Agricultural subsidies in the UK after Brexit

A progressive solution

A report written by the New Economics Foundation and commissioned by Global Justice Now

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 Executive summary

The EU Common Agricultural Policy (CAP) directly provides a significant sum of public money in subsidy to British farmers. There is broad consensus that this policy has been a disaster on multiple fronts. The CAP rewards large landowners by tying payments to the area of land, with the result that many wealthy individuals reap millions of pounds from public funds, while smaller farmers receive little or nothing. Some steps have been taken to incentivise farming methods that improve the environment and landscape through the latest CAP framework, but far more is needed to prevent irreversible damage. And in the past, the CAP has also incentivised overproduction and subsidised exports that have flooded markets in the global south, undermining local producers and creating a dependency on imports.

The vote in favour of the UK leaving the EU creates a new focus on this policy since a decision will be taken over the coming years regarding how to replace the current system of farm supports. A public dialogue on the principles of a new system is desperately needed, and this paper contributes to that debate.

The impact on the global south is especially crucial since small-scale producers in those countries feed most of the world’s population. From a global perspective, therefore, the most important principle for a new UK subsidy system is to do no harm to producers in the global south. The current CAP has attempted to address some of these concerns by decoupling payments from production (so there is no incentive to overproduce), but there are still a number of ways in which decoupled subsidies could affect production. However, the evidence on this is mixed. In practice, the most important policy features will be to avoid the most perverse subsidies (such as export subsidies) and reduce the total amount of decoupled support from currently high levels.

We identify a set of policy objectives that a new UK subsidy system should seek to achieve, including enhancing the natural environment and fostering local supply chains. We evaluate a range of policy scenarios, including the status quo and complete liberalisation, on their impact on these objectives. We then propose a new progressive subsidy system to better achieve the objectives. This policy would:

1. **Give each active farmer with at least one hectare of land a universal payment of £5,000.** This would greatly redistribute the available funds across farmers and would level the playing field for small-scale producers, while reducing the total amount of public money devoted to income support. The payment would only be conditional on a small number of minimum standards, including basic environmental stewardship.

2. **Offer grants for medium-scale, regional infrastructure, including processing facilities and local business development programmes.** This would allow local supply chains to be strengthened and maintained, while supporting new business models and small-scale producers.

3. **Offer subsidies for the provision of specific public goods.** Decisions on which public goods to prioritise and how to allocate budget would be devolved to regions to set 10-year frameworks based on local knowledge (subject to some nationally agreed constraints, such as on climate change mitigation).

The policy would save up to £1.1bn of public money, cutting the funds currently going to wealthy landowners while actually increasing the amount for small-scale farmers and environmental schemes. The outcome of decisions made in the coming months and years will be both highly consequential and long-term. So it’s essential to put forward concrete progressive ideas now. We can do better than the CAP, but we can also do much worse. We believe that this proposal for a progressive subsidy system could avoid detrimental effects on producers in the global south, enhance our environment, and spread the benefits of public funds more widely and fairly.
1. Context

The Common Agricultural Policy (CAP) has been a cornerstone of the European Union since 1962 and has shaped British agriculture since our entry into the Union in 1973. The policy is exceptionally complex and has undergone a number of different iterations, but has consistently accounted for a very high proportion of the EU’s expenditure (currently around 40%). The essence of the CAP is the payments made directly to farmers for a variety of reasons – from pure income support to payments for environmental improvements. The nature of these payments has changed substantially over the years, from payments that were deliberately designed to boost production, to payments that are designed to be neutral to production (so as to comply with World Trade Organisation rules).

Historically, UK governments have been unhappy with the CAP on the basis that other EU countries have much larger agricultural sectors and so benefit more from this very large pot of money. It was in this context that prime minister Margaret Thatcher famously secured a rebate on the UK’s contribution to the EU budget.

The CAP has always been a highly contentious and criticised policy. For many years the link between subsidy payments and production, which existed in previous versions of the policy, led to excess production and dumping of products on international markets at below cost prices. This was rightly seen as unfair on other producers and damaging to the environment. Since 2005, the great majority of CAP payments are no longer tied to production levels, but the absolute amount of payments remains historically high. These payments are now linked to the size of holdings, with the result that very large landowners receive very large payments, while smallholders may receive nothing at all. A recent investigation showed that millions of pounds in payments were going to some of the richest people in the country. The recent reform of the CAP has led to more emphasis on agri-environment schemes as a means of correcting the damage that the farming sector has caused in the previous decades; however, these efforts were watered down by lobbying before implementation and are widely perceived to be insufficient. Despite these failures there remains a strong rationale for providing public support to the farming sector – food production is an essential activity for any economy but is subjective to significant economic and natural uncertainty that can make it difficult for the industry to continuously thrive.

The UK’s vote to leave the EU in June 2016 heralds a radical change for the UK’s farming sector. The length of our engagement with the CAP and the sheer size of its contribution to farming income (in excess of 50% on average) will make any changes to the status quo highly consequential. Yet, this is a rare situation in which doing nothing is not an option – even if policymakers prefer to replicate the existing CAP system, this is still an active choice that must be made and implemented.

Better yet, we should take this moment to reflect on the food and farming system that we want as a society. If we must design a policy from scratch then we must think it through from the very basics: What do we want our food policy to achieve?

This paper aims to answer this question and considers the options that are available for achieving these objectives.
Most production of food in the world happens on small-scale farms in the global south. What happens to these producers is the single most important determinant of global food security and also, to a large extent, determines the total global impact of agriculture on our environment. Many different factors affect these small-scale producers, many of which cannot be influenced by the UK government. However, agricultural subsidies in rich countries in general clearly can have a big impact on producers in the global south through international trade. Hence it is critically important that we design an agricultural support system for the UK that does not detrimentally affect those producers or have other unintended consequences.

Are agricultural subsidies in rich countries bad for producers in the global south?

The argument for the adverse effects of rich country subsidies is based on the idea that production levels will be at least as high with subsidies as without, and potentially will be higher. All else being equal, this improves the rich country’s trade balance (either increases exports, decreases imports, or both) and therefore reduces opportunities for other countries (perhaps including those in the global south) to sell in that domestic market. It may also lead to excess production in rich countries that ends up being dumped at below-cost prices in the global south, thereby undermining the ability of local food producers to supply their own markets. This can have highly detrimental effects on the development of local markets and the livelihoods of producers, as well as hampering the long-term capacity of countries in the global south to feed their populations.

In terms of the impact on the global south, it’s important to distinguish between different types of subsidies. Subsidies that are “coupled” (meaning that they are tied to production in some way) have a direct and continuous impact on the price at which producers can sell each unit of output. There are strong reasons to believe that these subsidies (which include production subsidies, subsidies for inputs such as fertiliser, and export subsidies) will lead producers to increase their output and can lead to dumping on markets in the global south.

In the UK, most coupled subsidies have been abolished since 2005 (when the Single Payment Scheme was introduced); however, a small number remain (Scotland still offers some support to beef and sheep farming that is coupled to production) and these should ideally be removed.

On the other hand, “decoupled” subsidies (meaning the payment is not related to production) do not have the same direct link to output prices. The producer gets the payment no matter how much they produce, so there is not direct reason to produce any more than otherwise. However, decoupled subsidies could still allow producers to sell their produce at less than the cost of production, if the total loss is less than the total amount of (net) subsidies they receive. This shouldn’t be the case for payments for public goods since those subsidies can only cover the cost of providing the public goods (so the net subsidy is zero in theory). Income support payments, however, could permit this kind of below-cost selling. That is why there is a compelling case to prevent large income payments to any single producer. Income support should provide a base level of stability, not allow large-scale below-cost selling.
It’s clear that there is a hierarchy of subsidies with respect to the damage they do to producers in the global south, with export subsidies at the top, closely followed by input subsidies and production-linked subsidies, and non-production linked subsidies (including payments for public goods) at the bottom. Some subsidies can play a socially useful role in shaping the domestic production of food so that it supports good jobs, enhances our environment and shields producers from the excessive vagaries of global markets. To resolve this tension there should, therefore, be a clear disavowal of the upper tiers of this hierarchy in favour of the lower tiers, while maintaining an ambition to reduce the overall level of financial support.

There is no doubt that agricultural subsidies in rich countries have historically distorted trade in a way that was detrimental to producers in the global south. Production subsidies, subsidies for inputs and export subsidies were all common until recently, and there remain some such subsidies in many rich countries. It is also clearly the case that the international trade system prevents countries in the global south from protecting their own producers from unfair treatment in global markets.5,6 However, for the purpose of this paper the key questions are whether decoupled subsidies (which are now the main form of subsidies in the UK) have any negative effect on producers in the global south. This is widely recognised as a crucial question; for example, ActionAid have called for a review into what can be classified as decoupled for international trading rules.7 The following questions explore this issue.

Do decoupled subsidies in developed countries increase production?

If decoupled subsidies do cause increased production then when they are removed net exports will be at least no higher than they otherwise would have been. The experience in New Zealand casts some doubt on this assumption: after removing all subsidies in 1984, New Zealand’s trade balance in agricultural products and food manufactures is stronger than ever. We do not know the counterfactual (perhaps it would be even better if subsidies had been maintained), but the removal of subsidies seems not to have been a major barrier to exporting, at the least.

