

Review of the NFU/CLA proposal 'Option B – a Campaign for the Farmed Environment'

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Introduction

The environment has come to play an increasingly significant role within agricultural and rural policy over recent decades and environmental improvement has become a formalised policy objective through the government's PSA targets relating to wild bird populations and the proportion of SSSIs in good condition as well as the requirements for water quality under the Water Framework Directive and nitrate regulations.

Set-aside was introduced first as a voluntary scheme in 1988 and subsequently more generally as a condition for the receipt of area payments under the MacSharry reforms in 1992. The objective for introducing set-aside was in order to control the supply of agricultural commodities in the context of surplus stocks and increasing levels of budgetary expenditure on the CAP. The process of decoupling under the Mid Term Review has logically removed the rationale for set-aside as a supply control measure. Further, the recently increased level of commodity prices led to the setting of a zero percent set-aside rate in September 2007 and subsequently, it has been decided to end set-aside under the CAP Health Check reforms.

However, it has subsequently been established that set-aside has also delivered environmental benefits. In this context the Secretary of State set up a High Level Set-Aside Group (HLSG) under the Chairmanship of Sir Don Curry in October 2007. Four studies of environmental impacts, commissioned to inform the work of the HLSAG, were peer-reviewed in autumn 2008. The evidence indicates that set-aside had:

- benefited farmland bird populations
- benefited a range of plant and mammal species, and
- reduced sediment and phosphate run-off in catchments where there were significant areas of farmland at high risk of erosion.

In addition a literature review by the Institute of European Environmental Policy (IEEP) showed a range of other benefits including benefits for species such as vole, other small mammals, and brown hare. (Defra 2009, p8)

Thus, in the context of the policy requirements for environmental protection, the question arises as to what policy response there should be to the potential environmental losses associated with the withdrawal of set-aside. The HLSG recommended that: "it is increasingly clear that further measures will be needed to compensate adequately for the loss of set-aside, as well as to mitigate the full impact of the loss of other uncropped land"; and that "no one single measure provides an adequate response on its own" (Defra 2009, p6). In considering what sort of response should be made, it is the Government's intention not to adopt regulation without full consideration of non-regulatory solutions, as recognised by the Secretary of State who commented at the annual NFU conference in February 2009: "I welcome the idea of a voluntary scheme [for re-establishing the environmental benefits of set-aside], led by the industry, if we can be sure that it will deliver. This would be real partnership and we will stand ready to help." (Defra 2009, p5).

Natural England (2009a) has assessed what changes in land use would be needed in order to deliver similar environmental benefits to those from set-aside and other uncultivated land. The challenge identified by Natural England is to secure additional areas of uncropped land and get 240,000ha into appropriate management to deliver the benefits required. Slightly different figures are provided in Natural England (2009b) indicating a total area of 205,000ha. This would be additional to land in existing agri-environment schemes where there are a large number of agreements with land in buffer strips that are already contributing towards resource protection and a smaller number of agreements with in-field options that help towards the target for farmland birds. Natural England has a target to expand the land area in agreements to 70% in 2011 as well as the area in the key arable in-field options for farmland birds.

Defra is currently consulting on two policy options aimed at retaining the environmental benefits that have been achieved under set-aside: Option A proposed by Defra and Option B proposed by the farming industry. Option A involves a combination of regulatory action through a new cross compliance requirement and incentives delivered through new ELS 'top-up' options. This would require farmers receiving SPS or RDPE payments to manage a percentage of their cultivated land primarily for environmental purposes in a number of ways. ELS top-up options would be offered to those prepared to undertake more demanding environmental management on this land with payments to reimburse the additional management costs. It is proposed that the requirement would only apply to farms with more than 20ha of conventional cultivated land outside the SDA. There are two variants, A1 and A2, with the latter offering a wider range of cross compliance options, some of which would allow some form of production to be continued on the land. A working assumption is made that for variant A1 4%-5% of all arable land would be required to be managed for the environment and that for A2 5%-6% would be required.

