

# Beyond 2020

**Views of Farmers in Exmoor National Park about Farm Funding After the United Kingdom Exits the European Union - summary and recommendations**

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**Summary report – June 2017**

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The views expressed in this report are those of the author and are not necessarily shared by University of Exeter or Exmoor National Park Authority.

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### 1 Introduction

- 1.1 The idea for this study arose during a period of considerable speculation about the future of United Kingdom (UK) agriculture following the outcome of the national referendum in June 2016, which indicated majority support for the UK to leave the European Union (EU). The UK government subsequently resolved to notify the EU formally of its intention to withdraw and to commence negotiations over the terms.
- 1.2 Both in the run up to the referendum and subsequently, there has been a great deal of speculation about the potential impacts of the decision on both the UK and EU. Mainly this has focused on the economic and social impacts, especially regarding changes in migration patterns, and also with some attention paid to potential consequences of any changes in environmental legislation, much of which is currently enshrined in European law. (Potton et al, 2017)
- 1.3 As a sector, agriculture is among the most exposed to changes resulting from the UK decision. As long as the UK is a member state, the EU sets the terms for international trade in agricultural produce, public funding to the sector, and a broad range of environmental and animal welfare standards and regulations. All of these are susceptible to new arrangements in future.
- 1.4 An aspect of key significance to farming in Exmoor and the English uplands more generally, and so particularly for cattle and sheep production, is uncertainty over the continuation and structure for any future public funding for agriculture. Farm funding over the past 30 years has been provided under the terms of the EU's Common Agricultural Policy (CAP) and any future financial support after the UK exits will need to be provided directly from the UK national budget within limits set by the World Trade Organisation (WTO). This important change can be viewed as either a threat or an opportunity for UK farming. Optimistically, it provides an opportunity to develop an approach to farm funding specifically tailored to UK circumstances and objectives.
- 1.5 Unsurprisingly, those in the agricultural sector or with other interests linked to the farmed environment have been quick to debate and establish their preferred positions for any future system of UK farm support. This has included debates within the upland regions of England through the Uplands Alliance and, more locally, on Exmoor itself as well as the other upland areas of South West England, Dartmoor and Bodmin Moor.
- 1.6 In its 2013 policy statement on upland farming, the National Farmers' Union (NFU) Hill and Upland Farming Group expressed concern that farmers' views had not always

been sought by policy makers when considering the future of the uplands (NFU, 2013). Thus, a key aspect of this study was to provide an early opportunity for farmers who are primarily responsible for environmental management in the National Park to express their own views on future funding schemes that might emerge. As such, it builds on work commissioned by the Exmoor Hill Farming Network (EHFN) and facilitated by Countryside and Community Research Institute to establish a 'position statement' for farming on Exmoor (EHFN, 2017).

- 1.7 The current study results from collaboration between Exmoor National Park Authority (ENPA) and the Centre for Rural Policy Research (CRPR) at the University of Exeter. It was conducted over a period of two months preceding the author's retirement as Chief Executive at the Authority at the end of March 2017.
- 1.8 The objectives of the study were to seek the views of a sample of Exmoor farmers on:
  1. The viability of farming businesses in Exmoor and the importance of the contribution currently being made from public funding support;
  2. The best case for continued funding direct from the UK government once the UK has left the EU, including those based on delivery of public benefits, and
  3. The design of funding mechanisms and incentives to enable the continuing and enhanced delivery of a range of public benefits in future.
- 1.9 It is intended that the study will help inform the development of farm funding policy relating particularly to livestock farming in the English uplands generally and, in the event that regionally or locally managed schemes are introduced, more specifically to Exmoor and the South West of England.