Empirical evaluations tend to conclude that the effect on production and productivity of decoupled subsidies is positive but, in general, very small,8–11 with some exceptions,12,13 and similarly small impacts are estimated within countries in the global south.14 Urban et al. (2016)15 conclude, in their review of the relevant literature, that ‘Despite considerable research efforts in analyzing the effect of decoupled payments on farm level output decisions the results cannot be considered as conclusive’. Others maintain that decoupled subsidies still keep production high16–19 and across the OECD production levels are high or rising in spite of a move towards less trade distorting subsidies.4 In the EU there has been no clear trend in total production levels since 2000, either upwards or downwards (decoupled payments kicked in during 2006). Some also contest that decoupled agricultural subsidies actually reduce output because they protect producers from the need to become more efficient.10,20
There is a strong case to be made that, even for decoupled payments, any kind of subsidy dampens the risk that farmers are exposed to and therefore encourage productive investments that may not have otherwise happened. This may particularly be the case where farmers face limits on borrowing. However, again the experience of New Zealand is informative: output did take an initial hit when subsidies were eliminated, but the ultimate impact was mostly compositional (i.e., a contraction of sheep and beef production and a big expansion of the dairy sector) with no obvious overall reduction in output, despite the sector bearing a substantially greater risk burden.

However, compositional changes that result from subsidy reform could have significant implications for trade balance, even if total production levels are not significantly affected. For example, one of the biggest contributors to the UK’s trade deficit is fruit and vegetables, which we import primarily from Spain and the Netherlands. If a subsidy system were to incentivise more production of fruits and vegetables in the UK, at the expense of livestock or cereals, then this may improve our trade deficit. The main losers from this scenario would be other rich countries that provide most of our fruit and vegetables.

Even if reducing domestic subsidies does increase exporting opportunities for other countries, it is not necessarily those with greatest development need that will be most able to exploit those opportunities. For example, some commentators expect that in such a scenario it will be the larger scale producers in agricultural powerhouses like Brazil that expand to fill the gap.

Increasing production in the global south to export to the global north may not be the best form of development. Former UN Special Rapporteur to the Right to Food, Olivier de Schutter and a number of our interviewees, argue that a better course is to foster domestic supply chains in the global south. De Schutter has previously argued that the sheer level of subsidies that the EU gives out create a disadvantage for producers in the global south especially if it not only cuts off export opportunities but also stifles the ability of local producers to sell to domestic markets; however, the main culprit on this front is export subsidies, which the EU is now committed to abolishing. ‘Farmers need support,’ says de Schutter, but ‘subsidies should not transform into dumping’. The UN’s Committee on World Food Security also recognises the multiple benefits of domestic food systems and recommends the promotion of short food supply chains that support better incomes for smallholders.

In summary, the effect of rich-country agricultural subsidies on development in the global south is deeply complex; however, strong claims that any and all subsidies are detrimental to development seem unfounded. As such, removing all subsidies so as to create opportunities for the global south is a strategy with no clear chance of success. On the other hand, particular forms of subsidies (such as export subsidies or other production-linked subsidies) and particular practices (such as dumping) are clearly disadvantageous from a development perspective, but these can be tackled without dismantling all support for farmers.
3. Analytical framework and methodology

We adopt an analytical framework based on two core concepts: policy objectives and policy scenarios.

**Policy objectives** are the direct outcomes that policy is or should be designed to achieve.

**Policy scenarios** are distinct and hypothetical assumptions about a particular bundle of policies that could be adopted. Each of these different scenarios will have a different level of success in achieving the policy objectives we have deemed to be appropriate.

To inform the policy objectives and scenarios underpinning this report, we reviewed the stance of four categories of public influencers: (1) academics and journalists; (2) industry bodies; (3) politicians and political parties; and (4) charities, NGOs and think tanks. We also conducted interviews with nine experts and stakeholders. See the appendix for a summary of our findings. These two methods allowed us to identify the important concepts and ideas already being debated, and those that needed to be brought into the debate.

The analysis of each policy scenario focuses on the extent to which it is likely to achieve each of the defined policy objectives in turn. This analysis is based on surveying published evidence in academic journals, from governments and from third sector organisations. This evidence was identified through internet searches and recommendations from interviewees and other contacts.

The scope of this study is to examine policy scenarios for agricultural subsidies. It does not consider possibilities for agricultural regulation or trade policy in any depth. In many cases the subsidy framework cannot achieve some objectives alone, without support from regulation or trade policy – these cases have been highlighted.
4. Policy objectives

From a long list of potential policy objectives generated through conducting interviews and reviewing the public debate, we narrowed the options down to seven outcomes that we considered the most important. This is a subjective choice that involves value judgements – we must not hide from this fact. Others that believe an alternative set of policy objectives is more important may not reach the same conclusions as to the most appropriate policy choice. However, we believe that there is broad support for most, if not all, of the objectives we have selected. These are:

- Support for small-scale producers in the global south
- Support for small-scale producers in the UK
- Building resilience to external shocks
- Sustainability
- Jobs in the rural economy
- Democratic governance
- Local supply chains

Sections 5.1 to 5.5 review some of the evidence on whether different policy scenarios help to achieve these objectives.

In addition to the seven objectives above, two further objectives were identified that we decided not to include. This does not reflect their lack of importance; they were excluded because it’s unclear how to structure agricultural subsidies to have an impact on them directly. Therefore they were deemed beyond the scope of this report. These were public health and access to food in the UK.

What we eat is perhaps the single most important determinant of public health. However, in a globalised food system, the link between what we produce and what we consume can be quite weak. Agricultural subsidies in one country could certainly be used to encourage production of healthier food products, for example, subsidies could be allocated proportionally according to the Eatwell guide which shows how much of each food group to eat to be healthy and sustainable. However, if the attitudes and preferences of consumers remain unchanged then the international trade system will just reallocate healthy food elsewhere. Therefore, the key element in improving public health is likely to be shaping consumer choices, for example through restrictions on advertising or public awareness campaigns. There is little evidence on the effect, if any, of agricultural subsidies on public health.

Similarly, access to food in the UK (by which we mean ensuring the universal ability of individuals and families to feed themselves) is probably not easily influenced through the policy tools of agricultural subsidies. In theory, subsidies could be used to reduce the domestic price of food, but this will have unintended side effects and will almost certainly fail to entirely eradicate hunger. Other aspects of food policy and social policy will be more effective instruments for ensuring universal access to food in the UK.

Therefore, for these two policy objectives – public health and access to food – we do not assess the ability of the chosen policy scenarios to achieve them. Although we consider them important objectives, they are best achieved by other means.
5. Policy scenarios

There are a great many possible policy options, but we have synthesized these into four distinct policy scenarios that capture most of the ideas that are already on the table. These are:

I. **British CAP (status quo)**
We include this scenario primarily as a means of comparison – it shows how the current system (slightly adapted to non-membership of the EU) fares in terms of the policy objectives.

II. **Complete liberalisation**
Right wing think tanks and some politicians have advocated removing all subsidy support, taking inspiration from New Zealand’s approach.

III. **Public crop insurance**
The current farming minister has advocated an insurance model, so it seems important to evaluate this scenario. The most prominent country already implementing this type of approach is the USA.

IV. **Public money for public goods**
Some version of this scenario currently has the greatest number of advocates, including many environmental NGOs. It involves using the public budget to incentivise the provision of well-defined public goods.

5.1 **British CAP (status quo)**
The UK could, in theory, replicate the existing system of payments under the CAP at the national level. This would involve ring-fencing an equivalent budget from the savings made on our budgetary contribution to the EU, and using that to make payments to farmers based on the same criteria defined under the CAP. Economically, this system could be effectively identical to the status quo; politically, however, it would be quite different. Decisions about the nature and level of subsidies in the UK, now taken by the British government alone, would no longer be subject to political pressures from across Europe (for example, the powerful French farming lobby).

Assuming that this replication of the status quo was politically sustainable, how would it contribute to the policy objectives identified above?

**Support for small-scale producers in the global south**
The key question for both the impact of subsidies on food security and on producers in the global south is whether or not they cause an increase in production levels in the Global North. Section 2 examined some of the arguments and evidence on whether this is the case for current CAP payments. Overall, theory suggests that payments that are not linked to production (such as most current CAP payments) will be neutral to production levels.

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**Table 1:** The Common Agricultural Policy’s pillars

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<tr>
<th>Pillar 1</th>
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<td>This strand of the policy makes direct payments to farmers to boost their income. It also includes some emergency provisions for price support of particular commodities (e.g. milk).</td>
<td>This strand provides funding for a broad range of activities classified as “rural development”. This may not be restricted to farming activities – for example, it may be used to support tourism. At least 30% has to be spent on environmental measures.</td>
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<tr>
<td><strong>UK Pillar 1 budget:</strong> £2.4 billion (77% of the total)</td>
<td><strong>UK Pillar 2 budget:</strong> £0.7 billion (23% of the total)</td>
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Empirical evidence finds that there is in fact a statistically noticeable increase in production due to these payments, but that it is small relative to the total size of production (see Section 2). However, in 2015 there was still £38 million in subsidies that were coupled to production, mostly for sheep and beef. This is a very small proportion of the total (around 1%); however, since it is focused on particular commodities it could have a distorting effect.