Option B involves a voluntary approach proposed by CLA/AIC and NFU (hereafter the 'NFU') on behalf of the farming industry. The aspiration of the proposed Option B is 'to exceed the environmental benefits offered by set-aside by establishing a coordinated and engaging 'Campaign for the Farmed Environment'' (hereafter 'the Campaign') (p5), although this is qualified by the comment (p33¹) that "we do not expect immediate or even short term gains in environmental condition as a results of our efforts" due to the anticipated lag in the realisation of environmental benefit outputs. The Campaign will involve information, advice and local demonstration aimed at farmers and their advisers with the objective of promoting locally relevant actions benefiting farmland birds, resource protection and wider biodiversity' (20/5 version p5)

The NFU state their belief that the "benefits [from set-aside] can be retained by promoting voluntary management of a relatively small area of farmland in well located and positively managed ways" (20/5 p5). The proposed Campaign will bring together organisations and bodies into a 'formal

¹ Where not otherwise specified, quotations are taken from CLA/AIC/NFU (2009).

governance structure' (p5). "We envisage that this governance will identify priorities and generate activities, tools to allow effective knowledge transfer to farmers and their advisers in order to deliver behavioural change." It is proposed that, inter alia, better informed farm advisors should play a critical role in influencing farm decisions. This may be the case, but it needs to be recognised that advisors are employed to advance the interests of the farmer. They would thus have to offer neutral guidance indicating which actions would be in the interest of the farmer and which would not. The final say clearly lies with the farmer.

The tools to influence behaviour

The critical element of the Campaign ('a central focus of the Campaign' p19) aims to influence farmer behaviour and three 'tools to influence behaviour' are proposed: Environmental Stewardship, additional non-Environmental Stewardship measures, and building on existing industry initiatives. These are considered in turn.

Environmental Stewardship

Option B Aim: Increased and informed ELS participation: specifically to achieve more than 70% of UAA uptake with a 40% increase in area of in-field options by 2010/11 above the March 2008 baseline.

Natural England has a target of achieving 70% of the UAA in England under some form of agri-environment agreement by March 2011. It is not quite clear from the text as to whether the NFU target of 70% of UAA uptake refers to ELS alone or agr-environment schemes in total. The areas under all agri-environment schemes reported by Defra are shown in Table 1.

Table 1: Areas under agri-environment agreements in England May 2009

	Area under agreement (ha)	% of UAA
Environmentally Sensitive Areas	484,729	5.2
Countryside Stewardship Scheme	431,326	4.6
Entry Level Stewardship (inc (O)ELS)	5,070,742	54.6
Freestanding Higher Level Stewardship (58,234	0.6
Total area under agri-environment agreements	6,045,031	65.1

Source: Defra

The total area under agreement at this time is reported as being 65.1% UAA. The 70% of the UAA would be 6,510,000 ha. If the NFU target relates to ELS alone, it would represent an increase of 1,440,000 ha over the area entered

into ELS in May 2009. If the target relates to agri-environment schemes in total, a further 465,000 ha is required. Natural England (2008) commented in 2008 that the ELS take-up remained “lower than ideal if we are to meet the overall target of 70% of agricultural land under agreement.” But that a “Generic promotion campaign, together with some targeted promotion should alleviate the situation.” The issue here is the extent to which the Option B Campaign will be more successful than the promotion proposed by Natural England. These figures for land entered into ELS represent the total area of the holdings entered into the scheme rather than the arable area in particular options that might mitigate against the loss of set-aside and so are anyway less directly relevant to the policy objective here. It is clearly important that the types of land management achieved address the specific aim of compensation for set-aside. This issue is returned to in the context of the assumed baseline for the assessment of scheme performance.

The second element of the NFU aim proposes a 40% increase in in-field options. Within a given total area, this seems likely to imply some switching between ELS options in order to focus on the three key themes for the Campaign of farmland birds, resource protection and biodiversity provision that are identified as being required in order to address the environmental losses associated with the withdrawal of set-aside. This, then, presumably implies that the areas entered into other ELS options will be lower than they would otherwise have been with the potential loss of environmental benefits that those options could have generated. It is important then to recognise the *net* environmental impacts of realigning the take-up of ELS options. Defra has indicated that the ELS options will be amended on the basis of the 2008 review of Progress of Environmental Stewardship (Defra, 2009 p10). Clearly the prioritisation of options needs to reflect the whole range of environmental issues and not only the issue of compensation for the loss of set-aside.