## 2 Methodology

- 2.1 Farms over 100 hectares (ha) in size, while comprising only 32% of farm holdings, are responsible for managing more than three quarters of the total agricultural area within Exmoor National Park (Dwyer et al, 2015) and have the most significant impact on landscape and the farming economy. The majority of these larger holdings also derive most of their household income from farming and are therefore most exposed to changes in the farming economy. These factors provided the focus for the current study and 21 of the 23 farms in the study exceeded 100 ha in size. The study sample represented approximately 12% of 165 farms holdings over 100 ha in the National Park.
- 2.2 The study consisted of a series of semi-structured interviews with 28 farmers operating 23 farms in Exmoor National Park. The author knew 14 of the 28 farmers well, and had discussed farming matters with them from time to time in the past, though never in a formal structured way. Of the other 14 interviewees, 6 were known to the author but not well, while the interview was the first ever meeting between the author and remaining 8 following introductions from local farming contacts.
- 2.3 The semi-structured interviews explored the following broad themes:
  - **Description of the farm and its current economic performance** – including income from farm production; direct costs of production; labour input and overheads; innovations over the past ten years, and the significance of public funding.
  - **Farmers' thoughts on ways to increase profitability of their farm production and overall farm business** – including potential farming options; whether there were specific barriers (e.g. regulation) that meant changes were not being implemented already, and the income and opportunities from farm diversification.
  - **Farmers' thoughts on the best arguments in support of future public funding** – including the public benefits their farm is currently delivering in addition to food production; steps currently being taken on the farm to maintain and enhance these benefits; ways in which such benefits might be increased, and the design of funding mechanisms and incentives that would maintain and enhance benefits in future.
- 2.4 Interviews were mostly held on the respective farms, each taking typically 2 to 2.5 hours with the interviewer taking written notes. Subsequently, every interviewee had the opportunity to review the notes, both to correct points and to add any further comments they wished to make. Comments were not to be attributed, but interviewees were offered the opportunity to check that they were content with the wording and to remove any comments if they preferred.
- 2.5 The sample of farms is not claimed to be fully representative of Exmoor as a whole. That perspective has been covered most recently in 'The State of Farming in Exmoor 2015' (Dwyer et al, 2015) and in an analysis of Farm Business Survey (FBS) returns for 2014/15 (Robbins & Fogerty, 2016). However, it was considered important to obtain a sufficient range of views reflecting the varying circumstances across Exmoor. Thus the interviewees represented a wide geographic spread of owner-occupiers and tenants, with and without access to moorland and rough grazing. The majority were family-run farms, including some with a very long-standing family connection to Exmoor, as well as some more recent entrants.

## 3 Summary of research findings

### 3.1 Farm profitability and innovation

- 3.1 Although cattle and sheep predominate on all of the interviewee farms, the individual farms vary considerably in terms of farm area, livestock numbers, tenure arrangements and farming strategies. The majority of interviewees have strong family links to the farm and have been farming for all or most of their lives. While strong traditions were evident, interviewees gave no impression that adherence to past practices was stifling experimentation and innovation in their approach to farming.
- 3.2 Most farmers had experimented and modified their approach over the years, including with breeds of stock, soil and pasture management, rearing systems and sales strategy. Costs are also tightly controlled, with emphasis on making the farm as self-contained as possible in terms of expenditures on inputs used, including labour costs. There is a marked trend away from employing labour on the farm, and towards the occasional use of specialist contractors. Key approaches adopted by Exmoor farmers to increase profitability and adapt to external challenges include:
- Reducing costs
  - Keeping farming strategy constantly under review
  - Capital investment
  - Improving livestock
  - Adopting new technologies such as electronic identification systems
  - Enhancing value and better marketing of produce
- 3.3 However, the limits to productivity resulting from their upland location and market prices received for their products mean that few, if any, of the study farms could survive solely on returns from livestock production. This picture is consistent with all previous studies on Exmoor, and in the English uplands more generally.

### 3.2 Scope to increase farm income through diversification

- 3.4 Income from activities other than farming, so-called diversification, makes a contribution to all but four farms in the study, averaging around 7.4% of total farm output. The most frequently mentioned diversification activities are:
- Tourism accommodation – 10 farms provide some form of tourism accommodation ranging from bed & breakfast to self-catering, hostels and camping sites.
  - Renewable energy – 9 farms have invested in renewable energy projects.
  - Property rental – 5 farms have additional property rented out.
  - On-farm businesses – 5 farms have set up non-farming businesses based on the farm.
  - Tourism activities – 4 farms offer a venue for recreational activities, but these are all small scale with no commercial income.
  - Gamebird shoots – 4 farms have some form of shoot although only one is a substantial commercial enterprise.
  - Wayleaves – 3 farms provide sites for telecommunications masts.
  - Employment away from the farm, and pensions.

### 3.3 The importance of public funding to farm viability

- 3.5 Although diversification makes a useful contribution to most farms, the most significant additional income on all farms is from public payments. All study farms currently receive area-based payments via the Basic Payment Scheme (BPS) and the majority of them also receive agri-environment scheme payments under Environmental Stewardship (ES).
- 3.6 In 2016, BPS equated to approximately £213 per hectare (£148 per hectare plus £65 'greening' payment) for land below the moorland line and £56 (£39 plus £17 greening) per hectare above the moorland line.
- 3.7 The payments received from agri-environment schemes, principally Uplands Entry Level Stewardship (UELS) and Higher Level Stewardship (HLS), are highly variable because they depend on the particular environmental assets on each farm and the elements of the available schemes adopted. However, the average income from agri-environment schemes on the study farms is a little less than the area payment.
- 3.8 Figure 3.1 shows the average contributions from farm income streams for 22 of the study farms:

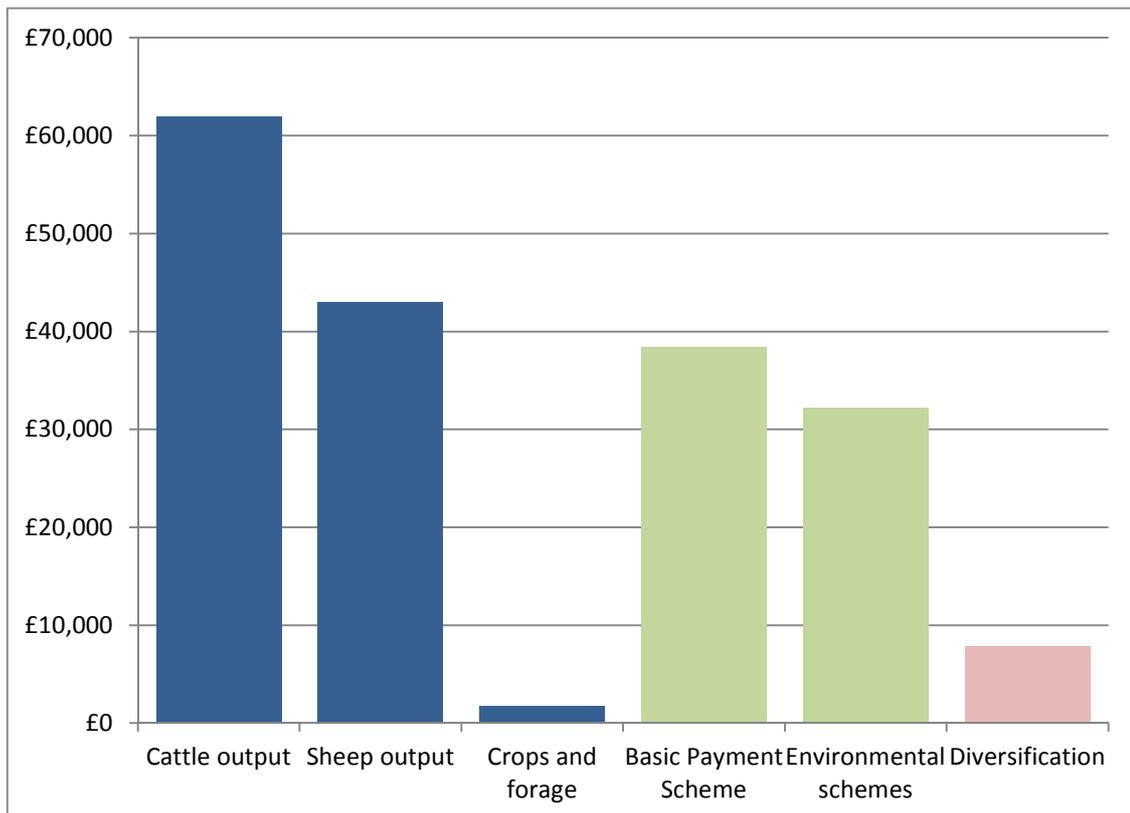


Figure 3.1 – Average contributions of main income sources to farm income

- 3.9 The importance of public funding is even more stark compared to the average Farm Business Income (FBI) illustrated in Figure 3.2. FBI is the financial return to all unpaid labour (e.g. farmers and spouses) and on all capital invested in the farm business including land and buildings. On average, public funding is approximately two thirds of Total Farm Output and 3.2 times Farm Business Income.

