 479 final}

service outcomes, were debated early on but have not been adopted in practice. As a result, the switch to the new system, especially the withdrawal of direct payments, has triggered a very emotive debate in England particularly in relation to the prospective viability of the significant number of less profitable and productive farms -especially livestock farms in upland areas.

The **implications for environmental and other conditionality standards** always feature in the debate about moving away from direct payments. Whilst there is a good case for carrying across obligatory baseline requirements, e.g., conditionality rules, into a new regime of public goods schemes to form a consistent baseline, this slightly reduces the scope for paying farmers for basic requirements in a lower tier scheme - which is especially sensitive at a time when direct payments are being withdrawn. In England this has been a contentious issue, resulting in a compromise. A small number of GAEC (Good Agricultural and Environmental condition) standards that were not embedded in domestic legislation either have been rolled into the SFI and so attract a payment (e.g. establishing waterbody buffer strips, at least in the first instance – although it is the intention that this is temporary and they should be covered by regulation in the future) or added to domestic legislation (e.g. it is proposed that requirements for 2m buffer alongside hedgerows will be included within revisions to the Hedgerow Regulations in due course). In Wales, a set of National Minimum Standards will underpin the proposed 'Universal Actions' tier of payments, and these will be based on the existing legislation that underpins 'cross-compliance' – i.e., the rules before the introduction of the current iteration of the CAP.

Finally, the design of substantive schemes with environmental objectives will usually benefit from a clear longer-term framework, not least to increase certainty for farmers considering options with major implications for their land and enterprises. It can build confidence that payments will not be ephemeral or subject to capricious change. This is even more the case when it is likely that schemes will need to become more ambitious over time, and there is no structural review process comparable to the seven-year CAP programming cycle. The potential benefits are greater still where the new schemes replace direct payments in the sense that they become the main form of revenue available from the state on a comparable scale to previous support schemes. T**he importance of designing ahead to create an increasingly ambitious pathway for the long-term, with the capacity to adapt to evolving targets and ratchet up schemes and probably payments as well, has been underlined in England**, although it is unclear if this has been achieved in practice. The lack of a longer-term budget for agriculture, noted above, is a significant barrier to the construction of a credible future road map.

In summary …

The experience in England over the past few years in designing a new agricultural policy framework transitioning away from direct payments towards support for public goods provision shows that changing the ethos and objectives of agricultural policy and support is possible. This process of transition is only part way through as yet, but lessons to date, including in the sphere of policy design, which has been the main focus here, suggest that there are a few key points that are important to bear in mind when thinking about whether this is a reform pathway for the future CAP. These can be summarised as:

- Find policy solutions that avoid conflating the phase out of direct income support payments with the introduction of public goods focused payments to ensure that the new scheme can maintain its integrity and ambition and avoid risks that it becomes a replica of the original regime, but with a 'green' tinge.

- When designing broad and shallow schemes focused on public goods, design them in ways of achieving uptake of those management options that will deliver most benefit and try to ensure that these are placed in the optimum geographical/ecological location. Bundling actions together can assist with this, whereas allowing farmers a free choice of any one of a list of actions has been shown to lead to the easiest, not the most beneficial, options being picked.

- Design a system that allows payments for environmental schemes to be pitched sufficiently high to secure sufficient take-up and the desired environmental outcomes. Amongst other things, this requires looking at innovative types of payment mechanisms, such as results-based payments and reverse auctions alongside the more traditional income foregone plus additional costs approaches. An optimal balance has to be achieved between value for public money by strict insistence on additionality and avoided deadweight for example and creating sufficient incentive for uptake of the measures on the required scale.

- Invest in data and monitoring activities so that it is possible to assess how far the environmental outcomes have been achieved. This is essential, not least so that schemes can be revised if they are not achieving what they set out to do and to permit the evaluation of the overall impacts (economic, social and environmental) of a public goods oriented framework.

- The value of having a set of basic standards, to underpin a new framework of environmental payments remains. It is an important means of codifying what is expected of all land managers who are in receipt of public money, whether rules are set in regulations or in other good practice standards.

- Design for the long term, having both a pathway planned and the relevant policy tools and levers in place and the necessary institutional underpinning, including the provision of advice and support to accompany change. The fabric of schemes and accompanying measures will need to evolve over time to deliver against long-term targets and goals.

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