The Campaign could make a valuable contribution in supporting the further development and the implementation of agri-environment schemes at both the national and more local levels. One issue to consider is whether ELS options offered to farmers may be differentiated at a more local level to reflect the different spatial pressures on and priorities for the environment.

The Campaign’s proposals for Environmental Stewardship may be seen as falling substantially within the baseline that has been set out in Defra (2009). Uncertainty must surround the capacity of Natural England to reach its target by 2011 and the Campaign could make a valuable contribution in promoting higher levels of take-up. The effect that this has beyond what would have occurred anyway would represent an additional contribution resulting from the Campaign. The Campaign would draw the various organisations together and they could make a valuable input into discussions and provide guidance as to possible further scheme developments especially at a local level. However any reallocation of ELS options needs to recognise not only the environmental gains from the new options that are taken up, but also the possible losses from the options that are not taken up.

Additional non-Environmental Stewardship measures

Option B Aim: promotion of voluntary non-ELS activity. We propose targets for the level of participation in voluntary management of 40% of arable farmers/growers not participating in ELS to be undertaking some form of voluntary management in 2011 and 60% by 2012.

The second 'tool to influence behaviour' seeks to promote voluntary non-ELS activity. This element immediately raises the issue as to why farmers might choose to make the proposed changes. Clearly the term 'voluntary' is used in different ways in different contexts. Thus, all agri-environment schemes are 'voluntary' in the sense that farmers are not obliged to enter them. They can choose to do so where they judge that it is in their own interest, either because the payments justify the costs incurred or because they see some other advantage, perhaps valuing the environmental gains directly in their own right or else believing that it represents the 'right' thing to do. 'Voluntary' in this component of the Campaign represents farmers responding in the absence of any financial payment for doing so. Indeed, the approach is described at one point as 'voluntary non-incentivised' activity (p24). There is no explicit discussion as to why farmers who have chosen not to enter their farm into ELS should nevertheless choose to undertake voluntary environmental management beyond anything that they have done before. And this particular group of farmers might be expected to be most resistant to introducing such measures.

There could be various motivations for farmers to adopt non-Environmental Stewardship measures. Clearly the key changes that the Campaign can bring are extra information and, potentially, an altered social environment within which social norms in farming may be more supportive of pro-environmental behaviour. The question then is to what extent are farmers failing to adopt such measures currently because they lack information or because that do not feel encouraged to do so by their peers. We clearly don't have good information on this.

We assume that the proposed measures will not increase farm profitability and yet it would seem unlikely that such farmers would adopt significant management changes without some form of inducement, even once they have been better informed. Some farmers who are already managing uncultivated land outside of the ELS may be willing to make changes to the ways in which they manage the land. Some may be willing or may be persuaded to make marginal management changes, although it may seem more likely that once persuaded of the potential merits of the environmental measures, they would then be likely to enter their farms into ELS and rather than undertake voluntary measures outside of Environmental Stewardship. An exception might be where farmers are reluctant to commit land into ELS for a 5-year period.

It seems likely that over the past twenty years, attitudes and the availability of agri-environment schemes have altered such that 'good' farming is now widely equated with farming systems that are sensitive to environmental values rather than ones that simply maximise production or profit. The

Campaign might thus be seen as promoting a view that is already quite generally accepted and thus make relatively little headway in the present context. But at the same time, the general availability of payments for the provision of environmental benefits, especially under ELS, might have the effect of crowding out stewardship values which would see high standards of environmental management as a duty rather than as something for which payment should be expected. This context may promote the presumption that payments should be expected for the provision of environmental services and this may undermine arguments put forward in the Campaign that land managers should undertake such measures without payment.