Therefore, there is some reason to believe that the current type and level of agricultural subsidies cause domestic production to displace imports from the global south; however, this concern is small in comparison with other subsidy types that have a much clearer impact on production levels (such as export subsidies or large output-linked payments). To minimise the potential for adverse impacts on producers in the global south the most important aspects are likely to be the type of subsidy (i.e. avoiding those that stimulate production) and the nature of trade relations.

**Support for small-scale producers in the UK**

Farms have been getting bigger in the UK quite rapidly: the average holding was about 60% bigger in 2010 compared to 2005. And this trend has been seen across the EU, although less severely. In theory, area-based payments provide a strong incentive for farms to consolidate and expand. This is because there are economies of scale in agricultural production – the more land you have the lower are your costs per unit of land. But the subsidy system doesn’t reflect this fact and provides the same payment for each unity of land, effectively over-rewarding larger farms relative to smaller counterparts. The impact is even worse since very small-scale producers (less than 5 hectares) are not even eligible for payments. There is, therefore, a clear disadvantage for small-scale producers under the current subsidy system. This has also manifested in a very high degree of concentration of land ownership – 0.25% of the population own all of the UK’s agricultural land. Many of our interviewees argued that diversifying land ownership would be a desirable outcome of a reformed subsidy regime.

**Building resilience to external shocks**

We are considering here the ability of a society to meet its aggregate food needs in a way that is resilient to shocks. The resilience of our domestic food system to shocks depends on many factors, including climatic and environmental stability and quality of infrastructure. However, here we will focus on our trade balance with the rest of the world. There is no simple relationship between resilience and the balance of trade in food – for example, it is entirely possible to have a very large trade surplus yet also rely on imports for most of domestic consumption. There are two main aspects to consider that affect the extent of our trade deficit: (1) how much we produce in total (for a given composition of output) determines how much we have left over to export or how much demand must be met through imports; (2) the composition of what we produce affects our trade balance by creating a (mis)match between what we grow and what we eat – the closer aligned are the two, the less need there will be for imports. Under the current system our trade deficit in food and farming products has been large and increasing since the early 1990s (see Figure 1). A large part of this is due to the composition effect – for example, we produce very few fruit and vegetables, which therefore contributes to a large share of our net imports.

**Sustainability**

The current CAP system has some incentives and requirements for more environmentally beneficial farming methods. There are three elements: basic requirements that all farms must comply with in order to receive income support payments (Pillar 1), optional ‘greening’ measures that farmers can undertake to top up their income support payments (Pillar 1), and more ambitious optional agri-environment programmes (Pillar 2). The latter are set at a level that compensates for expenses incurred or income foregone, in line with WTO requirements. In other words, our obligations as members of the WTO prevent setting the level of environmental subsidies wherever we like – they can only be set equivalent to the cost of implementing environmental improvements (e.g. investing in new equipment) or any income that the farmer doesn’t receive as a result (e.g. from setting aside land).
However, these payments for environmental goods still comprise a small proportion of the total and there is a fairly wide consensus that the current system doesn’t do enough to arrest the increasing impact of farming on the natural environment.31-34 Given the substantial contribution of our current model of agriculture to the UK’s total greenhouse gas emissions (second only to the energy sector)27 and the urgent need to reduce those emissions to effectively zero over the coming decades, the level of change implied by the status quo seems definitively insufficient.

It should be noted that agricultural subsidies are only one policy tool for managing the environmental impact of farming. Just as important will be the regulatory landscape of the UK after Brexit since many environmental safeguards are based on regulation rather than financial incentives. In general, regulation is a tool best suited to preventing harm and raising standards across the board. Subsidies, on the other hand, are best suited to encouraging practices that are valuable.

**Jobs in the rural economy**

Across the EU, the labour intensity of farming has been decreasing under the CAP.27 A comprehensive review of the evidence requested by the European Parliament and published in 2016 found that overall the current form of CAP has a negative impact on employment.35 More specifically, income support payments (Pillar 1), which are based on the size of the holding, have encouraged intensification and therefore reduced the necessary workforce, though they may also have prevented some small and labour intense farms from going out of business. On the other hand, rural development and agri-environment schemes (Pillar 2) may have a positive effect on employment, and creating jobs in the rural economy is an explicit aim of England’s Rural Development Programme for 2014-20.36 Other studies confirm that Pillar 2 payments may stimulate the creation of local jobs.37
Democratic governance

In this scenario the rules and budgets for the subsidy system would be set primarily by the UK parliament, although some decisions may be devolved to the UK’s constituent nations, as is currently the case. Devolved Administrations (Scotland, Wales and Northern Ireland) have considerable agency in designing the implementation of many elements of the CAP (including greening payments and agri-environment schemes) and this could be maintained in a British equivalent.

This system is, therefore, somewhat democratic since many decisions can be made at a more regional level, so that local priorities can be reflected. However, farmers, rural communities and food insecure consumers would still exert relatively little control over deciding priorities and allocating budget.

Local supply chains

In theory, Pillar 2 payments for rural development could be used to support the development of local supply chains by providing funding for infrastructure and business support. For example, one of the aims of Scotland’s Rural Development Programme for 2014-20 is to ‘boost local supply chains through support for processing and marketing of locally produced food’. However, there is little available evidence on the extent to which such programmes have actually been effective in cultivating local supply chains.

Potential cost

The cost of CAP payments in the UK in 2015 was around £3.2 billion, comprised of £2.4 billion in direct income support payments and £0.7 billion in rural development payments (of which around three quarters goes to agri-environment schemes).

5.2 Complete liberalisation (New Zealand model)

Mainly promoted by free market advocates, this option would see the UK remove the subsidy system altogether. Many cite New Zealand as a case study for this option because in the 1980s the New Zealand government very suddenly and completely reduced all forms of financial support to the agricultural sector. This section examines whether such a model would contribute to the policy objectives we have identified.

Many countries in the global south were forced to adopt this liberalised model as a condition of International Monetary Fund (IMF) structural adjustment programmes (i.e. conditions attached to the receipt of loans), which have been broadly criticised for having stunted development, rather than aiding it. New Zealand is used in this report as it is the example most similar to the case of the UK (in terms of being a rich, temperate country).

Support for small-scale producers in the global south

Complete liberalisation in the UK would affect producers in the global south if it led to increases in exports to those countries or reductions in imports from those countries. It would also affect those countries if it caused a change in the world price of particular goods. If abolishing subsidies causes production of a commodity to fall then this could increase the world price of that commodity – countries in the global south that are net exporters of that commodity would benefit while net importers would face additional costs. However, since the UK is a relatively small component of the global agricultural trading system these price effects are not likely to be substantial.

The New Zealand experience showed that completely abolishing agricultural subsidies does not necessarily lead to the annihilation of the domestic farming industry, but does cause it to transform into a different kind of industry: one that is more commercially-minded and production-driven (though some argue that this differs across different parts of the industry). From this perspective complete liberalisation might be expected to increase production and exports overall. Evidence from the EU does suggest that subsidies linked to production dampen productivity. If liberalisation leads to
significant consolidation of existing farming enterprises, as happened to some extent in New Zealand, this may also contribute to increasing production levels.

On the other hand, we do not know what would have happened to the New Zealand industry in the absence of reforms in the 1980s. It can also be argued that farmers face significantly more risk without any income support, which may cause them to avoid making risky investments in future productivity improvements.

The effect of liberalisation is, therefore, quite nuanced; however, it is clear from the New Zealand experience that liberalisation is not incompatible with high levels of production and exports. A decade after New Zealand’s reforms exports had risen by nearly 40%. And the country currently exports around 80% of what it produces, with large trade surpluses on both agricultural goods and food manufactures. Some interviewees expressed concern that similar pressures would replicate in the UK if subsidies were completely removed.

In terms of the imports to the UK from the global south, most products could not be displaced by domestic production (e.g. coffee, palm oil, soybeans) because they would be unsuitable for cultivation in the UK. There is greater concern on the exports side: if complete liberalisation led to consolidation of production into the UK’s existing strengths this could result in more exports of key commodities, including wheat and dairy, to countries in the global south and the displacement of local produce. The UK government has a longstanding ambition to increase exports of precisely these commodities, including to lower income countries (e.g. wheat to Morocco). If, on the other hand, liberalisation led to reduced production of exported commodities from the UK this also has ambiguous impacts on importing countries in the global south – in the long term it could allow them to develop local production for their own market, but in the short term it could mean disruption to supplies and higher prices.

Overall, complete liberalisation could reverse any incentive to overproduce, which would be positive, but it’s not clear that this incentive is particularly strong in any case. On the other hand, complete liberalisation could encourage a restructuring of the industry towards larger units that are more export-oriented, which might be more capable of out-competing local producers in the global south.

