

FARMING & FOOD

a sustainable future

Report of the Policy Commission on the
Future of Farming and Food

January 2002

January 2002

© Crown Copyright 2002

Set in Adobe Jenson Pro and Lucida Sans

Printed on environmentally friendly paper made with 50% totally chlorine-free pulps from plantation forests and 50% recycled fibre, de-inked without the use of chlorine.

This document is also available from the
Cabinet Office web site at:
<http://www.cabinet-office.gov.uk/farming>

CONTENTS

Foreword	5
1 + Vision	9
2 + Where we are now	13
3 + Profit	19
4 + Environment	67
5 + People	95
Summary of recommendations	109
A + Approach	141
B + Consultation responses	143

Policy Commission on the Future of Farming and Food

Members

Sir Donald Curry CBE (Chairman)

Helen Browning OBE

Sir Peter Davis

Iain Ferguson

Deirdre Hutton CBE

DeAnne Julius CBE

Fiona Reynolds CBE

Mark Tinsley

David Varney

Graham Wynne

WE WERE APPOINTED in August 2001. Our remit was to “advise the Government on how we can create a sustainable, competitive and diverse farming and food sector which contributes to a thriving and sustainable rural economy, advances environmental, economic, health and animal welfare goals, and is consistent with the Government’s aims for Common Agricultural Policy (CAP) reform, enlargement of the EU and increased trade liberalisation”.

Our remit covered England. This document is our report to the Prime Minister and Secretary of State for Environment, Food and Rural Affairs.

We have tried to keep the report short and readable. We have therefore restricted the text to a statement of our findings and recommendations. There has not been space here to summarise or debate the large amount of evidence put to us.

But it should be clear from what we have written how much we have been influenced by what we have seen, heard and read over the last five months.

The trauma of Foot and Mouth Disease caused many people in the farming and food industry to think about what they do from first principles. We were fortunate enough to be given access to much of that thinking. We have had submissions and representations from a great number of people and organisations right across the industry and beyond. They gave freely of their time and ideas to help us. We are grateful to them all. A list of the organisations that responded is in annex B.

We are indebted, too, to our secretariat for their enthusiastic support, for all their hard work, long hours and humour — an essential ingredient in a task like ours with such a demanding timescale.

We — the members of the Commission — come from a wide range of backgrounds. We approached the issues from very different standpoints. But this is the report of us all.

We believe that our experience shows that consensus can be reached on a way forward for farming and food.

Farming seems mighty easy when your plough is a pencil and you're a thousand miles away from the cornfield.

— Dwight Eisenhower

We believe in the resilience and commitment of the people in this industry. We must make the trauma of the last year a watershed. We want the farming and food industry to have a profitable future as a valuable contributor to the national economy, to health and to the countryside. Strategic as it has had to be, with the time we were given to complete it, we hope that this report will be of use in bringing that about.

STRUCTURE OF THE REPORT

A word may be in order here about how the report is structured.

We begin with where we want to end up. Chapter 1 sets out our vision for the future of the farming and food industry in England.

Chapter 2 compares this with the situation as it is today. The rest of the report describes how we can move towards our vision from our starting point today.

Our central theme is reconnection. We believe the real reason why the present situation is so dysfunctional is that farming has become detached from the rest of the economy and the environment.

The key objective of public policy should be to reconnect our food and farming industry: to reconnect farming with its market and the rest of the food chain; to reconnect the food chain and the countryside; and to reconnect consumers with what they eat and how it is produced.

Sustainable development has been our guiding principle, and we have grouped our recommendations according to its three aspects — economic, environmental and social.

Chapter 3 discusses how we can set the industry back on the road to profit. Without profit none of our vision will be delivered.

Chapter 4 discusses the food industry's environmental responsibilities, and in particular the special role of farming as steward of the rural landscape. Though nothing will happen without profit, profit itself will not return unless the industry's environmental problems are addressed, with Government help where that

is justified. Just as other industries have had to get used to a 'licence to operate', in the future environmental management will be part of the unofficial 'licence to farm' that society will expect of those involved with managing land.

Chapter 5 looks at the industry's connections with wider society, and the public's perceptions and concerns about their food. We are seriously concerned about nutrition in England and the health problems to which poor diet is contributing. This final chapter looks at how this nutritional context can be reconnected with how we think about farming and the food industry, and how all these links — social, environmental, economic — can be better understood and reflected in public policy as the basis for a successful future.

29 January 2002

This chapter sets out our vision for the food and farming industry.

OUR WORK as a Commission has been guided by a vision for the future of farming and food in England.

We look for a profitable and sustainable farming and food sector, that can and does compete internationally, that is a good steward of the environment, and provides good food and a healthy diet for people in England and around the world.

In our vision of the future, farmers continue to receive payment from the public purse, but only for public benefits that the public wants and needs. They are technically efficient and run profitable businesses. Through co-operation and collaboration they have invested beyond the farm gate, and they receive a fair return for the food they produce. Some have diversified beyond food production, but land and expertise remain available if greater quantities of home-produced food are suddenly needed.

Farmers are rewarded for looking after their land and for providing an attractive countryside. They have embraced the management of the land for environmental public good as a key part of what farming is about. Rather than being something farmers once did when they could afford to, good land management is now core business. The industry is a good place to work for existing participants. It is a place where new entrants can build a career. Farming has a real sense of purpose again. It is valued by the wider public.

Farming is fully integrated into the wider economy of rural areas. The vibrancy and diversity of this economy offers positive additional or alternative employment and business opportunities to farmers, their families and employees. Local and regional economies value their unique historical landscapes, rich in flora and fauna. Farmers who succeed in providing these broader environmental goods are prospering.

Food production is largely based on supply contracts. Sound advice is available, and decisions on whether to diversify or what crops to grow are taken for good commercial reasons and on the basis of sound knowledge of consumer trends. Farmers provide high standards of environmental management, food safety and animal welfare, and can demonstrate these to consumers. Unjustified regulation does not disadvantage them against overseas competitors. The industry uses new technologies in a competitive way, and communicates the benefits of these technologies to consumers effectively.

The food processing industry is world class, and operates to high environmental standards. It is focused on innovating to meet consumers' demands. Production, processing and marketing are integrated. Improving efficiency without compromising standards is a constant driver and communications up and down the food chain are excellent.

The retail and catering industries fully participate in this chain, and are an essential channel in reflecting customer demand. Good communication throughout the supply chain works to provide the products customers need, of the quality they require, when they need them. Retailers and caterers respond to the needs of all their consumers by providing a wide range of high-quality food, including excellent produce from England. Some specialise in English food, which has gained a high reputation for quality at home and abroad.

Consumers have confidence in English food. The market for food is diverse, and consumers in all income groups have ready access to a healthy and nutritious diet. Consumers are able to exercise choice through better and clearer labelling on all products. They can judge a product's quality and they understand its nutritional value. The food service sector sees value in identifying English, regional or local food on menus. Through the development of local food economies, people have more opportunity to buy food from their region, either through supermarkets or more directly. Consumers are health-conscious and take a keen interest in what they eat. They know where it has come from. They know how it was produced. Through their purchasing decisions they reflect their concerns and aspirations for the world we live in. Bodies responsible for health promotion make effective links to food pro-

duction and preparation as well as diet in the information they provide.

In our vision of the future, the Government has, with the end of CAP production subsidies, withdrawn from its close control of agriculture. Government is supportive of the industry, but sees its role as facilitating the business decisions of others by improving the implementation of regulation, and clearing the path if anything blocks the functioning of the market. The Government has a key ongoing role in creating a market for environmental goods. It continues to have responsibility for food safety, nutrition policy, animal welfare and regulation on environmental protection. But wherever possible it is a facilitator, not a regulator.

The English countryside is varied and attractive. It has regained its diversity and regional character. Basic natural resources like water and soil are in good health. The countryside is both a valuable asset for tourism-based business and a cherished oasis for visitors. Taxpayers believe they receive value for the funding they provide to support it.

And the countryside is not a rural Disneyland. Distinctive features of local and regional landscapes and wildlife habitats are recognised and protected, or have been restored. Public policy is responsive to the spirit and history of particular places. The rural economy is flourishing, providing opportunities not just in agriculture and tourism, but in a wide range of other businesses. The countryside is a key component of the rural economy's competitive advantage. The interdependence of town and country is better understood and appreciated in public policy.

ABOUT THIS VISION

This vision of the future reflects many of the themes we heard in our travels around the country. It will not be achieved overnight. It assumes the end of the existing CAP subsidy system, which will not take place for several years.

Most importantly, this vision will not be delivered by the Government alone. Indeed in several places it calls for the Government to stand back and allow enterprise to flourish. Government must assist by providing the right policy framework, but the future of the

English farming and food industry will be decided on the ground.

This chapter:

- describes the present situation and the long-term trends that are driving it;
- explains why there is a crisis in farming now;
- assesses how much of that is in the power of the industry and Government to change;
- describes what we mean when we say that farming has become disconnected, and what the basic roles of Government and the industry are in putting that right.

THE SITUATION today is very different from the vision set out in the last chapter.

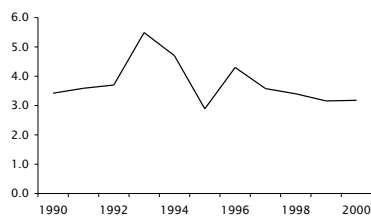
We have seen many encouraging examples of new developments in our trips around the country. We had to admire the determination of those we met, given the scale of the challenges many of them face.

But it is our strong view that the farming and food industry is on a path that cannot be sustained in the long term. In responses to our written consultation, and at many of our stakeholder meetings, hardly anyone had a good word to say about the situation as it stands.

Taxpayers are spending £3 billion annually on agricultural support in the UK. Through the price support regimes provided by the Common Agricultural Policy (CAP), EU consumers are paying more for their food than the rest of the world. This is a particular burden for poor consumers who have to spend a substantial percentage of their disposable income on food.

Yet farm incomes are on the floor, and the industry in this country is slipping in competitiveness against our EU partners and the rest of the world. We discuss why the CAP has become part of the problem not the solution, and how we can make the farming industry profitable again in chapter 3.

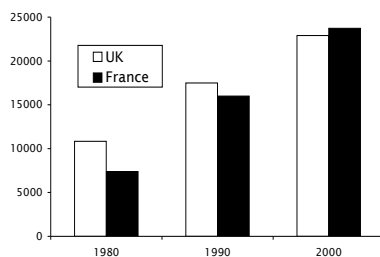
The familiar countryside environment — originally a product of farming — has been damaged by years of intensive production. Some farmers are now trying to redress this by better environmental practices, encour-



Public expenditure on agriculture (£bn) 1990 to 2000 (fiscal years) (DEFRA)



Total income from farming (real £m) 1973-2000 (DEFRA)



€ income per person in agriculture (factor income) France vs. UK, 1980-2000

aging biodiversity and planting trees and hedges. But many farmers cannot afford to spend their scarce resources now on improving the situation. The system of farm support currently in place has for many years implicitly discounted the environmental aspects of farming — both positive and negative. We discuss the environment, and the farming and food industry's role and responsibilities towards it in chapter 4.

The social fabric of the countryside, which depends heavily on farming, is being put at risk while the industry is in difficulties. 2001's Foot and Mouth Disease outbreak showed that the English countryside — overwhelmingly a farmed landscape — is vital for more businesses than farming. We discuss these wider social and community links in chapters 3 and 5.

Developments in the farming and food industry are lagging behind changes in consumer lifestyles and purchasing habits. Relationships are, in many cases, confrontational and communications poor. The disconnection between supplier, processor and retailer is damaging efficiency.

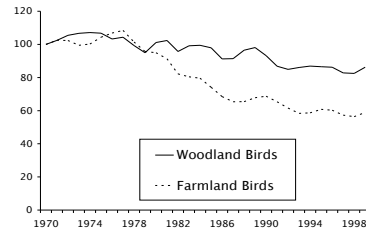
Food is plentiful, and sold at prices that are historically low (though they are higher than world prices). Despite this, consumers are uneasy and concerned about the wholesomeness and safety of the food they eat.

In addition to consumer fears about food safety, nutritional standards in the UK are poor. Health experts told us during our consultation that poor nutrition was stoking up health problems in England, with people eating too much of the wrong food and not enough of the right food. The wider implications of nutrition go beyond our remit, but we discuss the role of the farming and food industry in chapter 5.

WHY IS THERE A FARMING CRISIS NOW?

Farming, like many manufacturing and production industries, has had its worst years during a time of prosperity for the country as a whole. There are several reasons for this.

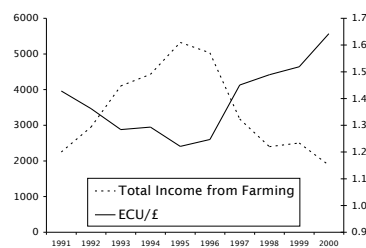
One of the main reasons has been the strength of the pound. The close relationship between exchange rate shifts and farm incomes can be seen in the graph in the margin. The strength of the pound in recent years



Woodland and farmland bird populations (1970=100) (RSPB/BTO/DEFRA)

In England, unless effective action is taken, over 20% of men and 25% of women could become obese by 2005, with important consequences for the NHS, the economy and the people involved.

— Health Survey for England / WHO 2001



Total income from farming (£m) (l.) vs. ECU/£ rate (r) 1991-2000

Upstream industries supply farmers with inputs such as machinery and pesticides that they use in food production. Food processors and retailers are **downstream** industries

The UK agri-food sector comprises the agriculture, fisheries, food and drink wholesaling, food and drink retailing and food service industries. It accounted for an estimated gross value added of £61bn in 1999, about 7.7% of GDP measured at basic price. This 7.7% was made up of agriculture (0.9%), Food and drink manufacturing (2.5%), Food and drink wholesaling (0.5%), Food and drink retailing (2.1%) and Food service (1.7%).

The sector provided 3.3m jobs (11.8% of total employment). Its exports were 5.2% of total exports.

— ONS 1999

has reduced the European subsidy payments English farmers receive. It has made European products more competitive here, and reduced our own export opportunities.

There are longer-term trends at work as well. Industries upstream and downstream of farming have consolidated in recent years, as a result of market pressures. The companies that remain are often large international businesses. This may be no bad thing, but farming has not and cannot consolidate as far or as fast as the industries it works with. The result is that farmers have found themselves unable to negotiate effectively with much larger companies. Farming has always been more fragmented than the industries around it, but the existence of subsidy has also discouraged necessary change in some sectors of farming.

In addition, world food prices have fallen in recent years, continuing a long-term pattern, and adding to financial pressures. Crises such as BSE, Classical Swine Fever and Foot and Mouth Disease have severely affected the meat and livestock sectors, with knock-on effects for the rest of the industry.

Overall, farming has declined in importance as an economic activity. Its share of the national economy is now only 0.9%, although (depending on the definitions used) the food sector as a whole represents around 8% of GDP. Farming's share of the retail food price has declined significantly. This is partly due to further processing and the production of more ready prepared meals but also to weak selling and farmers' lack of influence in the market.

WHAT IS LIKELY TO HAPPEN IN THE FUTURE?

Looking at current trends and projecting them forward does not improve the picture for the farming and food industry.

Although there are still many problems with food poverty, disposable incomes are generally rising, and most consumers have more money to spend. They are demanding more choice and higher quality, though price is still the main factor in their decisions.

If the importance of price declines in coming years as incomes rise further, convenience and novel experience

will take over as the most important factors in consumer decision-making. More food will be eaten out of home in a range of guises from take-aways and on-the-move snack foods through to Michelin-starred restaurants. Unless trends shift, this means more purchasing of convenience foods and ready-meals, and less cooking from ingredients bought at retail outlets. Already, few people in England now have a direct link with the way that their food is produced, and a knowledge gap is growing.

When people do go food shopping, they almost always go to a supermarket. Over 95% of people do their main shopping at a supermarket, and there are no signs that this is going to change in the near future. The trend to consolidation gives supermarkets, food service chains and major processors significant influence both over consumers and farmers. They will use this power to require higher, more consistent standards from producers — at lower prices.

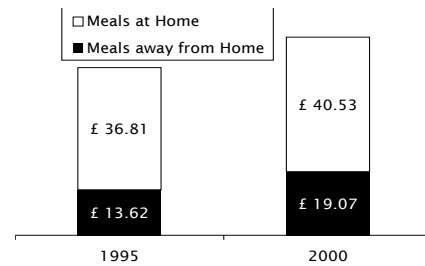
Meanwhile, cheaper imported raw materials will continue to put a squeeze on prices and English farmers' market share. This flexibility in sourcing will increase as global trade liberalises further. Across the world price supports and subsidies to agriculture are coming under pressure. In Europe, enlargement of the Union will bring more competition from the agricultural economies of the East. It will add its own momentum to the drive to reform the CAP.

This means that farming will become a much more competitive place to be. For an industry that has been under the Government's wing for the last fifty years, this will be a serious challenge. Farmers will need to listen to their customers — or lose money. They will need to be better at marketing, better at working together, and better at understanding their business as a business. For many, it will call on new skills — skills that will need to be acquired or improved at great speed and under pressure.

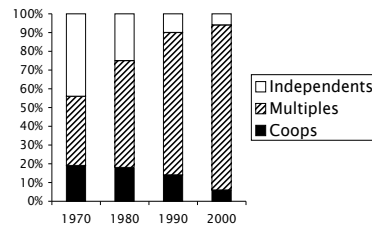
This may seem a dire picture, but it presents opportunities if farmers are willing to grasp them, and if Government does what it can to help them through the change. New markets are growing all the time. Consumers want more authentic food. Demand for organic produce is rising quickly. The expanding market in local food — cutting out the middle man, and reducing transport costs — presents opportuni-

44% of 17 to 24 year olds think that shop-bought pizza and a salad is home cooking.

— Taylor Nelson Sofres / McKinsey & Co.



Weekly spend on meals at home and meals away from home per person, 1995 & 2000



Percentage of retail food sales by retailer type, 1970-2000 (IGD)

In a survey conducted before Foot and Mouth Disease broke out in 2001, 17% of farmers said that they definitely did not expect a member of their family to succeed them. 24% more thought it was unlikely.

— ADAS, 2000

ties. New non-food products are in prospect for farmers in energy and other alternative crops. Farmers and farmers' groups that work closely with supermarkets and processors, and that are in touch with the consumer, can do good business. They can play their part in helping develop successful brands in home and export markets.

Farming needs to become more business focused. It can become a vibrant, profitable business, attracting investment and new entrants — by listening to the people who consume its products, and conserving its most valuable asset: a healthy and attractive countryside.

There is a very strong interdependence between the farming community and the buoyancy and vibrancy of the wider rural economy. Wider economic opportunities beyond the farm gate are already critically important to many farming families. It follows that Government policies that support rural areas in the widest sense will be as important to farmers, if not more so, than those targeted specifically at farming.

It is important to recognise the changes that are likely to come, so that the Government, farmers and people in rural areas can prepare themselves for what lies ahead, and be ready to respond to opportunities.

When we devised our vision, these changes framed our picture. Changes such as trade liberalisation, EU expansion and increasingly demanding consumers are already well-established and powerful trends. They will happen in one way or another.

Government action can have an effect on these trends, but it cannot reverse them. We think that any attempt to do so would be hugely expensive and, in the end, ineffective.

Throughout this report we focus on the challenge faced by the food and farming industry. The CAP will eventually go and commodity food prices will continue to be under pressure. Farmers need to be ready to meet this change, by adding value, improving their efficiency or diversifying their business.

Government has supported the industry for fifty years — it has a moral duty to help as the industry transforms itself and breaks away from subsidy. The Government

should reward farmers for the public goods they provide. It should ensure that markets operate fairly and efficiently. However, its job is to facilitate change — not to fund stagnation.

Our vision shows what could be achieved if the food and farming industry embraces change, and the Government is ready to help.

Our recommendations may seem radical, and so they are. But we feel that the situation is such that radical action is needed to pull the farming and food industry out of the mud, to regain public confidence and to turn a vicious cycle of falling profit and investment into a virtuous one of rising prosperity and innovation.

This chapter has set out the challenge. The rest of the report shows how we can go about it.

This chapter looks at how the food and farming industry can compete and prosper in a fast-changing world. It:

- *explains why the current system of subsidies for food production is not the answer but part of the problem, and sets out our recommendations for early, radical CAP reform to reconnect farming with the market;*
- *discusses the exchange rate risks to which farmers are specially exposed and what can be done about them;*
- *sets out the strategies that we think English farmers and processors will need to employ to get on in an ever more competitive marketplace:*
 - *efficiency — and how food producers can take best advantage of new technical developments; how collaboration, more mature trading relationships, better management of risk and a more flexible labour market can help cut costs;*
 - *adding value — how higher standards and care for the countryside can be turned into a selling point through assurance schemes and marketing; how we can address this country's poor animal health record; how we can unlock already growing demand for local food;*
 - *diversification — and the opportunities for farming in areas like non-food crops, tourism and water management.*

The chapter ends with recommendations on reskilling the industry, and on how farming and food can attract new entrants and entrepreneurs.

An image of mucking out from dawn till dark and not getting paid for it is not an attractive option.

— farmer, north east

WE SET OUT a vision for the future in the first chapter, and we set out the present situation in the second. In the next three chapters, we discuss what we think should happen to move towards the vision of the future we put forward.

No part of the vision we set out in the first chapter will come about without profit. Profit gives those working in the industry proper return for their labour and capital. It makes an industry attractive to potential new entrants. It funds research and investment. But reasonable profit is what farming and some parts of the processing sector, at least, have been lacking for some years now.

SUBSIDY

The trends we have identified in retailing, consumer purchasing and food processing signal a time of great change and challenge for the farming sector in particular.

But farming's challenge will not be made easier by trying to hold on to production subsidies. The production subsidies paid to farmers under the Common Agricultural Policy (CAP) have become part of the problem rather than the solution. They divide producers from their market, distort price signals, and mask inefficiency.

As a result, some farmers have been slow to meet their customers' requirements, slow to change, and slow to innovate. Farming will have to be quicker to spot opportunities if it is to survive and prosper in a liberalised world. The implicit guarantee of state funding has undermined incentives to grow and adapt. It has reduced the incentive to focus on the market. It has discouraged farmers from taking their businesses in new directions.

Farmers need — as some have already done — to rediscover their businessman's mind, their marketing skills and their eye for new opportunities. They need to reconnect with their market. The CAP subsidy system hinders this, and it is right that it should go.

Such reform fits with all sides of our vision for farming and food. It is essential to the long term competitiveness of the industry. It is vital for the environment, as we discuss in chapter 4. It is fair to the taxpayer. It is right for the economy. The CAP is destroying economic value in the UK.

The UK Government needs to go into negotiations on the next round of CAP reform with three key objectives: on reform of market regimes, reductions in direct payments, and increasing and broadening support for sustainable rural development. The Government needs to prepare its position and build its alliances now to make sure that reform happens.

The last round of CAP reform was agreed in 1999 under the title **Agenda 2000**. Covering the years 2000-2006, the main outcomes were a cut in prices for certain commodities with compensatory direct payments, and the creation of a new **Rural Development Regulation (RDR)**. The RDR supports rural development and **agri-environment** schemes designed to diversify rural economies, to encourage farmers to look to markets and diversified forms of income to reduce their dependence on subsidy, and enhance the environment. Agenda 2000 also introduced modulation (see next note) and provided for a Mid-Term Review of certain CAP finance regimes.

— EU (Europa) 2001

Reform of market regimes

The UK's objective in this area should be to secure progressive removal of market price support and associated production controls, with the machinery being dismantled over as short a time as is practicable. Achieving this would deliver economic benefits (price support and the associated production controls are the most distorting element of the CAP). It would also reduce environmental damage by removing a strong perverse encouragement to overproduce.

Direct payments

In previous rounds of CAP reform, farmers have been compensated for reductions in price support by so-called direct payments, though the degree of compensation has varied. Farmers do need assistance in adjusting to reduced support, and some compensation is justified for falling asset prices. However, anything other than short-term assistance frustrates the objectives of reform, keeps farmers from the market and continues to encourage practices which may damage the environment. The UK's objective for the next round of CAP reform should be to secure progressive reductions in direct payments across the board. This is called in EU jargon "degressivity", and should happen as soon as possible.

For as long as direct payments continue they should, wherever possible, be decoupled from production. In practice, developing a truly decoupled payment policy has proved hard to achieve. A step forward was taken in the arable sector in the 1990s with the removal of most price support and the introduction of area payments. Yet even here conditions are still imposed upon farmers as to what they are allowed to grow.

In large part, it is the livestock sector in which further steps might be taken. The current system of headage payments linked to stocking rates ties support subsidies to the level of production. The introduction of an interim grassland area payment would decouple support from production while continuing to support livestock farming. As with any decoupling, the process would involve a degree of direct support redistribution. However, we believe it would be a move in the right direction. We believe that while direct payments persist, their link with production should be broken. As well as reducing market distortions, this will reduce the incentive to overstock and help EU agricultural

policy to become more compatible with current and future World Trade Organisation (WTO) constraints.

Rural development

The UK's third key objective from the next round of reform should be to secure the progressive transfer of resources from declining production subsidies into environment and rural development measures under the so-called Pillar II of the CAP.

The Pillar II Rural Development Regulation (RDR) funding that the UK currently receives is only 3.5% of the EU whole, even though the UK contains 12% of the EU's agricultural land. This current allocation is wholly inadequate. Within an expanded budget for Pillar II, the Government should negotiate for the proportion of funding the UK receives to be substantially increased, to a share better reflecting the size and needs of its countryside.

That money, as well as paying for public environmental goods, should be made available in the UK to support a much wider range of economic activity in rural areas. We believe this will be as much in the interests of farmers as it will be in the interests of other rural businesses. This move would improve business development in rural areas, giving farmers more opportunities for diversification.

This would be in line with the Government's recent Rural White Paper. Alongside pressing for CAP reform, we encourage the Government to implement their own Rural White Paper commitments as quickly as possible. We recognise that steps have begun to be taken to 'rural-proof' the impact of wider Government policies and urge that this practice is adopted by other key bodies, especially Regional Development Agencies. We fully endorse the Rural Task Force's recommendations for short and medium term investment to deliver sustainable rural development in England.

The Rural Development Regulation's bureaucracy and cumbersome administration is hampering its effectiveness. It needs to be reformed as the aggregate amounts of funding change. Greater flexibility within the RDR — including simplified administration, increased national discretion and the broadening of eligibility criteria beyond just farms and agricultural enterprises — would benefit all Member States. We recommend that the UK adopts this position on RDR reform at the Mid-

Pillar I is the stream of funding within the CAP that subsidises production. **Pillar II** supports rural development and environmental protection. **Modulation** moves funding from Pillar I to Pillar II

If subsidies were done away with, couldn't that money be used ... instead of paying farmers to have set-aside, where they pay you not to produce anything ... could they not just pay farmers for looking after the countryside? I think consumers would appreciate that more.

— consumer, NCC survey

Planned UK modulation rates:

2001 — 2.5%
2002 — 3%
2003 — 3.5%
2004 — 3.5%
2005 — 4.5%
2006 — 4.5%

Term Review. We would want to see movement in particular on broadening eligibility criteria, and on lightening the load of bureaucracy that goes with RDR schemes.

Securing these goals would deliver economic and financial benefits as well as environmental gains. Reducing price support and redirecting subsidy to public goods reconnects farmers with the market. It is the right thing to do in economic terms.

We urge the Government to press for substantial reform of the CAP as soon as possible, establishing a clear timetable for reform and encouraging and supporting the farming and food industry to adapt to change. The guiding principle must be that public money should be used to pay for public goods that the public wants and needs:

- ♦ remaining price supports and associated production controls must go;
- ♦ direct payments should be phased out as quickly as possible;
- ♦ they should be decoupled from production and be subject to base environmental conditions for as long as they do exist;
- ♦ resources should progressively transfer to the so-called Pillar II of the CAP to pay for rural development and environmental protection schemes;
- ♦ the UK's share of the Pillar II budget should increase at the same time, and rules on eligibility and administration should be made more flexible.

Modulation

The sooner the CAP is reformed, the better for the long term future of farming and rural areas in England. Ideally, reform would be agreed in the forthcoming Mid-Term Review, due in 2002-3. But we have to recognise that reform may not in practice be negotiated before the next major opportunity to review the CAP in 2005-6. Even then, measures are likely to be phased in over a number of years.

2006 is a long time to wait for change on something so important. Because of this we believe that, in the meantime, the Government should take all the opportunities available to it domestically to move in the right direction.

One such opportunity is 'modulation'. Member States are permitted on their own initiative to reduce a pro-

portion of CAP production subsidies up to a maximum of 20% and transfer the resources freed up by this towards environmental and rural development schemes under some elements of their Rural Development Plans. The UK currently plans to modulate up to 4.5% of direct payments by 2006.

We think there would be advantage in taking up the opportunity of going further. Our reasons are as much commercial as they are environmental. If one accepts the arguments for CAP reform we have set out above, it is hard to justify not taking opportunities to reduce the CAP's negative effects when they present themselves.

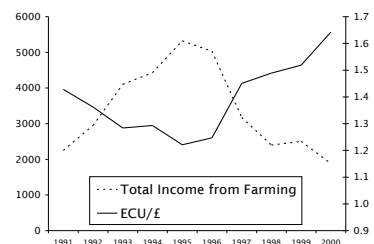
Ideally, all Member States would move forward at the same pace, but we believe the advantages of setting the industry on the right road now outweigh the risks of a temporary imbalance in the subsidy available to domestic and other EU producers. The industry needs to regain consumer confidence. Key to rebuilding that confidence will be regaining a reputation as good stewards of both land and livestock. If this is not done, attempts to build values round English food, and persuade consumers that it is worth buying English rather than imported food will fail. Chapter 4 discusses these issues in more detail. We discuss modulation further on page 75.