One further possible argument is that changes in farmer behaviour can be expected because farmers will respond to the threat of future regulation; that by adopting environmental management measures now they will thereby avoid the threatened regulatory failsafe being introduced in the future. This is a plausible argument and will no doubt be made. But it suffers from the free-rider problem. Collectively, the argument would hold, but individual farmers are much less likely to see their own personal actions as making any significant difference to the overall pattern of land management and hence to the probability of government introducing a regulation. While they may appreciate the general issue, this may not be sufficient to persuade them to alter their behaviour.

Other things being equal, it would seem reasonable to suppose that the level of response to the Campaign amongst farmers to promote environmental management measures outside of Environmental Stewardship would be limited. No doubt there would be some responses but farmers would be unlikely to incur substantial net costs and any changes in behaviour would seem likely to be marginal beyond what is being done already.

Building on existing industry initiatives

Option B Aim: to communicate the range of measures farmers and advisers can take to enhance their land management via the uptake of ELS and other measures promoted by the Campaign.

The third 'tool to influence behaviour' builds on existing industry initiatives, and makes reference to various schemes, such as the Voluntary Initiative on pesticides. These initiatives are important and valuable in realigning farmer attitudes towards particular issues as an environmental 'impact' of an activity comes to be recognised as an environmental 'problem'. It is not clear though to what extent these initiatives have themselves been instrumental in causing significant changes in behaviour that have generated environmental benefits, particularly on the part of more reluctant decision-makers. They may often be seen as part of a package of measures that are needed in order to promote substantial changes in behaviour.

Campaign activities and funding

Much of the thrust of the Campaign represents an important element of any policy seeking to change behaviour and to promote enhanced environmental management, albeit that this is further developed and potentially better co-ordinated than is often the case. The Campaign aims “to communicate the range of measures farmers and advisors can take to enhance their land management” (p23). The elements of communications, training and events could all contribute to enhanced policy outcomes and might well be implemented irrespective of whether Option A or Option B were to be adopted. Such training should be incorporated into regular CPD activities in relation to the full range of environmental impacts and issues and this should be supported by appropriate research.

The Option B proposal suggests that there can be significant contribution from industry in support of the Campaign, both from organisations and from individual farmers, growers and advisors, “without compensation” (p26). But it is argued that public funding will also be needed to support specific areas of activity although this is not costed in the proposal and so the extent of the cost remains as an uncertainty at this stage. It is suggested that funding opportunities for this might be offered through the CAP Health Check new challenges/ rural broadband funding “with little disruption to existing commitments”, although any such funding inevitably has opportunity costs in terms of the other activities that might otherwise have been funded but no longer are.

The government is urged to give industry partners “the opportunity to guide the ELS and cross compliance advice contracts” which are anticipated to be offered to providers. Industry ‘guidance’ of a government policy might be controversial, although their input into policy formulation can clearly be beneficial.

Baseline, milestones and targets

Baseline

Defra (2009 p10) identifies a policy baseline against which an assessment should be made. A number of policy initiatives are underway and the potential schemes need to be considered in this context. These include the objective of increasing the uptake and options available in agri-environment schemes, especially under Environmental Stewardship. However, the NFU regard this baseline, which rises on the basis of planned changes to ELS and projected improvements in the nature of take-up options as “totally flawed” and as projecting “changes which are unlikely ever to be achieved given the introduction of Option A” (p28). The NFU claims this view to be endorsed by Natural England. It was noted that Natural England elsewhere has also indicated that ELS take-up is below what it regards as an ‘ideal’ level but that it is planning a promotion which it argues can resolve the problem. This suggests that Natural England’s endorsement of NFU’s point may be less clear-cut than is implied by the NFU.

The reasons for the anticipated failure to improve the performance of ELS should Option A be adopted is not spelt out in any detail, but may be assumed to be associated with the NFU's argument that the compulsory measures outlined in Option A will have a damaging impact on the take-up of Environmental Stewardship and on the morale of farmers (p37). The extent and significance of such an effect is clearly unknown.

