



Filling the void

Steps towards a post-Brexit
UK policy framework

FARMERS' UNION OF WALES DISCUSSION PAPER
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Executive summary

Whilst the Common Agricultural Policy (CAP) and associated EU frameworks have caused no end of frustration for farmers and administrations alike, few have ever queried the rationale for having common and proportionate rules which protect businesses from market distortion and unfair competition, ensure the UK's internal markets and supply chains continue to function properly and meet agreed common objectives which are in all our interests.

The loss of such frameworks after we leave the EU will create an unprecedented legislative void - not through design, but as a result of the absence of appropriate mechanisms by which political agreement on frameworks can be reached, and the political gulfs which exist within and between parties and national governments.

The obstacles to establishing such mechanisms are certainly significant, not least given the timescales involved, but such difficulties do not negate the urgent need for the creation of meaningful frameworks and decisive action to create the mechanisms by which they might be agreed and governed.

In the two years since the vote to leave the EU, progress on developing such frameworks in relation to the various national policies which will affect farmers throughout the UK has been negligible.

Moreover, many seem to welcome the freedom to develop differing national policies which have little regard for anything other than World Trade Organisation rules, and refuse to even acknowledge the dangers major divergences could bring.

This paper presents clear arguments as to why this should not be allowed to happen, and sets out for discussion broad principles for a post-Brexit UK agricultural and rural framework and the mechanisms by which these should be agreed. These comprise:

- 1** The establishment of a governance framework comprising decision making bodies which fully respect devolved powers while agreeing, enforcing and arbitrating agreed common rules
- 2** Agreement on the shared common objectives which should underpin all agricultural and rural policies
- 3** A fair funding formula which properly reflects national needs
- 4** Multiannual budgets which minimise annual uncertainty for businesses and administrations
- 5** Financial frameworks which allow flexibility in terms of spending in key areas within set thresholds
- 6** Legislative frameworks which ensure relative commonality while respecting the different needs and priorities of UK nations

As an organisation established more than sixty years ago to advance and protect the interests of Welsh farmers, the Farmers' Union of Wales remains fully committed to devolution and the advantages it has brought to Wales and other nations over the past two decades.

But such changes do not negate the need for all our nations to work together to develop approaches which are mutually beneficial and protect not only our farmers and internal markets, but also our status and reputation across Europe and the World.

Introduction

The influence of frameworks which control how goods are produced and traded is all around us, and whilst talk of their importance might have been rare just a few years ago, in the current global political climate they are at the forefront of much debate: The United States' recent decision to impose hefty import tariffs on steel and aluminium has led to retaliatory actions by the EU and China, as well as formal proceedings on the grounds that the US' actions are illegal under the framework of rules agreed by the World Trade Organisation (WTO).

Despite such topical disputes falling under the scope of an agreed international framework, in truth the WTO limits on interventions and trade barriers are liberal, providing huge scope for variations, including in terms of agricultural production and commodities.

This means that those countries entering closer trade arrangements will generally agree on additional frameworks which minimise distortion and maintain standards – allowing commodities to pass between countries in ways which eases trade and reduces adverse impacts far more than WTO rules would.

The general rule is as intuitive as the rationale which underpins the principle of such frameworks: When barriers to trade between countries are lowered, the need for agreed frameworks which prevent distortion and increases commonality grows.

The particular importance of food production and safety, and the associated issues of animal and plant health, means that agriculture is invariably given a special status in terms of framework agreements - no less so than within the EU's Single Market, which underpins and gave rise to the European Union (EU), where successive common agricultural policies have set out strict rules and limits, allowing a degree of flexibility for Member States, but only within defined frameworks.

The European Commission (EC) proposals to liberalise the framework of the 2021-2027 CAP has sparked significant debate, and whilst the EU Commissioner for Agriculture and Rural Development, Phil Hogan, has made clear his view that "...the new delivery model is not a carte blanche for member states to do as they please" and that key safeguards will ensure a "truly common and truly European policy" and "a level playing field", the proposals have prompted widespread concerns of a move towards renationalised agricultural policies which will distort trade between Member States by

introducing unfair advantages for some farmers and producers.