FARMING AND THE EURO

The strength of sterling against the euro has been a problem for every British industry that trades or competes with Europe. 90% of the UK's trade in agricultural products is within the EU, so the exchange rate between sterling and the euro is one of the most important determinants of market prices in this country.

Farming suffers more than most exporters because the CAP subsidies farmers receive are denominated in euros, and therefore shrink as sterling rises.

Even if sterling fell significantly against the euro, farmers would still be affected by exchange rate volatility. Because of the way European payments are made, British farming is really a euro-area industry operating in the wrong currency. In such a strange and changeable situation, decisions on investment are difficult.



Total income from farming (£m) (l.) vs. ECU/£ rate (r.) 1991-2000

It would be wrong for us to recommend an exchange rate policy to the Government solely based on the interests of farming. We are not in a position to take the huge ramifications of euro entry into account. That said, the best solution to this currency volatility from agriculture's point of view would be for the UK to enter the euro at a reasonable exchange rate. Unless and until that happens, and for as long as EU subsidy payments continue, farmers will need to manage the problems that a fluctuating exchange rate causes. We recommend two ways of helping them to do that.

We recommend that the Government should give farmers the option of receiving their direct support payments, for as long as these last, in euro. This will not offset the strength of sterling (farmers will still be working in the sterling zone, after all), but it will give producers the opportunity to match euro-denominated income and expenditure streams.

We support the Department for Environment, Food and Rural Affairs (DEFRA) in its current work with the industry on risk management tools that could reduce the exposure of farming to currency movements. We think that work should be extended through the convening of a group involving farming representatives, the Treasury and the main UK banks. That group should be established within the next three months and be given another three months to explore the provision of efficient low-cost methods of hedging euro-denominated CAP payments, accessible to all farmers who want them.

* * *

FARMING AS A BUSINESS

This chapter is about making a profit from farming and food. We have discussed trends in the marketplace. We have seen that CAP production subsidies will come under increasing pressure. Regulatory demands on the industry are unlikely to reduce. In response to this challenge, profitable farms will want to find ways to increase their competitiveness, perhaps to expand. Some farmers will need to reinvent their businesses in order to become profitable.

We turn now to the strategies we think the industry will need to employ — singly or in combination — to get ahead.

We think that there are three broad approaches. Farmers can *cut costs and increase efficiency*. They can *add value to their products*. Or they can *diversify into new markets*. Industry leaders are setting an example and doing this now. In the next section of this chapter, we discuss each of these strategies in turn.

* * *

EFFICIENCY

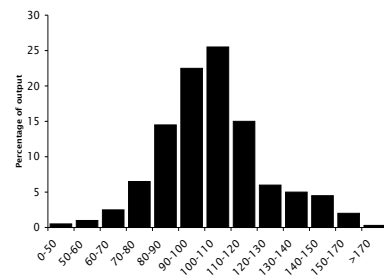
Farming and food businesses, like any others, have got to be efficient. Efficiency does not automatically mean becoming more intensive. It does not necessarily mean getting larger, though economies of scale will be the best way forward for some. It certainly does not mean cutting corners on a business's environmental and social responsibilities, which would be a false economy. What it does mean is maximising profit by optimising inputs and outputs — not necessarily aiming for maximum output. It means being ruthless in cutting out unnecessary cost. Efficient operation is key to the success of any business.

Figures from DEFRA, set out in the margin, show that different farmers are getting very different results from the same quantity of inputs. This very wide spread of performance cannot entirely be explained by differences in climate or land quality. There remains significant scope to increase the productivity of the farming industry, in particular by improving the efficiency of the worst producers.

Benchmarking

A first task for any business is to obtain good market and cost information. It is a cliché in business that 'you can't manage what you can't measure', yet many businesses up and down the food chain are not measuring the costs of their operations and their inputs, and do not understand how their national and international competitors go about managing their costs. All businesses need to assess how they are operating compared to the leading businesses in their sectors.

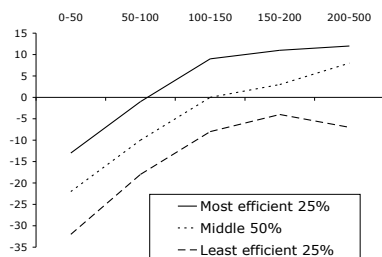
We think that the Food Chain Centre and the improved advice service we recommend on pages 32 and 63 will help. But the first step has to be a stronger drive on benchmarking with the best at home and abroad to gain a deeper understanding of costs and ef-



Farm efficiency, showing output (£) per £100 of input (DEFRA)

A sample of 60 farms studied as part of the Welsh Sheep Strategy found costs of lamb production varied from 80p to 174p per kilo liveweight. For England and Wales, data show variable costs in the dairy sector varying by around 60% from the top quartile to the bottom quartile. A similar range (55%) has been found for beef.

— Welsh Sheep Strategy / MLC



Dairy farms: herd size vs. efficiency (0 = breaking even) (DEFRA)

The major industry levy bodies and DEFRA together spend £157m on research, including:

- £140m spent by DEFRA;
- £5.1m by the Home-Grown Cereals Authority on cereals;
- £3.7m by the Horticulture Development Council;
- £2.2m by BBRO into sugar beet;
- £2m by the British Potato Council;
- £2m by the Milk Development Council;
- £1.7m by the Meat and Livestock Commission;
- £750,000 by the Home Grown Cereals Authority on oilseeds;
- £200,000 by the PGRO on peas and beans; and
- £160,000 by the Apple and Pear Research Council.

— DEFRA, 2002

ficiencies. We discuss how this work can be best carried out and bedded into the industry on page 31, and outline the importance of carrying through this work not just for farms, but throughout the food supply chain.

At the farm level, DEFRA already collects large amounts of data through a variety of means, including IACS (the system through which CAP payments are administered), the annual farm census, and the Farm Business Survey. While collecting relevant statistics is essential for a variety of purposes, it imposes an additional form-filling burden on businesses.

Reviews of statistics collection have taken place in recent years, and some progress has been made in reducing compliance costs. We recommend that the process of reviewing statistical collection should be taken further and that a more radical review of the entire process should take place. This review, to be undertaken by DEFRA, should have two aims. First, to rationalise further the system of collecting statistics from farmers. This should join up the various disparate statistical data collection exercises where this is cost-effective — principally the censuses and the IACS returns. Second, to ensure that relevant data is collected to underpin benchmarking work reflecting the changing nature of many farm businesses. This includes data about primary agricultural production, but also information about the increasing importance of paid environmental schemes and value-adding enterprises to many farm businesses. A better knowledge of the structure, performance and economic interdependence of all businesses in the rural economy is needed.

Research and technology transfer

To stay competitive, businesses need to know about the latest developments and be able to apply them if appropriate. Information gained from research needs to be readily available in a usable format. In other sectors, businesses operating from countries with higher labour or regulatory costs can still compete by making systematic use of knowledge and technology.

A good deal of research is currently undertaken for the farming and food industry. Some of this is corporate research that is not currently shared, but much of it is publicly available.

Despite this, we have heard from many people that the farming industry has in recent years become less able to access new and existing technology to obtain competitive advantage. This trend, which we recognise, has to be reversed. UK farm businesses in unsupported sectors, such as horticulture, already succeed or fail according to how effectively they use technology. We need a strong drive on research to match the work of, for example, New Zealand and the Netherlands. This means looking closely at how research is commissioned, managed and transferred throughout the industry. We would expect that the review of science strategy DEFRA is about to undertake should examine all these areas.

There are several issues that need to be addressed. At the strategic level, Government's research effort needs to be redirected towards sustainability in food and farming — a new DEFRA objective. Consumers' views need to be factored in from the start.

Strategic research also needs to be better tied in to the priorities of the industry on the ground. We understand why the Government has chosen to withdraw from near-market research. But we are concerned that one practical effect has been to weaken the links between fundamental and applied research in the UK, which has been good for neither.

At the applied level, the industry's own applied research effort needs to be better co-ordinated to maximise its impact.

Finally, we need to look at technology transfer — how the results of new research are fed through to producers in the industry.

We recommend that the Government should set up a new 'priorities board' for strategic research, involving Government, academic, consumer, environmental and industry representatives to set the agenda for public research on farming and food matters. This should be serviced by a team of its own scientists, who can stay in touch with developments in the field, and assist the board with horizon-scanning.

The new board will need to have a clear link with the research programmes of all statutory agencies, NDPBS, and other major research sources, such as the Research Councils.

We urge the industry levy bodies and Government to improve co-ordination of their applied farming and food research, to avoid duplication and maximise synergies. This will enable the industry to take a broader view of industry-wide key goals in research. Mirroring the priorities board for strategic research, we believe that industry levy bodies should be setting in place joint priority-setting arrangements for their own applied work. This new Applied Research Forum should provide a virtual management structure for research that should agree the research strategy and help co-ordinate the agenda for every sector of the industry, including on technology transfer, training and education. It should be represented on the strategic priorities board, and should have strong links back into the fundamental research programme being carried out by the Government. Peer review of strategic research should include looking at the spin-offs it generates or is capable of generating at the applied level.

These are not simply organisational changes. We hope they will help maximise the impact and follow through of research in the industry, by better linking strategic and applied work. We hope they will also promote cross-fertilisation of research ideas, and put farming and food research into a wider sustainability context. As the industry becomes more multifunctional, in the jargon term, so its research base needs to be more integrated. Bringing researchers and administrators out of their agricultural or environmental silos is an important step on the road to a better system of farming and food.

Demonstration farms

Strategic research, which everyone agrees is a legitimate case for public funding, is useless if its findings are not properly transferred. Demonstration farms look, from the experience of other countries, like being a good and cost-effective way of making this happen, while capturing the interest of farmers. There are some such farms in the UK at the moment, most under programmes run by the Farm Business Advisory Service and Linking Environment and Farming (LEAF). We think these models need to be built on and expanded.

New Zealand operates a demonstration farm scheme under the name of the Monitor Farm Programme.

A survey of farmers taking part in New Zealand's monitor farms scheme found that 100% had made changes, as a direct result of the programme, that had brought a financial return to the business.

— McIvor & Aspin, *R&D Success Stories*. 2001

This scheme was first established in 1991, and 79 monitor farms were operating by 1999.

In the New Zealand scheme, farms volunteer to be monitor farms for three or four years. Farmers in the area are free to come and visit the selected farm, where they can see and hear about the latest technology, conservation and business practices from a well-respected working farmer. In return for acting as a monitor farm, the public sector and sponsors reimburse the farmer for the additional costs incurred.

Seeing developments in action on a real farm creates an interest that makes the advice and the new research knowledge much easier to understand. It is cost-effective, as researchers have an easy route in to farmers. It is popular — 97% of New Zealand farmers surveyed in 1998 said that they thought the scheme was useful. Such schemes also help to establish informal contacts between producers. These contacts can be the beginning of new collaborative business ventures, or can become part of a supply chain initiative. Experience of demonstration farms in the UK today confirms that this model can work here.

We believe that demonstration farms would also be a natural focus for promoting to local farmers the agri-environment and farm business development schemes available through the ERDP. This might be informal activity such as open days and events, or more formal seminars and training run by expert advisers. Key farms on the network might also offer the ideal location for establishing a permanent partnership offering local facilitation services, smaller versions of the successful Bodmin and Bowland initiatives (p. 63). If these partnerships were successful in attracting the interest and 'buy-in' of local farmers, DEFRA should give serious consideration to offering a delegated grant scheme, tailored to the local environment and meeting the needs of local farmers and communities. We refer elsewhere (p. 61) to a potential role for demonstration farms in providing Modern Apprenticeships in farming.

We recommend that DEFRA work with the Applied Research Forum and the levy bodies to establish a pilot unified scheme of demonstration farms on the New Zealand model across all sectors by the end of 2002. If successful, the programme should be rolled out nationwide as soon as possible. We believe there

The seeing is believing principle was important — a similar farm in the same environment making changes successfully was an important catalyst for community change.

— McIvor & Aspin

is a strong case for putting the modest amount of public funding required behind such a programme.

Reconnecting the supply chain

A modern food supply chain is a remarkable feat of logistics. Not only does it move large quantities of goods across the country and the world, but it does so often at tightly controlled temperatures in hygienic conditions.

But the chain is not always as efficient as it could be. It is too long in some sectors, particularly red meat. It is sometimes poorly integrated. This is one of the first places other industries have looked when they have tried to drive out costs. Removing unnecessary costs could bring benefits for everyone in the chain.

Respondents to our consultation pointed to the wide gap between farm gate and supermarket prices for products such as lamb as proof that something is wrong. There are many justifiable reasons for a significant gap between farm gate and retail prices. These include the costs of processing and retailing, and the fact that parts of the carcass are no longer saleable. Yet a feeling persists that inefficiencies in other parts of the chain are being passed back to the primary producer.

The “Efficient Consumer Response” approach has been an effective means of driving down costs and improving efficiency in supply chains elsewhere in manufacturing and retailing. This approach requires the sharing of benchmarking costs and margin information, so that all parties can thoroughly understand the economics of their industry. Through that understanding, they can develop the best solutions to meeting consumer needs at the lowest costs. They can develop IT systems that meet the information needs of all parts of the chain. We believe that this approach could have benefits for all players in the food supply chain. It could have the welcome side-effect of reducing the distance that food travels to processing or retail outlets, with the transport costs and pollution that causes.

We look to the processing industry to play a full part in this work. They are positioned well to take a view of the whole chain. They told us in consultation that it was vital for them to have a home production base. They need to work to bring producers together, to help ensure their mutual success.

Waitrose’s approach to sourcing its beef provides a good model of the supply chain working together to improve efficiency, cut costs and increase quality in the interests of all. It works through having direct and open communication to producers and tight but transparent specifications on the quality of animals. The Meat and Livestock Commission report that *“the result is that the farmer gets the best return possible, suffers little price fluctuation, and can plan his business without being at the mercy of the spot market. Waitrose and their shoppers get consistently top quality beef.”*

— MLC & Waitrose, 2000

Naturally, such an approach would not work with thousands of individual farmers around the table. Farmers will need to band together into producer groups to act as negotiating partners with the food processors and retailers. This is relevant to our discussion of collaboration later on.

For an Efficient Consumer Response approach to work, much better information is needed on the costs and margins of farming and food businesses in general. Some of the information already exists and needs only to be collated. However, in some sectors this information is completely absent, and hard work is needed to collect the information in a usable format. As we have said before, benchmarking is needed at all stages of the food chain.

Embedding the messages in the chain needs collaboration not confrontation. We recommend the establishment of a permanent Food Chain Centre to bring together people from each part of the food chain. It should be facilitated by the Institute of Grocery Distribution. The Centre and the IGD will need to resolve how to bring the food service sector fully into this process. The Government should part-fund the Centre's work.

This Centre's steering board should be broadly based, including consumers, and should meet regularly to discuss other relevant issues, including the latest consumer research.

The Office of Fair Trading should give a clear indication to the industry of what discussions of this nature are permitted under competition law.

The Centre should, as a priority:

- develop (in conjunction with the relevant levy bodies) a number of supply chain analyses, from producer to the final point of sale, starting in the red meat and fresh produce sectors, to identify how efficiency savings can be achieved to the benefit of all players. These should be preceded by rigorous, transparent benchmarking of all stages in the chain, so other studies can go forward on the basis of a sound understanding of costs;
- draw on the results of those studies and, working with experts from industry and other research bodies, prepare best practice reports which can be published,

Working together to fulfil consumer wishes better, faster and at less cost.

— ECR Europe mission statement, 2002

Other industries have taken a whole supply chain approach to benchmarking. The Automotive Industry Forum is a Government and industry initiative to give the UK a more competitive automotive industry for the 21st century. Its aim is to push for and support the achievement of sustainable world-leading competitiveness in the UK-based vehicle and components industry. These exercises have had a significant impact. One participant said "Small things can make a big difference, now we know how to look out for them".

- AIF 2001

identifying the steps that will improve efficiency in each sector;

♦ identify and publish best practice reports on collaboration and planning in existence between world class retailers and manufacturers so that they can be taken up more widely in order to improve efficiency and consumer value; and

♦ act as a champion for benchmarking and dissemination of best practice data in the sector as a whole.

Retailers and suppliers

The Competition Commission recently investigated whether there was market abuse by major food retailers. We welcome the resulting Code of Practice on Supermarkets' Dealings with Suppliers. But we are aware that some feel that the Code does not give suppliers an adequate route to redress if serious disputes arise. We also note that transactions involving non-edible crops (such as flowers and pot plants) are not currently covered by the Code.

The Office of Fair Trading is monitoring the impact of the Code. We recommend that they should undertake a full formal review of the workings of the new Code two years after its introduction. This review should consult all interested parties to determine whether further changes are needed.

We regret that the Code only covers the four major retailers. We know that smaller retailers and suppliers cannot be obliged to apply the Code, as their size means there could be no grounds for a public interest finding against them by the competition authorities. But it is plainly unsatisfactory that they remain outside these arrangements. We exhort all suppliers, retailers and food service companies to sign up voluntarily to the Code of Practice on Supermarkets' Dealings with Suppliers.

A Code is only effective if compliance is monitored and if those who feel it has been breached have a clear route to redress. We are concerned that the mediation procedure currently in the code may not provide sufficient protection and independence of judgement to reassure suppliers wishing to raise an issue. The current process is for an initial period concerned with internal resolution of the dispute (which we welcome), followed by the appointment of a mediator nominated by the retailer. There is a perception that this is one-sided, and we therefore recommend that the current dispute res-

olution mechanism in the Code should be re-examined by the OFT. We would recommend that it should be replaced by an independent mediation service, facilitated by the Institute of Grocery Distribution.

Collaboration

A large part of England's food production comes from a relatively small number of farms. As larger units, they can benefit from economies of scale that are not available to smaller farmers. Because of their size and turnover, their owners often have more time to put business plans in place, and to analyse data on the efficiency of their business. These large units are in a better position to compete on price with producers elsewhere in the world.

Not all farmers, however, can be farmers of large units. Some lack the capital such large units require. Others prefer to work in a one-man business, or have not had the opportunity to expand. Small farms are very much the norm in some parts of the country, and local landscapes still reflect that. We want to see opportunities for farmers both small and large to thrive into the future. There are proposals elsewhere in this report on advice, retraining, and environmental programmes which are aimed in particular at helping the small producer. Small farmers are not exempt from the market forces that have encouraged consolidation elsewhere in the farming sector, and need help to overcome some specific disadvantages.

The best way for a small farm business to get the benefits of being a large farm business is to collaborate with others. Successful machinery rings and labour-sharing initiatives have led to considerable cost savings for many farmers. We strongly believe that the security of a profitable production base in England depends on a much greater level of collaboration than we have seen historically.

Well-facilitated collaboration can give small farmers access to professional marketing and technical advice. It can also put them in a better negotiating position when dealing with large customers or suppliers. Smaller-scale regional supermarket chains collaborate in exactly this way when negotiating with their suppliers.

Collaboration's potential is great for large farms as well as small, but the results of past efforts have been mixed. Government efforts to support collaborative activities,

Some parts of the food chain have already recognised the benefits of collaboration. Landmark was founded in 1972, and now consists of 30 independent wholesale companies with a combined turnover of £2.3bn, operating 84 depots throughout the UK, serving mostly small retailers and caterers. Their *raison d'être* is to negotiate better terms with suppliers by using collective strength.

— Landmark 2002

The history of farming is littered with dead co-operatives

— farmer, north-east

while welcome, have had limited success. Funding has been spread too thinly and most initiatives have been small scale.

We do not think this means that collaborative ventures in England are bound to fail — there are examples of success. Success or failure depends on a range of factors, and there is not a single model that will work in every case. However, there are a few simple rules that we believe make success more likely for co-operative ventures.

To build a successful and credible collaborative venture, farmers have to be willing to commit themselves to it, and not blow with the wind as prices fluctuate. Ideally, the collaborative venture should involve professionals with good business expertise in key areas such as marketing, negotiation and logistics. The collaborative should be run by experienced independent management. An important element of success is the appointment of non-executive directors with expertise outside farming. The business structure chosen should encourage an efficient, commercially-oriented enterprise, giving shareholders and employees incentives for success and business growth.

Danish Crown, a pig producer co-operative in Denmark, controls around 90% of Danish pig marketing and (in partnership with other co-operatives) almost all of Denmark's slaughtering and processing capacity.

In contrast, the UK's pig co-operatives only deal with marketing, and the largest of these only handles 15-20% of the UK's pigs.

In the same way, the UK's largest milk group controls 16% of production, compared with Sweden's (61%), New Zealand's (90%) and Denmark's (92%).

— DEFRA, 2001

We have heard reports that the attitude of the competition authorities has been an obstacle to farmers trying to collaborate. As soon as a venture achieves sufficient scale to reap real benefits from collaboration, say farmers, the competition authorities will challenge it as an abuse of market power. They argue this is perverse, since English farmers' competitors for market share are often large co-operatives from other countries.

These are particular issues of concern in respect of collaboration in the milk sector. These are highlighted in the Milk Task Force Report, whose conclusions on this issue we endorse.

We strongly believe in the potential of collaborative ventures for all farmers large and small. We encourage the competition authorities to consider the wider market context, particularly the consolidation of international suppliers, when looking at new or expanding collaborative ventures.

In Scotland, there is a single body (SAOS — the Scottish Agricultural Organisations Society) responsible for

promoting and supporting collaborative activity. There is no equivalent body in existence in England. We regard greater collaboration as a key ingredient of competitive food production in England. In order to give collaborative efforts greater impetus, we believe a dedicated body is required. **We recommend the establishment of an English Collaborative Board, with a small secretariat. This Board would be responsible for encouraging and supporting collaborative activity. Membership of the Board should include people with industry, financial service and business experience. This Board should advise Government on the direction of Government grants available to collaborative ventures.** We discuss on pages 43 and 45 how funding might be best targeted to promote collaboration.

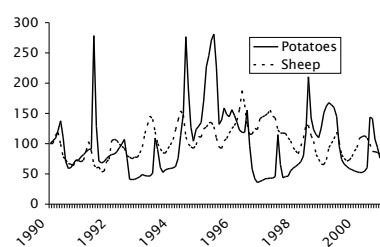
Existing organisations with responsibility for co-operation need to reconsider their respective roles. They should define how they can provide support for the Collaborative Board. Where possible, they should merge their operations.

Collaborative ventures may require capital funding in order to integrate production and processing, and we welcome the preliminary discussions that are taking place to establish a venture capital fund for food chain and rural regeneration based on the urban regeneration model.

Managing risk

Farmers face a range of risks within their businesses. Some they share with other businesses, some are unique to farming. Human risk — such as staff illness or injury — and risk of damage to assets are shared with all other businesses. However, farmers also need to manage the risks of a poor yield on their crops and exchange rate movements — to which they are particularly susceptible. The weather is a major risk for producers, and climate change could magnify that uncertainty.

Reduction in production related support means that many of these risks, which were once taken on by Government, will be shifted back to farmers. Remaining outside the euro means continuing exchange rate exposure. The ending of CAP price support will increase price risks. It is right that farming should take on more responsibility for managing its risks. But



Sheep and potato prices by month, 1990-2001 (Jan 1990=100)

this will present challenges to the industry and the Government will need to be ready to help it adjust.

Traditionally, farmers have managed risk by varying their product mix and by diversification. They have sought to introduce non-agricultural enterprises, such as tourism-related activities, into their farm businesses. In addition, in recent years, farmers have increasingly been earning income from off-farm sources. Another strategy has been to contract management of the farm to someone else better positioned to handle the risks.

Financial risk management instruments are a recent addition to farmers' options. They are common in the us and Canada, and those countries' governments are encouraging their further use. Available instruments include production contracts between farmers and processors, or marketing contracts (common in the milk and arable sector). Crop and insurance revenue programmes — where farmers take out Government-subsidised insurance against sharp falls in crop yields or farm revenue — are also common in the us and Canada, but not used very much in England.

We believe that with farmers assuming more risks within their business, and with the shelter of the subsidy system gradually disappearing, the Government should encourage the wider use of risk management instruments.

The Government should be prepared to support the development of basic safety net aids at EU level, once CAP price support is removed. Such aids should operate so that they do not distort markets over the longer term, but provide short term relief during periods of market volatility.

The Treasury should consult with banks and other financial bodies to investigate the efficient provision of suitable financial risk management instruments at a reasonable cost. Collaborative farming ventures and industry levy bodies should be involved in these discussions, as they could be valuable conduits to transmit the benefits of such instruments to smaller farmers.

After the recent outbreaks of Classical Swine Fever and Foot and Mouth Disease, animal health risks are at the top of the agenda. Many have argued that a really sustainable industry would bear the costs asso-

ciated with animal disease itself. Farmers who bore those risks would have a strong incentive to maintain good biosecurity.

We think that there is a potential way forward here. DEFRA, with the Treasury, should lead a group on disease insurance with the industry and insurers. The working group convened in the aftermath of Classical Swine Fever should be reformed for this purpose. The Government should be ready to help if it looks like the cost of insurance packages would be prohibitive. We would suggest that subsidised insurance schemes or a joint industry-Government levy scheme are better than the public purse bearing the whole risk.

Farmers argue that the risks of animal disease, particularly in relation to imported food, are beyond their control. Concerns have also been expressed that enforcement of food production standards, in particular controls over inputs such as antibiotics and pesticides, may not be as stringently enforced in third countries. Controls that are considered necessary for food safety in England should be enforced on imported food. The Government must strengthen checks and controls of illegal imports of meat products, to reduce national levels of exposure. DEFRA must draw up a sophisticated assessment of the risks from illegal imports, and then lead a cross-Departmental approach to implement it, on the shortest possible timescale.

Availability of labour

Farming businesses have been shedding labour in recent years, as a result of rationalisation and mechanisation, as well as the need to reduce costs. Many of the jobs that remain in agriculture are seasonal or casual labour.

Some farmers are now experiencing difficulties in recruiting enough casual and seasonal labour to meet these needs. Unemployment is low, and potential recruits may balk at the hard manual work involved in seasonal agricultural labouring.

The Home Office runs a scheme called the Seasonal Agricultural Workers Scheme (SAWS), which allows students from countries outside the European Economic Area to come and work in the UK on a seasonal or casual basis, linked to the academic year. This

Farmers cannot find the labour to process their poultry on-farm. British casuals are almost non-existent, and we are denied the various harvest schemes [like SAWS]. There is no question of exploiting casual labourers. We pay piece-work and last Christmas our casuals averaged £7.51 per hour.

— poultry producer

is a valuable source of labour for the farming industry. In 1997, the SAWS quota was increased to 10,000 and last year it was increased again to 15,200. But there is continuing evidence that the current quota is insufficient to meet the demand for labour.

We recommend that the SAWS quota should be increased to 50,000 at once, and that the quota and the terms of the scheme are regularly reviewed.

* * *

ADDING VALUE

If farmers plan well and understand the needs of their markets, they can increase their incomes by enhancing the value of their output. In some markets, higher standards are becoming a condition of entry.

Entering a value-added market can help to cushion farmers against the price volatility of commodity markets. With rising real incomes and consumers' interest in variety and choice increasing, there will be opportunities here that English farmers can seize. They can obtain a larger share of the sale price, and they can use the high environmental and welfare standards they will be increasingly expected to work to as part of their brand.

The role of assurance

Assurance schemes are a potentially valuable way of communicating value to consumers. However, at the moment that communication is confused. There are too many schemes, and consumers do not understand their implications.

The 'Red Tractor' scheme

The Red Tractor mark is one of the more successful initiatives in this area — although it clearly has a long way to go before it achieves the market penetration required for an industry-wide baseline scheme. The mark, which is the public face of a range of separate assurance schemes for various products, was created by the National Farmers' Union in association with the Government. The assurance schemes that underpin it are co-ordinated by a non-profit company called Assured Food Standards (AFS). The Red Tractor was launched in June 2000.

One year after the launch, 33% of shoppers recognised the Red Tractor, though some of those were unsure of what it stood for. Recognition was particularly high in south and central England. It responds to consumers' frequently-expressed desire for a simple approval mark that they can easily recognise.

The Red Tractor is worth building on, but it has to expand and move forward. In particular, AFS should ensure that all the schemes for which the Red Tractor is a public face meet stringent and — as far as possible — comparable criteria. Assurance schemes trade on their reputation. It would be bad news for English farming if the Red Tractor were to be compromised by adverse media stories after so much hard work. **The Red Tractor needs strong enforcement to command confidence.**

We think that the Red Tractor should be a baseline standard that all food produced in England should attain. Without attempting to turn the scheme into a 'premium' mark, the Red Tractor should be extended to cover environmental standards — consumers already think it does — and welfare standards should be reviewed. Red Tractor standards on environmental protection and animal welfare will have to be developed and discussed with the industry, but our recommendation is that they should aim to position themselves at least at the level of the codes of Good Agricultural Practice.

Current assurance schemes need to be rationalised behind the Red Tractor mark. Consumers find them confusing, and a single system is needed. The Red Tractor and the standards underpinning it need to be owned by the whole food chain, and managed by Assured Food Standards on their behalf. Assured Food Standards needs funding from Government, matched by the industry, to ensure its independence while standards are developed and rolled out. AFS may need to review its constitution and board composition.