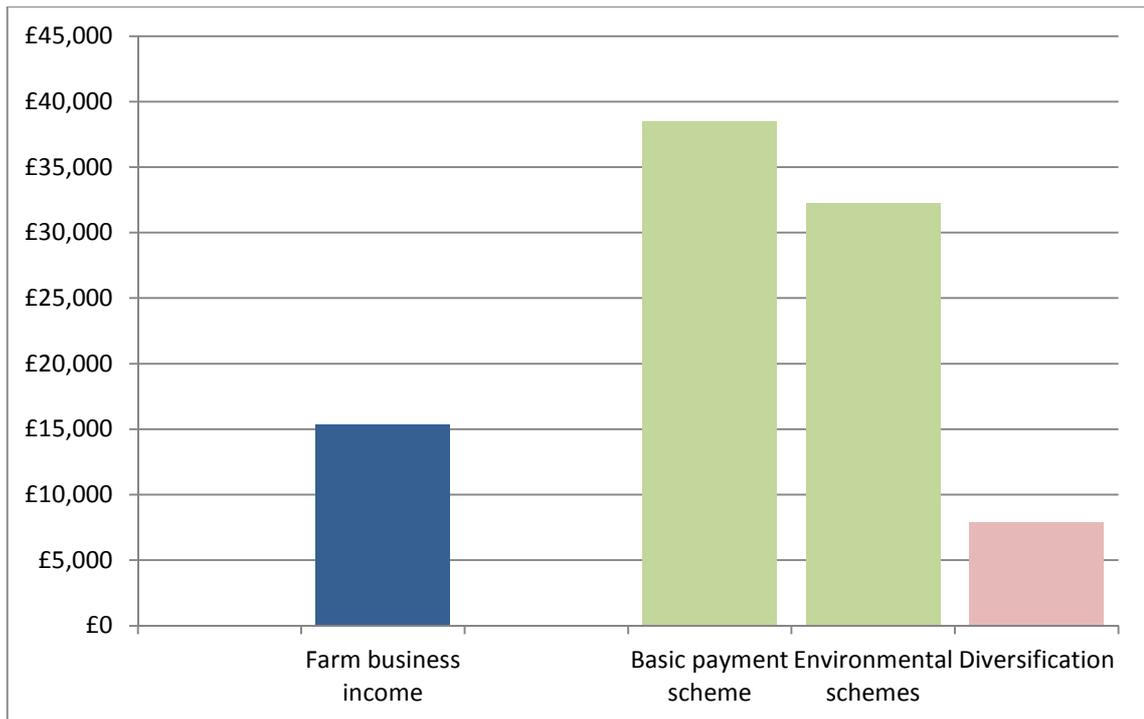


Figure 3.2 – Comparison of Farm Business Income (FBI) with income from public funding and diversification. FBI is a net figure that includes the receipts from public payments and diversification

- 3.10 Currently, public funding to farming is paid by the EU from the Common Agricultural Policy (CAP). But when the UK leaves the EU in 2020 this element will be lost, as all decisions over farm funding in England will revert to the UK government.
- 3.11 UK exit also has profound implications for international trade. New trade agreements with countries outside the EU will have to be negotiated, potentially with major implications both for agricultural input costs and the competitiveness of UK agricultural products at home and abroad. Sterling payments to UK farmers will no longer derive from EU prices denominated in euros, to the advantage or disadvantage of farmers depending on the foreign exchange rate. The context for agricultural policy will fundamentally change.
- 3.12 While the situation overall is highly complex and the outcome for farm product sales impossible to predict with any certainty, one thing will be more straightforward: rather than having to seek to influence an EU-wide agricultural policy shaped alongside 27 other member states, in future UK farmers and farming organisations will be able to focus on influencing policy determined by the UK government in response to domestic political pressures and its own priorities.
- 3.13 However, choice of policy instruments to achieve UK domestic objectives will still be constrained by World Trade Organisation rules and the share of the EU's Aggregate Measurement of Support that the UK negotiates under the terms of its exit (Howe, 2017). Moreover, the purpose and specification of environmental payments under WTO rules is currently a matter of debate (Hasund and Johansson, 2016). In particular, there appears to be little, if any, justification for limiting payments to profit forgone from agricultural production and extra costs incurred now that structural surpluses of agricultural products are no longer a problem. Environmental goods and services should be priced and paid for according to their value to society in their own right. [See also section 4.2]

### **3.4 The case for future public funding after UK exit from the EU**

- 3.14 This study, among others into the economics of uplands livestock farming, strongly suggests there is need for continued public funding if the current pattern of upland farming is to be sustained. Hence the focus on arguments Exmoor farmers might deploy in discussions with the UK government about the level of public funding necessary to sustain the local farming economy.
- 3.15 Arguments advanced by the Exmoor farmers interviewed to justify continued public funding focused on the following themes:
- Future food supply, cheaper food and national resilience
  - Sustaining the farm business
  - Benefits to the wider rural economy
  - Looking after the environment
- 3.16 The majority of interviewees felt that arguments for funding to enable the continued and enhanced delivery of public benefits – such as Exmoor’s landscape, biodiversity and cultural heritage – make for a stronger case than arguments based on food supply, sustaining farm businesses, or reducing the cost of food to consumers.
- 3.17 The particular public benefits cited by interviewees as being delivered or highly influenced by their own farming activities were as follows, listed in the frequency with which they were mentioned:
- Landscape
  - Biodiversity / wildlife
  - Carbon capture and storage
  - Water quality
  - Water supply and flood management
  - Archaeology and cultural heritage
  - Access
- 3.18 Farmers varied considerably in the degree to which delivery of these benefits was a factor affecting their current farming strategy and practices. For most, the provision of public benefits other than food was not a significant consideration in the day-to-day operation of their farms.
- 3.19 However, nearly all interviewees had participated in, or were currently participating in, agri-environment schemes. Several cited examples where they had been actively engaged in environmental management, including managing habitats for butterflies, plant diversity, breeding birds and moorland management.
- 3.20 Conserving archaeological sites, providing permissive access and engagement with water management programmes such as Catchment Sensitive Farming and the Headwaters of the Exe programme were also mentioned.