Thus, the extent to which ELS performance can be improved in the absence of Option B must be uncertain, but the suggestion that performance should be measured against a 'static baseline' 2005-07 must also be flawed. An assessment must judge the additionality that is brought about through the implementation of Option B. The correct counterfactual is the projected level of performance with all policies in place other than the specific elements that are being assessed as part of Option B. Even if the planned improvements to ELS fail to achieve their target, it would seem likely that they should be expected to achieve something and this projection should form the counterfactual rather than the historic position in 2005-07. A 2005-07 baseline would seem particularly unlikely to be appropriate with regard to the operation of ELS which was only introduced in 2005. Similarly some baseline would also, in principle, need to be set for the current level of voluntary environmental measures, although there may be little data available on this in practice.

In assessing the area of land required to compensate for the loss of set-aside, it is reasonable to adjust the total for the areas of set-aside that have been used for the production of energy and industrial crops which would have been unlikely to have generated environmental benefits and for the change in definition of the area from which land is to be set aside following the Mid Term Review.

Targets

It might be noted in passing that the objective of replacing the level of environmental benefits associated with set-aside is itself somewhat arbitrary to the extent that these benefits arose incidentally as a consequence of a policy measure that was introduced in order to restrain cereal production. An 'optimal' environmental policy target might be expected to set a desirable environmental standard based on the costs and benefits of alternative environmental standards looking forward, independently of the impact that set-aside happened to have on the environment in the past. However, the difficulty that this represents in identifying what this standard should be is not to be underestimated.

Option B targets are set in terms of "a 'generic' management target of 142,500 ha" (p30). This represents 50% of the "average 285,000 hectares that was in set-aside during 2005-07" (p30). The 50% is based on the observation that "Natural England has laid down some general land management targets based on a matrix that declares that approximately 50% of the land area previously covered by set-aside generated some environmental benefit". These figures are in fact different from those given by Natural England (2009a), even in terms of the total area reported as being

under set-aside in 2005-07. The area of land set as a target for Option B contrasts with the argument from Natural England, also based on an efficiency factor of 0.5, that “The challenge under both Options A and B is ... to get the whole 240,000 ha into appropriate management”. This in turn is somewhat more than is suggested by Natural England (2009b) which suggests a total requirement of 205,000ha comprising 90,000ha rotational options, 90,000ha of non-rotational options and 25,000ha of buffer strips and field corners.

There are a number of differences in approach and presentation between the case made by the NFU and the determination of the area of land required for set-aside compensation set out by Natural England that make direct comparison of the areas of land proposed difficult. In the NFU approach, there seems to be some interaction between setting the baseline and setting the target which is not fully addressed. It remains somewhat unclear as to precisely what the area of ‘generic’ management target is intended to represent. Clearly these differences need to be explored and explained. The target should be disaggregated between relevant options in ELS and areas under specific types of voluntary management.

The target for the area of land required for set-aside compensation may be set in terms of the ‘reasonable peak’ total area of set-aside that was achieved when set-aside was regarded as making the required contribution to environmental quality less any area of land that has subsequently been taken out of production or put into equivalent forms of environmental management, primarily under ELS. Given the variations between both the environmental and the agricultural circumstances between regions, it seems appropriate that the targets should be set at a regional rather than national level. In fact, it may even be possible to set targets at a county level.

The areas entered into the Environmentally Sensitive Areas and Countryside Stewardship scheme are excluded from the discussion here in that most of the land in these schemes probably makes relatively little contribution to the set-aside mitigation objective. However in practice it would be possible to add the arable options in these schemes into the framework illustrated below and account should be taken of the extent to which land will come out of arable options as ESA and CSS contracts come to an end.

The ‘reasonable peak’ area of set-aside

It is first necessary to identify the overall target for land that is taken out of intensive arable production in order to maintain the desired environmental standard. This is assumed to be the area under uncropped set-aside while the set-aside regime was in full operation.

This area is given by the:

- (area under obligatory set-aside + voluntary set-aside + area under bare fallow)
- - (area of set-aside under industrial & non-food crops).

In principle this should take account of areas under 'voluntary environmental management' although this area is probably unrecorded, certainly at a national level, and may anyway not be very great.