Once the new structure and standards are in place, the Red Tractor mark needs to be more strongly promoted to farmers, consumers and the food service industry. Establishing a brand is costly. We see a role for ongoing Government funding to drive this forward, subject to EU state aids rules. This funding

The Red Tractor currently covers six assurance schemes in England, in the following sectors.

- ♦ cereals, oilseeds and pulses (Assured Combinable Crops)
- ♦ fruit, vegetables and salads (Assured Produce)
- ♦ Beef and Lamb (Farm Assured British Beef and Lamb)
- ♦ Dairy products (National Dairy Farm Assured Scheme)
- ♦ Chicken (Assured Chicken Production)
- ♦ Pork (Assured British Pigs)

— Assured Food Standards 2002

should be matched by the industry and the industry levy bodies.

We have said that within the next two years, we would hope to see all fresh food meeting the Red Tractor standard. We hope that independent stores and food service businesses will also start to use the brand. Over time, we would like to see it applied to an increasing proportion of processed food where that is feasible.

The Red Tractor can only be a baseline, however, if it is to remain inclusive and become the industry norm. It cannot add undue cost, and there will continue to be a difficult balancing act to maintain between the delivery of meaningful standards and maintaining the support of retailers and consumers.

Higher-level assurance schemes

Schemes and production systems which significantly exceed the Red Tractor baseline should be allowed to develop and encouraged to flourish. But, to avoid confusing consumers even further, producers should think carefully before using them. They should only be used in response to clear consumer demand, and should be clearly explained. The organic system is a model for such schemes. It has captured the imagination and consumer confidence in it is well established.

Other more specific assurance schemes have been developed and will continue to develop. The RSPCA Freedom Foods scheme is a good example of this. A number of environmental bodies have also proposed a single 'green' label signifying demonstrably higher environmental production standards. Again, good verification systems and excellent marketing will be needed to ensure success.

All such schemes provide valuable opportunities and energy in the market place; they can all serve to engage and inform the consumer. We would not want to interfere in the functioning of this market, though in due course we think consideration should be given to pulling these initiatives together under a higher-tier assurance umbrella, once the baseline 'Red Tractor' scheme is well embedded. For now, we would only advise that there should be as much discussion and collaboration as possible between the sponsoring organisations, to ensure that the maximum impact is realised and that the consumer is not confused by a plethora of similar initiatives.

LEAF is working towards developing their LEAF Marque Scheme. This is an environmental assurance standard that aims to be additional and complementary to the current assurance schemes. The LEAF Marque Scheme will seek to support a dynamic, flexible farming system that is profitable, efficient, productive and founded on ethics of land stewardship and responsibility for the continuing vitality of local rural communities. Fundamental to the scheme is creating an understanding with consumers of what farmers are doing to satisfy the needs and desires of society for food and the countryside.

— LEAF 2002

Above the platform that assurance provides, individuals or groups of producers — perhaps co-ordinated by a processing partner — will continue to add further value to good English food by developing other unique selling points, such as excellent eating quality, unique or traditional breeds, varieties or styles of product, or products suited for particular dietary requirements. The opportunities are there, but need professional planning, business advice and marketing to be fully realised.

Red meat

Our timescale has not allowed us to delve in detail into specific commodity sectors, but the red meat sector has very serious challenges demanding attention. We need to look at standards in the industry, at benchmarks, and at how we can build up the base of training and technology to deliver them. We deal with animal health issues below (p. 49).

The Meat and Livestock Commission are working to address these challenges, and we strongly urge DEFRA to consider the MLC's proposals carefully. The red meat sector is the most urgent case for action. **A whole supply chain approach to improving competitiveness in the sector will be needed. We are convinced that the long supply chain in red meat is one of the reasons why competitiveness is slipping, and market messages and signals are being diffused before they reach the primary producer. We recommend elsewhere (p. 32) that the red meat chain should, with fresh produce, be the first to be examined by the new Food Chain Centre. The Centre and the MLC will need to work closely together to agree and act on the results of this work.**

Adding value through further processing and marketing

Many farmers have considered further processing, on or off farm, in order to claim a bigger slice of their products' final retail value. Some highly successful businesses have been created in this way.

However, taking on other roles within the food chain should not be undertaken lightly. Processing, marketing and distribution are exciting and profitable challenges for those who succeed, but they do require particular skills. On-farm processing and marketing are not risk-free ventures, and for every success there have been several failures. Successful processing and

A sheep farmer in Berkshire has diversified his business by starting a project to build a red meat processing plant on his farm, with the assistance of a Government processing and marketing grant. This project will enable him to convert the whole meat carcasses from his flock to pre-packed portions and processed meat products. These products will then be delivered through an existing marketing structure.

This project has been set up to improve the viability of the farmer's business. It aims to add value to primary produce by reducing the number of steps in the food chain between the farm and the consumer. The project also provides much-needed encouragement to the lowland livestock sector.

— DEFRA 2002

Recent research estimates that the speciality food sector contributed at least £3.6 billion to the UK food and drink industry in 1998 — 5% of the total industry turnover. Production supports 52,000 jobs, 10% of total food sector employment. These producers are locally-focused, with 64% sourcing more than half of their ingredients locally, and 45% selling more than half their goods into local markets. 73% of speciality producers questioned said their turnover was increasing.

— NFU/NAFM 2000

marketing operations tend to have been started by farm businesses already in good financial condition and under excellent management. Many who have been successful find that the new business venture takes all of their attention and that it becomes necessary to delegate farm management elsewhere.

A better way forward for many producers may be to collaborate in a wider grouping, perhaps involving an established processor, and engage professional outside management. All sorts of models are available and possible.

We recommend that funding for Processing and Marketing Grants should be expanded by £5 million per year for the next three years, to assist collaborative enterprises with the investment needed to establish themselves in processing and marketing their products. We note below (p. 45) the need for scrutiny by the English Collaborative Board (see p. 36). The upper threshold on grants should be removed to allow larger projects to be funded if this offers best value for money. At the same time the lower threshold should also be reduced to allow smaller enterprises access to funds. This may be important in stimulating the small local producers who will supply local food markets.

Local and regional foods

We believe that one of the greatest opportunities for farmers to add value and retain a bigger slice of retail price is to build on the public's enthusiasm for locally-produced food, or food with a clear regional provenance. Increasing the market share of such food would have benefits for farmer and consumer alike.

In discussing this area, we draw a distinction between local food — which comes from near the purchaser — and what we have called 'locality food', which comes from farther afield but has a strong sense of provenance.

Local food

Today's local food sector has been created by small farming and food businesses that have gone against the recent trend of consolidation. Often, they have been driven as much by concern for the environment as by a desire for increased profit.

We expect that local food will enter the mainstream in the next few years. From a commercial point of view, we have heard from several supermarket retailers that they see local food as the next major development in food retailing. Convenience store chains told us during our consultation that they were very interested in the opportunities local food provided. Using local produce is an obvious way for hoteliers and restaurateurs to differentiate the experience they offer their customers. In regions such as the south east and the south west, local food is already beyond a niche market. The report *Local Sourcing* by the Institute of Grocery Distribution and Business in the Community sets out good practice guidelines for major retailers and suppliers that we endorse completely.

Recent research by the National Farmers' Union showed that, for nearly half of farmers, lack of technical knowledge was one of the main barriers to developing a local food business. This confirms our finding that there is a critical need for quality advice, information and training. We hope that our proposals on advisory services (p. 62) will help in providing facilitation and guidance to farmers on the development of their business. Equally, our proposals on training should help with the provision of courses on food hygiene and food marketing.

However, the majority of local food businesses consistently identified finance as the highest priority development issue for the sector. There is a real lack of pump-priming funding, especially for smaller projects. Non-farm-based businesses find it even more difficult to access capital funding, as grants are biased towards supporting farmers. The main national sources of support and funding for local food producers are through the Rural Enterprise Scheme and the Processing and Marketing Grant. We have already suggested increasing the budget for this latter scheme and lowering thresholds to help smaller enterprises, but we would also recommend that the Rural Enterprise Scheme budget should be substantially increased at the Mid-Term Review.

Another barrier to the widespread development of local food networks is processing facilities, if producers are not processing the goods themselves. Ironically, even though there is overcapacity in some sectors, processing units are often on a large scale, and inconveniently sited for the needs of smaller, local initiatives. Does a

Connecting local producers to the consumer makes a vital link and acknowledges the importance for all of us to rethink our approaches to buying, distributing and selling food.

— HRH The Prince of Wales in *Local Sourcing*. Business in the Community/IGD, 2001

The first farmers' market opened in Bath in October 1997. By 2000, there were over 300, with an estimated total turnover of £65 million.

— NAFM 2000

product still qualify as local if it has to travel ninety miles or more for slaughter and butchery? How can local flour or bread be sold if there is no mill or bakery, or milk and cheese if there is no dairy? Even vegetables need washing and packing facilities. Once a product is processed, there are problems with distribution. Though many caterers and tourist businesses have told us that they would like use more local products, buyers cite the problems of dealing with a large number of suppliers and deliveries as a main reason for being put off.

RDAs should consider how to overcome problems of distribution and availability of processing within their regional economic strategies and seek to encourage the networking and planning that are necessary for the development of these local initiatives. Where third-party processing facilities are available, every effort should be made to work with existing businesses.

Where there is an identified need, we recommend that professionally-managed collaborative ventures developing processing units should have a high priority for grant funding and Government aided venture capital initiatives. The English Collaborative Board (see p. 36) should be involved in scrutinising these applications.

A final barrier is access to customers. Local producers have found some innovative solutions to the problems this presents. Some producers are delivering through box schemes or opening farm shops, while farmers' markets have been embraced with enthusiasm. Farmers' markets are a successful way forward for some, and we strongly welcome the way this sector has grown. But their scale means that they cannot currently be a major distribution channel for any but the smallest producers. The model they have indicated needs to be expanded if local produce is to become part of everyday life. If a local market is only held on the first Saturday in every month, only the most dedicated shopper will restrict his or her purchases to that day. Weekly markets enable more people to make regular shopping trips, but to make local food shopping a mainstream activity, local food producers need outlets that are open six or seven days a week.

As an incentive to help this happen, we recommend that retailers who give over a portion of their store

as an outlet for local producers to sell direct to the public should receive business rate relief on that part of their premises.

Marketing and distribution of locality foods

Quality regional foods convey a sense of their place of origin, of its own distinctive landscape, breeds and culture into the wider world. Their sale and distribution is likely to be most successful if conducted as a group initiative, providing sufficient volume to warrant the necessary investments, particularly in marketing.

We think that the time has come for locality food marketing to become mainstream in Britain as it already has in France and elsewhere. The Countryside Agency has done excellent work in pump-priming some schemes, but we think that management of regional food should now transfer to a specialist body such as Food From Britain, and its Regional Food Groups. FFB itself should be given a new remit and terms of reference to reflect its new role, as well as additional funding if this is needed. To date, FFB has focused principally on export markets, but we believe increased focus on the domestic market is also needed.

The Regional Development Agencies (RDAs), who also have access to European funding, have already been involved in Regional Food Groups.

Each RDA should work with Food From Britain and other partners to devise a regional food component to their regional economic strategies. The Countryside Agency should hand its work in this area on to FFB and the RDAs.

Protecting local and locality brands

We believe that once local food becomes more established, DEFRA, the Food Standards Agency and FFB will need to devise an enforceable definition of 'local'. We think that this may be a necessary first step for the full benefits of local branding to be realised.

The European 'Protected Food Names' scheme provides an opportunity for UK food producers to protect the character of their product. Despite efforts to raise awareness of the scheme for protecting food names, only 31 out of the 371 on the EU list come from the UK, as opposed to 113 from France. Industry bodies should do more, with the help of FFB and the Regional Food

Joining Heart of England Fine Foods was one of the best moves [our company] made. [We have] benefited from the constant stream of shows and events which have helped the company market its products, and from the seminars for business development at a level suiting a very small business. Being local and promoting local produce will always be the prime consideration for the business.

— Jane McKay, owner of Jus, writing about her local food group in *Growing Rural Business*. IGD/ BITC 2001

Blue Stilton, Cornish Clotted Cream and Traditional Farmfresh Turkey are all registered with the EU as protected food names.

European research shows that consumers are willing to pay an average of 18% more for products with protected food names. Consumers regard them as 'authentic' and 'high-quality' and believe that their support will bring benefits to the area and people from where the product originates.

— DEFRA 2002

Groups, to ensure that English producers take part in the Protected Food Names scheme.

Advertising

Local and regional brands can be guarded by the Protected Food Names scheme, but they can also be protected and fostered by marketing. Modern marketing, with its focus on values and feelings rather than comparisons or statistics, would seem perfectly suited to marketing food produced in some of England's most beautiful countryside.

If you've enjoyed your smoothie, why not try one of our other products like sand, rainbows or perhaps plankton?

— 'Made by Nature' fruit drink marketing campaign. Innocent Ltd.

If farmers can build a deserved reputation for sound environmental management, they have the image of the countryside at their disposal — something that the public associates with peace, health, fresh air, and quality food. An example of how this could be used is in the margin.

Generic promotion

Some promotional marketing is currently being carried out by the industry levy bodies — statutory bodies that take a proportion of sale value from all producers and some processors to provide a range of common services to their sector.

We think that the 'generic' advertising that such bodies provide, while it may have been sensible in the past, may now be of limited use. **We recommend that levy bodies consider with their stakeholders whether greater benefits can be obtained through redirecting resources currently going to generic promotion towards supporting an improved Red Tractor scheme.**

Some industry levy bodies do not have the capability within their enabling legislation to support marketing activities. We believe that, as the distinction between the supported and the unsupported sectors fades away, all levy bodies should be on an even footing. **We therefore recommend that as part of the Government's commitment to increasing fruit and vegetable consumption, the statutory basis of the Horticultural Development Council be changed to enable it to engage in promotion in the same way as other levy bodies.**

Becoming more market aware

Before we move away from adding value, it is important to note that for the many farmers who simply

want to be farmers, and do not want to move down the chain into processing, there are significant opportunities in simply being more market aware. They can anticipate new markets for more unusual crops and improve technically to meet specific market requirements. A reputation for producing the best ewe lambs, or consistently good malting barley can lead to contractual relationships that to some degree reduce the volatility of pure commodity markets.

Seeking out, for example, pharmaceutical or herbal businesses and determining what crops they are looking to source can allow farmers to stay ahead of the game and take advantage of first mover opportunities. For the shrewd and proficient farmer, there will always be the possibility of a novel market or simply being the best and most reliable in established areas.

Regulation

Although it is unwelcome to many farmers, regulation is an essential part of any attempt to add value. It is necessary to ensure that one bad producer does not undermine a market for all. It is necessary to protect the health and rights of those working in the farming and food industry. It is necessary to protect the environment, to ensure food safety and to give consumers confidence that there are minimum standards for British-produced food.

The farming and food industry cannot expect to be regulated substantially less in the future than at present. Nor would that be in its interest, after the experiences of BSE and Foot and Mouth. On health and safety farming has led the fatal accidents at work table for the last four years.

But the Government has to make sure that high standards do not simply drive domestic producers out of business as increasing trade liberalisation opens markets to goods produced to lower specifications. It must work in the forthcoming trade round to make sure environmental and welfare standards are not undermined in a “race to the bottom”.

The Government must also be sure when signing up to new regulatory measures that the benefits do justify the costs and that they genuinely reflect society’s preferences. Stakeholders should be properly consulted to ensure that the regulations are proportionate. Regulations put in place on the basis of the precau-

In the last ten years, 437 people have been killed in accidents while working on farms.

— HSE 2001

tionary principle need to be periodically reviewed in the light of new information on the risks and costs involved.

Finally, implementation of regulation has to be consistent, customer-focused and sensitive to the fact that many farms and caterers are small businesses. Indeed, many are one-person operations. As such, they find it very hard to deal with a large regulatory burden. We therefore think that Government needs to keep the cumulative impact of regulations on small farm businesses and small food processing outlets constantly in view. Government also needs to make it easier for farmers to understand and assess all the requirements that affect them, particularly when considering taking their business in a new direction.

For the future, we think that **regulation should move towards whole farm approaches, with flexible management of environmental risks and basing enforcement of regulation on risk assessments.** We explain the importance of whole farm plans in the next chapter.

The Government should monitor the cumulative effect of regulation. DEFRA should publish an annual aggregate compliance costs figure for new regulations in *Agriculture in the UK*, its annual statistical report on the industry. The likely benefit to accrue from any new regulation should be identified and if possible quantified.

DEFRA should also seek to codify all existing regulation into a single web site. Regulation should be categorised around events in the lifetime of a farm or processing business, such as “getting bigger”, “diversifying”, or “handing the farm on”. This service should be integrated with the front-end service we recommend on page 63. DEFRA should discuss with the Department of Trade and Industry how small businesses in other sectors manage regulation, and should use this information to spread best practice.

Animal health

Animal health is an issue where regulation is particularly important. Farming cannot afford another food scare, or another crisis of public confidence in animal health. If voluntary approaches such as assurance do not work, we believe the Government would be right to consider a licensing scheme for livestock farmers, not-

There have been several recent reviews of the regulatory regime in farming. The four most recent (some of which are still ongoing) are:

- + the IACS and inspections working group;
- + the intervention working group;
- + the meat industry working group;
- + better regulation task force report on environmental regulations and farmers.

All have focused on a need for a more effective and efficient regulatory process rather than a lowering of standards or wholesale removal of regulations. Not all their findings have been pursued as pro-actively as many would have wished.

withstanding the practical issues such a system would need to overcome.

Animal health problems have seriously harmed the English livestock industry over the last decade, undermining public confidence in the food it produces. The fallout has crippled the industry as it and the Government have been hit by a series of crises.

Some of the issues here are outside the scope of this Commission, and will be considered by the Royal Society study on infectious animal diseases under Professor Sir Brian Follett, or the inquiry into 2001's Foot and Mouth Disease outbreak by Dr. Iain Anderson. It would be wrong to prejudge the outcome of these studies, but once their recommendations are available, the Government must carry them forward with urgency.

The efficient and profitable production of livestock in England is dependent on healthy animals. Animal diseases — even those outside the scope of the current Royal Society Inquiry — have serious economic and welfare consequences. **In view of England's abysmal animal health record in recent years, DEFRA in consultation with the industry need to devise and implement a comprehensive animal health strategy.**

Good livestock husbandry allows animals' immune systems to develop fully and reduces the likelihood of diseases spreading. To minimise disease, and maximise profitability, farmers should ensure all livestock staff are properly trained and that the vet is involved on an ongoing and proactive basis. They should use best practice systems to prevent disease and invest in the best livestock facilities.

Late last year, the Government launched the National Scrapie Plan, whose object is to breed resistance to scrapie (and possibly BSE) in the national sheep flock. This is an important initiative. **We encourage sheep farmers to participate in the voluntary National Scrapie Plan. We regard it as vital that Government, the sheep industry and other stakeholders work closely together to ensure its success. This should be given the very highest priority by DEFRA.**

More generally, **full electronic traceability of livestock should be achieved as soon as possible. DEFRA and the industry need to put in place better systems**

People in towns are saying enough is enough. We've given you one job to do, huge subsidies to do it, and you've given us mad cow disease, E. coli, salmonella and now [FMD]. There's a sense here in the dark satanic cities that what's happening out there is a clear case of "as you sow, so shall you reap". Which farmers, of all people, really ought to understand.

— Robert Elms, *Guardian*, 28/4/01

Scrapie is a transmissible spongiform encephalopathy present in the national flock here and in many other countries. It has been known for hundreds of years. 210 cases were reported in England in 2001.

to trace sheep and pigs if their movements entail anything more than one movement to slaughter, as well as enhancing the current system for cattle. This will reduce the remaining paper burden on livestock farmers, by allowing more electronic data transfer.

The Over Thirty Months Scheme

BSE has had a disastrous impact on the beef industry. Levels of public concern are still high about its probable link with CJD.

The **Over Thirty Month Rule** came into force on 29 March 1996, and banned the sale of meat from cattle aged over 30 months for human consumption.

The Over Thirty Months Scheme (OTMS) was introduced to remove beef from animals over thirty months old from the food chain. It has played an important part in reassuring consumers and other EU Member States of the safety of British beef. But it is expensive, and as time goes on, it has started to become a market support measure, contrary to original intention. Given that the scheme has now been in place for five years, that cattle traceability is now in place, and the extremely low rates of BSE infection in cattle born after August 1996, we welcome the Food Standards Agency's intention to review the over thirty month rule and recommend that this review should be launched as soon as possible. An exit strategy for the OTMS needs to be negotiated with the EU.

We would also recommend some changes to the Date Based Export Scheme (DBES). This scheme allows the export of some deboned fresh beef and beef products from the UK, but only under onerous conditions. Most onerous are the strictness of the eligibility criteria, and the requirement that all the beef exported be deboned in dedicated plants. Because BSE rates were so high in England before 1996, we cannot expect to be out of the 'high risk' category for BSE for some time yet. However, we note that BSE rates in under thirty month cattle are soon likely to be no higher than in some other Member States (or even lower), though we await the outcome of research in this area. **When the time comes and the UK can move into the 'low risk' category, then the DBES should be wound up. In the meantime, we urge the Government to press for changes to the DBES, given the low rates of BSE infection, to make it more accessible for beef exporters.**

Agricultural Wages Board

The Agricultural Wages Board (AWB) is a regulatory body that sets minimum pay rates for agricultural workers, as well as holiday entitlements, overtime rates

and other working conditions. It was set up after World War II and is made up of twenty-one members, some independent and some drawn from farming and other trades unions.

Throughout most of the life of the AWB the UK did not have a statutory minimum wage. However, in 1999 a National Minimum Wage was established and it has since been adjusted in line with market conditions.

In September 2000 the Government announced that the AWB would be retained for at least another five years. While there may be a case for retaining a wages board for the moment — while farming is still largely state-funded — we feel that as subsidy disappears, the rationale for a separate wages board will fade. Farming's return to the behaviour and mindset of a normal industry means ensuring that it is regulated in the same ways as other industries, and receives no special treatment either in its favour or against it.

We recommend that in 2004, after the CAP Mid-Term Review and in anticipation of large-scale CAP reform, the Government should reconsider the future of the Agricultural Wages Board.

* * *

DIVERSIFICATION AND NEW MARKETS

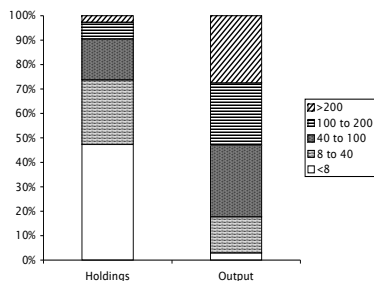
We have discussed efficiency, and we have discussed how to add value to produce. Diversification is the third strategy that may help farmers increase their profit.

In this section we discuss some of the currently available diversification opportunities, but once again we would stress that real opportunities can only ever be identified by the individual who knows his own situation.

Diversification opportunities will often be quite localised. They may also be temporary. As with cutting costs and adding value, farmers who find good opportunities will not be able to stagnate. They will need continually to develop their business to stay ahead. We have discussed elsewhere how benchmarking data should be collected to allow informed market judgments across the whole scope of a diversified farm business.

What I'm doing now as a farmer is a lot more rewarding than going down to the auction mart to stand around moaning.

— diversified farmer, Midlands



Farms grouped by economic size (ESUs), showing their contribution to total farm output. (DEFRA)

We should mention here the role of part-time farmers and land managers. These range from farmers with small farms who have a second occupation, through to those of independent means who have bought land as an investment or a hobby.

The primary aim of such farmers is not, in general, food production. Over 80% of food production now comes from just one quarter of all farms — in fact the 10% of largest farms now produce over half of total food output. Around 50% of farms are considered part-time and their output of food is less than 3% of the total.

Yet in many ways it is this majority of smaller farms that, for many, are the ideological and political basis for agricultural support and who play a crucial role in the social and cultural fabric of rural areas.

The real driver of success for these farmers will not be changes in agricultural policy but the health of the rest of the economy in the rural areas in which they live. A vibrant rural economy, outside agriculture, will offer the opportunities for diversification upon which their future success lies. It is worth remembering that by far the largest share of non-agricultural income to farmers comes from off-farm sources, not on-farm diversification.

We believe that it is important for many of these farmers that the focus of government policy in rural areas is switched away from just agriculture and towards a wider range of rural businesses. We encourage Government bodies and training organisations to ensure that the special needs of part-time land managers are met when they provide their services.

Tourism

For decades, the most common form of farm diversification has been into tourism enterprises, such as bed and breakfasts and guided farm walks. We know how important these enterprises are, and we believe that they will continue to grow. More visitors each year seek the authentic experience of the countryside. Links with the wider rural economy are particularly important here. Tourism is a key earner in rural areas, and a healthy, attractive and diverse farmed landscape is the foundation for its future. Chapter 4 looks at how we can secure and protect this. We think that the provi-

sion of advice by Tourist Boards, RDAs, local authorities and others is particularly important.

Planning

Land use planning has an important role in reconciling diversification needs with wider land use and transport policies. While some respondents to our consultation cited problems with development plan policies, the main issues focused on the process of seeking planning permission. It is clear that local planning authorities need to take a more pro-active stance in guiding diversification and handling applications from farmers and other rural businesses. We were interested to see this view supported by recent research undertaken by the Department for Transport, Local Government and the Regions, and published in October 2001.

I was disappointed to have my planning application refused. But what really annoyed me was that I had to apply three times to get to 'no'.

— farmer, eastern England

We recommend that DTLR implement the conclusions of this research quickly, and make sure that all planning authorities are resourced to follow best practice and give pro-active advice to rural businesses considering diversification.

Renewable raw materials and energy crops

Alternative crops — those grown for some other purpose than food — have been highlighted as a very important potential new market for farmers. Alternative cropping plays to farmers' core skills, and is one of the best diversification options for farmers in arable areas who may lack opportunities in value-added or tourist markets.

While growing crops for energy use is the most viable option at present, other industrial and chemical uses of crops are constantly being developed and could make use of a significant area of land. We hope our recommendations on technology transfer and advice on pages 27 and 63 will enable new crop uses to be expanded as quickly as possible. The principles for successful engagement in the market for such crops as bioethanol are the same as those we have discussed for farming and food as a whole. We also think that producer collaboration is vital in the non-food crops market, and encourage those trying to grow non-food crops to take note of our recommendations on collaborative ventures above.

England needs a long-term strategy for creating and exploiting opportunities in non-food crops, including starch and oils. This area should be a high prior-

One of the most advanced projects for commercial energy crops is in Cambridgeshire. The EPR power station there will burn *Miscanthus* (elephant grass) grown on contract by local farms. Good technology transfer and advice from ADAS's Arthur Rickwood research station is a major driver of the project. The power station is able to produce electricity for the residential needs of two cities the size of Cambridge and will help towards the achievement of the UK's target of generating 10% of its energy from renewables by 2010.

— ADAS 2002

Biomass production could provide a genuine long-term solution, bringing environmental and economic benefits.

— Dr. Mike Bullard, ADAS Renewable Energy and Fibre Crop Research Programme

ity for the research and technology transfer effort we have outlined.

We do not want Government to try and pick winners — no Government has ever been good at that. Its role here and elsewhere is to remove blockages and facilitate the operation of the market. However, the Government's stated targets on renewable energy, the growing world market for energy crops and growing environmental concern in society today all argue for a larger role for energy and non-food crops.

Focus has until now been on feasibility rather than implementation and the market has not had the critical mass necessary to trigger the infrastructure investment it needs. Without guaranteed continuity of supply, industrial processing plants will not be built, nor will they issue contracts. No farmer will plant energy crops without a contract guaranteeing that they will be bought. That situation may have been resolved by the recent injection of £100 million into renewable energy to meet the Government's climate change targets. About a third of this sum is directed towards energy crops, in particular supporting the physical and marketing infrastructure for energy crop systems.

This development is very welcome, but we are concerned that there are still potential blockages. We therefore recommend that the Government should reduce duty on biofuels to that charged on other clean fuels (4.5p/ℓ at the time of writing). We believe this will help convince processors to drive the market forward.

We also think that planning guidance must strongly support development of local Combined Heat and Power and gasification plants, in the context of developing new energy markets. DTLR should encourage this as part of the current overall planning review and the revision of Planning Policy Guidance being undertaken by the Government. Given the environmental rationale for growing these crops, care must be taken to ensure that they are grown and transported by energy-efficient and ecologically sound means.

Flood management

During our consultation period, we visited the Parrett Catchment Project in Somerset, where we saw some of the interesting work currently under way on integrated

flood management. The concept of schemes like the Parrett Catchment Project is that farmers near towns prone to flooding should be paid for permission to use their land as a water storage site at times when flood risks are high. Higher up the catchment, farmers are asked to change management practices to reduce run-off water.

These schemes would have two beneficial effects. They would reduce the risk of flooding in towns, while rewarding farmers for the lost income from their flooded land. And they would help recreate wetland habitats that have been lost in recent years. Instead of contributing to flooding, farming could be contributing to managing it.

We think that the Government should take action to encourage these schemes. In particular, future environmental schemes and, where appropriate, woodland schemes, should include water management as an option for support. In the same way, the Government should ensure that land management responses to flooding are eligible for funding from flood management budgets alongside more traditional methods of flood defence. The use of land management options will be aided by a rapid shift to whole-catchment planning and away from the current system. The farming industry should look to embrace water management as a viable 'alternative crop'.