### **3.5 Lessons gained from experience of past public funding schemes**

- 3.21 Exmoor National Park has a history of agri-environment schemes dating from 1990 with the launch of a scheme developed and funded by Exmoor National Park Authority. Most significant, however, was acceptance of Exmoor in 1993 into the Environmentally Sensitive Area (ESA) scheme operated by the Ministry of Agriculture Fisheries and Food (MAFF) to conserve landscape and features, and to help improve and extend wildlife habitats.

- 3.22 This whole-farm scheme made area payments in two tiers subdivided into 8 detailed prescriptions depending on the main land type. For many farmers, one of the more attractive elements of the ESA scheme was inclusion of a number of supplementary payments. These included provision for hedge restoration by capital payments in return for bringing hedgerows and banks under active management.
- 3.23 In 2005, Environmental Stewardship (ES), a national agri-environment scheme, replaced the ESA. The majority of Exmoor farms have subsequently migrated to this scheme and have agreements under Uplands Entry Level Stewardship (UELS) and/or Organic Entry Level Stewardship (OELS), with a smaller number also with land in Higher Entry Level Stewardship (HLS).
- 3.24 In 2015, the agri-environment schemes changed again to become Countryside Stewardship (CS), but no interviewees had direct experience of this change as their current ES schemes still have time to run.
- 3.25 In summary, discussions with the farmers interviewed identified a number of key concerns arising from their experience of agri-environment schemes. These provide an important pointer for improved design of future schemes and include:
- No clear goal or means of seeing achievements – There is a widespread concern amongst farmers that they have little understanding of what the schemes are designed to achieve.
  - Inconsistent scheme aims – This is closely linked to the first concern and is based on the perception that the goals are changing as schemes come and go and even as project officers change.
  - Over-prescription and inflexibility – A concern that scheme design is now being led more for its ease of compliance monitoring and inspection than the achievement of positive results.
  - Little or no feedback – as the schemes have developed they have moved from being managed by local project officers, who visited farms fairly regularly and gave constructive advice, to being nationally run with fewer visits to monitor progress. This is made worse by a concern that the objective of an inspection is now to ‘catch the farmer out’.
  - Inappropriate targeting – The largest funds available to Exmoor farmers through ES are for the management of moorland and heathland. A substantial number of non-recipients are concerned that the levels of funding for these areas cannot be justified by the amount of management work required.
  - Winners and losers – The switch from ESA to UELS/HLS has been staggered due to farms entering into ESA agreements at different times and some leaving early to get into UELS/HLS. Early uptake meant better payments and easier admission, and has resulted in many farmers feeling that they have ‘lost out’ because they were too late and / or their farm does not incorporate the features that attract the majority of funding.
- 3.26 Compared to the ESA scheme, the reviews of agri-environment schemes have tended to lead to a reduction in funding available for farms that were not able to enter into the HLS scheme.

## 3.6 Preferences for the design and delivery of future public funding

3.33 The overwhelming majority of farmers interviewed would like to see some ongoing funding for farming in Exmoor and, indeed, most felt this would be essential to sustain most farms for the long term. This section of the interviews considered the potential design and management of a future scheme, taking into account aspects of previous schemes that farmers felt had worked well and suggestions for an approach that could avoid some problems encountered in the past. Key considerations include:

- Design principles
- Scheme objectives
- Scope of a future scheme
- Eligibility
- Prescriptions or outcomes?
- Monitoring
- Guidance / advice
- Administration / governance

### A. Design principles

3.34 A number of principles were identified in the interviews for incorporation into any new farm funding scheme:

- **Clarity of objectives** for participants and the wider public so that the public and farmers can see what is being achieved through the funding, and so that people administering the scheme do so consistently.
- **Sufficiently long-term** so that participants can plan ahead and incorporate the scheme objectives in their own business choices and the achievements that are made are sustained. One interviewee raised the potential for 'rolling agreements', which would seem an excellent way to ensure continuity, security and avoid the stop-start nature of historic schemes with frequent scheme revisions.
- **Flexibility and avoidance of prescriptions** to allow some room for manoeuvre for participants, and to enable approaches to adapt in response to experience gained from scheme delivery and to external factors.
- **Fair and equitable** allocation of funding, so that the funding goes to the person(s) who is doing the work. This would remove opportunities for people to gain financial advantage that isn't justified by the effort they are making. A scheme where all farms can benefit, including the small ones, and one in which participants make a contribution if the farming activity benefits.
- **Sufficiently resourced** to encourage participation and enable the scheme to make a meaningful contribution to the farm business.
- **Appropriate to local circumstances** for example, by enabling local design within a national framework.