By comparison, the dangers of similar distortions occurring within the UK have generally been ignored or eclipsed by other issues, despite the freedom to introduce divergent policies across the UK being orders of magnitude greater than what is being proposed in the EU.

Yet as the United Kingdom prepares to leave the EU and the legal and financial frameworks defined in the CAP, there is an acute need to replace the safeguards currently in place under the CAP, given that goods will continue to pass between our four nations without obstacle.

In any other circumstances, the need to establish meaningful financial and regulatory frameworks for agriculture would have received rapid recognition throughout the UK; yet the upheaval caused by Brexit, coupled with numerous political and practical concerns, agendas and obstacles has left us with a relative void, opening up the risk that gulfs between national policies will lead to major trade distortions and gross disadvantages for some farmers, regions and sectors.

Following consultation with members, the Farmers' Union of Wales agreed in September 2016 that frameworks should be established which prevent unfair competition between devolved regions and secure and protect adequate long term funding for agriculture, whilst respecting devolved powers over agriculture and the need for flexibility which allows devolved governments to make decisions which are appropriate for their regions.

In the twenty-one months which have followed, the progress made in terms of establishing such frameworks has been negligible, giving rise to major concerns, many of which have been brought into stark focus by the differences between the stated aspirations of the Welsh, Scottish and English administrations in terms of future agricultural policies.

This paper is aimed at promoting discussion on what a UK policy which allays such concerns might look like; it is not a policy proposal agreed by FUW members, nor is it comprehensive in terms of the detail likely to be required in detailed proposals.

Rather, it sets out the kind of broad principles which might be built upon in order to establish a meaningful UK framework which respect both devolution and avoids the clear dangers of a carte blanche approach.

Governance framework

The lack of progress in terms of formulating a meaningful UK framework is a direct consequence of there being no adequate body or processes by which to reach agreement between our national governments.

This has led to the worrying situation whereby our four nations are proposing changes which would introduce unprecedented levels of divergence in terms of agricultural support and rural policies.

Of course, such divergence does not necessarily mean policies in each of the four nations will undermine common interests, lead to unfair advantages or compromise the functioning of the UK's internal markets and supply chains; but if such negative effects do not materialise, this will be inadvertent rather than by design.

Moreover, if such impacts do become a problem, there will be no proportionate mechanism by which to address this, and where action is taken this is likely to be politically divisive, adding to existing divisions between parties and national governments and potentially triggering further constitutional crises.

The Farmers' Union of Wales has made clear its support for the Welsh Government's view that the UK Joint Ministerial Committee should be developed into a properly functioning Council of Ministers, and whilst we do not underestimate the political and other obstacles to doing this, the dangers of not establishing such a body are apparent – not least in terms of the developing divergence between national policies.

Good governance must also be underpinned by an independent body or bodies with sufficient powers and resources to assess and monitor national schemes and interventions, ensure compliance with framework rules, and act and arbitrate in the event of complaints by national governments.

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Common objectives

For much of the second half of the 20th Century, UK agricultural policy was underpinned and directed by the 1947 Agriculture Act, described by the Minister responsible for its introduction, Thomas Williams, Baron Williams of Barnburgh, as intended “to promote a healthy and efficient agriculture capable of producing that part of the nation’s food which is required from home sources at the lowest price consistent with the provision of adequate remuneration and decent living conditions for farmers and workers, with a reasonable return on capital invested”

The Treaty of Rome, signed by the founding members of the European Economic Community in 1957, included similar principles aimed at ensuring a fair standard of living for farmers and providing food supplies at reasonable prices, while also establishing conventions aimed at minimising market distortion and ensuring common standards within what was to become the Common Market.

Whilst the broad principles defined in the Treaty of Rome remain in place, as global and national priorities have changed and evolved, so have additional principles which define the nature and goals of the EU’s CAP.

As such, the current CAP provides a policy framework based on a host of agreed global and pan European challenges through three overarching principles, namely:

1. **Viable food production**
2. **Climate change and sustainable management of natural resources**
3. **Balanced territorial development, within which a further eleven priorities and actions are defined**

While the UK is currently subject to the policy framework which enshrines these principles, once we leave the EU there is a clear rationale for our nations to agree on a successor which recognises the common challenges and interests which exist across the UK, while simultaneously respecting devolution.