Sustainability

The nature of subsidies in New Zealand before reform was particularly harmful for the environment since they encouraged maximum production and reduced the cost of inputs such as fertilisers. On removal of these harmful subsidies, therefore, the short-term consequences were beneficial in environmental terms: less fertiliser use, less conversion of forest, and less farming activity in general. This is not the type of subsidy regime we have in the UK, so the same short-term impact cannot be expected.

Building resilience to external shocks

As noted in the previous section, liberalisation has not had an obvious negative impact on New Zealand’s food security and the country has a large trade surplus in food and farming produce. On the other hand, if liberalisation leads to greater consolidation or specialisation in particular goods then the composition of production may become less aligned with the country’s consumption, causing reliance on imports to increase at the same time as increased exports. Overall, the effect is unclear.

Support for small-scale producers in the UK

After liberalisation in New Zealand, there was a slight increase in small-scale producers, but that was due to down-sizing, rather than a flourishing of new small-scale producers. In general, the exposure to markets will favour larger players. On the other hand, the removal of subsidies could reduce land values, which might allow small-scale producers to acquire land more easily (but probably more likely to be gobbled up by larger neighbours).
more uncertainty, shorter planning horizons and so less prioritisation for the environment. In a major evaluation of New Zealand’s environment the Ministry for the Environment noted that over the past two decades nitrogen in land and in rivers has increased by 29 and 12 percent respectively, mostly as a result of farming, and that soil compaction is now affecting the productivity of over 80 percent of all land.46 And a recent evaluation of the effectiveness of environmental subsidies concluded, in relation to the New Zealand model, that ‘the laissez-faire approach to the agricultural sector does little to safeguard the environment’.47

More generally, removing income support places more importance on production as a source of income, which may tend to encourage intensification.

Most importantly, the complete removal of all subsidies would also mean abolishing agri-environment schemes based on subsidies and the greening elements of Pillar 1. Even if those subsidies are not particularly effective, getting rid of them would be worse still.

Overall, therefore, adopting the New Zealand model in the UK would clearly be one of the worst options in terms of sustainability.

Jobs in the rural economy

In the aftermath of New Zealand’s reform, Fairweather shows that 7% of farmers in the Canterbury/North Otago region applied for a grant offered to those leaving the land. Most sources agree that there was a polarisation in the type of farms that survived: farmers either scaled up to achieve economies of scale, or scaled down and took second jobs off-farm.48,49 Rae et al.50 estimate that the number of agricultural workers fell 11 percent during the period of adjustment after subsidies were removed. MacLeod and Moller51 cite data that shows that New Zealand’s rural population has been in decline since 1976. Since this trend began before the removal of subsidies it is unlikely to be primarily driven by that change.

The transition to a subsidy-free environment was traumatic for many, but it is not necessarily the case that, in the new equilibrium, individual farmers that survived are any worse off economically. On the other hand, it is clear that farmers now bear significantly higher risk due to exposure to international markets and lack of a significant safety net:

By 1993, New Zealand agriculture could be characterized as having moved from a relatively high income, protected, low risk environment to a low income, unprotected environment in which the farmers themselves now carried the primary risk.44

The evidence therefore suggests that liberalisation heightened the trend towards labour-shedding in the industry, while making the jobs that remained less secure and, in some cases, insufficient as a sole source of income.

Democratic governance

The goal of liberalising reforms is to subject the sector in question to greater control by the market, and less control by power collectively exercised by people through government or community institutions. In this sense, abolishing agricultural subsidies altogether reduces the influence of democratically elected government over the agricultural system.

It is important to underline that the market does not provide the neutral, objective kind of governance that is often ascribed to it. It is, therefore, not a case of transferring control from political to non-political actors, but rather from one authority where power is exercised through equal democratic rights to another authority where power is exercised through wealth and purchasing power.

Local supply chains

There is no reason for a liberalised agriculture industry to tend towards shorter or more local supply chains. In the case of New Zealand, the shock of the reform led to the contraction of the sheep sector and the closure of many processing facilities. Now, with an increasingly important focus on exports, companies in New Zealand tend to have processing facilities located abroad near to their foreign markets.52 There has been major consolidation in the dairy supply chain, with 36 companies in 1982 dwindling to one company, the cooperative Fonterra, that controls almost all of the market.44

Potential cost

This would clearly be the least costly option in terms of direct public expenditure, although it may lead to increased costs for other parts of the public sector, for example through increased expenditure on pollution clean-up.
5.3 Public crop insurance

Public crop insurance is any scheme through which the state subsidises the cost of insuring a farmer’s harvest against physical or economic losses. This is usually understood to refer to subsidising the cost of premiums on privately provided insurance (as in the USA), but it could also be achieved by guaranteeing to purchase commodities from producers at a minimum price (as in India).

The main body of evidence on the effects of crop insurance comes from the USA, where private insurance for agricultural revenues is publicly subsidised (on average 62% of premiums are publicly financed\(^53,54\)), although the practice is fairly widespread around the world.\(^55,56\)

Price insurance programmes are likely to fall into the WTO’s “amber box” of trade-distorting policies, and are therefore subject to strict limits under these rules. For example, the USA declares its financial support for crop insurance as an amber box programme and is committed to capping total payments classified as such to $19 billion. However, it is technically possible for countries to classify this support as “green box”, i.e. not trade-distorting and therefore not subject to limits, so long as payments are limited to 70% of losses.\(^56\)

Depending on the form of insurance the financial liabilities of the state would be very different – for example, public subsidy for private premiums would be a relatively fixed amount each year, whereas publicly provided insurance would create unpredictable and potentially volatile financial liabilities for the state.

Support for small-scale producers in the global south

In a review of the literature on whether crop insurance causes an increase in production, Glauber\(^56\) finds that the evidence suggests a positive effect does exist, but that it is generally small. More specifically, empirical evidence quite consistently finds that subsidised crop insurance leads to a greater area under cultivation, but there may also be a negative effect on yields (due to lower usage of inputs) that may somewhat offset this effect.

Theoretical work undertaken by LaFrance \(\text{et al.}\)^{57} argues that crop insurance could expand the area of land under agricultural production, and in a review of the incentives provided by crop insurance programmes, Sumner and Zulauf\(^58\) also argue that such policies encourage farmers to bring marginal land into production, since the high risk of failure is greatly reduced. Lubowski \(\text{et al.}\)^{59} and Young \(\text{et al.}\)^{60} confirm this relationship based on evidence from the US crop insurance programme.

Based on this evidence, and the fact that the WTO tends to classify this kind of support as trade distorting, the impact on producers in the global south is likely to be small but probably negative.

Support for small-scale producers in the UK

A crop price insurance programme doesn’t particularly favour large or small producers. On the one hand it may provide the stability for some small-scale producers to stay in business that might not otherwise have been able to withstand a sustained period of poor market conditions. On the other hand, the insurance subsidy increases in proportion to either production or land area, which may over-reward large-scale producers relative to small-scale producers since there are economies of scale in output.

Building resilience to external shocks

As noted in the previous section, there may be a small positive effect of this policy scenario on total production. However, as with liberalisation this may or may not be counteracted by the composition effect. Overall, the effect is ambiguous and likely to be small.

Sustainability

The literature cited above on the production impacts of crop insurance also concludes that the effect on the environment is likely to be negative overall, since more land coming into cultivation has implications for carbon emissions and biodiversity.

Being insulated from the financial consequences of environmental changes may also dampen the incentive for farmers to take action to mitigate their impact on the natural world for their own benefit.\(^61\)

This policy scenario, like the liberalised scenario, also has no agri-environment schemes, which would negatively affect the environment.
Jobs in the rural economy

The intention of a crop insurance scheme is to provide stability and certainty for farmers. In that respect, such programmes are likely to improve the quality of farming jobs and avoid job losses during very poor harvests. However, insurance is unlikely to lead to any expansion of jobs in the rural economy – the evidence that production levels receive a small but positive boost suggests that employment effects will be similarly muted.

Democratic governance

Since the public expenditure associated with this policy changes each year, a comprehensive crop price insurance scheme in the UK would most likely be run centrally by Westminster since there couldn’t be a well-defined, fixed budget devolved to each region for locally-determined allocation. There would be limited possibilities for farmers and rural communities to participate in setting priorities or budgets, but there would be at least some basic democratic oversight of the system since Parliament would ultimately set the level of insurance coverage (within WTO limits). But this would be far less than other options that could be devolved regionally and have a variety of different possible outcomes that merit subsidy.

Local supply chains

There are no clear benefits for local supply chains from a crop insurance programme, unless it allows more small-scale producers to survive, since they are more likely to sell produce locally.

This scenario doesn’t include rural development funds that may support the development of regional infrastructure and business.

Potential cost

The cost of a publicly subsidised crop insurance system is highly uncertain and depends on the particular form of the programme. In the USA, where the state subsidises the premiums on private insurance, the cost is as high as $14 billion, although this is proportionately lower than total CAP payments in the UK (based on the size of the two countries).