### B. Scheme objectives

3.35 Most interviewees felt that scheme objectives should be based on what the public or government wants farmers to deliver. The bi-annual Visitor Survey undertaken by Exmoor National Park Authority is a potential source for information on what the public values about Exmoor. More specialist ecosystem services – such as carbon sequestration, water quality and flood management – are likely to have specific customers; for example, commercial organisations seeking to offset carbon emissions

or provide drinking water, voluntary interests such as recreation and fishing groups, or downstream communities.

### **C. Scope of a future scheme**

- 3.36 Based on the interviews, there is likely to be support from within the farming community of Exmoor for a future approach to farms funding with the following elements:
- A single new scheme that avoids the current problems that can arise between the objectives of Pillar 1 funding, aimed at maintaining land in good agricultural condition, and Pillar 2 funding aimed at conservation and other benefits.
  - A 'whole farm' approach with underpinning area-based revenue payments.
  - Additional revenue payments where active management is required to deliver public benefits such as landscape, wildlife, cultural heritage and ecosystem services outcomes
  - Access to one-off capital grants for specific improvements such as hedge restoration and improved water management.
  - Encouragement of a coordinated approach across neighbouring farms where the circumstances mean that this would be beneficial, such as where there are wildlife corridors or linked areas of habitat.
  - An inclusive scheme that incorporates other key land uses, such as woodland as well as farmed land.
  - Consideration of specific measures to compensate for permanent changes in land use with significant impacts on farm productivity and commercial value, such as woodland creation, peatland restoration, moorland restoration or the creation of new linking habitat.

### **D. Eligibility to receive funding**

- 3.37 The majority of interviewees felt that eligibility for funding should be targeted at the person undertaking the active management work, i.e. the farmer/owner or tenant.
- 3.38 As a principle, it would seem appropriate to provide funds to the person responsible for carrying out practical work where that is required, with payments made to owners where the impact of the scheme is primarily on the long-term use and value of the land involved, e.g. restoration of peat or moorland. In these instances of permanent change in land use, it would be expected that part of the impact would be reduction in rent levels for any tenants of the land concerned.
- 3.39 In circumstances where a scheme extends beyond farmed land it was proposed that eligibility need not be restricted solely to farmers.

### **E. Prescriptions or outcomes?**

- 3.40 Many of the farmers interviewed did not like an approach based on prescriptions. This was not an objection in principle but a general concern that while prescriptions such as preventing applications of lime had an impact on agriculture, most farmers were not aware of the benefits to biodiversity. That said, a prescriptive approach was regarded as a 'safer' because the farmer did not need to show any achievement, only that the prescriptions had been adhered to!
- 3.41 The response of farmers to a proposed outcomes approach was generally positive so long as the outcomes were felt to be realistic and achievable. An approach based on that operating within the Burren in Ireland ([www.burrenprogramme.com](http://www.burrenprogramme.com)), where

payments are based on actual condition of the habitat rather than contingent on progress made towards effecting change, seems to combine an approach that uses farmer initiative while being relatively straightforward to monitor.

- 3.42 An alternative might be to agree a funded action plan with payments linked to undertaking the actions whether or not the plan delivered outcomes sought. This is not quite the same as a 'prescription' because the action plan would be site-specific, and a negotiated approach would enable the plan to be reviewed and modified in conjunction with the farmer depending on the results being achieved.
- 3.43 A clear public statement of the outcomes being sought was also welcomed by some farmers, because it can build public support for funding and help overcome perceptions that farmers are getting money for doing nothing.
- 3.44 The question was raised about who makes the decision about outcomes being sought, particularly where there might be multiple outcomes and a number of interested parties in some areas, such as on moorland.

## **F. Monitoring**

- 3.45 The farmers interviewed generally welcomed monitoring, particularly where it was constructive rather than conducted with the aim of finding fault. A concern expressed by many farmers, is that the focus for monitoring of scheme implementation has moved away from one of support and advice towards a heavy-handed audit with very little useful feedback on what is being achieved.

## **G. Advice and guidance**

- 3.46 Access to advice and guidance was welcomed by interviewees, at the initiation of an agreement as well as alongside subsequent monitoring. The approach to Environmental Stewardship that required a Farm Environment Plan (FEP) as part of the application process was felt to be a good one so long as the FEP became the basis for monitoring etc.

## **H. Scheme administration and governance**

- 3.47 Many interviewees expressed views on the optimum administration and governance arrangements for any future scheme. The initial standpoint was often that administration costs were an item to be kept as low as possible as they take money away from farmers. However, much depends on what is described as 'administration' as many farmers preferred the suggestion of having more effective up-front planning, progress monitoring, constructive feedback, and guidance rather than 'cheaper' tick-box auditing.
- 3.48 A large majority of interviewees would prefer a scheme where day-to-day interactions are locally managed, potentially sitting within a wider national framework. The boundaries of any locally managed scheme will need careful consideration.
- 3.49 While farmer involvement in scheme delivery was generally supported, there was recognition of potential difficulties and most preferred an approach that involved farmers, but mostly in an advisory capacity.