* * *

TENANCY

We should take some time here to discuss the special position of tenants. A common theme in our consultation was the disadvantages that tenants are under in diversifying their farm. We are also aware of wider difficulties for landlords in securing competent new tenants when farms become available.

Tenants and diversification

We believe that, on balance, the new Farm Business Tenancy (FBT) has been a good development in that it has allowed significant additional land to be let, and a little new blood to enter the industry. But we are concerned that many FBTS are currently being let on very short terms, which weakens the incentives for tenants to invest in developing the farm. It may be preventing sensible diversification. We suspect, too, that short

Changes in agricultural land use and cultivation practices are increasing rainwater run-off and contributing to flooding. River catchment surveys in winter 2000 revealed widespread damage to soil structure, with 50% of soils having damaged structure in one area. Modelled predictions suggest that this may increase rainwater run-off from 1.5% to 20%.

— Environment Agency 2000

terms may not always be conducive to good husbandry or environmental care. We were interested that these concerns were shared both by the Country Land and Business Association, which represents many landowners, and the Tenant Farmers' Association. Assuming these findings are confirmed by the current review of the FBT being conducted for DEFRA by the University of Plymouth, we would like to see changes to the fiscal and legislative framework for tenancy to address these problems. We think these changes should be trialled for a five-year period and their effectiveness in encouraging longer lets and sensible diversification evaluated.

We recommend that DEFRA, DTLR and the Treasury conduct a review of the tax position of FBTS to see how changes could encourage longer lets and sensible diversification.

The review should consider in particular whether a new form of reinvestment relief within capital gains tax should be introduced to allow landlords to defer capital gains that are reinvested in improvements to let land under the 1995 Act during the term of the tenancy.

The review should also consider whether land and buildings subject to an FBT, which is used for the purpose of any trade conducted by an unincorporated tenant, should qualify as a business asset for the purposes of capital gains tax taper relief.

Concerns about the ability of tenants to diversify under the terms of tenancy legislation have also been raised with us as obstacles to business development. **We recommend that, once DEFRA have the outcome of the Plymouth University study on FBTS, they should, with relevant organisations, revisit the definition of 'agriculture' within tenancy legislation.** A broader definition for the purposes of legislation would be consistent with the multifunctional nature of farming we are moving towards.

RESTRUCTURING THE INDUSTRY

The future we set out for farming here, we believe, is attractive, hopeful and realistic. But we know that there are some farmers who will not want to take on the challenge. Perhaps they will use the opportunity to pass the farm on to the next generation, perhaps they will relinquish a tenancy or sell their farm to a neigh-

bour. Whatever the reason, there will be people leaving farming, and the Government should do what it can to assist people who want to leave.

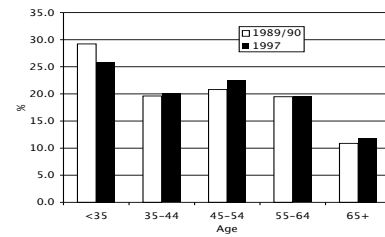
After careful consideration, we have decided against recommending a retirement incentive scheme, which we do not believe would offer value for money commensurate with the quite large costs likely to be involved. But we do believe there is a role for better advice to farmers on their options. The drive on advice to farmers we recommend on page 64 will need to point to services that can provide guidance and facilitation in all the components needed for successful retirement by farmers. DEFRA should work up a supporting pack of advice for farmers considering retirement, in consultation with industry bodies, banks, the Small Business Service and the Revenue Departments. The advice should include business planning, succession planning, retirement planning, taxation planning, change management, training needs analysis and an overview of existing Government support measures.

Encouraging new entrants

As people leave the farming industry, we hope others will want to come in to replace them. Although we hope the industry will take the initiative in creating new routes into farming, we are concerned that the recent decline in admissions to agricultural colleges means that young people will lack necessary skills. The average age of farmers is rising as things are — some have farmed longer than they would have liked in the hope of better times to hand the farm on. Before long there will be a need for a large number of well-trained young farmers to take over from them.

The decline in incomers cannot be regarded as surprising. The major cause is, of course, the recent problems that farming has suffered as an industry. As we have said before, farming's recent crisis has occurred at a time of rising prosperity for the country as a whole, and during an era where higher-level skills are needed in the marketplace. Farming is still perceived as a low-skill industry, even though successful farming calls upon a wide range of skills. It is also seen as a dirty industry — in a time when dirty industries are in steep decline throughout the developed world.

What can change farming's image? A resurgence of the industry, with farm businesses returning to profit and agriculture being seen as a place where innovation



Farmers by age group, 1989-90 and 1997

is valued. Crucial to that will be regaining a reputation for committed countryside management. We hope that the recommendations in this report will encourage that.

There is a need for well-informed education and careers guidance to attract new entrants into land-based jobs. **The Government, in partnership with the farming industry, should develop positive promotional materials for Careers Advisory Services, both for school leavers and adults.**

This may solve the issue in the longer term, but this is rather a chicken and egg problem — where are the young farmers who will need to innovate and change farming now, to bring it back to profit in the future?

In some cases, they are already working on the farm. Older members of farming families are sometimes reluctant to release their grip on the business. We would encourage all farmers to ensure that they prepare properly for future succession. This means identifying successors early, giving them appropriate training, and handing over control of the business (entirely or in part) in good time. Doing this provides a double benefit for the farm. Not only does it give younger people the chance to make decisions for a longer-term future, it also gives them the experience of running a business that they will need when the lead farmer fully hands over to them.

In other cases, people who have trained as farmers have left the industry for other sectors where they can use their skills. In many cases this has been driven by a desire to improve their financial position, rather than a disillusionment with farming as such. These ‘farming exiles’ might well take the chance to move back into farming if there were opportunities for them.

We would encourage the promotion of alternative entry methods, such as share farming or contract farming. We think that innovations such as work-to-rent (whereby partnerships are formed between existing tenants who want to leave the business and new entrants) have potential. A successful approach will be one which allows the retiring farmer to realise capital, while providing the new entrant with practical expertise, training and business skills. We think that the Government could usefully sponsor a ‘matching service’, through which potential new farmers could

Share farming is an agreement between two parties to share the inputs and outputs of a farming enterprise. One party normally brings in the land and buildings to be used. The other party brings in the working capital, and may provide some or all of the other inputs. The landowner will usually decide on policy. Share farming has allowed people to start farming without the need for them to buy or rent land themselves.

Whole Farm Contracting is an extension of contract farming. It is the undertaking of all the work required on a farm. Contractors and landowners will both be involved in strategic decisions, but day-to-day decision making lies with the contractor.

make contact with landlords whose tenancies are about to fall vacant, or who want to start share-farming or work-to-rent schemes. We know that such schemes have not taken off in the past, but we think that the demography and finances of the industry mean that the time for them has now come.

We recommend that the Government sponsor the NFU to create and manage a matching service to bring together new entrants with retiring farmers who do not have identified successors.

DEVELOPING KNOWLEDGE AND SKILLS

To take advantage of some of these opportunities, farmers both old and new will need to have a wide range of skills. They will be running multifunctional rural businesses. Future farmers will sometimes have to be group chief executive, marketing manager, environmentalist and precision grower in the space of a day — or an hour.

Training and knowledge are a central plank of a new strategy for farming and food. Recent national initiatives on vocational training and lifelong learning offer an excellent framework for improving training and skills in the farming and rural business sector. We say elsewhere that we would like to see farming treated like other industries. This means treating farming like other sectors when it comes to training too.

In this context there is evidence that the New Deal and other social programmes have had less impact in the countryside than in towns. **We urge the Department of Work and Pensions to review the rural schemes being developed in Scotland and Wales with a view to testing their feasibility in the English countryside.**

Vocational training

Young people who want to enter farming and related careers can apply for Modern Apprenticeships, either at Foundation or Advanced level. We think that providing these apprenticeships should be a key component of the work of demonstration farms, with employer's training grants as a reward. **We believe that — in farming at least — England should match Scotland and Wales in removing the 25 years age limit on entering Modern Apprenticeships.**

We also believe that the new Graduate Apprenticeships, which do not yet extend to the farming industry, offer a good way of bringing in high calibre graduates who can integrate practical skills with higher-level knowledge. **We welcome the current pilots for Apprenticeships in veterinary nursing and countryside management. We encourage DFES to support and fund the introduction of Graduate Apprenticeships in farming, horticulture and land (including woodland) management.**

The current Vocational Training Scheme, within the Government's England Rural Development Programme, provides much-needed funding for training and as such is welcome. However, we do not believe that it is operating as effectively as it might. The rules and procedures for accessing funding are too complex, and **we would encourage DEFRA to simplify the administration of the VTS as far as is possible within EU rules. It should also be better integrated into the environmental management aspects of the ERDP.**

Integrating training and advice

Training is most effective when it is tailored to a farmer's overall plans for redirecting and developing his or her farm business. One way of achieving this would be to integrate a training needs assessment into the farm advisory service described below. We commend the integration of Farming Connect in Wales as a model for this assessment.

Developing standards in universities and colleges

The agricultural further education sector needs to be flexible and responsive, working effectively with farmers by focusing on their skills needs at both local and sectoral level. Universities and colleges need to respond to change to give farmers and young people the enhanced training they need. The current network of agricultural colleges needs a radical overhaul, and would benefit from rationalisation and specialisation.

The recent Government investment in further education colleges provides an opportunity to do this. £100 million per year for three years has been dedicated to establishing Centres of Vocational Excellence (COVES). Two leading agricultural colleges (Bishop Burton and Sparsholt) have already achieved cove status in two areas. Other institutions should build on their good

work. Universities and agricultural colleges should be fully involved in the Centres of Vocational Excellence programme. LANTRA and DEFRA should review agricultural education in full. Every institution should aim to develop at least one COVE by 2004.

We also recommend that universities and colleges in general provide a much broader range of learning opportunities, including distance learning courses and modular courses, with a particular focus on continuing education. They need to regain the position they once had in the farming community — as rural centres for sharing best practice.

BETTER BUSINESS ADVICE

As we have said throughout the report — on research and technology transfer, demonstration farms, agri-environment schemes, marketing, local food, diversification, training — we believe a strong coordinated drive on farm business advice is crucial for a successful transition to a farming and food industry fit for the 21st century.

We do not think that the current approach to farm advisory services meets the needs of farmers now, or will adequately prepare the industry for the challenges and opportunities of a reformed CAP. The lack of advice and facilitation is also hampering effective delivery of the Government's environmental and rural development objectives. We set out below our medium term goal of an integrated farm advisory service, and the steps Government can take now to improve current delivery.

The principal Government advice services are the Farm Business Advice Service (FBAS), which is delivered through the DTI Small Business Service, and the Rural Development Service, which is run by DEFRA. In addition, there are numerous other providers of information and advice in the public, private and voluntary sectors. These services are often fragmented and of variable quality. They duplicate effort and rarely consider the whole farm business. We heard repeatedly during consultation that farmers find the situation confusing. It is not clear whom to contact for help, particularly to access funding designed to help farm businesses adapt to change.

The Countryside Agency's **Land Management Initiatives** (LMIs) are testing how more sustainable land management can be achieved in a range of farming systems. The lessons will be used to inform land management policy and practice.

Projects are developed locally, in partnership with farmers, local communities and other interest groups, and aim to explore novel approaches to the problems and challenges facing their areas.

— Countryside Agency 2002

The Upland Experiment drew together a wide range of interested parties at a regional level in two MAFF projects, the **Bowland Forest** (Lancs.) and **Bodmin Moor** (Cornwall). These were aimed at helping local farmers to develop environmental features on their land, to use land for environmentally-sensitive production, to develop business and management skills, to create links to other projects and to diversify into leisure and accommodation.

— DEFRA 2002

We were impressed by the good pro-active work done by the Countryside Agency's Land Management Initiatives, and the Bowland Forest and Bodmin Moor pilot projects, in delivering integrated advice and facilitation through building partnerships with farmers. **We recommend that the results of these initiatives be thoroughly and rapidly evaluated by DEFRA, together with the outputs of FBAS, using the lessons learned to inform a full and open review of farm advice services and priorities for action.**

We believe the integration, scope and reach of Farming Connect in Wales provides a model worth adapting for supporting farmers in England. By 2006, we would like to see a national farm advice service built on three core elements: an integrated and co-ordinated network of farm advice and training providers from the public, private and voluntary sectors; a free farm advice, facilitation and training service targeted to delivering Government farming and environmental policy priorities; and accredited advisers who are able to deliver a high-quality tailored service to farmers.

However, we realise that developing and delivering this service will require a substantial increase in Government funding. We accept that this will be difficult until the over restrictive RDR rules are changed and Member States can use RDR funds for advice and facilitation. We expect the UK to press strongly for much greater flexibility on the use of RDR funds at the Mid-Term Review.

In the meantime, we should not delay in improving existing services. We believe it is possible to increase accessibility, integration and quality of advice at relatively low cost over the next three years. **We propose setting up a Farming Adviceline to signpost farmers to the best advice currently available.** This telephone and website service would act as both a universal 'front-end' to existing Government-sponsored advice — coordinating the services of RDS, FBAS and agencies — and a gateway to the advisory functions of other bodies such as the Farming and Wildlife Advisory Group (FWAG, a charity) or ADAS (a private consultancy). **We would also recommend that the Adviceline provides simple administrative information and advice on regulations and other Government requirements. It needs to be tied in with the new web-based structure we recommend for co-ordinating guidance on Government regulations.**

There is considerable scope to improve the efficiency of existing services and structures, especially at a local and regional level. We recommend that DEFRA Regional Offices lead in coordinating all the organisations currently providing farm advisory services in their region. We would advise that this effort is linked to our proposed network of demonstration farms in each region, to make sure advice is practically grounded.

To ensure that farmers receive high quality advice they can trust and is value for money, we believe all publicly-funded advisers should be accredited. There are various options for quality control, but a useful starting point is the LANTRA professional register, used to accredit Farming Connect advisers. **Training is also needed to develop advisers' all-round skills and knowledge.** We do not expect them to be experts in everything, but to have a good grasp of the operation of a farm business; environmental management; the needs of the farmer, his family and workforce; and the range of schemes/funds available from Government and its agencies.

To help farmers plan for the future, we recommend those joining the new entry-level agri-environment scheme outlined in the next chapter should receive three free days of advice from a local accredited adviser. This should cover basic business and environmental advice and feed into the whole farm action plan, as outlined in the next chapter. To get maximum value from the sessions, the farmer would be required to complete a preliminary business and environmental check to form the basis of discussion with the adviser.

The advice sessions could bring additional benefits such as a farmer gaining early 'approval' from the adviser for applications to Government-funded schemes, capital allowances for environmental pollution control (see p. 89), or training courses or events at a local demonstration farm (see p. 29). This delegated 'approval' system would provide some measure of quality control on applications, assist in fast-tracking farmers through the system, and help integrate applications to the various Government schemes at national and regional level.

In addition, as an initial contribution to developing knowledge, skills and cooperative working, every farmer should receive a £250 training credit annually

Those of you that are already familiar with the scheme will be aware of the complexity of the scheme rules and the fact that it would be impossible to cover every aspect in guidance.

— introduction to a DEFRA guidance note on the EU Producer Organisation (Fresh Fruit and Vegetables) Scheme. 2001

for the next three years. This credit would be redeemable at a list of approved advisers, training courses or demonstration farm events and services (kept by the Adviceline and DEFRA regional offices) and be spent either individually or together with a group to accrue additional benefit, for example by participating in collaborative activity. We regard it as essential that all farmers that want and need it receive some advice and support to help them through the changes that are to come.

NEW INDUSTRY, NEW STRUCTURE

In this chapter, we have described how the farming industry in particular is going to need to reinvent itself to stay competitive and prosperous as subsidies decline. The industry will have to be dynamic. It will have to be multifunctional. To stay in profit it will need to change tack swiftly in response to developments in the marketplace.

We think that as this shift happens the industry may want to look again at its support structures and trade associations, to see whether they too are reflecting a changing world. **We have heard occasional talk of a confederation of British agriculture, and think that the idea is worth exploring.**

There is a proliferation of trade associations in farming. It is good that all sectors should have their champions, but sometimes the only effect is to add costs and dilute influence. Efforts should be made towards mergers and rationalisation where possible. Among the industry levy bodies, different structures have been set up under different sorts of primary legislation, in some cases reflecting the needs and ambitions of a very different era. The cost in supporting these organisations is high and mergers should be considered. **Government should take an active role, working with the industry, in reviewing the full range of industry bodies, to make sure that they are modern and in tune with the industry's new ethos.**

In this context, we welcome the creation of DEFRA. Its broader remit will allow it to think of farming, as it should, in terms of a multi-functional industry, taking into account the wider context such as environmental sustainability and the rural economy. DEFRA must now go on and examine each one of its agencies and public

DEFRA has over 50 bodies and 11 tribunals working in the food and farming sector, including:

The Consumers' Committee for Great Britain under the Agricultural Marketing Act 1958;
The Apple and Pear Research Council;
The Agricultural Wages Board (England and Wales) and the Agricultural Wages Committee (England);
The Committee on Agricultural Valuation;
several Agricultural Dwelling-House Advisory Committees;
The Pesticides Safety Directorate, the Pesticides Residues Committee, and the Advisory Committee on Pesticides;
The Horticultural Development Council, the Covent Garden Market Authority and Horticultural Research International.

bodies, to ensure that their objectives are in line with the new Department's.

* * *

In the next chapter, we consider one of the farmer's greatest assets and a potentially important source of future income — the environment.

This chapter discusses the food and farming industry's environmental responsibilities, and in particular the special role of farming as steward of the countryside. Action on this is vital to regaining public confidence in the industry, and in building values around English food. The chapter:

- *outlines the environmental degradation that the countryside has seen over the last 50 years, as farming practices and the familiar English landscape have diverged;*
- *sets out the priorities for action to reverse this;*
- *explains how the CAP has made things worse, and the environmental reasons for reforming it as soon as possible;*
- *sets out the tools and flexibilities, including 'modulation', available in the meantime to start to address the industry's environmental problems;*
- *proposes a new mechanism, the whole farm plan and audit, for delivering business and environmental support to farmers and ultimately helping them to comply with regulation;*
- *proposes a new entry-level stewardship scheme to get more land managers involved with environmental protection and deliver benefits at landscape level;*
- *discusses the role of technology, good and bad;*
- *discusses the environmental effects of the wider food chain, including waste, and pollution from transport.*

THE LAST CHAPTER argued that the farming and food industry is on an unsustainable course in economic terms. We believe it is also unsustainable environmentally — without substantial change.

Farming and food production have got to be reconnected with the countryside.

This may seem like an odd thing to say. Over three-quarters of the landmass of England is still a farmed landscape. The English countryside was largely created by farming.

But in the last 50 years a lot of that countryside's diversity and character has gone. Two thirds of England's hedgerows were lost between the 1950s and the 1990s.

Once familiar farmland wildlife has experienced serious decline. Other changes are no less serious if not so easily noticed. Soil organic content has declined and phosphorus levels in topsoils have increased. Agriculture is now the number one polluter of water in the country. Land use changes have contributed to increased danger of extreme flood events, affecting thousands of homes.

Beyond any doubt the main cause of this decay has been the rise of modern, often more intensive, farming techniques. Agriculture was once environmentally benign, and a healthy and attractive countryside was a relatively cost-free by-product. The practices that delivered this benefit for society are often not now economic. Farming practice and the familiar English landscape have diverged.

The CAP has been widening that gap through raising commodity prices above those provided by world markets. The result has been overproduction and a discounting of the environmental damage this causes.

The damage is real and brings real costs. Much of the bill for this is picked up by the public at large, for example through increased water bills (paying for the costs of removing pesticides, nutrients and pathogens) or higher insurance premia (paying for increased flood risk). One way or another, we all pay for damage to the basic resources on which we depend.

There has been some stabilisation in the countryside's environmental problems in the last ten years, showing that current malign trends could be reversed.

But things are still getting worse on some indicators: in soil compaction and erosion, in the loss of certain species. There is evidence, too, that where some declining trends are being stabilised, it is at too low a level. For example, even when loss of a habitat is halted, significant habitat recreation may be needed to get back to a sustainable state.

In a small island, a rich and varied countryside is a precious resource for us all — including those who are not privileged to live there. An antidote to busy modern life. A place for Sunday walks; a chance to 'recharge the batteries' surrounded by nature.

In 2000, agriculture accounted for 27% of serious and significant water pollution incidents — the largest single source. This compares with 17% caused by the water and sewage industries themselves.

— Environment Agency

Phosphate from manure and fertilisers leaches into rivers and lakes. This, together with phosphate in sediment from soil erosion, causes excessive algal growth in up to 200 freshwaters each year. High nitrate concentrations in rivers, lakes and groundwater mean that some drinking water supplies cannot be used without additional pre-treatment or blending. The amount of nitrate in rivers in England and Wales rose by 11% between 1995 and 2000.

— Environment Agency & National Rivers Authority 2001

Almost all species of bumblebee have shown a marked decline in the UK since the 1960s. Of three species where specific research has been done, one is now considered to be extinct in the UK, and one other is in severe decline.

— English Nature 2001

UK residents made 33m overnight trips to the countryside in 2000. While there, they spent over £4bn. Tourism supports 380,000 jobs in England's rural areas.

— ETC 2001

It is a central part of our cultural heritage. In a 1996 Gallup survey, the British countryside was rated as the second best thing about living in this country, after freedom of speech.

People made an estimated 1¼ billion day-trips to the English countryside in 1998.

This drawing power also means the rural environment is valuable not just for its own sake. It is the biggest competitive advantage for the rural economy — a proven key factor in companies' decisions to relocate in rural areas. A flourishing countryside is the sustainer of rural tourism. Research by the National Trust has shown that 40% of all employment in tourism depends directly on a high quality environment, while in rural areas this rises to between 60% and 80%. The experience of Foot and Mouth Disease underlined the strong nexus of links here.

For farmers too the countryside ought to be a valuable potential part of their brand, and an earning opportunity through diversification into their own farm tourist businesses.

But at present the environment is too often not a selling point but a sore point for farmers, contributing to consumer distrust and a bad image.

WHO IS TO BLAME?

A lot of the environmental damage in the countryside over the last 50 years has to be laid at the door of modern farming techniques. But this does not mean it has been farmers' fault. In ramping up production after the war farmers were responding to public policy signals that this was what the country wanted. It is deeply unfair that they should now be vilified for doing what until a very few years ago was regarded as a public service, and which is still rewarded by the state through subsidy payments.

Farming created the English landscape. The difficulty is that the sort of farming practices that produced it are often not commercial any more. Farmers used to provide these valued outputs for free as a by-product of an economic activity. That activity now does not pay.

This in a nutshell is the case for public support for the provision of environmental public goods: these things are cherished and valued — sometimes are necessities of life — but the market will not always now deliver on its own. We go on to develop this case below. Again, it seems arbitrary and unfair to blame farmers because the survival of their businesses means they cannot go on providing these benefits indefinitely at their own cost.

One of the strongest messages to emerge from the Commission's regional meetings was that farmers felt they had lost their sense of purpose. We look to Ministers, including the Prime Minister, to make clear in public statements that farmers should not be blamed for the environmental damage of the last 50 years. This should help raise morale by showing that their contribution is recognised. **The Government should make a clear statement of its support for farming as sustainer of the rural environment as well as food producer, and properly reward the industry for its role in managing the countryside. It should make clear the key role of farming in delivering our vision.** At the same time, the farming industry must embrace its role as a land manager alongside its role as producer of food, and not see this as unworthy — or unmanly.

WHAT WE WANT

Our aim must be to break from the present situation to a world where a healthy and attractive environment is respected and fostered by farming and food production again.

That is a big ambition. It means protecting basic natural resources of soil, water and air from further damage through sustainable land management practices. It means retaining local and regional landscape distinctiveness. We need to protect the remaining islands of more natural habitat. We need to reverse the decline of once common and familiar farmland wildlife and plants.

All of these are testing objectives. Moreover, we want these benefits to some degree across the countryside at large. We do not believe that many would want to see a polarised countryside, with some areas zoned for intensive production while others are turned over to environmental theme parks. EU legislation on birds,

I, like many other rural dwellers, expect the countryside to be clean, healthy and safe. [A place] which can be visited by people who understand and respect where we live and work, and leave it in the same condition as they find it.

We should expect a welcoming countryside, where landowners and managers recognise the benefits of the public enjoying the land for quiet recreation.

— two comments from our consultation responses

habitats and water, to which the UK has already signed up, will anyway require a response across a broad area.

It will be necessary to prioritise. Some landscapes because of their special value deserve special treatment, while for others a less prescriptive approach will be appropriate.

But we are not prepared to write off the rural environment in any area of the country. We believe that, properly rewarded and incentivised, farming can deliver a more varied and attractive countryside everywhere. In doing so, we believe, it will strengthen not weaken its long-term economic position and provide a lasting public good for its neighbours and stakeholders.

HOW DO WE DELIVER?

Turning the present perverse situation round will still, though, need a major effort, using all the tools available to us.

The market has a big part to play. We believe there are consumers who would be prepared to pay more for food produced to high environmental standards. We believe, too, that their numbers are steadily growing as rising real incomes mean many people — though by no means all — can afford to be more choosy. We believe the growth of the organic market to a point where the term ‘niche’ surely no longer applies shows that there is scope for this. It ought to be possible for some producers at least to earn a return from the market for good practice. On pages 40 and later we offered recommendations for how this could be encouraged and developed, through assurance schemes and marketing.

There is a lot of potential here to be unlocked, and there will often be a direct business case for good environmental management. However, we are realistic about how far this can be taken. As we have seen, price remains the dominant factor for many consumers. Even where practices would command a premium if consumers made the link, that can sometimes be difficult to communicate in a simple way, on a small label, to an urban population! We accept that there are some environmental goods which will always be underprovided if left to the market.

Regulation is a key tool in setting baseline standards for the industry. As we have seen, there are already in place significant EU Directives on water, waste, nitrates and Integrated Pollution Control which will require significant changes to farming practice over the next 5 to 10 years. But where compliance has to be laid down and monitored over an area as large as 75% of the landmass of the country, a regulatory regime needs to work alongside other, complementary tools, such as the whole farm plan and audit we recommend below. With regulatory and tax options one has also to consider the farming industry's financial position and its capacity to fund compliance unassisted, particularly as it begins to adjust to a life without production subsidies. The Directives already due to come into force over the next decade, on nitrates, waste and water in particular, will by themselves mean substantial costs for some farms. It is essential to understand the challenge this will pose to the industry, alongside the environmental improvements that will result. We were surprised and disappointed to see that more work had not been done in this area. **We recommend that Government develop and publish a strategy for implementing forthcoming environmental Directives. Besides describing how progress on meeting each Directive's environmental objectives is to be achieved, monitored and reported on, the strategy should include a regulatory impact assessment based on cost-benefit analysis covering the impact on farms. It should look forward over the next ten years. An initial assessment should be made available within a year, and should be updated annually thereafter.**

It is clear that farming is going to have to meet the basic standards set out within the environmental Directives, and this should be incorporated in long-term farming strategies. Cost-benefit information is essential if there is to be an informed debate, both about the development of the industry under the Directives, and about the evolution of environmental legislation.

We believe that targeting and risk assessment could form part of the answer here, and we put forward some ideas of how this might be done later in the chapter through the maintenance of a whole farm plan and audit. Once again, advice is undoubtedly part of the answer. Much damage by farmers is not wilful but arises out of ignorance. Advice can guide land managers to simple changes in practice which benefit the environment at negligible cost — or even profit —

to the farm. We believe a major advice effort will be needed in any case to help farming meet its new challenges. It will be very important that advice should also cover environmental issues.

If society wants environmental benefits (and we believe it does) which cannot be delivered by the market on its own then farmers should be rewarded from the public purse for providing them. We believe there is a strong case for such payments to create a market for environmental public goods, and that, if results can be properly demonstrated, taxpayers will be willing to support them into the future. Unlike the present production subsidies they would not be a bail-out, but a transaction, for which the taxpayer would receive good value for money. **We urge the Government to ensure in the forthcoming trade round that payments of this kind are not struck down by WTO rules. We believe that they will be a key tool in rural development policy.**

We put forward recommendations below for a positive payments scheme which would lever out maximum benefit while not drowning farmers in red tape or drawing the taxpayer into an unjustified commitment. Resources currently channelled through the CAP have to be refocused on public goods. Instead of paying farmers in a way that encourages them to hit the land hard, we should pay them to look after it. For both commercial and environmental reasons, the current system of CAP subsidies needs major reform, if we are to get the industry back on to a sustainable path.

REFORMING THE CAP

We rehearsed in chapter 3 the economic and financial arguments for reform of the CAP. They are strong enough, but the environmental arguments for the same changes are overwhelming.

CAP payments as they stand are still in some areas encouraging damaging practices, such as overgrazing in hill areas and inappropriate rotations on arable land.

These subsidies and the market price supports which are still encouraging overproduction must go — and as soon as possible. For as long as they continue to exist, they should be decoupled — payments should not depend on production. Their perverse effects

should be minimised by requiring farmers to meet minimum environmental standards to qualify for payment, known in the jargon as ‘cross-compliance’.

As production subsidies decline, the Government’s objective should be instead to secure a progressive transfer of resources in Europe towards wider social and environmental objectives under the so-called Pillar II of the CAP. Public funds should be refocused on public goods, rather than subsidising overproduction. While we believe that a proportion of the funds freed up in this way should go to rural development measures, we want to see the Community’s budget for environmental programmes in the countryside substantially increased, helping to encourage best practice and pay for environmental benefits which the market will not provide.