5.4 Public money for public goods

In this scenario the government would draw up a set of public goods that can be provided by farmers. Many advocates of this scenario have not been clear about what they consider to be a public good, and that was a key concern for many of our interviewees. There is a relatively strict economic definition of a public good (see Box 1); however, many of the advocates of this scenario, including many environmental NGOs, take a wider view of what a public good should be – i.e. that it is any good that has been democratically deemed to be valuable by a society. A clear first step in this scenario, therefore, would be to determine very clearly the public goods that will be eligible for subsidy. Below we make some assumptions about what would be considered a public good in this scenario.

It’s important to note that in this scenario, the purchaser and provider of public goods would not necessarily be the central government and farmers, respectively. There are some disagreements as to how these payments would be structured. For example, Dieter Helm favours a system in which the state decides what it wants to purchase and then allows any capable entity to bid for the contract to deliver that public good at the least cost. The responsibility for purchasing these goods could even be devolved to lower tiers of government or to regulators. This is very different to a system of subsidies, in which anyone that delivers a given amount of the public good can expect to receive the same payment from the government. The contracts system would minimise public expenditure, but would only provide incentives to deliver the minimum possible benefit defined in the contract; the subsidy system would provide continual incentives to improve outcomes but would be less targeted at the least cost providers.

Support for small-scale producers in the global south

If payments for public goods are not related to production then there should be no direct incentive to overproduce, and consequently no direct effect on producers in the global south. If this scenario does not involve export subsidies and if the total amount of payments is lower than the status quo, this could even be beneficial to producers in the global south that want to sell in our market.
Box 1: The limitations of ‘market failure’ and ‘public goods’

Public goods are narrowly defined by economists as anything that is both non-rival and non-excludable in consumption. Non-rival means that consuming the good does not diminish it. Non-excludable means that no-one can be prevented from enjoying the good while it exists. To take some examples, in these terms food itself is not a public good because if I eat a particular sandwich then you cannot eat it (it is rival in consumption). Secure and stable farming incomes is not a public good since we can exclude someone from enjoying it by preventing them from becoming a farmer. A reduction in greenhouse gases is a global public good, and democratic governance might be considered a public good so long as anyone can participate in it if they choose to. There are some ambiguous cases – for example, one could make a case that rural heritage is a public good since anyone in the country may derive satisfaction from its existence. A report for the European Parliament argued that ‘culturally valued agricultural landscapes’ and ‘rural vitality’ should be considered public goods under this definition.64

The concept of a public good in economics derives from the principle that government should only intervene when a market failure has been shown to exist (and even then, only if government will not make the situation worse). Public goods are a market failure because the private sector will not provide them – it is impossible to charge the beneficiaries for their enjoyment of the good, except through general taxation. Therefore, the government must intervene in these cases.

However, this is a deliberately narrow view of when and how government should intervene. Markets do not exist in isolation from society, with a small number of defects that can be corrected by the state. In fact, they are created and shaped by governments, and by global economic and political power. Their failures are at least as numerous as their successes. The framework of market failure does not recognise this role of governments in creating and shaping markets over the long term, in an unavoidable political process that reflects the values of those that hold power.

In a previous report, we have highlighted the various ways in which the standard economic paradigm is unsuited to understanding the food system.27 Instead we argue that the framework of market failures is relevant but insufficient. We should collectively identify the outcomes that the food system should achieve in the public interest and determine the most effective way in which public policy can support them.

Subsidies for environmental public goods might also encourage less intensification, more set aside land, or other lower yielding methods, all of which would reduce total production in the UK. However, this may not lead to a deterioration in our trade balance if it was also accompanied by a change in the composition of what we produce. The removal of income support may also have implications for production levels – currently these payments favour large producers, yet, as seen in the New Zealand context, removing subsidy support could result in consolidation in some sectors, which could increase production.

On the whole there are some reasons to believe that this scenario is more likely to be good for producers in the global south than the status quo; however, the outcome is highly ambiguous.
Support for small-scale producers in the UK

As discussed above, removing land-based income support payments should take away the advantage for the biggest players, but at the same time could encourage greater consolidation of the industry, at least in some sectors.

Small-scale methods may be better suited to environmental outcomes so could benefit from this.

Building resilience to external shocks

This scenario could lead to less intensive production methods, which could mean lower output of agricultural commodities; however, it may also encourage a restructuring of agricultural production towards more agroecological methods. This may change the composition of what we produce and cause our trade imbalance to improve, for example if the horticulture sector expands, but payments for public goods alone could lead to a variety of industrial structures, so the overall outcome is highly uncertain.

Sustainability

Environmental outcomes are probably the only category that is considered to be a public good by all sides of the debate, and they certainly fit the economic definition of the term.

Sustainability is, therefore, one of the key aims of this policy scenario and the evidence suggests that this should be achievable if we can improve and expand the current agri-environment schemes.47

Jobs in the rural economy

If public goods are defined quite narrowly, to include mostly environmental outcomes, the result could be that agriculture becomes more labour intensive, since many methods that take an agroecological approach are more labour intensive.65–67 This would be an incidental, rather than deliberate, outcome and expected changes in agricultural technology, towards a more automated, capital-intensive nature, could quickly erode this increased labour requirement. However, if public goods are defined more widely to include, for example, rural heritage, then the maintenance of rural livelihoods could be a deliberate outcome of the PMPG scenario.

On the other hand, payments for the support of rural livelihoods is likely, ultimately, to look a lot like income support, which many advocates of PMPG oppose.

Democratic governance

The democratic element of this scenario will predominantly consist of the process through which public goods are defined and prioritised. This could easily be done by the central government without any participation from rural communities, farmers or citizens, but could also be undertaken in a collaborative way.

Local supply chains

Similar to the effect on jobs in the rural economy, the impact on local supply chains will depend on whether or not the nurturing of such supply chains is deemed a public good. In the economic definition of the term this would probably not be considered a public good, so there is no strong reason to believe that local supply chains would be strengthened in this scenario. Indeed, compared to the status quo scenario, in which some rural development funds can be used to support local supply chains, the PMPG scenario could be worse.

Potential cost

On a strict definition of public goods, the current CAP makes payments roughly equal to £0.5 billion – this is likely to be the minimum amount required to make meaningful environmental improvements. If rural development is also included in the definition of public goods the current budget is around £0.7 billion. Depending on the scope and scale of further payments for public goods under this scenario, this budget for public goods provision could be extended up to the total current expenditure on CAP of £3.2 billion.
5.5 Summary

The preceding sections have evaluated the effect of four very different policy scenarios on the policy objectives we have defined. In many cases there is clear empirical evidence or historical examples of the impacts that should be expected, in other cases the impact is more speculative.

In terms of the effects of these scenarios on producers in the global south there is, in general, a lot of ambiguity. The most important principle is to avoid subsidies that are linked to levels of production or subsidies that reduce the cost of exporting. However, all of the scenarios considered mostly comply with these principles. The current CAP system has been reformed with the aim of preventing market distortions that would negatively affect those producers, though some maintain that such distortions persist.

In terms of sustainability the PMPG would expand on the current levels of support for environmentally beneficial methods, while the others would remain insufficient or even cause more harm.

Of the existing policy scenarios that have been proposed in the public debate there is little to suggest that they would lead to an increase in jobs in the rural economy, improve support for small-scale farmers, or re-localise supply chains, unless these are specified as public goods.

Finally, the governance arrangement for agricultural subsidies is a crucial element. The lack of transparency and accountability in the current CAP system has rightly brought it into disrepute, but none of the options above clearly seek to remedy this.

Each scenario also has different implications for the public purse. This is important to consider since there will always be competing uses for public funds. In some cases (British CAP and complete liberalisation) the cost is easily defined; in others the precise budget could be within a range of possibilities. It is also important to note that each scenario may increase or decrease other costs to the public sector, such as pollution clean-up.
6. Progressive subsidy system

Having analysed four widely discussed policy proposals for an agricultural subsidy system for the UK after it leaves the European Union, this section describes a fifth policy framework that we have designed to maximally achieve the 7 policy objectives set out in Section 4.

Conceptually this system builds upon the Public Money for Public Good (PMPG) scenario, explicitly interpreting this phrase to mean that subsidies are allocated in the public interest, rather than limiting this to a strict economic definition of public goods.

There are three principal components to this policy framework:

1. A flat, universal payment for active farmers with at least one hectare, contingent on meeting a set of minimum standards.

   This payment would not be linked to production, or to the area of land, but simply to the fact of being an active producer. This de-linked model (from both production and area) was deemed particularly important by our interviewees and should be at least as decoupled from production (and probably more so) than the current land-based payments. Since the payment does not increase with the size of a farmer’s operation it will be proportionately more generous towards smaller-scale producers. Making this payment conditional on some minimum standards, for example a commitment to prevent further soil erosion, ensures that environmental damage from farming is minimised (environmental improvements over and above this minimum are incentivised by specific subsidies). This minimum standard might also include aspects of animal welfare. The payment could also be reduced if the farmer produces for export. These standards would be based on a principle of “do no damage”, while the third policy component – payments for public goods – would be based on a principle of maximising public benefits. Over 12,000 holdings less than 5 hectares would become newly eligible for income support payments under this system. But a farmer with more than one separate holding would only receive this payment once.