## 4 Recommendation for a future farm funding scheme for Exmoor National Park

- 4.1 Based on the responses from the farmers in the survey, it is recommended that a scheme outline be developed for Exmoor based on the following elements:
1. **Area-based revenue payments to sustain the current farming structure with incentives to maintain and enhance Exmoor's landscape, biodiversity and cultural heritage**
  2. **Outcome focused revenue payments for enhancement projects**
  3. **Capital payments to undertake specific works to maintain landscape and cultural heritage features and other benefits such as improved water quality and flood management**
  4. **Specific payments for other public benefits such as Payments for Ecosystem Services (PES) schemes**
  5. **Locally-based advice and management**

### 4.1 Proposed design for a farm payment scheme for Exmoor National Park

- 4.2 The following sections provide some more details of the proposed farm funding scheme after the UK exits from the EU in 2020. The proposal needs further development, and to be costed and tested prior to seeking support from the Exmoor farming community, wider public and Government. The aim is for a voluntary scheme open to all farms in the National Park with the following objectives:
- A. To support farm viability across the National Park by providing an overall level of funding similar to that currently received by Exmoor farms and distributed in a way that maintains the existing pattern of farm sizes, tenures and distribution, and
  - B. To provide enhanced support for the maintenance and enhancement of landscape features, biodiversity and cultural heritage and other public benefits.
- 4.3 The proposed scheme design includes the following elements:

#### **Part 1 – Area-based revenue payments to sustain the current farming structure with incentives to maintain and enhance Exmoor's landscape, biodiversity and cultural heritage:**

- An annual area payment for farmed land as for the current Basic Payment Scheme (BPS) with similar funding levels and cross-compliance requirements – the basis for payments would be calculated through an approach similar to that of the current Basic Payment Scheme (BPS) but including all land under management including habitats such as scrub, woodland and open water, that would currently be excluded as Permanently Ineligible Features (PIF) within the BPS. Buildings and hard surfaces such as yards and surfaced access roads would remain ineligible.
- Annual top-up payments for areas such as unimproved grassland, light scrub, wood pasture and other habitats in recognition of the biodiversity and other benefits that they provide
- Annual payments per linear meter for all vegetated boundary features (e.g. hedges and banks) whatever their condition [additional capital payments for hedgebank maintenance would also be available – see Part 3]

- Annual payments per linear meter for buffer zones alongside watercourses, e.g. rivers and streams [additional capital payments for specific actions aimed at protecting or enhancing water quality would also to be available – see Part 3]
- Annual payment for areas where the presence of vulnerable cultural heritage restricts normal farming activities [additional payments would be available where specific action is required to maintain and manage significant cultural heritage features – see part 2]
- Enhanced area payments where an Exmoor priority species is supported [list of qualifying species to be prepared]
- Enhanced payment for increased species diversity on grassland
- Enhanced payment for later cutting of grass forage (e.g. hay or haylage rather than silage)

**Part 2 – Outcome focused revenue payments for enhancement projects such as:**

- Landscape restoration
- Habitat creation
- Habitat restoration – enhancement
- Linking habitat and wildlife corridors
- Management and maintenance of cultural heritage features

The level of funding should be based on costed Management Action Plans setting out the work to be undertaken. The action plans would replace the ‘prescriptions’ that have been a central part of agri-environment schemes through CAP. However, prescriptions limit the flexibility in local management actions with the consequence that the environmental benefits achieved through public funding are unlikely to be maximised.

Management Action Plans aimed at environmental outcomes would enable greater flexibility in work undertaken from year to year in response to varying circumstances such as changeable weather patterns, and to enable the trial of management approaches where this is necessary to achieve the outcomes.

A number of demonstration schemes across Europe are assessing the efficacy of a results-based approach to farm payments. For instance, the Burren Programme in Ireland provides payments to farmers for actions undertaken and for outputs achieved in a way that has led to positive environmental outcomes ([www.burrenprogramme.com](http://www.burrenprogramme.com)).

Section 4.2 considers the compatibility of such schemes with the rules surrounding international trade in agricultural produce.

**Part 3 – Capital payments to undertake specific works to maintain landscape and cultural heritage features and other benefits such as improved water quality and flood management including:**

- Management and restoration work to landscape features such as hedgerows, banks and walls
- Management and restoration of archaeological sites and historic farm buildings
- Improving the water environment along similar lines to programmes such as Headwaters of the Exe / Catchment Sensitive Farming type grants to improve water quality
- Catchment flood management projects

The proposals for one-off 'capital' payments for specific works undertaken by the farmer have precedents within a number of past agri-environment schemes including Environmentally Sensitive Area (ESA) and Catchment Sensitive Farming (CSF) programmes. Works would be co-funded by the farmer – the level of co-funding is based on the environmental benefit generated – and carried out by the farmer and/or contractors before payment is made.