The 'reasonable peak' area would be averaged over a selected number of years relating to the period of time when set-aside was making a significant environmental contribution, probably before the Mid Term Review was implemented and before the introduction of ELS, such as 2003-2005. This would avoid the complication of the change in the base area for the set-aside requirement with the introduction of the SPS.

Target area for set-aside compensation

The target area for set-aside compensation is the area of land under set-aside equivalent management that is needed in order to achieve an environmental impact equivalent to the 'reasonable peak' area of set-aside.

This may be comprised of:

- areas under formal set-aside
- + voluntary set-aside and bare fallow
- + the set-aside equivalent of areas generated by relevant options in ELS
- + set-aside equivalent areas from relevant forms of 'voluntary environmental management'.

The Natural England calculations of 'set-aside equivalent areas' need to be inverted in order to be able to assess what contribution the take up of existing ELS options has made towards the set-aside mitigation target so that the conversion factors identify the areas of ELS options that are equivalent to one hectare of set-aside rather than the areas of set-aside that are equivalent to one hectare of ELS option. This is the reciprocal of the figures given and is used as the conversion factor in the table below.

In setting a target for the area of land needed to be taken out of production or brought into environmental management under either Option A or Option B, it is necessary to project the area of land that will be put into relevant forms of land management in the absence of any formal set-aside requirement and under the projected market conditions. It is also necessary to project the areas of land that will be entered into the relevant ELS options.

Thus the target area for set-aside equivalent land for each year would be determined as shown in Table 2. This sets the target in the absence of either Options A or B.

Table 2: Target for set-aside compensation policy

	Predicted ELS area (Ha)	Predicted voluntary area (Ha)	1/ NE Conversion Factor	Hectares
The peak set-aside area				SSSS
Less set-aside equivalent areas in the absence of Option A or B:				
Predicted Permanent set-aside				PPPP
Predicted Bare fallow				BBBB
Plus				
Take up of relevant ELS options:				
Option X	ELS X	Vol X	Cx	XXXX
Option Y	ELS Y	Vol Y	Cy	YYYY
Option Z	ELS Z	Vol Z	Cz	ZZZZ
Gives				
Total set-aside equivalent				TTTT
Target = Extra set-aside equivalent area required from Option A or B				SSSS - TTTT

The objective for the set-aside compensation policy initiative (Option A or B) is to deliver the Target set-aside equivalent area. This may be comprised of any combination of the forms of set-aside equivalent management identified above, plus any new options introduced (such as the top-ups under Option A or 'voluntary environmental management' under Option B) under the policy introduced for set-aside compensation.

The data requirements for this approach are not excessive. They do require the areas to be predicted at a regional rather than national level, but clearly all the base data are available at that level. Indeed the base data are available at much smaller scales and it would not seem unrealistic to consider prediction at, say, a county level. The NFU proposes to set targets in each of the 15 counties with the highest rates of set-aside. These might be developed along these lines in terms of set-aside equivalent areas as suggested by Natural England. This could offer a firmer basis for policy guidance.

These figures may be projected for a period of years over which the policy will be introduced so as to set out the target for the policy over a period of time. This target will decline as the area entered into the relevant ELS options increases.

Monitoring and reporting

Data are already available on the areas of agreements under the ELS and would continue to be collected and so the main issue addressed with regard to monitoring and reporting relates to the voluntary environmental management outside ELS. Under Option B, farmers would be asked to complete an annual record of the environmental actions that they are voluntarily implementing on their land on a voluntary basis. This information would then be gathered, and supplemented by a visual inspection by RPA inspectors while on farms as part of their routine scheme/ eligibility inspections. The details of this process are still being discussed between RPA and the NFU/CLA and they have yet to be fully costed, although NFU/CLA expect them to be lower than the cost to RPA of implementing Option A.

This raises various data collection issues. What is the incentive for farmers who have chosen not to enter ELS, quite possibly because they wish to avoid the bureaucracy involved, to be willing voluntarily to complete the necessary record at all? If the argument here is that it is because they wish to demonstrate that the land is being managed for environmental benefits in order to forestall possible future regulation, it could suggest a possible motive to exaggerate the area or level of management that they report. However, following our previous free rider argument, it might be argued that this factor may make little difference to individual behaviour in practice. If the record is completed, would there be a penalty for a false declaration, given that in this context there is no payment that could potentially be withdrawn? But if there is a penalty, this might deter farmers from completing the record at all in case an error should lead to a penalty for something that they were not receiving payment for in the first place.