We expect the effect of reducing existing CAP payments to be positive environmentally. But if the result of CAP reform in some sectors is an increased drive towards intensification, bringing different kinds of environmental problems or accentuating existing ones, then increasing Pillar II funding will mean resources are available to deal with that.

In chapter 3 (p. 22) we said that we believe the Government must negotiate a fairer share of the RDR budget for the UK and one which better reflects the size and value of our countryside. That the UK’s share is currently only 3.5% is scandalous.

ACTION IN THE MEANTIME

Our goals, then, for CAP reform are to transfer public support from direct payments to environmental and other public goods, and for as long as direct payments continue, for them to be decoupled and cross-complied.

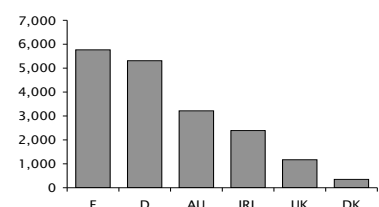
However, we do not have to wait for serious CAP reform to begin to improve the industry’s environmental performance. Two other policy opportunities are available now.

One is modest though still worthwhile. The other would make a really substantial difference. They are called, in the jargon of EU agriculture policy, the national sheep envelope; and modulation.

Behind the face of scenic beauty the English uplands are suffering from major environmental degradation as a direct consequence of CAP livestock subsidies. More than ¼m ha of England’s Sites of Special Scientific Interest are being damaged by overgrazing and over-intensive sheep management.

Support payments for sheep and cattle under the CAP are paid on a headage basis, meaning that the more animals a farmer keeps, the greater the subsidy he receives. The number of breeding ewes in the uplands increased by around 35% between 1980 and 2000.

— English Nature 2001



RDR allocations in six EU Member States (€m, total for 2000-2007)

A national 'envelope' for sheep was introduced in December 2001. This allocates specific sums to Member States within the sheep-meat regime that they can spend within broad guidelines at their own discretion. The sheep envelope is currently worth about €1 per sheep for England (about £5.3m in total). The sheep annual premium rate is €21 per head.

— DEFRA 2002

Shifting the balance of incentives

The national sheep envelope offers possibilities for action on the shortest time frame.

We welcome the principle of the sheep envelope as a precedent for creating flexibility within existing CAP payment schemes to pursue more sustainable objectives. We would like to see the Government press for similar flexibility within the current beef envelope.

Rather than being paid to farmers on a headage basis, which simply sends a signal to produce more animals regardless of the carrying capacity of the environment, we would like to see the Government use money in the sheep and beef envelopes in ways that actively encourage environmentally desirable behaviour.

There is scope to increase the size of the envelope by reducing sheep annual premium payments by €1 per animal. If the envelope is used for incentives for environmental management, we would encourage the Government to take advantage of this option as soon as possible, to maximise the envelope's beneficial effect.

Modulation

Modulation has already been discussed in chapter 3. Under CAP rules Member States are already permitted to reduce a proportion of direct production payments up to a maximum of 20% and transfer the resources freed up by this towards real public goods, under the Rural Development Regulation (RDR).

Direct payments are entirely financed from the EU budget. RDR measures are on average match-funded 50% and 50% by the EU and national governments. So Member States considering modulation have to find match funding from their own national budgets to claim the modulated receipts. But otherwise the use of this power is at their discretion.

The UK already is already 'modulating' to some extent the production support which farmers receive, although it is not doing so to anything like the maximum possible.

This year (2001-2) 2.5% of direct payments are being redirected in this way. The proportion will rise to 4.5% a year by 2006. This money, plus its match fund-

ing from the UK Exchequer, is helping to pay for the England Rural Development Programme.

Most of those who answered our consultation paper agreed that ultimately subsidy must be directed to public goods. When options are available now to redirect subsidy away from production incentives it is very hard to justify not using those to the maximum allowed.

The environmental argument for doing so is clear. It would weaken present perverse signals, and start to redirect resources to more legitimate cases for intervention. Extra resources are needed now to reverse environmental damage.

We believe there are also strong commercial arguments for modulation.

We would expect a proportion of the resources freed up by reducing production subsidies to be directed to restructuring aid for farming. We have in mind that modulation would enable the England Rural Development Programme to be expanded to allow it to pay for the strong new drive on business advice and knowledge transfer that we outlined in chapter 3. We recognise that this means that the EU rules on how modulated receipts can be spent will need to change, and we urge the Government to press for those amendments in the Mid-Term Review in 2002-3.

More generally, we think farmers can only gain in the long term from transferring resources away from incentivising over-production into enhancing the countryside and rural development. By improving farming's image in the UK and abroad, making it easier to attract new entrants, and assisting with the shift towards building value around English products, the environmental answer here is also an option that makes commercial sense.

Finally, further modulation would begin the process of dismantling the production support that — as we saw in the last chapter — is distorting markets and suppressing entrepreneurship.

We have listened carefully to respondents to our consultation who urged us to consider the short-term effect of modulation on farming incomes. This is a seri-

ERDP schemes are generally oversubscribed. The Countryside Stewardship agri-environment scheme has to reject about 20% of applications each year due to budget limitations.

— DEFRA 2002

ous issue, with incomes as low as they are on some farms.

We have also borne in mind the potential competitive disadvantages domestic producers might face in the short term, as they compete with unmodulated industries elsewhere in Europe.

We have tried to balance the medium-term advantages of modulation against the transitional problems this may cause for some farmers. Our recommendation is for a staged approach. We recommend that the Government should increase rates of modulation to 10% from 2004.

If substantial CAP reform is not delivered in 2006-07 we believe the Government should give serious consideration to a further increase in modulation at that point to the maximum 20%. Its judgement at the time should, however, take into account the prevailing sterling exchange rate, if the UK remains outside the euro area at that time, and what has happened to trends in commodity prices. These will continue to be the key factors in driving net farm incomes, outweighing any effects from modulation.

Planned UK modulation rates:

2001	—	2.5%
2002	—	3%
2003	—	3.5%
2004	—	3.5%
2005	—	4.5%
2006	—	4.5%

We have noted that EU law may prevent further modulation being applied in England alone (the present modulation is UK-wide). This Commission's remit extends to England only, but we feel bound to comment that the same arguments for further progress in this area must hold good in all the countries of the United Kingdom. We urge the devolved administrations and UK Government to go forward together on this.

We therefore recommend that the Government should, with its partner administrations in Scotland, Wales and Northern Ireland, modulate production subsidies, on a flat rate basis, at 10% from 2004 and use the resources made available by this to provide additional funding for the England Rural Development Programme and for its sister plans in the devolved administrations. Extensification premia should be left unmodulated in recognition of their positive environmental effect. We recommend that the Government should fully match fund the modulated resources at a rate of 100% from the Exchequer.

Modulation at 10% would free up significant new funds to support farmers in looking after the environment. In due course, as CAP reform takes place, we hope that more resources will come on stream for supporting good land management.

We have considered how these streams of funding could be best deployed to support sustainable farming; in particular whether existing schemes for encouraging good practice should be expanded or a new scheme devised.

Existing agri-environment schemes

The Government already runs schemes in England which pay land managers in return for the provision of environmental goods. These are the so-called agri-environment schemes. The text in the margin sets out the different RDR schemes and their existing expenditure.

These programmes, which are very intensive and for the most part specially tailored to the individual farms involved in them, have been effective in their purpose of enhancing and restoring special habitats and areas of environmental value. The stabilisation in some indicators of environmental damage over the last ten years has been due in large part to them.

We believe bespoke activities like these continue to have a role at the top end of the spectrum, for areas of special sensitivity.

However, existing schemes have got to be streamlined and simplified. The range of schemes that has developed over time is particularly diverse in the uplands, and many farmers are confused over the different programmes and their objectives. If we were designing a system afresh we would not start from here.

The schemes also undoubtedly need a stronger efficiency drive. At present transaction costs for some schemes are equivalent to almost 25% of the total programme spend.

Some of this is understandable. These schemes are targeted at sites of special environmental interest. What they are trying to do — for example, recreating or restoring a habitat — is a complex business. So the schemes necessarily involve extended site visits and

Estimated RDR grant funding in England for 2001-2 was £189.4m. The majority of that sum is divided between two large schemes. The Countryside Stewardship Scheme is the larger (£51m), followed by the Environmentally Sensitive Areas scheme (£48m). The Hill Farm Allowance Scheme (£27m), the Organic Farming Scheme (£18m), and the Woodland Grant Scheme (£16.6m) take much of the rest. The remainder is divided into small schemes: the Farm Woodland Premium Scheme (£9m); the Rural Enterprise Scheme (£8.3m); the Energy Crops Scheme (£4m); the Processing and Marketing Grant (£4m); the Vocational Training Scheme (£2m) and the Organic Conversion Information Service (£1.5m).

— DEFRA 2001

intensive free advice and monitoring for the farmers involved. Because of their very specific nature they frequently also require modification, all of which takes time and money. However, the Government needs to find ways, without adversely affecting their outputs, of bearing down on the overheads involved with the schemes for the public purse and farmer alike. **DEFRA should bring in management consultants to look at planned investment in IT, and whether enough is being done to deliver simplified application procedures and to reduce stewardship scheme administration costs.**

Schemes like the existing stewardship programmes are probably the best way to target specific, tailored prescriptions at particular areas of special value. But because of their inevitably high overheads they would be a very expensive way of handling a bigger throughput of spend.

In deciding on priorities for the funding freed up by modulation, we believe the case is strong for a more broadly based approach, which as it rolls out will get much larger numbers of land managers involved, and which can encourage good environmental practice across a much wider area than those habitats and designated parts of the countryside that current schemes embrace. There are pressing environmental problems in the countryside, and some of them — poor water quality, general loss or degradation of landscape features and archaeological sites, loss of species like the brown hare in western England, the skylark everywhere and the cornflower almost to the point of extinction — will not be solved by protecting isolated islands of countryside.

We believe a broader-based approach is environmentally right, but also fairer to the taxpayers who will be funding solutions. Benefits will be visible around where the majority live, not just in the highspots. We also think it is important that more producers who are losing subsidy payments as a result of modulation should have the opportunity to apply to earn a proportion of them back as part of a stewardship scheme.

A new approach

The Government is beginning a review of agri-environment schemes. This review needs to take a fundamental look and not confine itself to marginal changes.

We believe that the existing suite of schemes should be rationalised to become the upper tiers of a single new stewardship scheme, and should at least retain their current level of funding.

In due course we believe it would be sensible to roll other land management grants into these higher tiers, to simplify administration and participation for land managers, and to make for maximum flexibility in pursuing overlapping objectives. We have in mind particularly those related to flood management and woodlands such as the Farm Woodland Premium Scheme,

Below the existing stewardship tiers we believe there should be a new, basic, 'entry level' tier, aimed potentially at all land managers and not just at a few special target zones. We believe that the different circumstances of upland areas will continue to demand a specialised approach, but that otherwise we should be aiming for a scheme which with varying prescriptions could ultimately involve all farm sectors, and farming regions, in England.

We think a more broad-based, entry-level stewardship tier is the right approach to environmental improvement at the landscape scale. But casting the net over a wider area in this way does have implications for the way the scheme is run.

The new entry level tier needs to be much simpler and less expensive to operate than existing programmes. It can have lower payment rates reflecting its less demanding prescriptions.

It needs a simpler set of targets so that Government can set and monitor its requirements without a huge bureaucracy. There needs to be flexibility over precise implementation so that farmers can fit these prescriptions to their circumstances on the ground.

Compliance ideally would be measurable remotely as far as possible reducing the need for inspections. As satellite technology becomes available this should be used where it is cost-effective as a means of reducing time-consuming site visits. There must be the lightest touch in compliance monitoring consistent with EU rules on the audit of modulated money.

We should avoid a competitive process which while giving some security on value for money is inappro-

appropriate for a scheme aimed at mass take-up, and which raises the cost of applying for farmers and of administration for Government.

Unlike the present schemes, which sometimes focus on just part of a farm, for simplicity a broad and shallow tier like this has got to be whole-farm based.

Whole farm plans and audit

The broad and shallow scheme should be targeted on paying farmers for positive management over and above their legal obligations. But it needs to be tied in with action to meet those legal obligations, and planning must be done in a consistent manner for both.

Entry to the basic stewardship tier should be linked to the preparation of a whole farm environmental plan and audit, for which a one-off payment should be made.

The resulting farm map and plan should provide the basis for agreement on how the prescriptions within the basic tier of stewardship could be applied on that farm.

The audit should cover natural resource protection as well as conservation issues. It should examine the farm against existing and forthcoming legislative requirements. It should be a way of helping farmers identify and plan for the changes they will need to make to meet forthcoming environmental legislation on resource protection such as the EU waste, nitrate and Water Framework Directives.

By identifying gaps in compliance we would hope that audits on this model could reduce the burden of regulation for the industry. The information they provide should permit the Environment Agency as regulator to take an approach based on risk assessment. Regulators could focus effort on working with farmers whose audit showed they were likely to have difficulties complying with the law — leaving the rest as far as possible to get on with it. Since we have said that the audit should assess the farm against both minimum required standards and new environmental opportunities, farmers who can show that they have already completed one or both elements of the audit would not need to repeat the exercise. For example, farmers could demonstrate that they have met minimum requirements through membership of an assurance scheme

that ensures consistent baseline environmental standards. Possession of an accredited conservation management plan, covering the same issues as the audit, could replace that part of the exercise that deals with opportunities for further environmental improvement.

The current agricultural support system relies on annual Integrated Administration and Control System (IACS) returns compiled by most farmers to provide the baseline information that it needs to make CAP payments. A new whole-farm audit and plan should be grafted on to this existing system where it applies to minimise the need for new procedures. IACS will need to be paired with Geographical Information System (GIS) capacity to fit it for this role. Many elements of the plan would be consistent year on year, minimising the annual burden on farmers of maintaining it.

Given the potential of the audit to help farmers meet their existing and forthcoming legal requirements, the audit programme should be rolled out as soon as possible. Its roll-out should not be restricted only to those involved in or immediately intending to enter the stewardship scheme. The aim should be to provide all farmers with basic information about their environmental obligations and opportunities. This would help build up a better picture of the environmental assets and compliance gaps across the country as a whole and could signpost farmers not in schemes to participate to their advantage. In particular there is a case for rolling audits out as soon as feasible to the intensive pig and poultry sectors, where there have been significant resource pollution problems in the past.

Payments for positive management

For farms who pass through the audit and into the new basic tier of stewardship, we believe rewards should be available annually, calculated on a flat basis per hectare, making the system easy to operate and understand. Payment rates should be set to cover farmers' costs and deliver an incentive to participate in the scheme over other alternative land uses. So long as this did not make the scheme too complex, different rates could be payable to different regions and sectors, to bring a measure of targeting into the system, and reflecting that farmers' costs of entering the scheme will not be the same for all prescriptions across all areas of the country.

Work by the Game Conservancy Trust at Loddington has shown that changes to the management of field margins and setaside land can bring back a significant amount of lost biodiversity to arable land without negative impact on profitable agricultural performance or good management. Songbird abundance on their test sites is now twice that on neighbouring farms and brown hare numbers have increased tenfold.

— Game Conservancy Trust
2001

In return land managers would have to engage for at least five years in a menu of simple but effective environmental management practices across the farm. As a general condition of receiving support under the scheme, recipients would be expected to implement good practice, such as that set out in the Codes of Good Agricultural Practice, to prevent and control pollution. Participation in assurance schemes that include this good practice would provide a mechanism for farmers to demonstrate compliance with this condition. We have suggested elsewhere (p. 40) that the scope of the Red Tractor scheme should be expanded to cover such issues.

So far as the specific requirements of the scheme are concerned, the RSPB, English Nature, the Game Conservancy Trust have previously suggested prescriptions for lowland arable and livestock farms covering conservation issues. Subject to careful piloting and trial with land managers on the ground, we would support these as the right sort of level and type of requirement. We note that some of them will deliver both biodiversity and resource protection benefit.

For example, grass margins along field boundaries will act as buffer strips for watercourses, reducing diffuse chemical pollution and soil erosion. A higher proportion of non-cropped habitat will also improve the water resource function of the farm, and some options, such as changes to rotations, would also improve soil quality. We recognise that further resource protection measures will need to be developed. Where possible, these ought to be designed to deliver wider biodiversity and landscape benefits as well. Throughout, some flexibility will be required to reflect the different agronomic character and environmental potential of different areas.

Details of his or her chosen options would be marked up by the farmer on the map prepared as part of the whole farm audit. Using the existing IACS CAP payment system where it already applies would avoid the need for a separate set of documentation. Ideally monitoring and checking would then be carried out in the same way as IACS monitoring is now, with farmers largely self-regulating but with random visits to a proportion of farms and heavy penalties for those found to be failing to meet their requirements.

As well as delivering significant benefits and being straightforward to administer, we believe this sort of entry level approach would be appealing to farmers — as it must be to achieve significant levels of take-up. It would be designed to work alongside conventional farming practice. It would be open to all farmers subject only to the overall budget for the scheme, making it possible for them to earn back a proportion of the payments they lose through modulation.

The scheme would be backed by high quality advice and minimum bureaucracy. It would offer flexibility — the decision on how precisely to implement on the ground would lie with the farmer in consultation with the environment agencies. Farmers could plan ahead on a reasonably secure and easy to calculate income stream. Such a scheme would reward existing good management, responding to farmers' complaints that current stewardship schemes are biased against existing good performers by paying only for the creation or recreation of new features. Arable farmers who currently sometimes find it hard to get into stewardship schemes would have options specifically tailored to them, making it much easier for them to participate.

We recommend that the Government should increase the level of spending substantially on agri-environment schemes, through modulation in the short term, and Community-wide 'degression' of direct payments after 2006. Without endangering their outputs it should rationalise the existing agri-environment schemes and merge them to become the upper tiers of a new single stewardship scheme. The same scheme should in due course incorporate other existing land management grants, for example for woodland and flood protection.

The bulk of the new resources made available for agri-environment programmes by further modulation should be spent on a new, broad and shallow 'entry level' stewardship tier, open to as many farms in England as possible, and accessed through a whole farm plan. This tier must be kept as simple and easy to administer for farmer and Government as possible, with payment on a flat rate basis per hectare. There should be as light a touch in compliance monitoring as EU rules will permit.

Upland areas

While in principle we believe that the new broad and shallow 'entry level' stewardship tier should be available to as many farmers in England as possible, we also think that some special measures will need to be taken in the uplands. In recognition of their natural handicaps of adverse climate, lack of fertility, steep terrain and remoteness the Government has for many years paid additional headage payments for breeding livestock in these so-called 'Less Favoured Areas'.

The ERDP contained measures to replace Hill Livestock Compensatory Allowances with an area-based Hill Farm Allowance. It also increased spending in hill areas on other measures such as ESAs, Countryside Stewardship, and the Organic Farming conversion scheme.

In March 2001 the Task Force for the Hills reported and made many recommendations — both short-term and long-term — about agricultural, environmental and rural policy in the hills. That report went into far more detail about farming policy in the uplands than we can here. In principle, however, we support the main thrust behind the long-term policy measures that it proposed. In particular we agree with their proposal that:

the long term aim for Less Favoured Area support should be an integrated tiered payment scheme reflecting environmental and social benefits, actual costs of landscape, wildlife and access maintenance and the economic difficulties of traditional hill farming.

In addition we agree that

the payment basis for environmental schemes should reward the production of environmental outputs as well as reflecting agricultural income foregone,

although we have some reservations about the terminology of 'income foregone' which we address in the next section of this chapter.

In essence we believe that the existing Hill Farm Allowance funding along with receipts from modulation should be combined in upland areas to become a single 'broad and shallow scheme' for hill areas. Taking the two streams of funding together would produce higher payments in hill areas. As in the lowlands, the existing more bespoke schemes above the new tier would be rationalised into steps of a single

ladder, ascending through more demanding tiers that are increasingly aimed at particular areas, habitats and species. Upland areas will continue to be targets for these upper tier schemes because of their special environmental character.

Put together with changes to the sheep envelope (p. 75), and the exemption from modulation of extensification premia, this sort of approach should, we believe, provide the basis of a more structured and sustainable approach to farm support in the uplands. Another early priority for action is working out a sensible way forward on commons' management.

Other issues on environmental payments

In discussing our ideas on environmental payments in our meetings with stakeholders, we have encountered two more minor, but still important, issues that will need to be addressed if some farmers are not to be unnecessarily discouraged from becoming involved in countryside stewardship.

One issue that grates with farmers about the present schemes, and no doubt discourages take-up, is how the payment rates are calculated. Since schemes are supposed to reward good environmental management for its own sake farmers understandably dislike the notion that the rate paid for the job is affected by DEFRA's calculations of how much could have been earned on the relevant land in straight commercial farming — the "income foregone" principle.

In fact "income foregone" is not the only element used in calculating the rates — there is also an element for the farmers' costs involved with participating in the scheme.

In practice payment rates are always going to have to reflect to some extent what farmers could have earned from the land in other uses, as well as the costs of carrying out the agri-environment activities. This helps to ensure that schemes remain attractive to potential entrants while maximising the benefits to taxpayers from a limited budget. But payments do need to be reasonably stable, rather than fluctuating strongly in line with market prices and exchange rates. This is necessary both to provide farmers with a stable basis for business planning, and to reflect the more constant value of the environmental goods being provided. This could be achieved by introducing a floor below

which payments will not drop, at the start of the agreement period, following the successful precedent of the Guaranteed Set-Aside Scheme. We recommend the agri-environment programmes are given a measure of stability by fixing a floor at the start of the agreement period below which rates will not be allowed to drop for five years.

Talking about “income” or “profit foregone” is the wrong language to be using if the objective is to persuade farmers to see land management for environmental outputs as a worthy role in its own right. The Government needs to look for a different language which better reflects the fact that the provision of environmental public goods is not a substitute activity for something else.

Another issue raised with us by stakeholders about environmental schemes was the fact that the terms of their tenancies may sometimes prevent tenants taking part, or reaping a fair reward for their good management.

In chapter 3 we set out proposals for encouraging landlords to let Farm Business Tenancies on longer leases. These should make it easier for tenants to enter into long-term stewardship commitments.

Implementation issues

Implementing a new ‘broad and shallow’ scheme by 2004 when we have suggested further modulation should start is likely to present significant management challenges, particularly if take up rises quickly. The Government needs to ensure that DEFRA gets the necessary running cost resources to ensure that the scheme is administered smoothly and effectively. It needs to make the necessary investments in mapping technology and IT to make sure that administration is as efficient and as little burdensome as possible.

The operation of the new broad and shallow stewardship tier should be piloted across a range of sectors as soon as possible. Farming industry representatives and other land managers should be involved from the start in the design and implementation of the new scheme. The Government will need to consult widely on the resulting revision of the existing England Rural Development Programme.

Organic farmers have endeavoured for over fifty years to develop a system of farming which embodies sustainability in an environmental, social and economic context. In attempting to address the public's concern about issues such as animal welfare, biodiversity, rural employment and the links between the health of soil, plant, animal and man, the organic sector has stimulated a growing demand for its food.

The major retailers and food analysts predict that this trend will continue for the foreseeable future. At present, this increasing demand is being met to a large extent — up to 75% — by foreign imports as a consequence of supply limitations in the UK. Organic organisations are pressing the case for support for British organic farmers, to encourage more organic production domestically. They would like ongoing subsidy to match that available in some other Member States.

There is evidence that organic farming is good for biodiversity. It addresses many of the main causes of decline that conservationists have identified, such as the use of agro-chemicals, the loss of non-cropped habitats, specialisation and intensification, and the increase in autumn sowing. Reviews of the comparative studies on this subject have confirmed that higher levels of wildlife are generally supported, including some species that have significantly declined.

In view of these findings, we believe that ongoing public support for organic farming — targeted on its environmental benefits — is justified. We believe that the best approach would be for it to become a separate strand of our recommended new 'broad and shallow' environmental scheme. With ongoing payments there would need to be a reassessment of whether the conversion support that farmers currently receive was still appropriate. On this model, organic farmers would receive per hectare payments for the environmental benefits they deliver, alongside conventional farmers. Organic farmers would need their own set of prescriptions because the farming system is different, and prescriptions such as setting aside a percentage of land unsprayed do not make much sense in an organic context. We believe that organic farming would justify higher payments reflecting its holistic approach — increased biodiversity and many other environmental benefits are delivered across the whole

farm area. Organic farmers would be well placed to pass on into higher tiers of stewardship.

In the previous chapter, we made a number of recommendations about the ways in which farmers should collaborate through the supply chain, add value, improve standards, benchmark and have access to appropriate research and development. Similar initiatives are required in the organic sector. **We recommend the development of a strategy for organic food production, covering issues such as research, development, standards and marketing, and addressing all parts of the food chain in the same way as we have recommended for conventional supply chains. We would look to the new Food Chain Centre to lead this task in partnership with the Soil Association, the other organic associations and the Government.**

TECHNOLOGY AND THE ENVIRONMENT

Technology has been a major spur to changes in farming practice. Some technological change, such as the widespread and sometimes indiscriminate use of pesticides and fertilisers, has been damaging to the environment: those consequences were not at the time seen as relevant.

Given the right signals and drivers, however, technology can help protect and enhance the environment, and provide solutions for how to bring productivity and sustainability together. It will be very important to make sure that the environment is fully integrated into the new approach to commissioning and disseminating the results of strategic farming and food research and development described in chapter 3. **To assist and encourage the take-up by farmers of environmentally beneficial technologies we would like to see capital allowances offered on specified new environmental pollution control and monitoring equipment in agricultural use.**

Biotechnology

Biotechnology and genetic modification may in the longer term have the potential for good in agriculture, and so we are not prepared to rule them out. The Government should keep an open mind, await the outcome of the farm-scale evaluations and be guided by sound science and the precautionary principle. This is likely to be an issue where people will continue to take very different views.

We believe the AEBC is the right body for the task of helping the Government steer a course on this issue, and we fully support the recommendations of the AEBC in its recent report 'Crops on Trial'.

There is no mistaking the strength of consumer feeling on this topic at the moment. Public confidence in the regulatory approvals process is low. We believe this may be partly at least related to the fact that much GM research is currently privately funded. **We believe the Government may need to look at the balance of public and private research in this area, or at least do what it can to make sure that the outcome of all private research on GM is, and is seen to be, subject to the most rigorous peer review.** We make proposals elsewhere on how better to engage the public in discussion on emerging technology (p. 101).

The public wants choice, including the choice to have GM-free food, while some producers, such as organic farmers, depend on being able to guarantee that their products are GM-free. As things stand the public doubts whether that can be delivered, if a spread of GM crops is approved. We believe a new regulatory and monitoring approach is needed to ensure their wishes are respected. **To keep consumer choice open, we recommend that the Government considers how to manage this issue and comes forward with proposals to deal with the alternative scenarios alongside the publication of the findings of the Farm Scale Evaluations.**

Pesticides

We have already referred to the damage that past use of pesticides has caused to the environment. Many members of the public are also worried that they might have harmful effects on human health, particularly when in combinations untested for undesirable consequences (the cocktail effect, as it is known), and for young children.

That said, there is no doubt that the majority of our food will continue to be grown with the help of pesticides, at least for the foreseeable future. We believe that the UK's pesticide regulatory system is at the top end of international best practice.

It is undoubtedly in the public interest to minimise actual and potential negative consequences arising from the use of pesticides wherever possible and we are

The Agriculture and Environment Biotechnology Commission (AEBC) was set up in June 2000 to provide the UK Government with independent strategic advice on the ethical, social and economic implications of developments in biotechnology for agriculture and the environment. It works alongside the Human Genetics Commission and the Food Standards Agency, which retains responsibility for the safety of all food, including GM.

— AEBC 2000

The **Pesticides Voluntary Agreement** was developed by the farming and agro-chemical industries in response to the threat of a pesticides tax. It has three pillars:

- a survey of current pesticides practice and equipment, to identify areas for improvement;
- the adoption of Crop Management Plans; and
- the appointment of a Biodiversity Officer for the crop protection industry.

It is monitored by a steering group of industry and environmental groups.

— Crop Protection Association
2001

pleased to note that there has been some reduction in the amount of active ingredients used (though not in the land area sprayed) over the last ten years. We recommend that the Government maintains its strategy to reduce the risk from pesticide use, and that efforts to research and disseminate advice on systems and techniques such as Integrated Farm Management and organic farming, that reduce or avoid the need for pesticides, should continue to be a high priority for public research and technology transfer funding.

Training and advice to farmers will be critically important both to minimise usage and to ensure that the safest appropriate chemicals are used in a given situation. In this context we commend the final report of the Integrated Farm Management (IFM) Working Group *A New Way for Agriculture and the Countryside*.

We know and have sympathy for the farming industry's concerns about the proposed pesticide charge, even though this may appear to be the economically logical way to address this issue. But to command confidence as an alternative, the voluntary package put forward by the Crop Protection Association and the National Farmers' Union must be shown to be adequately addressing the challenge of further significant reduction in use and improvements in safe handling. In order to ensure the agreement's widespread adoption and to allow proper monitoring of its effectiveness, we recommend that the voluntary industry package of measures on pesticide use is embedded within the baseline 'Red Tractor' assurance scheme. Meanwhile, the case for a pesticides tax should be kept under continuous review, as at present. Ongoing attention should be given to the development of policy measures in other EU Member States, to ensure that the voluntary agreement is in line with standards elsewhere in Europe, as far as is appropriate in England's situation.