Certain works might also be attractive to private or voluntary sector funding. For example, South West Water currently provides payments for works to improve the water environment through the 'Headwaters of the Exe' project within Exmoor National Park with co-funding from Exmoor National Park Authority.

#### **Part 4 – Specific payments for public benefits, e.g.:**

- Carbon sequestration
- Access agreements – linear and area
- Educational access
- Payments for Ecosystem Services (PES) markets

There is potential for the development of a suite of funding opportunities resulting from the creation of new PES markets (Lawton, 2013). While PES schemes are well established in other countries (Ingram et al, 2014), they are still at an early stage of development in the UK (Reed et al, 2014).

On Exmoor, a PES scheme established by South West Water provides payments for the water quality and biodiversity benefits arising from peatland restoration. The development of a PES scheme for Exmoor can benefit from this experience and that of other pilot schemes such as the Glastir Scheme in Wales (Wynne-Jones, 2013).

The key to establishing a PES scheme is the identification of a purchaser of the services being provided. Potential purchasers might include public, private or voluntary sector purchasers, or a mix of these. On Exmoor, South West Water has already emerged as such a purchaser although the scheme is restricted to a small number of farms with peat deposits suitable for restoration. Other local purchasers of services are more difficult to identify, although Exmoor National Park Authority might be approached to consider payments for access improvements where they make a strategic contribution to the Public Rights of Way network or access land. Ideally, a one-off grant should provide access into perpetuity. Payments might also be made to farmers for providing educational access and hosting education groups.

As with outcome-focused or results-based payment schemes, there are questions over the compatibility of publicly funded PES schemes with WTO rules and this is considered in section 4.2.

#### **Part 5 – Locally-based advice and management**

The majority of farmers interviewed favoured a locally managed scheme focused on the National Park or the Exmoor National Character Area (NCA) (Natural England, 2012). Aspects to consider in more detail include:

- Accountability for funding
- Means of delivering advice and support – project officer(s), role of volunteer input
- Governance arrangements:
  - Farmer involvement
  - Considering any appeals / enforcement

- Process for setting outcomes for outcome-based schemes – who should be involved and how?
- Communications + publicity – it is important to show the public and scheme participants what is being achieved by the scheme.

Importantly, Exmoor National Park Authority was supported as the most appropriate accountable body for a future funding scheme, with a supporting role provided by the Exmoor Hill Farming Network charged with encouraging farmer engagement and participation.

## 4.2 Compatibility of the proposed scheme with World Trade Organisation rules on international trade in agricultural goods

- 4.4 As well as assessing the degree to which the approach to farm funding set out above is supported locally and nationally, it will be important to ascertain whether the proposed scheme is compatible with World Trade Organisation (WTO) rules.
- 4.5 The agri-environment payments to farmers through the CAP are currently calculated on the basis of profit foregone plus costs so that they can be classified as non-trade distorting (Potter et al, 2017). The majority of the elements set out within the proposed scheme have precedent in previous CAP farm payment schemes so would be expected to be compliant. However, questions have been raised over the eligibility of publicly funded results-based and PES schemes under WTO rules.
- 4.6 Hasund & Johansson (2016) argue that the EU CAP rules are more constrained than WTO rules as they only allow environmental payments to farmers that fall within the WTO ‘green box’. Thus they must not exceed the extra cost or profit forgone by the farmer. However, the WTO rules do allow for value-based payments under the so-called ‘amber box’ so long as these do not exceed the ceiling for such payments. The EU currently has a large margin below its amber box ceiling which would enable CAP to incorporate value-based payments alongside green box payments in a future review of the CAP. This provision within the WTO rules would provide the basis for agri-environment payments based on the value of benefits being delivered to society so long as the UK is able to secure an allocation within the WTO amber box (Swinbank, 2017).

### Farm funding limits set by the WTO Agreement on Agriculture (based on Swinbank, 2017)

The WTO Agreement on Agriculture disciplines divide member states’ expenditure on support to farming into three categories:

- **Green box** for policies with no (or at most minimal) trade distorting effect on production. There are no limits on these expenditures
- **Blue box** for direct payments under production limiting programmes, e.g. livestock payments on a fixed number of head. There are currently no limits on these expenditures
- **Amber box** for all other support which is subject to limits above the *de minimis* thresholds of 5% of total output value for any product-specific support and 5% of a country’s total agricultural production for any on-product-specific support. The limit above the *de minimis* level is currently €72.4bn for the EU28 and the UK will require some share on EU exit if it wishes to exceed the *de minimis* levels.

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