Other organisations like the Land Workers Alliance suggest that we should avoid any universal payments and base all public subsidies on the provision of public goods, which forms the third component (below) of our proposal. In the short term we consider that many farmers might not immediately be able to make the transition to go beyond meeting minimum standards, and thus might be left without any support. Over time the universal payment could be adjusted to encourage farmers to move over into the subsidies for provision of public goods.

Total CAP payments for the UK in 2015 were around £2.5 billion. The estimated number of agricultural holdings in the UK was 185,000 in 2013. This implies that the total CAP budget divided between each holding is equal to £13,500, split between £10,500 in direct payments and £3,000 in rural development funds (of which around two thirds are agri-environment schemes payments). The current distribution of that funding is extremely unequal, with some producers getting nothing, and others getting millions (see Figure 2).

Our proposal is to make a universal payment of £5,000 to all active farmers each year. This is slightly higher than the current median direct payment, which varies from £2,754 in Northern Ireland to £4,861 in Scotland. That means that more than half of all current recipients of direct payments would receive a higher universal payment under the proposed policy. But some farmers would lose a great deal of money. We also propose that new producers should receive a bonus payment of £5,000 in their first year, to encourage new entrants and revitalise the industry. Only active farmers would be eligible for the universal payment. This principle of a universal payment that favours small farmers was established in the 2013 CAP reform: Member States have the option to pay a lump sum with a maximum value of €1,250 to participants in a Small Farmers Scheme. The UK does not currently take up this option.
These payments would be made in recognition that many farmers face unfair and uncertain trading conditions, being the victims of significant market power and uncertain demand for their product, which creates both injustices and anxieties for those involved. They would also be made in recognition that without such support many small-scale farmers would struggle to stay in business, without whom the character of our rural economies and landscapes would be considerably different.

A strict active farmer clause would be required to ensure that only farmers that are producing either food or public goods receive the payments, and that unintended double payments are not received. This will require careful thought: for example, should a farmer’s spouse be able to register as a separate active farmer with a different piece of land? We also recognise that the active farmer clause is open to abuse so suitable mechanisms and criteria need to be introduced and comprehensively enforced.

These payments would be compliant with WTO rules since they are not linked to production. Removing exceptionally large income support payments will also reduce the likelihood that producers in the UK can unfairly compete on the world market (at the expense, perhaps, of producers in the global south) by sustaining losses over an extended period of time.

This universal payment would contribute to the objectives of supporting small-scale producers by skewing public payments towards them. It would reverse the existing incentive to scale up farming operations and could lead to new entrants (also incentivised by the bonus payment), thereby contributing to creating jobs in the rural economy.

Many large farms would lose a considerable amount of subsidy under this arrangement. In principle, these extremely high payments were unfair and economically unjustified; nevertheless, there would be a difficult process of transition in which larger producers adapt their business model or restructure.

Figure 2: Number of recipients in England by total CAP payment amount

<table>
<thead>
<tr>
<th>Payment Amount</th>
<th>Number of Recipients</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;£100,000</td>
<td>10,000</td>
</tr>
<tr>
<td>£50-100,000</td>
<td>20,000</td>
</tr>
<tr>
<td>£25-50,000</td>
<td>30,000</td>
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<tr>
<td>£10-25,000</td>
<td>40,000</td>
</tr>
<tr>
<td>£5-10,000</td>
<td>50,000</td>
</tr>
<tr>
<td>&lt;£5,000</td>
<td>60,000</td>
</tr>
</tbody>
</table>
2. Funding programmes for medium-scale, regional infrastructure, including processing facilities, local business development programmes.

One of the main barriers that holds back small-scale producers and local supply chains is the lack of medium-scale, regional infrastructure and facilities such as processing plants. The market doesn’t provide these because they are unable to compete with larger plants outside of the local area.

Under the CAP rural development grants are available for:
- business development
- food processing
- small-scale tourism infrastructure
- tourism cooperation

However, an evaluation of the rural development programme for 2007-13 found that delivery on many of these aspects was slow.

Interviewees believed that nurturing local supply chains was important for creating jobs in the rural economy. To achieve a vibrant and diverse rural economy, this kind of grant funding will be critical to counteract the tendencies towards consolidation and unsustainable intensification; however, much work needs to be done to determine the needs of rural communities that could be best met with this kind of funds. For example, how can we ensure that these grants encourage economic value to stay in local areas? How can funding be used to support the delivery of public goods, e.g. by facilitating the distribution of organic produce?

3. Subsidies for the provision of public goods, with decisions devolved to regions to set 10-year frameworks based on local priorities (subject to some nationally agreed constraints).

This component broadly incorporates the PMPG scenario into this policy framework.

In this model, a list of public goods are specified that are valued by society, or which our society has a moral duty to provide. This should be based on evidence of the value that people place on various different public goods. Such goods might include: restoring natural habitats, creating natural flood protection, preserving and passing on skills or knowledge that are important to our heritage, reducing local unemployment, increasing healthy eating, and many others.

Ideally, payments should be set at such a level that maximises the public benefit – this may or may not be equal to the cost the farmer incurs to deliver the good. However, WTO rules restrict payments to be equal either to the costs incurred or the revenue foregone as a result of the provision of the good.

There is much to learn regarding how these payments can deliver public goods cost effectively. Evaluations of existing agri-environment schemes indicate that environmental improvements are typically achieved, but that there is significant scope for improvement. Any new scheme should have scope to experiment with entirely new forms of providing public goods, such as collaboration between multiple farmers.

We favour the subsidy model over the contracting model on the basis that the greatly depleted state of the natural environment will require us to maximise the uptake of public good provision across the country.

In this scenario, top level decisions about budgets and strategies could be made nationally with the involvement of a participatory representative body with a public interest mandate. The Brazilian national council, CONSEA (see box 2) provides an illustration of how this might work. Interviewees stressed that priority should be given to representatives of groups vulnerable to marginalisation and food poverty, including representation for the interests of countries in the global south.

The budgets for public goods payments would then be devolved to regions where a local multi-actor decision-making body would decide on priorities for that area and allocate the budget accordingly. The appropriate scale of region would be a choice for Devolved Administrations; however, in England a medium scale, such as the nine administrative regions (East of England, East Midlands, London, North East, North West, South East, South West, West Midlands, Yorkshire and the Humber) would provide both a decision-making process that is more accessible to people and a large enough area to provide a range of options for allocating budget.
These allocation decisions should be taken democratically and transparently, as many interviewees emphasised. For example, each region could set up a local agricultural policy council with members that are elected from affected constituencies, including farmers themselves, residents of rural communities, other users of the countryside (e.g. ramblers, fishers, etc.), food insecure consumers and members of the general public. Again it is important that this should be done with a rights based approach, giving priority to representatives of groups vulnerable to marginalisation and food poverty, including representation for the interests of countries in the global south. The electoral system should ensure balanced representation across all interests; including producers and consumers, as well as proponents of environment, health and development concerns. As an alternative to setting up new councils, devolved decision-making could use existing local authority structures. Either way, the purpose of this body would be to deliberate on the evidence of which public goods are most needed and wanted in the local area and, therefore, how much of their devolved budget to set aside for paying for each one. This would have to be a long-term framework (e.g. 10 year periods), to provide farmers with sufficient certainty, so ensuring that a strong, trusted and accountable decision-making body is established is especially important as opportunities to change the system will be infrequent. To support the objective of democratic governance, there are various options, some of which are discussed in Box 2.

There could be some constraints to the decisions that these bodies could make; for example, regions may not choose to prioritise reducing greenhouse gas emissions if they feel that the consequences of climate change will not affect their area. For such cases, each region should be required to set aside a certain amount of funding. These bodies could be integrated with the functions of a local food policy council, that has been developed in many countries, so that budget allocations were only one part of the council’s remit. See Box 2 for examples of this approach working in practice.

Box 2. Case studies: democratic governance of food policy

National level: The Brazilian National Council of Food and Nutrition Security (CONSEA)

In 1993, a citizens’ movement persuaded the Brazilian government to create a national council for food security (CONSEA). It has an important role in Brazilian politics, where its mandate is to advise the president’s office on food and nutrition, and allocate a budget with the aim of guaranteeing the human right to healthy and adequate food. Although its composition now includes government representatives, most of its members come from civil society. There are also CONSEAs at state and municipal levels with the aim of maximising democratic governance in a decentralised food system, these CONSEAs are representative of Brazilian social, regional, racial and cultural diversity in the area they have responsibility for.

Local level: Bristol’s Food Policy Council

Bristol’s Food Policy Council aims to bring together representatives from industry, health, politics, and community groups to deliberate and advise on local food policy together. In combining actors from the different elements of the food system, including production, processing, distribution, retail, catering, consumption and waste disposal, they are able to pull together towards the common objective of achieving a healthier, more sustainable and resilient food system.
In addition, a cap should be set on the total amount that any one individual can receive for providing public goods. This can be set relatively high so as to avoid preventing actions that might provide a higher level of public good.