English growers of minor crops face particular challenges as a result of the drive to reduce pesticide use. We recommend that policies are put in place alongside existing off-label approval to ensure that growers of minor crops can continue to produce; and that if necessary pesticides should be permitted for minor crop use until viable alternatives become available. This progress could be helped considerably by genuine harmonisation of pesticides approvals in the EU for zones of similar climate. We urge that this is com-

pleted as soon as possible. At the same time for the industry as a whole, to protect the environment and in the interests of safety we recommend that older broad spectrum chemistry is replaced by newer, more selective, less persistent chemistry as soon as practically possible.

In the future, we hope that the use of technology will not be subject to the sort of sterile, polarised debate we have sometimes seen in the past. In chapter five, on p. 101, we recommend greater involvement of the public within the regulatory and decision-making structures that govern the uses of technology as they relate to farming, food and the environment. We recommend that the Advisory Committee on Pesticides should widen both its remit and representation to allow a broader, more inclusive and open approach to its important work.

THE FOOD CHAIN AND THE ENVIRONMENT

This chapter has focused on farming as the biggest environmental player in the food chain through its role as manager of the land. We expect the industry to take pride in demonstrating that it operates to high environmental standards. It is also the part of the chain where, because of the Government's ongoing involvement through subsidy, there are the most public policy levers at its disposal. However, there are also important environmental issues within the rest of the food chain.

One such issue is sometimes summarised as 'food miles'. With the growing centralisation of the food chain have come increases in movements of food, both within and between countries. The overall UK freight market has grown 65% in the last two decades with the average length of haul now 95 miles. Road haulage accounts for 7% of the UK's carbon dioxide emissions and according to DEFRA is the fastest growing source of greenhouse gases. Agriculture's contribution to that is shown in the margin.

Many of the impacts of food transportation are common to the transport of other products, and can only fully be dealt with by broader measures to internalise the externalities of transport, such as appropriate taxation regimes. These go beyond the remit of this report.

Agricultural and food freights on the road accounted for 30% of all road freight in 1999 — 47 billion tonne-kilometres.

— DEFRA 2002

In tracing the spread of Foot and Mouth Disease we found that sheep undertook multiple movements, involving up to eight journeys through dealers and markets, between farm of origin and finishing farm.

— Jim Scudamore, Chief
Veterinary Officer. 2001

Supermarkets alone generate about 200,000 tonnes of compostable material each year. Several projects have demonstrated the contractual and physical feasibility of collecting this waste for composting on farm and spreading as fertiliser. However, the overriding financial factor was that landfill was still cheaper.

— BIFFA/ORR/DEFRA 2001

But there is more that the industry could voluntarily do to raise its game on this issue. **There is a need for supermarkets to re-examine their supply routes in the light of concern over the environmental impact of food distribution and its effect on traffic congestion. Reducing the transport of animals to centralised slaughter plants has to be a special priority. We understand that at least one major retailer is already looking at this issue seriously and we urge the others to do so as a matter of urgency.**

Measures to promote better consumer awareness and encourage local food markets can play a valuable role in minimising food-related transport. We hope our proposals, on local food in chapter 3 and on labelling and buyer co-ops in chapter 5, will help to promote better awareness of the impacts of food miles, and to encourage consumers to buy more local food.

Waste management and recycling

Waste from food and its packaging is a big contributor to the UK's annual waste production. Packaging is added both by retailers and at food service sites (particularly fast food restaurants). Much of this is biodegradable and should, in a sustainable world, be returned to the land. Doing this, rather than tipping organic waste into landfill sites, or burning it, would enhance soil organic matter and fertility.

However, the problems of getting this to happen are legion. We need to sort compostable waste in the home, arrange separate collection, have sites and equipment available for composting and then work with producers to complete the cycle to the land. Sewage sludge, although easier to handle, has particular contamination problems in many areas which may render it unsuitable for land spreading.

We believe that there may be insufficient financial incentive for green waste recycling. **We think that Government is right to keep the rate of landfill tax under review, and to consider higher rates if that is necessary to accelerate progress.**

Similarly, it is in society's long-term interest for sewage sludge contamination to be minimised by investment to ensure that industrial contaminants are kept out of domestic sewage and to develop treatment methodolo-

gies to prevent soil contamination by either microbes or heavy metals.

THE ENVIRONMENT AND COMPETITIVENESS

In this and the last chapter we have tried to show how competitiveness and sustainability are entwined in the farming and the food chain.

Farmers in particular need to see the environment and their responsibilities as land managers not as a threat but as a business opportunity.

For many farmers the environment will be part of their brand, presenting direct marketing opportunities. Even where the commercial benefits are not so direct, a sound environment will be part of a strong image for English farmers that it would be dangerous to lose. Higher standards on waste and targets on global warming may bring new markets as well as new requirements for farmers. We have not begun to exhaust the potential for high-quality green tourism. A healthy environment and in particular a sustainable soil structure are also the foundation for future land managers and indeed the source of food for the societies of the future. Maintaining our basic ability to produce food if required is vital.

We cannot pretend that there will not be costs in looking after the environment which farmers cannot recoup from the market directly. Some of these costs the industry will have to bear just as other industries do as a condition of being in business. For other public goods, the Government will have to step in and create a market — hence our recommendation for a much broader stewardship scheme. The industry needs to bring the same entrepreneurial skills and efficiency to this market as we hope it will show elsewhere.

As well as reconnecting the farming and food industry with its market and with the environment, this report argues that public policy on food and farming must take account of its connection with the health of the population, and of consumers' perceptions and concerns.

The chapter:

- explains why consumers feel disconnected and concerned about how their food is produced;*
- says what the industry and public bodies need to do to address these concerns where the facts are clear, and — where they are not — to involve consumers in debate;*
- explains that at the same time consumers are not always taking the interest they should in the nutritional quality of their diet;*
- calls for a nutritional strategy to tackle this by raising awareness and helping provide access to affordable healthy food, where access is the problem.*

IN CHAPTER 3 we talked about reconnecting farming with the food chain and with its market. But as well as aiming to become a strong, competitive business, farming supplies a range of other public goods to the whole of society. In the last chapter we talked about reconnecting farming with the countryside to enable it to produce the environmental goods that we increasingly value. This chapter is about the people at the far end of the chain who consume the goods that the farming and food industry produces: about their perceptions, their role in the market, and the impact of food on their health.

Perceptions

The public have become increasingly concerned about the food they eat. For many years, surveys have shown a remarkably consistent set of concerns: the use of pesticides and fertilisers, animal welfare and feeding practices, and the use of antibiotics.

Anxieties are stoked up every time there is a crisis, and each new disease or problem adds to the perception that our food is no longer safe. In addition, the public is very wary of developments in science and technology, believing in many cases that they are being asked to carry risks that benefit only the industry.

One of the characteristics of a successful market is that it is finely attuned to its customers. For understandable reasons and because of the distorting effect of subsidy, this has not been the case with farming. If the public are to be reconnected to agriculture and the food industry as a whole, they must be able to be confident that their views will have an impact on the market and that they will be listened to. This will be partly achieved by reconnecting the industry with its customers, and by giving consumers the information that will allow them to make the choices they want. But it also means establishing mechanisms which will give them a voice in all the areas where policy on food and farming is debated.

Apart from public concerns about food safety, there is increasing recognition of the impact that the farming and food industry has on the health of the nation. The overarching link right through from the farm to nutrition policy is one that needs to be better understood and articulated so that policies can be devised that are coherent across Government Departments, notably DEFRA, the Department of Health, the Cabinet Office's Social Exclusion Unit and the Food Standards Agency.

Among some sections of the public there is positive mistrust of the industry. This level of mistrust is fuelled by both facts and conversely by ignorance. Many of the facts about the negative impact of agriculture policy over the last 50 years have been explained in previous chapters, and we have shown ways in which these should be addressed. But all our efforts to put food and farming on the right road will be worthless if we cannot rebuild the connection, the bridge of trust between producer and consumer, so that society will play a role in both guiding and supporting those who husband the land and provide nutritious food for our benefit.

Although they greatly value the countryside in which their food is produced, many people now have little direct contact with the business of food production. This is certainly true in England, at least compared with much of the rest of Europe. The rapid growth of the food processing and multiple retailing sectors have exacerbated this disconnection. As we have seen, people are eating more and more processed and pre-packed foods, much of which is unhealthily high in saturated

Over 90% of consumers want to know where the meat in their pork pie or sausages comes from.

— FSA 2000

I'm not a vegetarian. Someone has to shoot the chickens you eat.

— Madonna, interviewed about game shooting. BBC

fats, salt, sugar and additives. There are nutritional problems looming because people are eating too much of the wrong things and too little of the right ones. Meanwhile, the farmer's share of the retail price has steadily fallen, as he or she becomes simply a raw material supplier for the food processing industry. It will be to everyone's benefit if farming, the food industry and society can work together to ensure that ethically produced, fresh, health-promoting food is available to and appreciated by English consumers.

Some of the evidence on the health problems society faces extends into areas beyond our remit and expertise, into wider public health and societal issues, including in particular how we can increase the amount of physical exercise people take. But we feel strongly that these problems, any more than the problems of the farming and food industry itself, are unlikely to be cracked unless we take a strategic approach to them, recognising their interrelation. This challenge needs the Government and all parts of the food chain to work together. Just as we cannot think about the food chain without thinking about consumers, so we cannot address consumers' concerns in isolation.

Information

Bridging the gap between producer and consumer requires information. Information empowers consumers. But it must be provided in a meaningful and honest way, which allows people to make real choices about the provenance, nutritional content or production methods of their food.

Labelling

In a supermarket, in front of a shelf full of variations of the same product type, labelling provides the only link most consumers have back to the source of their food, what it contains and how it has been produced. We have discussed in chapter 3 the need to broaden, deepen and unify the concept of assurance, with the Red Tractor logo signifying that foods have been produced to consistent minimum standards. Further to this we welcome the Food Standards Agency's efforts to involve stakeholders in future policy on labelling. We support their campaign on EU labelling rules, which aims to remove ingredient listing exemptions for major allergens, to extend compulsory country of origin labelling, to improve nutrition labelling with clearer labels and statutory criteria, and to establish a practical system for verifying health claims.

We particularly agree that compulsory country of origin labelling should be introduced for as wide a range of foods as possible. Such labelling must be straightforward and honest, without legalistic trickery. Country of origin on labels should have its simple English meaning, and food should not qualify as being from a particular country merely on the grounds of having been processed there.

The focus of the FSA's work has been on producers and retailers, but the food service sector is growing quickly. This sector needs to be addressed as well, to ensure that consumers in food service outlets have access to the information they need to make informed decisions. Information should be available and easy to use, but should not be forced on consumers. What is put in place should not impose heavy burdens on caterers — or destroy the experience of a good meal out.

Other ways to reconnect with consumers

Labelling is the most direct route, but there are many other actual and potential sources of information about food and farming; the media, internet, demonstration farms, schools and advertising promotion all have an important role to play.

The Internet in particular provides great opportunities for bridging the gap between producer and consumer, by creating an intimacy and wealth of information that it would be hard to convey through any other medium except for personal contact.

Where it is possible to bring people on to the farm to see what happens there for themselves, farmers should welcome this. There is no better way of building up a direct relationship with a consumer and earning his or her trust.

For this reason, we think farmers should embrace the idea of access to their farms. They should see this as part of their new contract with taxpayers, who will be funding environmental management payments.

Farmers need to give their full and active co-operation in delivering the requirements of the Countryside and Rights of Way Act 2000.

The FSA action plan on food labelling includes work to:

- remove all ingredient listing exemptions for major allergens;
- extend compulsory country of origin labelling to a wider range of foods;
- provide clear, user-friendly nutrition labelling on all foods;
- introduce statutory criteria for nutrition claims; and
- develop codes of practice on the promotion of foods to children

— FSA 2001

We think that schools have a role here also. Local Education Authorities should try and ensure that all school children get the chance to visit working farms at least once, as enjoyable days out as well as a learning experience. We encourage the Department for Education and Skills to explore whether a national voucher scheme or similar system is needed to enable this to happen.

We commend farmers who are already working closely with schools. The demonstration farms we proposed (p. 29) could have a role in providing more hubs for such visits. Funding should cover associated Health and Safety costs. Farms could be twinned with schools to encourage an ongoing attachment.

All the following provide access to educational visits:

- Access to Farms project;
- National Association of Farms for Schools;
- Federation of City Farms and Community Gardens;
- Soil Association organic demonstration farms;
- LEAF demonstration farms;
- The Countryside Stewardship scheme;
- The Country Trust.

— FACE 2002

Farming industry and environmental organisations had until recently taken a fragmented approach to providing supporting materials to schools. Last year, the launch of Access to Farms — a new partnership of national organisations promoting farming and horticulture education through links with schools — signalled a more coordinated approach. This has received welcome backing from DFES and DEFRA, and we urge the Government to continue its creative partnership with the voluntary sector to facilitate more and better quality educational visits to farms and to promote learning in ‘outdoor classrooms’. Another positive development was the launch of Farming and Countryside Education (FACE), a new body bringing together the education work of the NFU and the Royal Agricultural Society of England. We welcome this recognition that co-ordinating resources is a more effective way of getting messages across. We hope that more industry bodies will join the FACE initiative and help make a real impact on information provided to schools.

Animal welfare

Most people, including farmers, would like to ensure that farm animals are looked after to the highest standards possible. However, farmers fear that if regulations governing animal welfare are raised unilaterally in England, consumers will choose to buy cheaper, imported products that do not meet these high standards. This dilemma can only be resolved by an informed public supporting, through their purchasing decisions, the evolution upwards of welfare specifications and regulations, so that farmers have the confidence to

invest in the systems and facilities that good welfare demands.

The broadening of assurance to cover basic animal welfare provision is one way of beginning this process. The development of higher tier welfare labelling schemes, such as Freedom Foods and organic systems should provide the possibility for consumers to demonstrate their support for high standards.

However, we are aware that a small minority of producers are operating well below the provisions of the welfare codes of good practice and we feel it is essential that these should not be allowed to bring the industry as a whole into disrepute. If we can ensure that retailers and the food service sector support the move to an assured supply chain, then these rogue producers should very soon find themselves without a market. If not, we see a case for implementing a licence system for livestock farmers not involved in assurance, to ensure enforcement of the codes.

Welfare legislation and regulation has developed on a rather ad hoc basis since the 1911 Act. We welcome the review that DEFRA is undertaking into the legislation; it may well be time to change the Act and to codify all subsequent legislation in a way that makes it easier for producers to access and understand.

As an ongoing objective alongside the review of our domestic legislation, we recommend that efforts be made to establish EU-wide agreements on the raising of animal welfare standards in Europe.

We believe that our recommendations on training and advice for the farming community will encourage a better understanding of welfare priorities and increase the professionalism of farm staff.

Science and society

The rapid advances in technology as currently and potentially applied to food and farming have alarmed many people. The furore over genetic engineering is an obvious example, but there are many others — the use of pesticides and antibiotics, and the irradiation of foodstuffs.

There is currently a tension between the food and farming industry's need to adopt new technologies in order to remain competitive, and the nervousness of

citizens who feel that their safety, or that of animals or the environment is taking a back seat to those economic goals. Consumers need to be involved both in the framing of debate on science and technology, and on the bodies dictating policy where it affects them. The FSA has been very open in its dealings with the public, and we commend their work. The resolution of this tension will not be easy, but is essential for the harmonious future of the food industry and society.

A public better informed about the whys and wherefores of food and farming will be in a much better position to help make the ongoing decisions that will need to be taken about the appropriateness, desirability, risks and benefits of emerging and indeed current technologies, if and how they should be regulated, and how consumer choice can be maintained.

We recommend that all public and industry bodies concerned with research, development, regulation and standard setting involve public representation. We commend to all public bodies the example of the Food Standards Agency, which is setting new benchmarks for openness and transparency in carrying out its role.

Antibiotics

The use of antibiotics both as growth promoters and prophylactic treatments has been a key driver in allowing the intensification of livestock production systems, particularly pigs and poultry. The benefit to consumers has been lower prices for these products. Chicken, a luxury in the 1950s, is now often the cheapest meat available. However, consumers have consistently expressed concern about the implications of non-medical use of antibiotics on human health. We accept that the over-use of these products has disguised, to some degree, underlying disease problems on farms; and has had negative animal welfare consequences in that it has made possible systems where animals are kept in very close confinement.

Some progress has been made in recent years; 7 of the 11 commonly used growth-promoting antibiotics have been banned throughout the EU, though they are still used elsewhere in the world. All assured chicken — around 80% of that reared in the UK — is now produced without the use of antibiotic growth promoters, though there are concerns that the use of antimicrobials may be rising. **DEFRA and the FSA should ensure**

that progress made through the reduction of licensed antibiotic growth promoters is not eroded by the use of other antibiotics also cross-resistant with important medical drugs. Imports to the UK should meet UK and EU standards in order to protect public health.

Some of the world's most virulent diseases have arisen from animal populations. The intensification of production, combined with the use of drugs which may encourage bacteria to mutate into new forms, represents an unquantified risk to society. All steps should be taken to encourage husbandry systems which reduce the likelihood of zoonoses' development; further work should be undertaken by an expert group to assess the risk to human health and to determine any further actions that might be prudent.

Given the lack of commercial drivers to encourage the development and uptake of low or no drug farming systems, this area must be considered in the formulation of the animal health strategy we recommend (p. 50) and must be a priority for publicly funded strategic research.

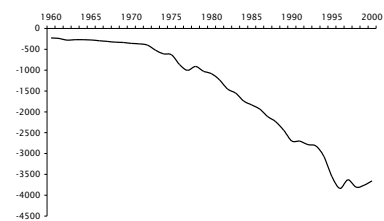
Healthy eating

There is evidence of a growing health problem in England arising from nutrition, and we believe that action is needed.

As one contribution to a healthy diet, the World Health Organisation has recommended — and the Government has widely promoted — a 'five-a-day' campaign. Eating at least five portions of fruit and vegetables per day can reduce overall deaths from chronic disease by up to 20%. Meeting the five-a-day target could provide a significant opportunity for English fruit and vegetable producers, whose share of the domestic market has fallen sharply.

However, in England, people average three or four portions a day. There are wide regional and social variations — poorer families and families in the north of the country eat less well than richer families and those in the south and midlands. Children do particularly badly. On average, they only eat two portions of fruit and vegetables each day. One in five children never eats fruit in an average week, and more than half never eat leafy green vegetables. In low income groups, the figures are even worse.

Antibiotic growth promoters stimulate an animal's growth by improving weight gain and feed conversion efficiency as a result of their effect on the microflora of the gut. **Antimicrobials** are used to kill or inhibit the growth of microorganisms (bacteria, fungi, protozoa and viruses). They include antibiotics, disinfectants, preservatives, and other substances such as zinc and copper.



UK balance of trade in fruit and vegetables, £m, 1960-2000 (DEFRA)

We have already discussed the use of labelling in empowering consumers to take control of what they eat. But labelling only works for those who already take an active interest in the content of their food. We believe that as a country we need a proper strategy on improving nutrition, along the lines of — and for the same reasons as — the 30 year strategy we have had on road safety. The Government has done good work in this area in the past through the Our Healthier Nation initiative.

The Department of Health, the FSA and DEFRA should come together to produce a strategy on all aspects of encouraging healthy eating, in consultation with leading academic and medical experts. This strategy should not be the servant of consumer demand, but should try and lead and awaken it. The strategy should embrace population approaches.

Once a general strategy is in place, we think that it should be embedded elsewhere. The strategy should actively seek to invigorate action at local level, and should ensure that local authorities, health authorities (or their successors) and non-Governmental organisations are fully involved. In particular, we believe that Primary Care Trusts, as part of Local Strategic Partnerships, should ensure that a food dimension is included in health improvement and community plans. This should include monitoring of food and health inequalities.

The role of the food chain

Every part of the food chain should take its share of the responsibility for tackling this problem. This is in the food chain's interests. If we can expand the demand for fresh, wholesome food, especially fruit and vegetables, but also the other mainstays of a healthy, balanced diet, milk and eggs, lean meat, fish, whole grains and pulses, potatoes, then English producers and retailers ought to be well placed to serve it. It is not a free ride, though. Producers will have to be competitive.

Industry should establish a group to look at how it can play its part in encouraging good nutrition. We think that this group should consider how the demand for healthier foods can be increased, and how to ensure that a healthy nutritious diet is available to all, working closely with existing structures like the British Nutrition Foundation. Given eating

trends, they will also need to look at what can be done, for example, to reduce salt, sugar and fat levels in processed foods. This group must examine food advertising and how to encourage responsible advertising, that explains to parents the nutritional value of food advertised to children, and the benefits of a balanced diet. The group needs to work closely with the Department of Health and the Food Standards Agency.

The food service industry needs to be included in this effort. Catering staff should be trained in principles of healthy eating. We know that the FSA has done good work in this area. We believe that the NVQs related to catering should include study of healthy eating guidelines.

Public procurement

The public sector provides food for many people. Schoolchildren, prisoners, servicemen, people in hospitals: all are affected by the Government's policies on food procurement.

Some public bodies do set purchasing objectives which encourage the use of healthier food. But we have seen such initiatives in action and they have many potential benefits, both to the purchasing body, the end consumer and to the local economy, if the food is locally produced, cutting down transport times (and thereby minimising nutrient loss). The development of local food distribution networks is encouraged by the 'critical mass' purchasing that public bodies can deliver, thereby allowing cost effective distribution into other local outlets as well. Such purchasing objectives can work within the current Best Value requirements and therefore meet cost concerns as well as health, energy minimisation and other local food goals. Local authorities can also specify organic supplies if they wish to.

We encourage all public bodies to try and promote healthy eating through their procurement policies. We note that current interpretation of Best Value may be too narrow to allow public bodies to take into account wider sustainable development issues when setting supplier requirements. We are particularly concerned that public procurement policy takes the impacts of food transportation into account and supports where it can the Government's commitment to tackling climate change. We recommend that the new cross-Government group which has been set up to examine how

In 2000 £596m was spent on advertising food in the UK. Of this, £4.4m (0.9%) was spent on fresh fruit and vegetables, while £131m (28%) went on advertising cereals, cakes, biscuits, potato crisps and snacks. 99% of adverts for food during children's programmes are for products that are high in either salt, sugar or fat.

— Advertising Association / Sustain 2001

Since February 2000, Norfolk County Catering Services have set a number of local purchasing objectives. They require their main supplier to:

- use local produce as far as practically possible;
- use contractors who have depots or outlets within Norfolk;
- deliver at specific times with no minimum drop; and
- respond to emergency demands for greengrocery and other fresh produce within one hour.

These objectives are in support of the County Council's Best Value policy.

— Norfolk County Council 2001

Government procurement can support environmental outcomes should look at the area of food sourcing and public procurement rules.

Fruit in schools

As a key part of a national strategy on improving nutrition, we urge the Government to move as fast as it can on rolling out its proposed National School Fruit Scheme, providing every child aged four to six with free fruit. We think this scheme is an excellent idea, and we encourage its extension up the age range, to ensure that good habits learned in early school days are reinforced later on in life. We note, from a farming perspective, that the scheme will demand 1.5 million tonnes of fruit each year, which English farmers are well-placed to provide. We challenge the industry to rise to this challenge. We understand that snack vegetables are to be included in this scheme. We very much welcome this, and urge that it takes place as soon as possible. We think the scheme could also provide a focus for learning about food in schools; for example in fruit-growing areas schoolchildren could use their farm visit (see p. 99) to see where their daily fruit is produced.

Educating children about food

Many people have said during our consultation that children should be taught about food and practical cookery skills at school. We are glad that food, nutrition, healthy eating and cooking are covered within the Design, Technology, Science and Personal, Social and Health Education elements of the National Curriculum. We are pleased that Food Technology remains compulsory at Key Stages 1 and 2 (ages 5 to 11) and that it holds an important position in the curriculum at Key Stage 3 (ages 11 to 14). It is vitally important that children's interest and enthusiasm for healthy food is captured at an early age. We commend some of the very exciting work that has been going on in this area (one scheme is described in the margin). **We urge the Department for Education and Skills and the Department of Health to work together to roll out the lessons of projects such as Bangor as widely as possible in schools.**

We would like to see more restaurants and caterers engaging with schools in promoting an enthusiasm for and understanding of kitchen and food skills. These skills are important not just from a nutritional perspective, but to ensure that the number of food poison-

The Food Dudes Programme has been developed by psychologists at the University of Wales in Bangor, and aims to encourage and sustain healthy eating in children.

It is designed for use in primary schools. The core component lasts 16 school days, and appears to have significant success in increasing children's consumption of fruit and vegetables at snacktime or lunchtime.

The programme has two main elements: video adventures featuring hero figures called Food Dudes, who like fruit and vegetables and provide effective social models for the children to imitate; and small rewards (stickers, notebooks, pencils) to ensure that children begin to taste the foods.

This scheme encourages children to taste fruit and vegetables repeatedly, so that they are able to discover the foods and develop a taste for them. They come to see themselves as 'fruit and vegetable eaters' and are proud to be so. The combination of biological and psychological factors maintains the behaviour change over time.

— University of Wales Bangor
2002

ing incidents that arise from poor storage and handling practice at home are reduced. Sponsorship by local businesses of cookery competitions with prizes for the schools of winning pupils can do wonders for getting children started in the kitchen. The bottom line is that food skills and nutritional knowledge are vital if we are to stem the trends which are undermining the health of our population.

Food deserts

Despite generally rising standards of living, low income consumers have to spend a high proportion of their disposable income on food. Even though they may be well aware of the benefits of eating healthier food, there are places where low income consumers cannot access such food at reasonable prices, particularly fruit and vegetables. The major supermarkets do not operate there, and local shops do not provide fresh produce. These areas are sometimes termed 'food deserts'.

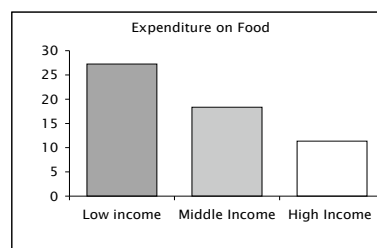
In addressing the needs of low-income consumers, we should be careful not to patronise. There is a risk of imposing middle-class food values on consumers who are unable — because of their finances or where they live — to put good advice into practice. A parent who can only just afford their weekly shop is not going to try something different on their family, even if it is healthier — yet it is critical for their future well-being that they and their children have a nutritious diet. Low-income consumers cannot afford to buy food that eventually gets thrown away.

This is one of the reasons why we think local food-buying co-operatives are such a good idea. They are driven by demand from the local community, and are supplied by producers or retailers that individuals know and trust.

There are several good examples of these in areas around the country. These work with producers or retailers to provide fresh produce directly into food deserts. These are of benefit to both sides, and we encourage all RDAs to look at expanding such schemes. When such schemes become more widespread, the industry group we recommend above (p. 103) should spread understanding of them throughout the food chain, and should encourage leading retailers to replicate what is already industry best practice, and supply them at low cost.

The Whitbread Food Challenge links their restaurants to school and college students, giving them hands-on understanding of production and the supply chain, and how food is processed and prepared. The programme also exposes them to the economics of catering, with an emphasis on costing and consumer choice.

— Whitbread 2002



Percentage of income spent on food, 2001 (NCC)

The Hartcliffe Health and Environmental Action Group, in Bristol, co-ordinates programmes to improve nutrition. These include a 'food for all' co-operative run by volunteers and buying food in bulk, as well as cooking and food hygiene classes, and a local 'Food Links' network to bring local producers and consumers together.

— Sustain 2002

There may also be opportunities for farmers' markets to be established in these more food-deprived areas. These markets can provide excellent value for consumers as well as the opportunity to buy really fresh produce. **We encourage city councils to provide suitable sites and facilities for markets in areas that are under-supplied by retailers. These sites should meet all appropriate hygiene and food safety standards.** Initiatives like these also provide a great opportunity to bridge the rural-urban divide and to promote awareness of the interconnectivity and mutual dependency of town and country.

* * *

Our key message, then, is reconnection. Reconnection of farmers and the public through the marketplace, in sensitive stewardship of the countryside, and through dialogue about how to provide for the needs and aspirations of society at a price are prepared to pay. We need to reconnect all parts of the food chain in this common purpose, managing the land for profit and for public good.

We hope that this message, and the recommendations in this report, will set a direction for the change that is taking place in the farming and food industry. We see many opportunities for the industry. If they are grasped, we expect that healthy food and a beautiful, flourishing landscape will be symbols of the English countryside both now and for many generations to come.

SUMMARY OF RECOMMENDATIONS

As a Commission, we start from the position that the situation in England's farming and food industry today is unsustainable, in every sense of that term. It is serving nobody well.

Taxpayers are handing over huge subsidies every year for a policy which is destroying economic value. Consumers are paying more for their food than world prices. The environment is being degraded. Farming incomes are on the floor.

We believe the real reason why the present situation is so dysfunctional is that farming has become detached from the rest of the economy and the environment.

The trauma of last year should be a watershed. The key objective for public policy should be to reconnect our farming and food industry: to reconnect farming with its market and the rest of the food chain; to reconnect the food chain with the countryside; and to reconnect consumers with what they eat and how it is produced.

Our vision is for a farming and food sector that is profitable and sustainable, that can and does compete internationally, that is a good steward of the environment and provides healthy food to people in England and around the world.

Despite the gloom overall at the moment there are some good things already happening. We have seen many examples of exciting good practice in our trips around the country. Some producers are connecting with the market; joining forces with retailers and suppliers to cut costs for all; making a selling point out of high standards and an attractive countryside.