As things currently stand, no such framework has been agreed, meaning our nations are free to design policies which may not only differ significantly in terms of key objectives, but do so to the extent that they contradict each other or even undermine common interests and the functioning of the UK’s internal markets and supply chains.

It is therefore in all our interests for our four nations to agree on common policy objectives, and the FUW proposes the following as a starting point for further discussion:

1. Family farms and rural economy

Farmers are keystones in complex food supply chains involving upstream businesses such as vets, feed merchants, mechanics and contractors, as well as downstream businesses such as hauliers, livestock markets and food businesses – all of which are an inherent part of a vibrant rural economy.

Agriculture also plays a central role in other areas of direct economic, cultural and social importance to Wales and the UK, not least maintaining the varied landscapes and habitats so cherished by visitors to the countryside and preserving the rich and varied cultural identity of regions and nations.

Our family farms lie at the centre of such supply chains and the wider economic, environmental, social and cultural benefits of agriculture, and retaining and improving the standing of our family farms should be a core policy under any future agricultural policy.

Moreover, policies which result in the loss of families from the industry must be avoided at all costs, as this would have dire consequences for rural economies, society, landscapes and habitats, causing irreparable damage to our nations.

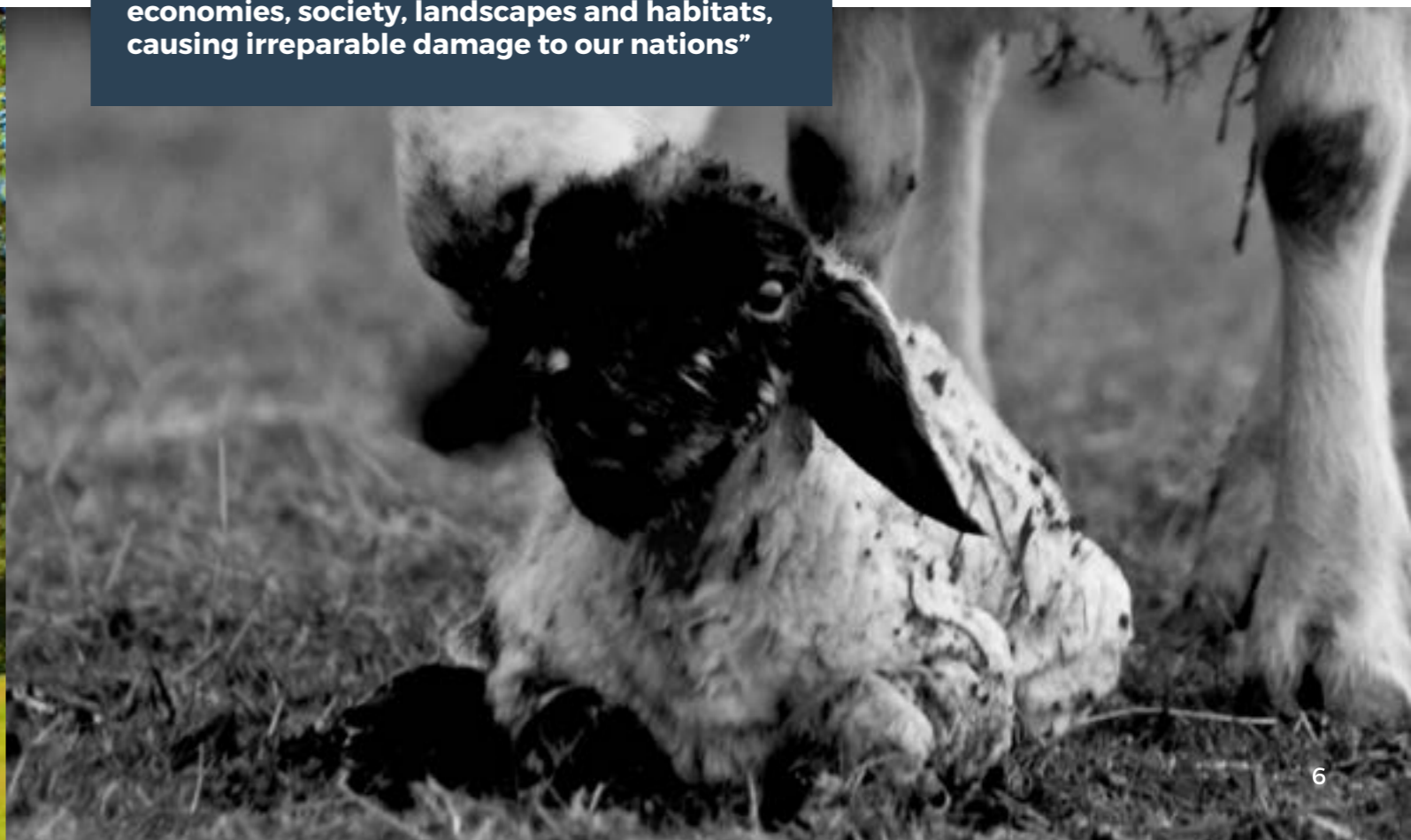
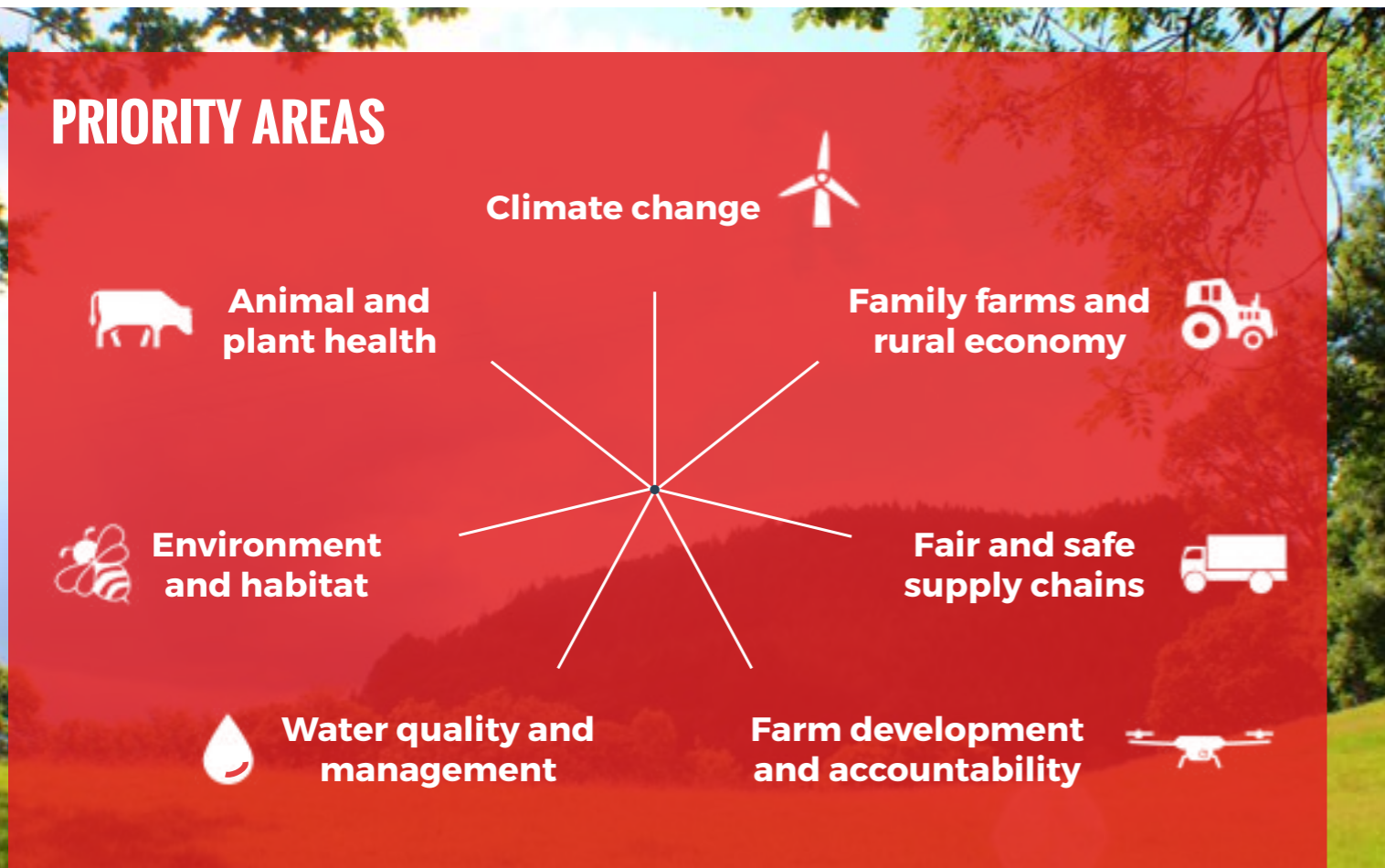
The principle of providing fair incomes for farming families underpins the CAP, as it did the 1947 Agriculture Act which preceded it, and under any future policy this principle should be upheld as a core objective – not to do so would be a retrograde step.