These institutions need to be robust to the influence of corporate lobbying, which has been particularly effective in the UK’s food sector – in a survey of decision-makers (politicians and officials) 83% rated the effectiveness of agricultural lobbyists as 4 or more on a 5-point scale.90 This model would also avoid agricultural subsidies becoming a plaything for politicians in Westminster – a concern raised by one of our interviewees.

These three components combine to achieve most of the policy goals prescribed in Section 4. The proposed scenario would have, at least, no directly negative impact on producers in the global south since there would be no production or export subsidies. It could have a positive impact on those producers if it leads to less focus on exporting, and more focus on producing for the UK’s market (e.g. displacing horticultural produce from the Netherlands and Spain) – the incentives for more local supply chains and agroecological production would tend to make this happen. This means that it could also improve the UK’s domestic food security by bringing our production more in line with our consumption needs. This is plausible since horticultural enterprises, which tend to be smaller, will benefit from this scenario. However, both of these impacts are very uncertain since it is difficult to predict exactly how the industry’s structure will respond to a significant change in policy.

The overall scale of payments would be 33% lower in this policy scenario compared to the status quo (see Figure 3). This seems like a good compromise between recognising the competing

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Figure 3: Comparison of payments under status quo and proposed progressive subsidy system

![Comparison of payments under status quo and proposed progressive subsidy system](image-url)
uses for that funding and supporting a thriving ecology of diverse, ecologically-minded farming enterprises. The composition of these payments would also be significantly different to the status quo: income support would roughly halve, payments for public goods and rural development would roughly double, and the total pot of money would be spread much more evenly among producers. The total cost would be a minimum of roughly £2.2 billion, comprised of £0.9 billion in universal payments, £0.3 billion in grant funding for regional infrastructure and development, and £1 billion in payments for public goods. Within the existing CAP payments envelope there would be scope to increase both budgets for regional infrastructure and development and payments for public goods to £0.8 billion and £1.5 billion respectively. Even in the minimum budget scenario total payments for public goods are double the current level.
6.1 Evaluation

Having defined our policy objectives in Section 4 we believe that our preferred option (“Progressive subsidy system”) can go a long way to meeting these, with the exception of public health and access to food as noted.

In order for a UK subsidy system to support small-scale farmers in the global south, the most important principle is to avoid subsidies that are linked to levels of production or subsidies that reduce the cost of exporting. In this scenario, payments are delinked from both production and land area and there is scope for total payments to be reduced by as much as £1 billion compared to the status quo.

In terms of sustainability, like the PMPG proposal, the progressive subsidy system would support environmentally beneficial methods.

Given that none of the existing policy scenarios in Section 5 would necessarily lead to an increase in jobs in the rural economy, improve support for small-scale farmers, or re-localise supply chains, our proposed scenario seeks to address this by implementing a universal payment to all active farmers that provides smaller producers with a more level playing field. This policy in combination with rural development grants to build up essential medium-scale, regional infrastructure such as processing facilities will also tend to increase the number of jobs in rural economies.

In terms of governance, we propose that the responsibility for some elements of a new progressive subsidy system (rural development grants and payments for public goods) could be devolved to new regional bodies with representation from diverse stakeholders with the remit to consult with local communities and interest groups, deliberate on regional priorities, and allocate their share of the national budget. This would promote transparency and accountability in a way that the current CAP system has failed to.

Table 2 compares the progressive subsidy system to our evaluation of the previously outlined four policy scenarios against our policy objectives, and Figure 4 compares the implications for the public purse.

Figure 4: Direct costs to the exchequer

<table>
<thead>
<tr>
<th></th>
<th>British CAP</th>
<th>Complete liberalisation</th>
<th>Public crop insurance</th>
<th>PMPG</th>
<th>Progressive subsidies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agri-environment/public goods (max)</td>
<td>🟢</td>
<td>🟢</td>
<td>🟢</td>
<td>🟢</td>
<td>🟢</td>
</tr>
<tr>
<td>Agri-environment/public goods (min)</td>
<td>🟢</td>
<td>🟢</td>
<td>🟢</td>
<td>🟢</td>
<td>🟢</td>
</tr>
<tr>
<td>Rural development (max)</td>
<td>🟦</td>
<td>🟦</td>
<td>🟦</td>
<td>🟦</td>
<td>🟦</td>
</tr>
<tr>
<td>Rural development (min)</td>
<td>🟦</td>
<td>🟦</td>
<td>🟦</td>
<td>🟦</td>
<td>🟦</td>
</tr>
<tr>
<td>Direct payments (max)</td>
<td>🟤</td>
<td>🟤</td>
<td>🟤</td>
<td>🟤</td>
<td>🟤</td>
</tr>
<tr>
<td>Direct payments (min)</td>
<td>🟤</td>
<td>🟤</td>
<td>🟤</td>
<td>🟤</td>
<td>🟤</td>
</tr>
</tbody>
</table>
### Summary of policy scenarios impact

<table>
<thead>
<tr>
<th>Policy Objective</th>
<th>British CAP (status quo)</th>
<th>Complete liberalisation (New Zealand model)</th>
<th>Price insurance</th>
<th>Public money for public goods</th>
<th>Progressive subsidy system</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to food</td>
<td>Neutral or ambiguous effect on policy objectives</td>
<td>Not easily influenced through subsidy regime</td>
<td>Beneficial effect on policy objective</td>
<td>Detrimental to policy objective</td>
<td>Not easily influenced through subsidy regime</td>
</tr>
<tr>
<td>Local supply chains</td>
<td>Neutral or ambiguous effect on policy objectives</td>
<td>Not easily influenced through subsidy regime</td>
<td>Beneficial effect on policy objective</td>
<td>Detrimental to policy objective</td>
<td>Not easily influenced through subsidy regime</td>
</tr>
<tr>
<td>Support for small-scale</td>
<td>Neutral or ambiguous effect on policy objectives</td>
<td>Not easily influenced through subsidy regime</td>
<td>Beneficial effect on policy objective</td>
<td>Detrimental to policy objective</td>
<td>Not easily influenced through subsidy regime</td>
</tr>
<tr>
<td>Democratic governance</td>
<td>Neutral or ambiguous effect on policy objectives</td>
<td>Not easily influenced through subsidy regime</td>
<td>Beneficial effect on policy objective</td>
<td>Detrimental to policy objective</td>
<td>Not easily influenced through subsidy regime</td>
</tr>
<tr>
<td>Sustainability</td>
<td>Neutral or ambiguous effect on policy objectives</td>
<td>Not easily influenced through subsidy regime</td>
<td>Beneficial effect on policy objective</td>
<td>Detrimental to policy objective</td>
<td>Not easily influenced through subsidy regime</td>
</tr>
<tr>
<td>National food security</td>
<td>Neutral or ambiguous effect on policy objectives</td>
<td>Not easily influenced through subsidy regime</td>
<td>Beneficial effect on policy objective</td>
<td>Detrimental to policy objective</td>
<td>Not easily influenced through subsidy regime</td>
</tr>
<tr>
<td>Public health</td>
<td>Neutral or ambiguous effect on policy objectives</td>
<td>Not easily influenced through subsidy regime</td>
<td>Beneficial effect on policy objective</td>
<td>Detrimental to policy objective</td>
<td>Not easily influenced through subsidy regime</td>
</tr>
<tr>
<td>Jobs</td>
<td>Neutral or ambiguous effect on policy objectives</td>
<td>Not easily influenced through subsidy regime</td>
<td>Beneficial effect on policy objective</td>
<td>Detrimental to policy objective</td>
<td>Not easily influenced through subsidy regime</td>
</tr>
<tr>
<td>Access to food</td>
<td>Neutral or ambiguous effect on policy objectives</td>
<td>Not easily influenced through subsidy regime</td>
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</tr>
<tr>
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<td>Beneficial effect on policy objective</td>
<td>Detrimental to policy objective</td>
<td>Not easily influenced through subsidy regime</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Potential Cost</th>
<th>£3.2bn</th>
<th>0</th>
<th>?</th>
<th>£0.5–3.2bn</th>
<th>£2.1–3.2bn</th>
</tr>
</thead>
</table>

Table 2:
7. Conclusions

This is an incredibly important time for the future of our food and farming system. The decisions we make in the coming few years will determine the character of our rural communities, environment and our diets for decades. An honest debate about what we should be trying to achieve, followed by a sober analysis of the policy options for making that happen is desperately needed. That is what this paper has tried to do.

We identified seven policy objectives and we assessed four policy scenarios proposed by other individuals and organisations against their likelihood of achieving those objectives. We then proposed our own scenario.

Some key results stand out:

• For all policy scenarios, the impacts on national food security and producers in the global south are difficult to predict. A policy such as the proposed progressive subsidy system that encourages smaller producers, and horticulture in particular, could potentially increase national food security while having a neutral or slightly positive impact on producers in the global south. Overall, trade policy is probably a more significant influence on these outcomes.

• The role of democratic governance of any new subsidy regime has been entirely neglected in the public debate so far. We propose that regional bodies could play a role in deliberative consultation with affected communities and take responsibility for allocating some resources.