The Government's role is to provide the policy framework, and to remove the distortions that are currently preventing these sorts of initiatives from flourishing and growing. That includes creating a market for the environmental public goods that farming can supply.

Beyond that, we believe it is up to the food and farming industry to spot and seize its opportunities.

The recommendations of this report, which must be seen as a package, are addressed to both industry and Government on how we can move forward.

PROFIT

FMD has passed but farming is still in crisis. Incomes rose last year but they are still near rock-bottom and the long-term trend is downwards. The public image of farming in England is bad. The industry is not attracting new entrants or investors.

Some of the trends which have driven the present crisis are inescapable. Trade liberalisation is not going to go away. Consumers are becoming ever more choosy. To the extent that price becomes less important to some, with rising real incomes, convenience looks like taking over as the key factor in buying decisions. On present form that would tend to mean more prepared food. It will mean more eating out, where it is harder to make provenance count. None of this is, on the face of it, good news for high-cost domestic commodity producers.

A strategy that tried to turn these basic trends round would be doomed. However, for those that can work with change and can shape and anticipate it, there is a good future ahead.

The first question we set ourselves is how we can make farming and food production profitable again, by reconnecting it with the rest of the food chain and with consumers.

The right answer to making farming profitable is not to cling on to production subsidies, whatever they may do for incomes in the short term. Subsidies are part of the problem, not the solution. They divide producers from their market, distort price signals, and mask inefficiency.

We therefore want to see the current EU regime of price supports and production subsidies dismantled as quickly as possible. Public money has to be refocused on real social and environmental public benefits.

We urge the Government to press for substantial reform of the CAP as soon as possible, establishing a clear timetable for reform and encouraging and sup-

porting the farming and food industry to adapt to change. The guiding principle must be that public money should be used to pay for public goods that the public wants and needs:

- ♦ remaining price supports and associated production controls must go;
- ♦ direct payments should be phased out as quickly as possible;
- ♦ they should be decoupled from production and be subject to base environmental conditions for as long as they do exist;
- ♦ resources should progressively transfer to the so-called Pillar II of the CAP to pay for rural development and environmental protection schemes;
- ♦ the UK's share of the Pillar II budget should increase at the same time, and rules on eligibility and administration should be made more flexible.

As the industry moves towards an unsupported world we have considered what strategies producers can employ, and what public policy can do to help them — accepting that in practice market disciplines are likely to be the best spur and guide to opportunities.

This report's analysis is that the available strategies are likely to boil down to some combination of three things: driving out unnecessary cost; adding value; or diversifying the business.

But we first deal with the effect that the exchange rate has had on the food industry's performance, particularly in farming and particularly in the last five years. There are a lot of other things wrong in farming but this issue cannot be ignored. Whether or not the UK should join the single currency is outside our brief. But there are measures that can be taken now to help.

Farming and the euro

We recommend that the Government should give farmers the option of receiving their direct support payments, for as long as these last, in euro.

p. 25

Risk management

We support the Department for Environment, Food and Rural Affairs in its current work with the industry on risk management tools that could reduce the exposure of farming to currency movements. We think that work should be extended through the convening of a group involving farming representatives, the Treasury and the main UK banks. That group should be established within the next three months and be given another three months to explore the

p. 25

provision of efficient low-cost methods of hedging euro-denominated CAP payments, accessible to all farmers who want them.

On *cutting out cost*, there is a striking range of performance in farming. There has to be a stronger and more comprehensive benchmarking drive to help poorer performers identify the reasons why they are falling behind.

p. 27

We recommend that the process of reviewing statistical collection should be taken further and that a more radical review of the entire process should take place. This review, to be undertaken by DEFRA, should have two aims. First, to rationalise further the system of collecting statistics from farmers. This should join up the various disparate statistical data collection exercises where this is cost-effective — principally the censuses and the IACS returns. Second, to ensure that relevant data is collected to underpin benchmarking work reflecting the changing nature of many farm businesses. This includes data about primary agricultural production, but also information about the increasing importance of paid environmental schemes and value-adding enterprises to many farm businesses. A better knowledge of the structure, performance and economic interdependence of all businesses in the rural economy is needed.

Benchmarking

To stay competitive, any industry needs to know about the latest developments and be able to apply them. This is becoming a weakness in farming in England. There needs to be a strong drive to improve how research is commissioned, managed and transferred in the industry. We are not asking that the Government be drawn back into near-market research. But there must be better links between strategic and applied work, and the results of both need to be brought straight through to the industry through an expanded network of demonstration farms.

p. 28

We recommend that the Government should set up a new 'priorities board' for strategic research, involving Government, academic, consumer, environmental and industry representatives to set the agenda for public research on farming and food matters. This should be serviced by a team of its own scientists, who can stay in touch with developments in the field, and assist the board with horizon-scanning.

Research & technology transfer

The new board will need to have a clear link with the research programmes of all statutory agencies, NDPBs, and other major research sources, such as the Research Councils.

We urge the industry levy bodies and Government to improve co-ordination of their applied farming and food research, to avoid duplication and maximise synergies. This will enable the industry to take a broader view of industry-wide key goals in research. Mirroring the priorities board for strategic research, we believe that industry levy bodies should be setting in place joint priority-setting arrangements for their own applied work. This new Applied Research Forum should provide a virtual management structure for research that should agree the research strategy and help co-ordinate the agenda for every sector of the industry, including on technology transfer, training and education. It should be represented on the strategic priorities board, and should have strong links back into the fundamental research programme being carried out by the Government. Peer review of strategic research should include looking at the spin-offs it generates or is capable of generating at the applied level.

Demonstration farms

We recommend that DEFRA work with the Applied Research Forum and the levy bodies to establish a pilot unified scheme of demonstration farms on the New Zealand model across all sectors by the end of 2002. If successful, the programme should be rolled out nationwide as soon as possible. We believe there is a strong case for putting the modest amount of public funding required behind such a programme.

p. 30

Other industries have looked hard at their supply chain in the drive for efficiency. The food industry must do this too.

It is in farmers' interests in particular. At the moment some chains are too long. Market messages are getting lost before they reach the primary producers. They may be picking up the cost of the inefficiencies of the layers between them and their customers. Domestic suppliers are losing the edge which a more direct, traceable route to market could give them over foreign competitors.

However, to unlock savings in the chain for the benefit of all, supply chain relationships have got to improve.

Reconnecting the supply chain

p. 32 **We recommend the establishment of a permanent Food Chain Centre to bring together people from each part of the food chain. It should be facilitated by the Institute of Grocery Distribution. The Centre and the IGD will need to resolve how to bring the food service sector fully into this process. The Government should part-fund the Centre's work.**

This Centre's steering board should be broadly based, including consumers, and should meet regularly to discuss other relevant issues, including the latest consumer research. The Office of Fair Trading should give a clear indication to the industry of what discussions of this nature are permitted under competition law.

The Centre should, as a priority:

- ♦ develop (in conjunction with the relevant levy bodies) a number of supply chain analyses, from producer to the final point of sale, starting in the red meat and fresh produce sectors, to identify how efficiency savings can be achieved to the benefit of all players. These should be preceded by rigorous, transparent benchmarking of all stages in the chain, so other studies can go forward on the basis of a sound understanding of costs;
- ♦ draw on the results of those studies and, working with experts from industry and other research bodies, prepare best practice reports which can be published, identifying the steps that will improve efficiency in each sector;
- ♦ identify and publish best practice reports on collaboration and planning in existence between world class retailers and manufacturers so that they can be taken up more widely in order to improve efficiency and consumer value; and
- ♦ act as a champion for benchmarking and dissemination of best practice data in the sector as a whole.

We believe the Office of Fair Trading may need to look again at the recently established Code of Practice on Supermarkets' Dealings with Suppliers.

p. 33 **We recommend that the Office of Fair Trading should undertake a full formal review of the workings of the new Code two years after its introduction.**

Retailers and suppliers

This review should consult all interested parties to determine whether further changes are needed.

We exhort all suppliers, retailers and food service companies to sign up voluntarily to the Code of Practice on Supermarkets' Dealings with Suppliers.

We recommend that the current dispute resolution mechanism in the Code should be re-examined by the OFT. We would recommend that it should be replaced by an independent mediation service, facilitated by the Institute of Grocery Distribution.

As well as collaboration up and down the supply chain, primary producers are going to have to collaborate more horizontally, to improve their marketing, pool resources, and make them better able to negotiate with the often much larger companies they sell to and buy from.

Collaboration

We strongly believe in the potential of collaborative ventures for all farmers large and small. We encourage the competition authorities to consider the wider market context, particularly the consolidation of international suppliers, when looking at new or expanding collaborative ventures.

p. 35

We recommend the establishment of an English Collaborative Board, with a small secretariat. This Board would be responsible for encouraging and supporting collaborative activity. Membership of the Board should include people with industry, financial service and business experience. This Board should advise Government on the direction of Government grants available to collaborative ventures.

As production supports reduce, with CAP reform, risks which have historically been taken on by Government will be shifted back to farmers.

Managing risk

We believe that with farmers assuming more risks within their business, and with the shelter of the subsidy system gradually disappearing, the Government should encourage the wider use of risk management instruments.

p. 37

The Government should be prepared to support the development of basic safety net aids at EU level, once CAP price support is removed. Such aids should

operate so that they do not distort markets over the longer term, but provide short term relief during periods of market volatility.

The Treasury should consult with banks and other financial bodies to investigate the efficient provision of suitable financial risk management instruments at a reasonable cost. Collaborative farming ventures and industry levy bodies should be involved in these discussions, as they could be valuable conduits to transmit the benefits of such instruments to smaller farmers.

DEFRA, with the Treasury, should lead a group on disease insurance with the industry and insurers. The working group convened in the aftermath of Classical Swine Fever should be reformed for this purpose. The Government should be ready to help if it looks like the cost of insurance packages would be prohibitive.

Farmers say that their exposure to animal disease will be too great to be cost-effectively insured against unless checks on illegal imports are stepped up.

Controls that are considered necessary for food safety in England should be enforced on imported food. The Government must strengthen checks and controls of illegal imports of meat products, to reduce national levels of exposure. DEFRA must draw up a sophisticated assessment of the risks from illegal imports, and then lead a cross-Departmental approach to implement it, on the shortest possible timescale.

There are signs that availability of casual and seasonal labour is becoming a problem on some farms, raising costs.

p. 39

We recommend that the Seasonal Agricultural Worker Scheme quota should be increased to 50,000 at once, and that the quota and the terms of the scheme are regularly reviewed.

Availability of labour

We regard *adding value* as a core strategy for most farmers, making a selling point of higher standards, and ensuring that where there is demand, a return for good environmental or animal welfare performance can be unlocked from the market as well as for qualities intrinsic to the product like good eating.

Assurance schemes are a potentially useful way of raising standards in the industry, and communicating the value of those standards in the market place. But at the moment the communication is confused, and the schemes do not always meet consumers' real preferences, particularly on environmental and welfare standards. We think the industry needs build on the existing Red Tractor mark and take it forward as the baseline standard for English-produced food.

The Red Tractor scheme

The Red Tractor needs strong enforcement to command confidence. We think that the Red Tractor should be a baseline standard that all food produced in England should attain. Without attempting to turn the scheme into a 'premium' mark, the Red Tractor should be extended to cover environmental standards — consumers already think it does — and welfare standards should be reviewed. Our recommendation is that they should aim to position themselves at least at the level of the codes of Good Agricultural Practice.

p. 40

Current assurance schemes need to be rationalised behind the Red Tractor mark. The Red Tractor and the standards underpinning it need to be owned by the whole food chain, and managed by Assured Food Standards on their behalf. AFS needs funding from Government, matched by the industry, to ensure its independence while standards are developed and rolled out. AFS may need to review its constitution and board composition.

Once the new structure and standards are in place, the Red Tractor mark needs to be more strongly promoted to farmers, consumers and the food service industry. Establishing a brand is costly. We see a role for ongoing Government funding to drive this forward, subject to EU state aids rules. This funding should be matched by the industry and the industry levy bodies.

Above the Red Tractor baseline, we would be keen to see higher-level assurance schemes develop so long as they do not result in confusion for consumers, reducing the benefits for all.

Higher-level assurance schemes

We would advise that there should be as much discussion and collaboration as possible between the sponsoring organisations, to ensure that the maxi-

p. 41

mum impact is realised and that the consumer is not confused by a plethora of similar initiatives.

Adding value to their product by moving down the chain and getting involved in food processing has been a strategy employed by some farmers, although this kind of venture can increase the risks on the business. We believe that to help more ventures of this kind get started, there is a case for increased pump-priming funding for this area from Government.

p. 42 **A whole supply chain approach to improving competitiveness in the [red meat] sector will be needed. We are convinced that the long supply chain in red meat is one of the reasons why competitiveness is slipping, and market messages and signals are being diffused before they reach the primary producer. We recommend elsewhere (p. 32) that the red meat chain should, with fresh produce, be the first to be examined by the new Food Chain Centre. The Centre and the MLC will need to work closely together to agree and act on the results of this work.**

Red meat

p. 43 **We recommend that funding for Processing and Marketing Grants should be expanded by £5 million per year for the next three years to assist collaborative enterprises with the investment needed to establish themselves in processing and marketing their products. The upper threshold on grants should be removed to allow larger projects to be funded if this offers best value for money. At the same time the lower threshold should also be reduced to allow smaller enterprises access to funds.**

Adding value through further processing and marketing

p. 44 **We would recommend that the Rural Enterprise Scheme budget should be substantially increased at the Mid-Term Review.**

Local food

RDAS should consider how to overcome problems of distribution and availability of processing within their regional economic strategies and seek to encourage the networking and planning that are necessary for the development of these local initiatives. Where third-party processing facilities are available, every effort should be made to work with existing businesses.

We recommend that professionally-managed collaborative ventures developing processing units should have a high priority for grant funding and

Government aided venture capital initiatives. The English Collaborative Board should be involved in scrutinising these applications.

One of the greatest opportunities for farmers to add value and retain a bigger slice of retail value is to build on the public's increasing enthusiasm for local food, or food with a clear regional provenance. Local food markets could deliver on all aspects of sustainable development — economic (by providing producers with a profitable route to market), environmental (by cutting down on the pollution associated with food transportation, and by interesting consumers in how the land around them is farmed) and social (by encouraging a sense of community between buyer and seller, town and country). These markets are growing. But there are barriers that need to be overcome for them to take off properly.

As an incentive to help this happen, we recommend that retailers who give over a portion of their store as an outlet for local producers to sell direct to the public should receive business rate relief on that part of their premises.

Marketing and distribution of locality foods

We think that the time has come for locality food marketing to become mainstream in Britain as it already has in France and elsewhere. The Countryside Agency has done excellent work in pump-priming some schemes, but we think that management of regional food should now transfer to a specialist body such as Food From Britain and its Regional Food Groups. FFB itself should be given a new remit and terms of reference to reflect its new role, as well as additional funding if this is needed.

p. 46

Each RDA should work with Food From Britain and other partners to devise a regional food component to their regional economic strategies. The Countryside Agency should hand its work in this area on to FFB and the RDAs.

Protecting local and locality brands

Industry bodies should do more, with the help of FFB and the Regional Food Groups, to ensure that English producers take part in the Protected Food Names scheme.

p. 47

Marketing needs to be strengthened in the industry, with farming industry levy bodies combining their marketing efforts where possible to maximise impact.

We recommend that levy bodies consider with their stakeholders whether greater benefits can be obtained through redirecting resources currently going to generic promotion towards supporting an improved Red Tractor scheme.

We recommend that as part of the Government's commitment to increasing fruit and vegetable consumption, the statutory basis of the Horticultural Development Council be changed to enable it to engage in promotion in the same way as other levy bodies.

Although it is unwelcome to many farmers, regulation is an essential part of adding values to English food. It is necessary to ensure that producers who fall below acceptable standards do not undermine a market for all. The farming industry cannot expect to be regulated substantially less than at present. Nor do we think that would be in its interest. But regulation has to be proportionate and efficiently implemented.

p. 49

Regulation should move towards whole farm approaches, with flexible management of environmental risks and basing enforcement of regulation on risk assessments.

Regulation

The Government should monitor the cumulative effect of regulation. DEFRA should publish an annual aggregate compliance costs figure for new regulations in *Agriculture in the UK*, its annual statistical report on the industry. The likely benefit to accrue from any new regulation should be identified and if possible quantified.

DEFRA should also seek to codify all existing regulation into a single web site. Regulation should be categorised around events in the lifetime of a farm or processing business, such as "getting bigger", "diversifying", or "handing the farm on". This service should be integrated with the front-end service we recommend. DEFRA should discuss with the Department of Trade and Industry how small businesses in other sectors manage regulation, and should use this information to spread best practice.

Animal health is an issue where the importance of regulation has been amply demonstrated by recent history. The effort to build values around English food in

the livestock sector will never succeed unless we turn the corner on this country's appalling record on animal health.

Animal health

In view of England's abysmal animal health record in recent years, DEFRA in consultation with the industry need to devise and implement a comprehensive animal health strategy.

p. 50

We encourage sheep farmers to participate in the voluntary National Scrapie Plan. We regard it as vital that Government, the sheep industry and other stakeholders work closely together to ensure its success. This should be given the very highest priority by DEFRA.

Full electronic traceability of livestock should be achieved as soon as possible. DEFRA and the industry need to put in place better systems to trace sheep and pigs if their movements entail anything more than one movement to slaughter, as well as enhancing the current system for cattle. This will reduce the remaining paper burden on livestock farmers, by allowing more electronic data transfer.

The Over Thirty Months Scheme

We welcome the Food Standards Agency's intention to review the over thirty month rule and recommend that this review should be launched as soon as possible. An exit strategy for the OTMS needs to be negotiated with the EU.

p. 51

When the time comes and the UK can move into the 'low risk' category, then the DBES should be wound up. In the meantime, we urge the Government to press for changes to the DBES, given the low rates of BSE infection, to make it more accessible for beef exporters.

Agricultural Wages Board

On labour issues at least, farming may be ceasing to need its own dedicated regulatory regime. We recommend that in 2004, after the CAP Mid-Term Review and in anticipation of large-scale CAP reform, the Government should reconsider the future of the Agricultural Wages Board.

p. 52

Alongside increasing efficiency, and adding value, *diversification* is the third key strategy which farmers may need to employ to increase profits:

p. 54 We recommend that DTLR implement the conclusions of [their recent review of planning policy] quickly, and make sure that all planning authorities are resourced to follow best practice and give proactive advice to rural businesses considering diversification.

Planning

p. 55 England needs a long-term strategy for creating and exploiting opportunities in non-food crops, including starch and oils. This area should be a high priority for the research and technology transfer effort we have outlined.

Renewable raw materials & energy crops

We recommend that the Government should reduce duty on biofuels to that charged on other clean fuels (4.5p/ℓ at the time of writing). We believe this will help convince processors to drive the market forward.

We also think that planning guidance must strongly support development of local Combined Heat and Power and gasification plants, in the context of developing new energy markets. DTLR should encourage this as part of the current overall planning review, and the revision of Planning Policy Guidance being undertaken by the Government. Given the environmental rationale for growing these crops, care must be taken to ensure that they are grown and transported by energy-efficient and ecologically sound means.

We think that the Government should take action to encourage [farm flood management schemes]. In particular, future environmental schemes, and where appropriate woodland schemes should include water management as an option for support. In the same way, the Government should ensure that land management responses to flooding are eligible for funding from flood management budgets alongside more traditional methods of flood defence. The use of land management options will be aided by a rapid shift to whole-catchment planning and away from the current system. The farming industry should look to embrace water management as a viable 'alternative crop'.

A strategy to encourage diversification needs to consider the special position of tenant farmers. We are concerned that the very short terms on which tenancies are often now let may be acting as a barrier to sen-

sible investment, as well as doing nothing to encourage good management of the environmental resources of the farm.

Tenancy

We recommend that DEFRA, DTLR and the Treasury conduct a review of the tax position of Farm Business Tenancies to see how changes could encourage longer lets and sensible diversification.

p. 57

The review should consider in particular whether a new form of reinvestment relief within capital gains tax should be introduced to allow landlords to defer capital gains that are reinvested in improvements to let land under the 1995 Act during the term of the tenancy.

The review should also consider whether land and buildings subject to an FBT, which is used for the purpose of any trade conducted by an unincorporated tenant, should qualify as a business asset for the purposes of capital gains tax taper relief.

We recommend that, once DEFRA have the outcome of the Plymouth University study on FBTS, they should, with relevant organisations, revisit the definition of 'agriculture' within tenancy legislation.

Farming will continue to see significant restructuring in the next decade. We want farmers to be confident about the future. But it will be challenging, and some farmers will not want to take on that challenge. Some will be leaving the industry and the Government should do what it can to assist those who want to. We do not recommend an early retirement payment scheme because we do not believe it would offer value for money commensurate with the large costs involved. But we do see a need for a drive on advice to potential leavers to assist them in considering their options.

Restructuring the industry

The drive on advice to farmers we recommend will need to point to services that can provide guidance and facilitation in all the components needed for successful retirement by farmers. DEFRA should work up a supporting pack of advice for farmers considering retirement, in consultation with industry bodies, banks, the Small Business Service and Revenue Departments. The advice should include business planning, succession planning, retirement planning, taxation planning, change management, train-

p. 58

ing needs analysis and an overview of existing Government support measures.

We also want to see more done to encourage new entrants into the industry. We regard this as vitally important to the long-term health of farming. While ultimately profitability will be the key to attracting new talent, there is a danger of a chicken and egg situation developing in the meantime, if the entrepreneurs who will turn things round are not yet in place.

p. 59 **The Government, in partnership with the farming industry, should develop positive promotional materials for Careers Advisory Services, both for school leavers and adults.**

Encouraging new entrants

We would encourage the promotion of alternative entry methods, such as share farming or contract farming. We think that innovations such as work-to-rent (whereby partnerships are formed between existing tenants who want to leave the business and new entrants) have potential.

We recommend that the Government sponsor the NFU to create and manage a matching service to bring together new entrants with retiring farmers who do not have identified successors.

Bringing on knowledge and skills among these new — and existing — land managers will be vital for the future. A multi-functional industry needs multi-skilled workers.

p. 60 **We urge the Department of Work and Pensions to review the rural schemes being developed in Scotland and Wales with a view to testing their feasibility in the English countryside.**

Developing knowledge and skills

p. 61 **We believe that — in farming at least — England should match Scotland and Wales in removing the 25 years age limit on entering Modern Apprenticeships.**

Vocational training

We welcome the current pilots for Apprenticeships in veterinary nursing and countryside management. We encourage DFES to support and fund the introduction of Graduate Apprenticeships in farming, horticulture and land (including woodland) management.

We would encourage DEFRA to simplify the administration of the VTS as far as is possible within EU rules. It should also be better integrated into the environmental management aspects of the ERDP.

Universities and agricultural colleges should be fully involved in the Centres of Vocational Excellence programme. LANTRA and DEFRA should review agricultural education in full. Every institution should aim to develop at least one COVE by 2004.

We also recommend that universities and colleges in general provide a much broader range of learning opportunities, including distance learning courses and modular courses, with a particular focus on continuing education.

Better business advice

We recommend that the results of [the Bowland and Bodmin] initiatives be thoroughly and rapidly evaluated by DEFRA, together with the outputs of FBAS, using the lessons learned to inform a full and open review of farm advice services and priorities for action.

p. 63

We propose setting up a Farming Adviceline to signpost farmers to the best advice currently available. We would also recommend that the Adviceline provides simple administrative information and advice on regulations and other Government requirements. It needs to be tied in with the new web-based structure we recommend for co-ordinating guidance on Government regulations.

To ensure that farmers receive high quality advice they can trust and is value for money, we believe all publicly-funded advisers should be accredited. Training is also needed to develop advisers' all-round skills and knowledge.

To help farmers plan for the future, we recommend those joining the new entry-level agri-environment scheme outlined in chapter 4 should receive three free days of advice from a local accredited adviser. In addition, as an initial contribution to developing knowledge, skills and co-operative working, every farmer should receive a £250 training credit annually for the next three years.

As the industry reinvents itself, it will need to look again at its representative bodies and structures, some

of which were set up to reflect the needs and ambitions of a different era.

p. 65

We have heard occasional talk of a confederation of British agriculture, and think that the idea is worth exploring.

New industry, new structure

Government should take an active role, working with the industry, in reviewing the full range of industry bodies, to make sure that they are modern and in tune with the industry's new ethos.

ENVIRONMENT

The core theme of our recommendations on farming and food industry competitiveness will be reconnecting farmers to their market.

For Government — except where it can help at the margins, as with strategic R & D and advice — that means getting out of the way. It implies treating the farming and food industry like any other sector of the economy. And in most respects we think that farms are businesses like any other.

The one thing that makes farms different is their role as managers of the land. There we do see a case for different treatment.

Sustainable land management is a vital need — clean water, air and healthy soils provide much wider public benefits. This is on top of the value of the countryside as part of our cultural heritage, as a place for wildlife, for its beautiful landscapes and as a massive earner through tourism.

This is the one place where we do see a case for continuing public support for agriculture, incentivising the production of environmental public goods which would otherwise be underprovided by the market. We hope it will increasingly be possible for farmers to earn a return for higher standards through the marketplace, and we have put forward initiatives to help this happen. Regulation, taxation, advice all have a role in raising and underpinning high standards.

However, payments for positive management are likely to remain a key part of the strategy.

We want to see a shift in public payments towards the goal of reconnecting farming with the countryside. FMD underlined the strong nexus of links here. As well as being valuable for its own sake, the countryside has an earning potential which goes way beyond its use as a base for production of food. It is the sustainer of tourism and the key comparative advantage for the rural economy. Properly looked after it could be a valuable part of farmers' own brand too.

A healthy and attractive countryside was previously provided as by-product of farming. The practices that gave rise to it are often not now economic. Farming practice and the familiar English landscape have diverged.

The Common Agricultural Policy (CAP) has been widening that gap by sponsoring overproduction. We see a strong commercial case for CAP reform. With the environmental arguments the case is overwhelming. CAP reform would remove perverse incentives to damage precious resources. As production subsidies are reduced, more should become available to lever out environmental and social public goods through rural development programmes. Instead of the CAP widening the gulf, we would like to use positive management payments to bridge it; and avoid the choice between the environment suffering through neglect, or intensification.

The countryside has sustained substantial damage as a result of modern farming techniques. This is not farmers' fault (and we hope the Government will make this crystal clear, as a first step to regaining their confidence). They have been responding to public signals. It is unfair to vilify them if the survival of their business means they cannot go on looking after the environment for free.

Who is to blame

The Government should make a clear statement of its support for farming as sustainer of the rural environment as well as food producer, and properly reward the industry for its role in managing the countryside. It should make clear the key role of farming in delivering our vision.

p. 70

Nonetheless the damage is real. There has been some stabilisation over the last ten years, thanks largely to the effect of agri-environment schemes. But these are still working against the grain of production subsi-

dies. And on some indicators problems are still getting worse. The farming and the food industry has got to address these problems, with Government help where that is justified. Just as other industries have had to get used to the concept of a 'licence to operate', in the future we see this becoming part of the unofficial 'licence to farm' that society will expect from those involved in managing land.

The minimum legal standards expected of farming on the environment are set to rise over the next decade, with EU Directives already on the way, for example on nitrates, water and waste. Government and the industry need to develop a joint understanding of the implications of these Directives and a strategy as to how they will be met.

p. 72

We recommend that Government develop and publish a strategy for implementing the environmental Directives. Besides describing how progress on meeting each Directive's environmental objectives will be monitored and reported on, the strategy should include cost-benefit analyses and regulatory impact assessments. It should look forward over the next ten years. An initial assessment should be made available within a year, and should be updated annually thereafter.

How do we deliver?

These Directives by themselves, however, will not exhaust what society will want from farming as steward of the countryside. There are other problems we have to address: protection of soils; loss of landscape features and character — a key point for tourism; loss of wildlife and habitat.

We urge the Government to ensure in the forthcoming trade round that payments to create a market for environmental goods are not struck down by WTO rules. We believe that they will be a key tool in rural development policy.

Many of these are areas where the Government has public or legal commitments to fulfil, which will be missed unless efforts to address them are stepped up, such as the EU Habitats and Birds Directives; the English Biodiversity Plans; the Government's published target for reversing the decline in farmland birds.

To meet these commitments the problems will need to be addressed not just in a few environmental oases but to greater or lesser degree across the broad range of the English countryside. There will need to be prioritisation. There may be some areas where just a basic level of protection is acceptable. But we do not think there will be any places in a small country like England where there is no measurable public good from protecting and enhancing the countryside, and where the environment can be consequently written off.

Just as we argue that we cannot wait for full-blown CAP reform to make a start on reorienting farming as a business, we do not believe we can wait until 2006 to address these environmental problems in the English countryside.

Reforming the CAP

As production subsidies decline, the Government's objective should be instead to secure a progressive transfer of resources in Europe towards wider social and environmental objectives under the so-called Pillar II of the CAP. Public funds should be refocused on public goods, rather than subsidising overproduction. While we believe that a proportion of the funds freed up in this way should go to rural development measures, we want to see the Community's budget for environmental programmes in the countryside substantially increased, helping to encourage best practice and pay for environmental benefits which the market will not provide.

p. 74

We believe we should use the flexibility which is available now through the so-called 'sheep envelope' to start to unlock more sustainable livestock management.