However, it is recognised that current and previous support mechanisms have not only been imperfect, but also brought numerous problems and sometimes attracted fair criticism.

As such, the UK nations should have more flexibility under a post-Brexit agricultural policy to tailor approaches to their specific needs in order to maintain and boost family farm incomes – but only within criteria that minimises unfair competition between nations and ensures funding is delivered at fair levels to genuine family farms.

Critical to the future of family farms is the need to ensure the next generation of farmers have fair access to funding and land, whether they are family successors or new entrants to the industry, and both the UK and national governments should implement changes which aid succession.

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2. Climate change

Climate change has always occurred, whether as a result of changes in the Earth's rotation and orbit, geological events or the impacts of species.

However, there is scientific consensus that the changes measured over recent centuries are more acute than any other caused by a single species over such a short time span, and that action needs to be taken to reduce our impact on climate if we are to avoid cataclysmic impacts.

With the world population expected to rise to between nine and ten billion by 2050, and predicted reductions in global agricultural productivity per hectare, agriculture stands at the front line, and mitigating climate change without compromising food security is one of the most significant long-term challenges facing mankind.

Given agriculture's reliance on the environment and climate, our industry is more exposed than possibly any other to the dangers of climate change in terms of rising sea levels and ever more extreme weather - whether in the form of

droughts, flooding, or unseasonable weather - while related issues such as the reliance on fossil fuels for efficient food production represent a major challenge.

Like other industries, agriculture must rise to the challenge of reducing its own contributions to climate change, but it must do so whilst ensuring that ecosystems that rely on agriculture are not undermined, and that food continues to be produced in the UK rather than being displaced to countries with larger environmental and carbon footprints.

Unlike other industries, agriculture is also uniquely placed to improve upon the role it already plays in sequestering carbon and reduce our nations' reliance on energy produced using fossil fuels through the generation of green energy, and outside the EU CAP we have the opportunity to better assist our farmers with energy generation schemes that will reduce our nations' reliance on fossil fuels.

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3. Fair and safe supply chains

Ensuring people have access to plentiful supplies of food at affordable prices was a key policy objective of both the 1947 Agriculture Act and the CAP, with no small degree of success; food has never been so plentiful, and the proportion of household incomes spent on feeding families is half what it was fifty years ago.

Meanwhile, the nature of food supply chains has changed beyond recognition, with the majority of power now being held by just a handful of retailers and processors, and official government regulation of prices and the supply chain negligible compared with the rationing and price controls of the past.

Whilst such changes have brought with them numerous benefits, there can be few who do not recognise the damage, dangers and drawbacks of a race to the bottom which has undermined smaller players in food chains and allowed huge power to be wielded by a handful of mammoth operators.

In 2014, recognition of such problems came in form of the appointment of a Groceries Code

Adjudicator, whose role is to ensure direct suppliers of the large supermarkets are treated lawfully and fairly.

However, post Brexit, governments must take a far more proactive approach if we are to truly address impacts such as declining choices for farmers and consumers, less competition between fewer businesses, increases in food miles and a loss of local processing capacity.

Above all else, our food supply chain must be made fair to ensure farmers, producers and others involved in the supply chain receive fair prices for their produce and are not undermined by the actions of large companies.

Key to this is to improve transparency in a way which does not undermine fair competition, while also empowering farmers to collaborate and work together to strengthen their positions in the marketplace.