• All of the existing proposals are either ambiguous or detrimental in their impact on small-scale producers and local supply chains. Our proposal levels the playing field between large and small producers by giving the same universal payment to all farmers, regardless of the size of their operations, and encourages local supply chains by earmarking budget for regional development grants.

What comes after the CAP could be either much better or much worse for the progressive priorities we have identified – so the stakes are high. In the coming months and years we will put in place a framework that could last decades, so we must get it right. To that end, it is essential that public debate on this matter is encouraged and that we really give control back to affected communities, both in terms of the policy we eventually adopt and throughout the policy development process.
References


40 M. Pirie, "Rebooting Britain: Making the most of Brexit" (2016), (available at https://static1.squarespace.com/static/56eddde762cd9413e151ac92/t/578e48c8ebbd1a046caae9cf/1468943502085/madsen_pirie__rebooting_britain_online_4.pdf).


78 Food Foundation, Focus on Brazil Leadership and public policy making, p. 85.

79 Bristol Food Policy Council, Bristol Food Policy Council: About (2016), (available at http://bristolfoodpolicycouncil.org/about/).

Appendix

1. Results from media review and interviews

1.1 Media review

We reviewed the stance of four categories of public influencers: (1) academics and journalists; (2) industry bodies; (3) politicians and political parties; and (4) charities, NGOs and think tanks.

Despite a fairly high volume of discussion, very few specific proposals have been made publicly.

Most of the influencers advocate a variation on one of three core (but vague) proposals: “status quo”, “complete liberalisation”, or “public money for public goods” (PMPG).

- The status quo would have existing income support under Pillar 1 maintained at broadly its current level and would rollover the environmental stewardship payments under Pillar 2 as well as bringing relevant EU regulations onto the UK’s statute books.

- Complete liberalisation would involve abolishing all payments to farmers from Pillars 1 and 2 as well as removing or greatly reducing the regulations that currently apply to farming.

- “Public money for public goods” would phase out Pillar 1 payments but would retain and potentially expand the payments under Pillar 2.

The most frequently encountered proposal is some version of PMPG. This is the basic rhetoric that the UK Government has adopted in previous CAP negotiations, it is also supported by a number of environmental NGOs and academics. However, it is likely that disagreements remain regarding the scope (i.e. what constitutes a public good) and size of public payments that should be adopted.

The following table highlights some key positions from the four influencer categories.

### Table 1: Summary of public debate

<table>
<thead>
<tr>
<th>Name</th>
<th>Description</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Academics &amp; Journalists</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| Dieter Helm                 | Prominent environmental and public sector economist and Chair of Natural Capital Committee | • Eliminate subsidies  
| Financial Times             | Leading UK broadsheet                            | • Instead of subsidies, ‘adopt a system of highly specific direct transfers’ for particular things (but not necessarily public goods) |
| The Guardian                | Leading UK broadsheet                            | • Seems to endorse the National Trust’s position                        |
| Industry Bodies             |                                                  |                                                                          |
| National Farmers’ Union     | Industry body for farmers                        | • Prioritise ‘food security’ as a public good                           |
| NFU Scotland                | Scottish branch of NFU                           | • Maintain current levels of income support for at least 4 years  
|                              |                                                  | • Remove ‘overly prescriptive bureaucratic requirements’  
|                              |                                                  | • Public procurement of local food                                    |
Tenant Farmers Association | Representative body for farmers that rent their land |
| --- |
| Retain current levels of funding but split equally between three new priorities:  
  - Agri-environment schemes  
  - Farm Business Development Scheme  
  - R&D to support British produce  
| This implies removing pure income support |

Land Workers Alliance | Coalition representing small-scale, agro-ecological farmers |
| --- |
| Prioritise national food security  
| Weight payments towards smaller farms  
| Cap total payments to any single farmer  
| Payments contingent on farmer being active |

**Political Parties & Politicians**

| Andrea Leadsom | Secretary of State for Environment, Food and Rural Affairs |
| --- |
| Committed to existing levels of funding until 2020  
| Chancellor qualified this commitment with requirement that payments represent good value for money and "in line with domestic strategic priorities" |

| George Eustice | Farming Minister |
| --- |
| Move from subsidies to price insurance system  
| Reduce regulation |

| Rachel Maskell/Labour Party | Shadow Defra secretary |
| --- |
| Support small-scale farmers |

| George Freeman | Chair of the Prime Minister’s Policy Board |
| --- |
| Indicated that subsidy levels may have to fall |

| UK Government |  |
| --- |
| In previous CAP negotiations the UK has favoured reducing income support in favour of agri-environment schemes |

**Charities, NGOs, Think Tanks**

| RSPB | Major environmental NGO and landowner |
| --- |
| Public money for public goods  
| Reduce universal income support |

| Greenpeace | Major environmental NGO and campaigning group |
| --- |
| Public money for public goods  
| No payments for land ownership (income support) |

| National Trust | Conservation charity and landowner |
| --- |
| Public money for public goods  
| Remove universal income support |

| CPRE | Campaigning organisation |
| --- |
| Maintain income support (but make more progressive) and environmental incentives |

| Institute for Economic Affairs | Free market think tank |
| --- |
| Remove all subsidies (New Zealand Model) |

| Adam Smith Institute | Free market think tank |
| --- |
| Remove all subsidies (New Zealand Model) |
1.2 Interviews with experts

This paper was partly informed by a series of nine interviews with experts and stakeholders conducted in October and November 2016.

Table 2: What should be the policy objectives or goals of a post-Brexit agricultural policy?

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Objective</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Most interviewees</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supporting small-scale farmers and local supply chains</td>
<td>Interviewees felt that the CAP has unfairly advantaged large-scale farms, leading to concentration, and argued that subsidies going forward should aim to counteract this trend.</td>
<td></td>
</tr>
<tr>
<td>Food sovereignty/democratic food governance</td>
<td>In response to a feeling of lack of control over all aspects of the food system (from production to distribution and the type of markets supported), interviewees suggested we should prioritise policy scenarios that allow for greater democratic decision making from the people that are most affected.</td>
<td></td>
</tr>
<tr>
<td>Sustainability</td>
<td>Recognising the large impact of farming on the environment, interviewees were interested in subsidies that support less intensive types of farming, for example mixed integrated farming systems.</td>
<td></td>
</tr>
<tr>
<td><strong>Some interviewees</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Healthy and sustainable food</td>
<td>Some interviewees felt that delivery of healthy and sustainable food should be the starting point from which a food policy emerges, which could, for example, lead to a reducing production of meat and dairy, especially given the double dividend on human and environmental health.</td>
<td></td>
</tr>
<tr>
<td>Good jobs/keeping farmers on the land</td>
<td>Industrial farming is labour extensive; interviewees suggested subsidies should foster a system that creates good jobs, with a decent income and labour conditions, especially in relation to migrant workers who are often poorly organised in terms of rights.</td>
<td></td>
</tr>
<tr>
<td>Diversifying land ownership in the UK</td>
<td>Some interviewees suggested that post-Brexit subsidies should tackle the increasingly concentrated picture of land ownership in the UK.</td>
<td></td>
</tr>
<tr>
<td>Access to food</td>
<td>Some interviewees argued that the ultimate aim of food policy should be providing access to food/eradicating hunger, therefore land use should be shaped by people fed per hectare.</td>
<td></td>
</tr>
<tr>
<td>Support new entrants</td>
<td>A whole raft of barriers prevent young and new entrants from entering the sector and have led to an aging population of farmers. Interviewees suggested subsidies could cut down upfront capital costs that add to the barrier.</td>
<td></td>
</tr>
</tbody>
</table>
What policy proposals are worth exploring to meet those objectives?

Subsidies linked to area of land should be scrapped. Interviewees highlighted how this system has benefitted large-scale farmers, but paid no attention to land use, meaning that landowners have been rewarded for simply owning land. However, two people argued that not all Pillar 1 payments should be scrapped, because direct payments are really important to farmers to mitigate against unforeseen circumstances.

Complete liberalisation – i.e. scrapping all agricultural subsidies – is out of the question. People raised concerns over how this approach impacted the sector in New Zealand, citing increased concentration as a major outcome.

‘Public money for public goods’ is a good idea, but who gets to define it? All participants had different ideas about what constitutes a public good, leading to discussions around how it will be defined. One interviewee raised the concern that, if left to politicians, the subsidy would become an election tool, used only to solve politically expedient issues but none that extend beyond the five-year term, such as air pollution. However, many felt that it a ‘public money for public goods’ approach would encourage farmers to go above and beyond the bare minimum, and would incentivise actions that support our policy objectives.

Democratic control of the food system is paramount. There was a strong sense that decisions over the food system have been taken by an elite for long enough, and that to get the food system we really want, we need to give those most affected by decisions a voice. Interviewees shared examples of places in the UK and further afield where this is already happening.

If we retain anything like the current CAP, there will need to be significant reforms. For example, payments to any individual farmer should be capped, small farmers should be prioritised, the definition of an ‘active farmer’ needs to be refined, and new entrants should receive a top up payment.
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