Shifting the balance of incentives

We welcome the principle of the sheep envelope as a precedent for creating flexibility within existing CAP payment schemes to pursue more sustainable objectives. We would like to see the Government press for similar flexibility within the current beef envelope.

p. 75

We would like to see the Government use money in the sheep and beef envelopes in ways that actively encourage environmentally desirable behaviour.

There is scope to increase the size of the envelope by reducing sheep annual premium payments by €1 per animal. If the envelope is used for incentives for environmental management, we would encour-

age the Government to take advantage of this option as soon as possible, to maximise the envelope's beneficial effect.

We also believe we should make greater use of the mechanism called 'modulation' to transfer money from direct payments to rural development support. This will reduce the perverse effects of CAP payments and free up more resources to pay for genuine public good.

There will need to be reform as to how modulated receipts can be spent to achieve full results from these resources. But the rates of modulation do also need to be increased.

p. 77

We recommend that the Government should increase rates of modulation to 10% from 2004.

Modulation

If substantial CAP reform is not delivered in 2006-07 we believe the Government should give serious consideration to a further increase in modulation at that point to the maximum 20%. Its judgement at the time should, however, take into account the prevailing sterling exchange rate, if the UK remains outside the euro area at that time, and what has happened to trends in commodity prices. These will continue to be the key factors in driving net farm incomes, outweighing any effects from modulation.

We urge the devolved administrations and the UK Government to go forward together on this.

We therefore recommend that the Government should, with its partner administrations in Scotland, Wales and Northern Ireland, modulate production subsidies, on a flat rate basis, at 10% from 2004 and use the resources made available by this to provide additional funding for the England Rural Development Programme and for its sister plans in the devolved administrations. Extensification premia should be left unmodulated in recognition of their positive environmental effect. We recommend that the Government should fully match fund the modulated resources at a rate of 100% from the Exchequer.

While some modulated resources need to be spent on assisting industry restructuring, we think the bulk should go towards paying farmers, through so-called agri-environment schemes, for the environmental ben-

efits they can provide society through positive management of the land.

We will want to see reforms to these agri-environment schemes as they currently stand. The current suite is confusing for potential entrants, time consuming to apply for and the schemes suffer from very high overheads.

Existing agri-environment schemes

DEFRA should bring in management consultants to look at planned investment in IT, and whether enough is being done to deliver simplified application procedures and reduce stewardship scheme administration costs.

p. 79

A new approach

We believe that the existing suite of schemes should be rationalised to become the upper tiers of a single new stewardship scheme, and should at least retain their current level of funding.

p. 80

The existing schemes are designed to be targeted on particular areas of special conservation value — rightly so with a limited budget — but are consequently not the best vehicle for delivering environmental benefits to a lower level across a wider area. In particular they will not hit all the targets required by our EU resource protection and habitat commitments. For that we need a new ‘broad and shallow’ scheme, involving a much larger land area and many more land managers.

Entry to that scheme needs to be linked to a new whole-farm audit and plan which will identify the environmental assets on the farm, identify the gaps that have to be plugged, and provide environmental regulators with the information to take a risk assessment-based approach, rather than burdening all farm businesses with the same heavy load of inspections.

Whole-farm plans and audit

A new whole-farm audit and plan should be grafted on to the existing IACS system, where it applies, to minimise the need for new procedures. IACS will need to be paired with Geographical Information System (GIS) capacity to fit it for this role. Many elements of the plan would be consistent year on year, minimising the annual burden on farmers of maintaining it.

p. 82

Given the potential of the audit to help farmers meet their existing and forthcoming legal requirements, the audit programme should be rolled out as soon as

possible. Its roll-out should not be restricted only to those involved in or immediately intending to enter the stewardship scheme. The aim should be to provide all farmers with basic information about their environmental obligations and opportunities. This would help build up a better picture of the environmental assets and compliance gaps across the country as a whole and could signpost farmers not in schemes to participate to their advantage. In particular there is a case for rolling audits out as soon as feasible to the intensive pig and poultry sectors, where there have been significant resource pollution problems in the past.

p. 84

We recommend that the Government should increase the level of spending substantially on agri-environment schemes, through modulation in the short term, and Community-wide 'degression' of direct payments after 2006. Without endangering their outputs it should rationalise the existing agri-environment schemes and merge them to become the upper tiers of a new single stewardship scheme. The same scheme should in due course incorporate the other existing land management grants for example for woodland and flood protection.

Payments for positive management

The bulk of the new resources made available for agri-environment programmes by further modulation should be spent on a new, broad and shallow 'entry level' stewardship tier, open to as many farms in England as possible, and accessed through a whole farm plan. This tier must be kept as simple and easy to administer for farmer and Government as possible, with payment on a flat rate basis per hectare. There should be as light a touch in compliance monitoring as EU rules will permit.

Upland areas of England will need rather different treatment from the rest in view of their special circumstances.

p. 85

We believe that the existing Hill Farm Allowance funding along with receipts from modulation should be combined in upland areas to become a single 'broad and shallow scheme' for hill areas. Taking the two streams of funding together would produce higher payments in hill areas. As in the lowlands, the existing more bespoke schemes above the new tier would be rationalised into steps of a single ladder, ascending through more demanding tiers

Upland areas

that are increasingly aimed at particular areas, habitats and species. Upland areas will continue to be targets of these upper tier schemes because of their special environmental character.

We also comment on a number of detailed but important issues on the design and implementation of the new broad and shallow stewardship tier.

Other issues on environmental payments

We recommend the agri-environment programmes are given a measure of stability by fixing a floor at the start of the agreement period below which rates will not be allowed to drop for five years.

p. 87

The Government needs to look for a different language which better reflects the fact that the provision of environmental public goods is not a substitute activity for something else.

Implementation issues

The Government needs to ensure that DEFRA gets the necessary running cost resources to ensure that the scheme is administered smoothly and effectively. It needs to make the necessary investments in mapping technology and IT to make sure that administration is as efficient and as little burdensome as possible.

p. 87

The operation of the new broad and shallow stewardship tier should be piloted across a range of sectors as soon as possible. Farming industry representatives and other land managers should be involved from the start in the design and implementation of the new scheme. The Government will need to consult widely on the resulting revision of the existing England Rural Development Programme.

Against this background of valuing and rewarding farming for the environmental public goods it provides, we welcome the growth in the organic farming sector and would like to see this further encouraged.

Organic farming

We believe that ongoing public support for organic farming — targeted on its environmental benefits — is justified. We believe that the best approach would be for it to become a separate strand of our recommended new ‘broad and shallow’ environmental scheme.

p. 88

We recommend the development of a strategy for organic food production, covering issues such as

research, development, standards and marketing, and addressing all parts of the food chain in the same way as we have recommended for conventional supply chains. We would look to the new Food Chain Centre to lead this task in partnership with the Soil Association, the other organic associations and the Government.

In the future technology could be a vital tool for good in bringing competitiveness and environmental sustainability together, just as it has sometimes been a factor in the environmental damage of the past.

p. 89 **To assist and encourage the take-up by farmers of environmentally beneficial technologies we would like to see capital allowances offered on specified new environmental pollution control and monitoring equipment in agricultural use.**

Technology and the environment

In this context we comment on how the Government should be dealing with the Genetically Modified crops debate, and with concerns about pesticides.

p. 90 **We believe the AEBC is the right body for the task of helping the Government steer a course on [the GM] issue, and we fully support the recommendations of the AEBC in its recent report 'Crops on Trial'.**

Biotechnology

We believe the Government may need to look at the balance of public and private research in this area, or at least do what it can to make sure that the outcome of all private research on GM is, and is seen to be, subject to the most rigorous peer review.

To keep consumer choice open, we recommend that the Government considers how to manage [the issue of co-existence] and comes forward with proposals to deal with the alternative scenarios alongside the publication of the findings of the Farm Scale Evaluations.

p. 91 **We recommend that the Government maintains its strategy to reduce the risk from pesticide use, and that efforts to research and disseminate advice on systems and techniques such as Integrated Farm Management and organic farming, that reduce or avoid the need for pesticides, should continue to be a high priority for public research and technology transfer funding.**

Pesticides

We recommend that the voluntary industry package of measures on pesticide use is embedded within the baseline 'Red Tractor' assurance scheme. Meanwhile, the case for a pesticides tax should be kept under continuous review, as at present. Ongoing attention should be given to the development of policy measures in other EU Member States, to ensure that the voluntary agreement is in line with standards elsewhere in Europe, as far as is appropriate in England's situation.

We recommend that policies are put in place alongside existing off-label approval to ensure that growers of minor crops can continue to produce, and that if necessary pesticides should be permitted for minor crop use until viable alternatives become available. Progress could be helped considerably by genuine harmonisation of pesticides approvals in the EU for zones of similar climate. We urge that this is completed as soon as possible. At the same time for the industry as a whole, to protect the environment and in the interests of safety we recommend that older broad spectrum chemistry is replaced by newer, more selective, less persistent chemistry as soon as practicably possible.

We recommend that the Advisory Committee on Pesticides should widen both its remit and representation to allow a broader, more inclusive and open approach to its important work.

Many of our recommendations are concerned with farming because of its special role as manager of the land and because the history of Government involvement in agriculture means there are more policy levers at its disposal. But there are environmental issues in the rest of food chain. Chief among these are the transport pollution associated with food distribution, and the waste from packaging.

Food chain and the environment

There is a need for supermarkets to re-examine their supply routes in the light of concern over the environmental impact of food distribution and its effect on traffic congestion. Reducing the transport of animals to centralised slaughter plants has to be a special priority. We understand that at least one major retailer is already looking at this issue seriously and we urge the others to do so as a matter of urgency.

p. 93

We think that Government is right to keep the rate of landfill tax under review, and to consider higher rates if that is necessary to accelerate progress.

PEOPLE

As well as reconnecting farmers with the food chain and the food chain with the countryside, we need to reconnect with the role of consumers, their perceptions, and the health impact of the food they eat.

We are seriously concerned about nutrition and the health problems that poor diet is contributing to in this country. There is an overarching link from the farm to nutrition that has to be better understood and reflected in public policy.

Consumers are concerned about the safety and standards of the food they are buying. They want confidence back about what they are eating. The industry needs to restore that confidence; doing so is a responsibility as well as making sound commercial sense.

Most consumers have little contact with how their food is produced. They need honest information, presented in a way that they can understand. Among other measures, this means better labelling.

We welcome the Food Standards Agency's efforts to involve stakeholders in future policy on labelling. We support their campaign on EU labelling rules, which aims to remove ingredient listing exemptions for major allergens, to extend compulsory country of origin labelling, to improve nutrition labelling with clearer labels and statutory criteria, and to establish a practical system for verifying health claims.

We particularly agree that compulsory country of origin labelling should be introduced for as wide a range of foods as possible. Such labelling must be straightforward and honest, without legalistic trickery. Country of origin on labels should have its simple English meaning, and food should not qualify as being from a particular country merely on the grounds of having been processed there.

The focus of the FSA's work has been on producers and retailers, but the food service sector is growing quickly. This sector needs to be addressed as well,

to ensure that consumers in food service outlets have access to the information they need to make informed decisions. Information should be available and easy to use, but should not be forced on consumers. What is put in place should not impose heavy burdens on caterers — or destroy the experience of a good meal out.

Factual information on food is good. But consumers of all ages also need to develop a deeper understanding of where and how their food is produced.

Other ways to reconnect with consumers

We think farmers should embrace the idea of access to their farms. They should see this as part of their new contract with taxpayers, who will be funding environmental management payments. Farmers need to give their full and active co-operation in delivering the requirements of the Countryside and Rights of Way Act 2000.

p. 98

Local Education Authorities should try and ensure that all school children get the chance to visit working farms at least once, as enjoyable days out as well as a learning experience. We encourage the Department for Education and Skills to explore whether a national voucher scheme or similar system is needed to enable this to happen.

We urge the Government to continue its creative partnership with the voluntary sector to facilitate more and better quality educational visits to farms and to promote learning in ‘outdoor classrooms’.

We welcome the recognition that co-ordinating resources is a more effective way of getting messages across. We hope that more industry bodies will join the FACE initiative and help make a real impact on information provided to schools.

To regain the confidence of consumers, the farming and food industry needs to address concerns on animal welfare. Most people would want to ensure that animals are kept to the highest welfare standards possible. If farmers are to have the confidence to invest in higher welfare standards, informed consumers will need to support these standards through their purchasing decisions.

Animal welfare

We are aware that a small minority of producers are operating well below the provisions of the welfare

p. 100

codes of good practice, and we feel it is essential that these should not be allowed to bring the industry as a whole into disrepute. If we can ensure that retailers and the food service sector support the move to an assured supply chain, then these rogue producers should very soon find themselves without a market. If not, we see a case for implementing a licence system for farmers not involved in assurance to ensure enforcement of the codes.

We recommend that efforts be made to establish EU-wide agreements on the raising of animal welfare standards in Europe.

The rapid advances in technology as currently and potentially applied in food and farming have alarmed many people. But sound technological advances are necessary for the industry to remain competitive. Resolving these tensions is essential for the future of the industry. Key to this is being open about developments and giving the public a stake in decisions.

p. 101

We recommend that all public and industry bodies concerned with research, development, regulation and standard setting involve public representation. We commend to all public bodies the example of the Food Standards Agency, which is setting new benchmarks for openness and transparency in carrying out its role.

Science and society

The use of antibiotics in livestock production is a case in point, where modern techniques and public concern are in tension.

p. 102

DEFRA and the FSA should ensure that progress made through the reduction of licensed antibiotic growth promoters is not eroded by the use of other antibiotics also cross-resistant with important medical drugs. Imports to the UK should meet UK and EU standards in order to protect public health.

Antibiotics

All steps should be taken to encourage husbandry systems which reduce the likelihood of zoonoses development: further work should be undertaken by an expert group to determine any further actions that might be prudent.

Given the lack of commercial drivers to encourage the development and uptake of low or no drug farming systems, this area must be considered in the

formulation of the animal health strategy we recommend on page 50, and must be a priority for publicly funded strategic research.

Our proposals on labelling, information and transparency, and on regaining consumers' confidence in English food need to be overlaid with a co-ordinated public strategy on nutrition and its role in the nation's health. The industry needs to play a full part in this effort.

Healthy eating

We believe that as a country we need a proper strategy on improving nutrition, along the lines of — and for the same reasons as — the 30 year strategy we have had on road safety.

p. 103

The Department of Health, the FSA and DEFRA should come together to produce a strategy on all aspects of encouraging healthy eating, in consultation with leading academic and medical experts. This strategy should not be the servant of consumer demand, but should try and lead and awaken it. The strategy should embrace population approaches. In particular, we believe that Primary Care Trusts, as part of Local Strategic Partnerships, should ensure that a food dimension is included in health improvement and community plans. This should include monitoring of food and health inequalities.

The role of the food chain

The industry should establish a group to look at how the industry can play its part in encouraging good nutrition. We think that this group should consider how the demand for healthier foods can be increased, and how to ensure that a healthy nutritious diet is available to all, working closely with existing structures like the British Nutrition Foundation. Given eating trends, they will also need to look at what can be done, for example, to reduce salt, sugar and fat levels in processed foods. This group must examine food advertising and how to encourage responsible advertising, that explains to parents the nutritional value of food advertised to children, and the benefits of a balanced diet. The group needs to work closely with the Department of Health and the Food Standards Agency.

p. 103

The food service industry needs to be included in this effort. Catering staff should be trained in principles of healthy eating. We know that the FSA has done good work in this area. We believe that the

nvqs related to catering should include study of healthy eating guidelines.

Government, through schools, the services, hospitals and so on is directly responsible for providing meals for many people. Government needs to look at how it can promote healthy eating and an interest in food through its public procurement policies, and to children in schools.

p. 104 **We recommend that the new cross-Government group which has been set up to examine how Government procurement can support environmental outcomes should look at the area of food sourcing and public procurement rules.**

Public procurement

p. 105 **As a key part of a national strategy on improving nutrition, we urge the Government to move as fast as it can on rolling out its proposed National School Fruit Scheme. We encourage its extension up the age range, to ensure that good habits learned in early school days are reinforced later on in life.**

Fruit in schools

p. 105 **We urge the Department for Education and Skills, and the Department of Health, to work together to roll out the lessons of projects such as Bangor as widely as possible in schools.**

Educating children about food

A strategy to promote good nutrition must address the needs of low-income consumers, who are as interested in eating healthily as other people but because of their circumstances can find it particularly hard to get access to a balanced diet.

p. 106 **We encourage all RDAs to look at expanding such schemes. When such schemes become more widespread, the industry group we recommend on page 103 should spread understanding of them throughout the food chain, and should encourage leading retailers to replicate what is already industry best practice, and supply them at low cost.**

Food deserts

We encourage city councils to provide suitable sites and facilities for markets in areas that are under-supplied by retailers. These sites should meet all appropriate hygiene and food safety standards.

We sought to gather views and information from as wide a cross-section of stakeholders and interested members of the public as possible. We adopted the three-strand approach described below as a means of gathering comments and input:

We issued a consultation paper, on 25 September 2001. The document was published on the Internet and distributed in hard copy to a wide range of stakeholders. The consultation period ended on 26 October 2001. In this time, we received in excess of one thousand responses.

We also scheduled a series of regional events to follow the release of the consultation document. These events gave us the opportunity to discuss farming and food issues with local stakeholders in meetings that were open to the public, and to look at examples of best practice from across the country. We also wanted to take regional differences into account.

Finally, we arranged a number of sector-specific stakeholder events. We agreed that it was important to be open and consultative at these meetings, and to encourage comment as much as possible.

THANKS

We would like to thank the following individuals and organisations for their contribution to our work.

Those who responded to our consultation document.

The staff at Government Regional Offices who helped us organise our regional visits.

Those who hosted and informed our regional visits and stakeholder meetings, in particular:

John Alvis and his team

Lord Barnard

Peter Barr

Chris Bowers

Guy and Jo Brickell

John Brookham

Dr. Mike Bullard

Philip Chamberlain
John Cullen
The staff and members of Cumbrian Fellbred
Clare Deveraux
Nick Green
Robert Grey
Deborah Johnson
Stephen Hart
Patrick Holden
Jill Johnstone
Peter Melchett
Anne Kelaart
Prof. Philip Lowe
Mary Lynch
Judy MacArthur Clark and FAWC
John Park and his family
Rod and Ann Pattison
Jim Reed
Mark Robins
Carol Somers
David Stewart
Surrey Hills Marketing Co-operative
Lindsay Waddell
Wildlife and Countryside Link
Alan Worth and his team

*The staff of DEFRA and other Departments and agencies
for their prompt and willing assistance.*

For their thoughts, ideas and contributions:

Ellie Robinson
Sue Armstrong-Brown
Martin Haworth
Alastair Rutherford
Prof. Allan Buckwell
Joanne Denney
Jim Ward
Sean Rickard

*And, last but not least, our Secretariat, for their hard work
and enthusiasm:*

James Quinault
Anthony Zacharzewski
Siôn Roberts
Diana Linskey
Philip Andrews
Neil Jasper
Camilla Thornton, and
Pete Mann

CONSULTATION RESPONSES

B

Our thanks go to the organisations listed below, and to 303 individuals, for responding to our consultation.

Copies of consultation responses are available for those who want to see them. Please apply to

The Library
DEFRA
Whitehall Place
London
SW1A 2HH

- A -

A Turner & Sons
A W Squier
Abingdon Town Council
ABNA
Action With Communities in Rural England
ADAS
Advisory Committee on Consumer Products and the Environment
AEA Technology
Agricultural Christian Fellowship
Agricultural Engineers' Association
Agricultural Lime Association
Agricultural Sciences Committee
Anglia Polytechnic University
Animal Christian Concern
Applied Rural Alternatives
Arkendale Hall
Arun District Council
Asda Stores
Association of Unpasteurised Milk Producers & Consumers
Association for Areas of Outstanding Natural Beauty
Association of British Insurers
Association of Drainage Authorities
Association of Independent Meat Suppliers
Association of National Park Authorities
Association of Professional Foresters
Assured British Meat
Assured Food Standards
Aventis Crop Science UK

- B -

Basingstoke and Deane Borough Council
Bath Association of Graduate Women
Beech House
Biodiversity International
Biomass Industrial Crops
Biotechnology & Biological Sciences Research Council
BioWise
Biscuit Cake Chocolate and Confectionery Alliance

BOCM Pauls
Bond Pearce
Border Crop Management
Bracknell Forest Borough Council
British Agriculture Water Abstraction Group
British Association for BioFuels and Oils
British Association for Shooting and Conservation
British Bakeries
British Bankers' Association
British Bedding and Potplant Association
British Chambers of Commerce
British Egg Industry Council
British Food Trust
British Frozen Food Council
British Genetics Consortium
British Heart Foundation Health Promotion Research Group
British Hydrological Society
British Independent Fruit Growers' Association
British Meat Federation
British Meat Manufacturers' Association
British Medical Association
British Pig Association
British Pig Executive
British Potato Council
British Poultry Council
British Retail Consortium
British Safety Council
British Society of Animal Science
British Society of Plant Breeders
British Sugar
British Tomato Growers Association
British Tourist Authority
British Water
British Waterways
British Wool Marketing Board
Broadland Agricultural Water Abstractions Group
Brookes Avana
Buccleuch Group
Burnhams Group
Butterfly Conservation

- C -

C W Dobbs & Sons
Cadbury Schweppes
Cambridgeshire County Council
Centre for Social and Economic Research on the Global
Environment
Centura Foods
Chapter 7
Charnwood Foods
Chartered Institute of Environmental Health
Chartered Institution of Water and Environmental
Management
Cheale Meats
Cheshire County Council
Cholderton Estate
Christian Ecology Link
Christian Salvesen Foods
Chubbes

Church of England Diocese of Hereford
Churches Rural Group
Co-operative Group
Commercial Farmers Group
Commercial Horticultural Association
Committee for rural Dorset
Compassion in World Farming
Conlan Consulting
Consumers' Association
Consumers for Health Choice
Cormac Business Systems
Cornerstone
Cornwall Agricultural Council
Council for the Protection of Rural England
Country Land & Business Association
Countryside Agency
Countryside Alliance
Covent Garden Market Authority
Crop Protection Association UK
Cumbrian Fellbred
Cycle Touring and Countryside

- D -

Dairy Industry Federation
Dartmoor National Park Authority
Devon Community Composting Network
Devon County Council
Devon Foot and Mouth Inquiry
Direct Sellers' Co-operative

- E -

Earth Care Consultancy
Earth Centre
East of England Regional Assembly
East Suffolk Water Abstractors Group
Eastbrook Farms Organic Pigs
Elm Farm Research Centre
English Heritage
English Nature
English Tourism Council
Enjoy Organic Company
Environment Agency
Environmental Law Foundation
Environmental Services
Essex County Council

- F -

Fabian Society
Family Farmers' Association
Farm and Food Society
Farm Animal Welfare Council
Farm Assured British Beef and Lamb
Farmed Environment Company
The Farmer
Farmers Link
Farmers Weekly
Farmers' Club

Farmers' Conservation Group
Farming & Wildlife Advisory Group
Farming and Countryside Education
Federation Of Bakers
Federation of City Farms & Community Gardens
Federation of Small Businesses
Federation of Sussex Amenity Societies
Federation of Women's Institutes
Fertiliser Manufacturers' Association
Fish Producers Organisation
Five Year Freeze
FJD Marketing and Design
Food and Drink Federation
Food Ethics Council
Food From Britain
Food Standards Agency
Forest Food Links
Forestry Commission
Foundation for Local Food Initiatives
FPD Savills
Framlington Farmers
Freshwater Biological Association
Friends of the Earth

- G -

G H Walton And Son
Game Conservancy Trust
Gateshead Council
General Consumer Council
GeneWatch UK
Geo. Adams & Sons
George M Cressey & Son
Gibson Institute
GIRA Euroconsulting
Global Development Realities, UK Agriculture Issues
GM Policy and Regulation Unit
Government-Industry Forum on Non-Food Uses of Crops
GPC International
Grampian Country Food Group
Greenpeace
Guild of Food Writers

- H -

Haemolytic Uraemic Syndrome Help
Hall Farm
Hampshire County Council
Harper Adams University College
Harwick Estate Office
Haydens Bakeries
Health and Safety Executive
Health Development Agency
Heeley City Farm
Help The Aged
Henry Doubleday Research Association
Historic Farm Buildings Group
Holgran
Home Grown Energy
Honest Food

Humane Slaughter Association

- I -

Independent Farmers Group
Institute of Agricultural Management
Institute of Food Research
Institute of Grassland & Environmental Research
Integrated Approach to Crop Research

- J -

J W Grant Company

- K -

Keith McDougall Associates
Kelvin Cave
Kennet & Thames Training
Kensham Farms
Kirklees Metropolitan Council
KPMG
Kraft Foods

- L -

Lake District National Park Authority
Land Heritage
Lantra National Training Agency
Le Pain Croustillant
League Against Cruel Sports
Lexington Communications
LGA Public Protection Executive
Linking Environment And Farming
Livestock Auctioneers Association
Lloyd Maunder
Lloyds TSB
Local Government Association
Lochaber Environmental Group
Lois Park
London Borough of Camden

- M -

Maltsters Association of Great Britain
Manor Bakeries
Manydown Company
Marks And Spencer
Mars Confectionery
McCreath, Simpson and Prentice
McCrone Farmers
McDonald's
Meat and Livestock Commission
Midlands Energy Saving
Mill Race Nursery
Moorland Association
Moredun Research Institute
MRC Environmental Epidemiology Unit

- N -

NABIM
NAPAEO
National Association of Agricultural Contractors
National Beef Association
National Consumer Council
National Farmers' Union (South East)
National Farmers' Union Mutual
National Farmers' Union Ornamentals Committee
National Federation of Meat and Food Traders
National Federation of Women's Institutes
National Federation of Young Farmers' Clubs
National Foot and Mouth Group
National Forest Company
National Milk Records
National Office of Animal Health
National Pig Association
National Sheep Association
National Soil Resource Institute
National Trust
Natural Environment Research Council
Neil Wates Charitable Trust
Network Gloucestershire
North Cornwall District Council
North Country Primestock
North West Regional Assembly
Northern Uplands Moorland Regeneration Project
Northumberland Farmers' Markets Association

- O -

One North East
Onyx Environmental Group
Open Spaces Society
Organic Agenda Industry Group
Organic Milk Suppliers Co-operative
Overseal Foods

- P -

Pan Agriculture
Parrett Catchment Project
Peel Holroyd & Associates
Permaculture Association
Pesticide Action Network UK
Pinetops Nurseries
Plantlife
Poplar Farm
PPS Refrigeration
Practical Farming and Food
Promar International
Prospect Management Services

- Q -

Queens University Belfast

- R -

R F Brookes
Ramblers' Association
Rank Hovis
Raynham Farm Company
Reunite Edmonton
RGB Coffee Limited
RHM Food Services
RHM Ingredients
RHM
RHM Technology
Richmond and Kingston Co-operative party
Road Haulage Association
Robertson's Ledbury Preserves
Royal Agricultural Society of England
Royal Bath and West of England Society
Royal Commission on Environmental Pollution
Royal Institute of Chartered Surveyors
Royal Society
Royal Society for the Prevention of Cruelty to Animals
Royal Society for the Protection of Birds
Royal Town Planning Institute
Rural Business Research Unit, University of Nottingham
Rural Design & Building Association
Rural Development Agencies — National Response
Rural Stress Network

- S -

Safe Waste Systems UK
Safeway
School of Geography
Scottish Agricultural College
Scottish Crop Research Institute
Scottish Environment Protection Agency
SGM Engineering
Shearwell Data
Shropshire Agricultural Dwelling-House Advisory Company
Shropshire County Council
Small Farms Association
Snaith Salad Growers
Society of Independent Brewers
Soil Association
Somerset County Council
Somerset Food Links
South East England Regional Assembly
South East Primestock Producers
South Northants Council
South West Regional Development Agency
Specialist Cheese Makers Association
Suffolk Sheep Society
Supply Chain Initiative on Modified Agricultural Crops
Sussex Downs Conservation Board
Sustain
Sustainable Development Commission
Sustrans
Syngenta New Farm Crops

- T -

Tate & Lyle Europe, UM Feeds Marketing
Teesdale District Council
Tenant Farmers' Association
Test Valley Borough Council
Thames Water
The Thatched Cottages
Three Cooks
Trading Standards Institute
Transport and General Workers' Union
Trellis (North Wales) Ltd.
Tripartisan Environmental Movement
Tynedale Council

- U -

UK Agriculture Supply Trade Association
UK Association of Frozen Food Producers
UK Cleaning Products Industry Association
UK Industrial Sugar Users Group
UK Renderers' Association
Unilever
United Utilities
University of Aberdeen
University of Wales

- V -

Vegetarian Economy & Green Agriculture
ViRSA Educational Trust

- W -

W Austen Richardson
Waitrose
Ward Hadaway Solicitors
Wellington Lodge Llama Trekking
Wessex Organic Movement
West Lindsey Council
West Somerset District Council
Western Power Distribution
Westmorland County Agricultural Society
White House Farm
Wildlife Trusts
Wiltshire County Council
Wine Standards Board
Women's Food and Farming Union
Women's Institute
Woodland Trust
Woolley and Co.
World Wildlife Fund
Wyecycle

- XYZ -

Yorkshire Dales National Park Authority
Yorkshire Veterinary Society
Yorkshire Wildlife Trust
Youth Hostel Association