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4. Environment and habitat

The vast majority of UK landscapes are managed, and have been for hundreds or thousands of years, whether through agriculture, forestry or for other reasons; the species which live in and around those habitats have evolved to depend on our actions and interventions, meaning over-management or changing our interactions with ecosystems can cause untold damage to those species.

Previous agricultural and land use policies, often driven by necessities such as the need to ensure national food and timber supplies, have had a range of detrimental impacts on our environment, with examples such as hedge removal, over-grazing and afforestation in previous decades having been well documented.

However, as our knowledge of ecosystems grows, evidence of the importance of humans and agriculture as a part of ecosystems is also growing; for example, the loss of grazing livestock and reductions in pest control are now both recognised as having had detrimental impacts on a range of species in some areas, most notably ground nesting birds.

Whilst many lessons have since been learned, work needs to continue to further improve and restore habitats and address species decline – both in terms of damage caused by intensification or under-management.

For more than two decades, agricultural policies have increasingly focussed on delivering environmental outcomes, and it is essential that such work is continued and lessons learned from previous actions.

However, such work is best carried out by the families that have farmed and managed the land for generations - people whose eye witness accounts of changes to their environments and farming practices are often dismissed in favour of written academic explanations which may only be relevant to some areas.

Above all else, future schemes must be accessible to all farmers, as well as being flexible and adaptable, offering a range of options for individual farms and for those willing and able to work collaboratively.

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5. Water quality and management

Our agricultural industry depends upon rainfall, and the Atlantic weather systems coupled with our position on the Gulf Stream make the UK ideal for growing a wide range of crops.

However, climate change brings with it greater uncertainty in terms of the regularity and volumes of rainfall, meaning challenges for agricultural producers as well as those others unfortunate enough to be affected by drought, flooding or other impacts.

Whilst farmers cannot control the weather, they can play a role in helping to manage the flow of water in order to help themselves and those nearby or downstream who are at risk from floods,

through approaches such as proactively managing watercourses or increasing water retention in upland areas.

Consumer demands and economic pressures, coupled with modern farming methods mean farms can also represent a threat to water quality, particularly at times of extreme weather, and although the vast majority of farms do not cause problems, when they do the impacts can be severe.

Under future agricultural policies, water quality and management should form an inherent part of national policies, whether under distinct strategies or part of broader programmes.

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6. Farm development and accountability

For decades, successive Welsh and UK administrations have highlighted the need for farms to monitor and improve efficiency. Yet schemes which require such monitoring to take place have generally been non-existent, and vast monies have been spent supporting initiatives which have effectively never been assessed in terms of their positive or otherwise impact on business performance.

Improvements in technology mean most businesses are now in a position to provide basic data to a central hub which could be used to assess and monitor a range of factors relevant to issues as diverse as climate, habitat, economic performance and animal health.

Such monitoring would provide farmers with an invaluable means by which to assess the statuses of their businesses on a range of levels, while also allowing advice and interventions to be tailored, targeted and assessed, and industry bodies to detect trends and patterns across sectors and the industry as a whole.

Brexit brings with it the risk that statutory requirements to collect and analyse farm data in uniform ways will be abandoned, making it impossible to make comparisons between farm types and sectors across the four nations.

Under future agricultural and rural policies, the provision of financial assistance should be linked with a requirement to provide basic information which can be used for such a purpose as well as for the farmers' own benefit, while UK administrations would of course have the option to request additional information in line with their own policy objectives.

Inherent to improvements in farm efficiency, environmental performance, animal and plant health and all other aspects of our industry is the need for technological improvements to be developed, trialled and adopted, all of which should continue to feature in future programmes throughout the UK - whether independently or through collaboration between nations.

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7. Animal and plant health and food quality

The quality of our food is underpinned by the health of our plants and animals, and our high standards mean the UK boasts food safety records which are second to none.

However, our industry faces constant challenges, whether in terms of tackling endemic diseases, or new threats arriving as a result of imports, climate change and other factors.

Maintaining plant health and animal health and welfare are paramount to the future of our industry

as well as being in our nations' interest, while we also have a duty to ensure the food we produce meets goals in terms of healthy balanced diets.