The RPA inspection could also be complex. Firstly, there is the issue as to whether inspectors can reasonably be expected to make a reliable and accurate visual inspection, again with regard to an activity that is being undertaken voluntarily. But further, the validation of a complete farm record would seem more challenging than the possible demonstration that a farmer has failed to meet cross compliance requirements. With regard to cross compliance, the identification of one instance of failing to meet the requirement is sufficient to demonstrate a breach of the rules. The only way in which a voluntary record could be fully confirmed would be to check on each item listed in the record.

Surveys of voluntary activity could face a problem of non-response bias in that those engaging in the activity may be more willing to participate than those not engaging. And clearly a statistically valid analysis would depend on an appropriate statistical design and sufficient sample size.

However, even with a complete and accurate record of voluntary environmental activity, it should be recognised that this still does not demonstrate the extent to which Option B has increased the level of voluntary activity beyond the baseline. This could only be shown against a baseline

survey of the activities being undertaken in advance of the implementation of Option B.

In these circumstances, and given the probable reliance on the ELS in achieving the targets for changes in land management, we may wonder whether the cost of comprehensive recording the voluntary measures would be justified by the potential benefits from having what will inevitably be a partial knowledge of the extent to which these activities have changed.

Regulatory failsafe

Option B includes a regulatory failsafe. In order to be robust, this clearly needs to set a clear quantitative standard and 'land area' is proposed as the simplest basis for this. The area target rises over time so as to reach the proposed target of 142,500 ha over a three year period. The uncertainties as to the interpretation of this figure against the specified aims of Option B, the requirements identified by Natural England and the options that have already been adopted under ELS would clearly need to be clarified. However, it may be argued that it would be more appropriate to define a failsafe in terms of set-aside equivalent hectares to the extent that this could give a better guide as to the environmental impacts of the changes that have been achieved.

Other aspects of Option B

Targeting land put into environmental management

The NFU/CLA have emphasised the importance of targeting and of putting land into positive environmental management. The NFU/CLA argument that a 'relatively small' area of land is required is justified on the assumption that it will be 'well located' and 'positively managed' (p7). But the means by which specific areas of land are to be targeted remain unclear. There is discussion of targeting certain counties, and this would be appropriate, but this is some way from the site specificity that may be required. The reliance on the provision of advice and persuasion means that the Campaign can offer little in term of either carrots or sticks in order to guide land management changes towards the areas and types of management that are most significant. The costs of taking arable land out of production will tend to be highest in the localities where production is most profitable, but these are generally the areas where, because farming is more intensive, set-aside mitigation is most valuable in environmental terms. There is thus a risk that the Campaign would be more successful in areas where it is less necessary because farmers in these locations face a lower cost of taking land out of production but receive either the same level of payment under ELS or receive no payment at all. In contrast, a requirement to take a specified proportion of arable land out of production on each holding as proposed in Option A automatically targets the change in land use proportionately to the intensity of arable production. This may still not be the best possible location for land use change but it would clearly more closely reflect the pattern of land use change associated with set-aside.

Long term security of the land in environmental management

The Campaign aims to deliver long term changes in land use in order to sustain the environmental benefits over time. The NFU comments that it “should be seen as a lasting engagement by the farming industry in taking and maintaining its environmental responsibility. Setting specific targets sits somewhat uneasily with this concept as the achievement of targets could signify the end of a campaign” (Option B, p30). But any voluntary policy faces the risk that in different circumstances participants will choose to opt out. The same issue faces all voluntary agri-environment schemes when participants can choose not to renew their contracts. But in the case of agri-environment contracts, participants are locked into an agreement until the next potential contract break. Thus the government has the option of increasing the level of payment offered in order to increase the incentive to renew the contract in advance of farmers making their decisions. It could be argued that even this is too vulnerable to changing financial circumstances and that some areas of land ought to be secured in the long term by means of land purchase or covenants. However, there are really no options in the case of the purely voluntary policy beyond exhortation and so the risk must be present of whatever area of non-Environmental Stewardship activity that is achieved declining substantially in the face of possible higher commodity prices. The fact that areas of uncropped land did not decline to the extent that might have been expected in response to recent commodity price hikes may simply reflect a lag in farmer responses to change rather than a long term commitment to the retention of uncropped land in farming systems. And clearly the risk of higher commodity prices in the future cannot be discounted.