Interventions under numerous schemes across the EU have been shown to have positive impacts on food standards and animal health and welfare, and it is only right that our nations build on those approaches in order to put us at the forefront in terms of global standards.

“Maintaining plant health and animal health and welfare are paramount to the future of our industry as well as being in our nations' interest”



A fair funding formula

Critical to the functioning of appropriate rural policies is the allocation of fair budgets which reflect the needs of each of the UK nations.

The guarantee provided in August 2016 by Chancellor Philip Hammond that EU derived funding would continue to 2020

was clearly welcome, as was Secretary of State Michael Gove's commitment in January 2018 to maintain the CAP budget until 2022, and possibly to 2024.

However, there continues to be ambiguity around the meaning of such commitments in terms of how funding will be allocated, administered and transferred to devolved nations, representing a major obstacle in terms of preparing for Brexit.

The FUW has made it clear that post Brexit national allocations of rural funding should remain at least at current levels, and must be ring-fenced to prevent governments diverting funding to other areas in a manner that leads to major differences between national spending.

Wales' First Minister Carwyn Jones and others have supported these views, and there is a general acceptance, including by Secretary of State Michael Gove, that the provision of rural funding through the Barnett Formula would be wholly unacceptable due to the acute reduction in national allocations received by Wales, Scotland and Northern Ireland which would accompany such a move.

Current allocations of the UK's CAP budgets were announced in November 2013 by the then Secretary of State for the Environment Owen Patterson, and are based on historical allocations and spend in each of the four UK nations (Tables 1 and 2).

Given the uncertainties facing each of our nations as a result of Brexit and the political tensions around the issue, any reductions in allocations

Table 1	Pillar 1 allocation 2014-2020 (millions)	Pillar 2 allocation 2014-2020 (millions)	Total (2014-2020) excluding national contributions (millions)
UK	€25,100	€2,600	€27,700
England	€16,421	€1,520	€17,941
Northern Ireland	€2,299	€227	€2,526
Scotland	€4,096	€478	€4,574
Wales	€2,245	€355	€2,600

Table 2	% of UK 2014-2020 CAP budget		
	Pillar 1	Pillar 2	Total
England	65%	58%	65%
Northern Ireland	9%	9%	9%
Scotland	16%	18%	17%
Wales	9%	14%	9%

would compound existing challenges; moreover, there is a compelling argument for increases in allocations, given the acute problems which could face many of the UK's agricultural sectors post Brexit.

However, in the short term, steps must be taken to put in place a mechanism by which ring-fenced funding can be allocated to the devolved regions outside the Barnett Formula, while in the longer term the current historical allocation needs to be superseded by a formula which fairly reflects regional needs without distorting markets.

Under the current EU regime, strict rules govern the proportion of national co-funding which can complement CAP funding; post Brexit, rules also need to be in place which serve the same function in terms of preventing excessive national contributions from distorting markets and introducing unfair advantages.

Multiannual framework

Notwithstanding potential variations caused by, for example, exchange rate fluctuations and the CAP Financial Discipline, the fact that the CAP budget is effectively fixed within the EU Multiannual Financial Framework (MFF) for periods of seven years provides significant stability for our nations and farmers.

Post Brexit, there is a risk that whatever method is used to assign rural funding to the UK nations,

the overarching budget could be subject to significant and disruptive annual fluctuations as a result of changes to government spending priorities.

Given this, the FUW believes mechanisms by which to establish a multiannual framework which provides stability for periods of five years or more in terms of for rural funding should be investigated.



Financial frameworks

Whilst reaching agreement on the broad objectives which should underpin a UK policy frameworks is essential, without associated spending thresholds for each objective there is a risk of significant divergence between national spending which results in disruption and market distortion.

As such, spending thresholds need to be agreed which provide flexibility which reflects devolved powers and varying national priorities, while also ensuring relative uniformity, to the extent that market distortion and other adverse effects are minimised.

Such thresholds currently exist under the CAP regime; for example, Member States can vary how much money their farmers receive in direct support by transferring monies between direct support and rural development budgets within set thresholds; the divergence that can result from such flexibility is no less apparent than here in the UK, with transfer rates from direct payment to rural development budgets ranging from 0 percent in Northern Ireland to 15 percent in Wales – the maximum allowed under the regulations (Table 3).

Notwithstanding the frustrations of many farmers regarding the transfer of up to 15 percent of their direct payments, compared with a mainland EU average of around 5 percent, as things currently stand, post-Brexit there will be no spending

thresholds in place whatsoever, opening the door to potential variations in spending which are unprecedented.

Reaching agreement on such thresholds will not be easy given current political differences, meaning there is a temptation to ignore the issue; such an abdication of responsibility by national governments should be avoided at all costs, given the danger that gross divergences between national policies and spending represent to our nations.

Table 4 presents for discussion examples of overarching spending thresholds for those policy objectives already identified, including the default percentage of a rural budget which should be

spent on each objective, and the national flexibility by which nations can vary expenditure on these objectives.

It should be noted that a robust policy would likely include figures for sub-categories within each of these areas, examples of which are provided in Table 5.

It should be noted that many policies would meet more than one policy objective, thereby greatly increasing the flexibility available to nations in terms of drawing up plans which suit national circumstances and objectives while retaining relative commonality.

Table 3	Percentage of Pillar 1 funds to be transferred to Pillar 2 in 2018
Wales	15%
England	12%
Scotland	9.5%
Northern Ireland	0%

Table 4		
Objective	Percentage of rural budget	National flexibility
Family farms and rural economy	70%	± 5%
Climate change	8%	± 2%
Fair and safe supply chains	3%	± 1%
Environment and habitat	8%	± 2%
Water quality and management	4%	± 1%
Farm development and accountability	3%	± 1%
Animal and plant health	4%	± 1%

Table 5			
Objective	Sub-category	Percentage of rural budget	National flexibility
Family farms and rural economy	Area payments	60%	± 10%
	Headage payments	5%	± 5%
	Disadvantaged Area payments	4%	± 4%
	Support for Local Authority holdings	1%	±1%
Climate change	Renewable energy	6%	± 2%
	Carbon sequestration	4%	± 2%

“Spending thresholds need to be agreed which provide flexibility which reflects devolved powers and varying national priorities”



Legislative frameworks

There is little dispute over the need for UK frameworks which ensure commonality in terms of standards such as those relating to pesticides, animal traceability and food labelling, and the UK Government has already identified 24 areas which encompass many of these.

However, a void currently exists in terms of other areas where common rules or equivalence in terms of standards and interventions may be desirable – for example, in terms of the eligibility rules for schemes.

Such common rules should clearly be aimed at further minimising differences which are market distorting or could introduce unfair advantages, as well as maintaining the integrity of an overarching framework, but should be flexible enough to take account of national variances and needs.

Examples would include:

1. Rules defining what constitutes a genuine farmer eligible for support and interventions – it is in all nations interests to ensure interventions and support are properly targeted in every nation.
2. Common agreement on rates at which and how direct support, environmental payments, payments for providing public goods and other interventions should be capped – large payments in nations where there is no payment cap bring the entire current policy into disrepute, despite capping having been in place in Wales, Scotland and Northern Ireland since 2015.
3. Common definitions of what constitute new entrants and young farmers – there is general agreement in each of the UK's nations of the need to support young farmers and new entrants, and significant divergence between eligibility criteria would be in no one's interest
4. Common rules defining what information farmers should provide to government in order to qualify for interventions – the provision of key data by farmers qualifying for interventions should be compulsory to allow national governments and the industry to monitor economic performance, changes in land use and other patterns. However, variance between nations in terms of what and how data is collected will undermine the ability to assess the impact of interventions and make necessary comparisons.
5. Agreed approaches to dealing with the UK's cross-border holdings - hundreds of holdings are split by national borders, and this already leads to significant problems for such farmers. A future framework should negate such impacts.

Given the integration along supply chains which extend across the UK, and the similarities between challenges faced in different regions, nations may wish to work together on approaches, schemes and interventions in order to maximise benefits.

Examples might include long term approaches such as insurance, investment, margin protection and loan schemes, or emergency interventions such as those deemed necessary following an animal disease outbreak, extreme weather or a collapse in global prices – all of which would benefit from being underpinned by legislative frameworks.





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