Conclusions

There are a range of challenges to reaching a clear view as to the relative merits of Options A and B as alternative approaches to set-aside mitigation. The land use requirements remain contested, there are uncertainties about the baseline to be adopted, it cannot be possible to know with any certainty what responses a campaign of the sort proposed in Option B would have, and the future conditions under which the campaign would operate are, of course, also unknown. And the proposals tend to be written in language that tends to flatter the case being advanced. For instance, according to Defra (2009) Option A requires farmers “to manage a small percentage of their cultivated land primarily for environmental purposes in a number of simple ways, possibly including some options where production could be maintained”. In contrast, the NFU view is that the top-up options will be “complex and of limited interest”. There is little evidence on which to predict the general farm response to these options in advance of their implementation.

Option B offers an industry campaign to promote improved environmental land management that could make a valuable contribution to environmental quality. However, various aspects remain ill-defined at this stage and it might be seen as being relatively optimistic in terms of the extent to which such a Campaign can guide land management decisions on a purely voluntary basis.

A key argument underlying the Option B approach is that by targeting land management changes, only a relatively small area of land needs to be affected. There are clear differences as to what this area might be as between NFU/CLA and Natural England, but whatever the target, there must be doubts as to whether the purely voluntary approach advanced can direct land use by types of management or by location to the extent that may be necessary. In the absence of financial rewards or some sort of penalty, the land use changes that are introduced are likely to be made in relation to personal farmer preferences and to involve relatively marginal changes to farming systems rather than responding to the requirements of the local environmental context within which the farm is located and to the policy priorities for that location.

A formal appraisal of Option B would need to identify not simply a baseline but also to establish direct causal relationships between the activities introduced by the Campaign, the changes achieved in farmer behaviour and the subsequent impacts on the environment. This would be necessary in order to undertake an evaluation of the costs of implementing the Campaign. But the question as to whether the extension of cross compliance as proposed under Option A is necessary in order to compensate for the loss of environmental benefits due to the withdrawal of set-aside is rather different. This depends on

- the cumulative impact of the full package of policy reforms, especially the continued roll out of ELS and its reform,
- the responses to any advisory and promotional activity whether by government or industry which is undertaken anyway,
- the extent to which fallows and long-term uncropped land have become embedded in farming systems in the longer term, and
- the spatial patterns of these responses.

The different approaches taken by Options A and B lead to different types and allocations of risk. By regulating for the maintenance of uncropped land, Option A can substantially guarantee that the environmental conditions are met. But this approach imposes a risk that farmers bear a substantial and at this stage, uncertain cost. The approach in Option B, by relying on a purely voluntary approach, effectively removes the financial risk facing farmers; they can avoid any costs that they regard as excessive by choosing not to adopt the practices. But the primary risk inherent in this approach is that the environmental requirement will not be achieved. This is similar to the 'standards versus prices' argument in environmental economics. It would be possible to set up an alternative policy option that could alter the balance of risks. If the greatest risk is seen as being associated with the potential for environmental damage, then an alternative approach could be to introduce the cross compliance regulation from the start on a potentially temporary basis while the Option B Campaign is introduced on the basis that the regulation would subsequently be withdrawn once the Campaign has achieved a predetermined target based on set-aside equivalent areas. This would secure the environmental standard but still provide an incentive for industry to develop a voluntary campaign along the lines proposed under Option B or for the ELS to be developed in such a way as to ensure the

mitigation of set-side benefits. If this campaign can be demonstrated to be successful, the cross compliance regulation could then be withdrawn.

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