UFU Headquarters
475 Antrim Road
BELFAST
BT15 3DA
www.ufuni.org

The UFU represents 11,500 farming family members across Northern Ireland.

SUBSIDY CONTROL – DESIGNING A NEW APPROACH FOR THE UK

The UFU recognises that, following the end of the transition period on 31 December 2020, the UK has the freedom to design a new domestic subsidy control regime that reflects strategic interests and particular national circumstances. As a consequence, the UFU readily responds to the UK Government's consultation on a new approach to subsidy control.

The UFU recognises that the UK Government wants a subsidy control system that strikes the right balance between allowing the benefits that can be derived from subsidies while limiting the most harmful impacts. In general terms, the UFU supports the objectives for the future subsidy control regime as

- Facilitating interventions to deliver on the UK's strategic interests
- Maintaining a competitive and dynamic market economy
- Protecting the UK internal market
- Acting as a responsible trade partner

However, the UFU response focuses exclusively on the importance of government support to the agricultural (and rural) sector and the critical need to ensure that such support does not undermine the integrity of the UK internal market.

The NI and UK agriculture sector currently receives a range of financial support ('subsidies') which have played an important role in promoting the delivery of affordable food produced to the highest production and environmental standards, as well as wider rural development/social benefits while helping to mitigate adverse effects of significant economic and environmental impacts. Agricultural support has, over decades, delivered an array of public goods and other benefits in the public interest.

Since 1973, such subsidies have primarily been delivered to the sector through the EU's Common Agricultural Policy (CAP) which has had a central role in shaping the current economic structure of Scottish and UK agriculture.

The design of a new approach to subsidy control in the UK comes at a time of significant transition for the agricultural sector, both in regard to the proposed changes to governments' support schemes across the devolved nations of the UK and the UK's future international trade outlook to which agriculture is set to be one of the most materially impacted sectors.

As such, there are significant potential impacts that could result from a new approach to subsidy control for NI agriculture and all that it underpins – economically, environmentally, productivity, socially and resilience– and for the integrity of the UK's internal market in terms of trade distortion and/or competitive disadvantage.

In addition, this response outlines existing subsidy control mechanisms which serve to ensure UK agricultural subsidies are aligned with international agreements and domestic priorities on the management of public funds.

The unique challenges and aims of government support for agricultural interests involves complex issues that distinguish agricultural subsidies from others. The rationale for intervention in the agricultural and food production sectors has long been understood and continues to set it apart from other sectors of the economy.

Agricultural and rural development subsidies may be directed at a range of issues that farm businesses and agricultural land use face, including the need for support to address extreme market volatility or failure, the delivery of public goods and to offset the effect of regulatory limitations on optimal productivity outcomes.

NI and UK agriculture faces unique challenges compared to many other sectors, such as volatile weather and natural constraints, that directly impact on its productivity and profitability. Farming is inherently dependent on land as the primary factor of production and the harnessing of biological processes. However, unlike other sectors of the UK economy, with long production cycles it is often very difficult to mitigate against such variables in ways available to businesses in other sectors through investment in infrastructure, capital and alternative technology or input substitution.

Matched with the importance of securing a sufficient degree of domestic food production to ensure food security, not least to avoid off-shoring externalities such as greenhouse emissions, agricultural land use is responsible for the delivery of an increasing array of public goods. As a result, the ability of UK governments to support their domestic agricultural sectors in a non-trade distorting way is critical.

Direct payments to farmers currently play an important role in supporting farm business income – providing stability in the face of volatility and rising input costs. With the transition from the CAP to new forms of agricultural support across the UK, it is vital that the effective replacement of current area-based support to farmers enables managed change from income support to an outcomes focused basis.

The consultation is correct to highlight that legacy EU CAP schemes could be harder to accommodate within all of the proposed domestic principles. A domestic subsidy scheme for agriculture has to balance complicated factors relating to food security, land use and land tenure, economic equity and environmental delivery amongst others, many of which may not be supported by the proposed principles of subsidy control.

While devolved administrations within the UK may be pursuing similar policy objectives beyond the CAP, it is equally clear that they are on different trajectories over different timeframes while using different policy instruments or mechanisms.

UFU is unequivocal in its view that agricultural policy must be devolved to reflect different needs and circumstances. However, it is also clear, especially in the context of the UK's internal market, that subsidy must not distort competition or trade in an agricultural context.

The UFU agree that direct support payments would be difficult to meet all of the principles. The UFU do not want to sign up to anything which means support payments cannot continue. However, we would have a concern that if it is excluded from the subsidy control framework this could lead to widely differing levels of the amount and type of subsidy within the UK which could lead to trade distortion and competitive disadvantage. The UFU is therefore of a view that agricultural subsidies should be included in the subsidy control framework but be exempted from complying to a number of the principles. The exemption from some of the principles would only apply up to a certain financial limit. The exact amount would need to be negotiated but we would anticipate that current spending levels and future Treasury allocations for agriculture and rural development expenditure would be the starting point. The aim of the limit is not to affect existing levels of expenditure but to prevent a situation whereby a UK region substantially increases expenditure on agricultural support and gains a competitive advantage over other UK regions which don't have the same level of financial resources.

The UFU does not believe that the WTO agreement on agriculture is in any way sufficient to protect the UK Internal Market. This agreement relates to International Trade and is not designed for internal trade within countries where barriers to trade are much lower and regulatory standards are harmonized. Under the WTO agreement on agriculture the amber box which is the most trade distorting support i.e. market intervention, deficiency payments etc. is subject to a limit. However the UK limit exceeds the amount of annual UK expenditure on agricultural support each year so it provides no constraint in practice. Furthermore, the Blue Box which accommodates coupled payments is unlimited. A scenario could exist where payments could be re-orientated without restriction to coupled support which would certainly distort the UK Internal Market.

The UFU understanding of Agricultural frameworks are that they are about co-operation and consultation between UK administrations and not about subsidy control so they are not an alternative to the inclusion of agricultural support within the subsidy control framework.

Given that different types of subsidies (e.g. market intervention, coupled support, decoupled support) can have different trade distorting impacts, the UFU would propose that a minimum percentage (to be negotiated) of the financial limit excluded from compliance from some of the principles would need to be compliant with Annex 2 of the WTO Agreement on Agriculture (Green Box). This would prevent a situation where agricultural support could have widely different trade distorting impacts within the UK. The UFU aim is to ensure that agricultural support payments can continue at least at current levels, that UK nations have maximum flexibility to develop future support policy tailored to their own specific circumstances and that distortions to the UK Internal Market are minimised. It is in no-ones interest to create a situation whereby each administration tries to outdo each other as to who would provide the most support or the most trade distorting support.

In relation to the point about minimising distortions to the UK Internal Market, the contents of the NI Protocol need to be taken into account, particularly Article 10(2) which places limits on the amount and type of agricultural support in Northern Ireland.

The Consultation document refers to small amounts of financial assistance which would be exempted from subsidy control principles and refers to an amount which would equate to around £335,000 being provided to a business over 3 years. That would be more than £100,000 per year for each business and clearly would not be appropriate for the agriculture sector especially when EU deminimis state aid regulations for agriculture have a limit per business of €20,000 over 3 years and an overall limit on the amount of support as well. The UFU is of the view that small amounts of financial assistance for farm businesses which are very necessary for assisting businesses to cope with for example, adverse weather events or animal disease outbreaks should be able to be accommodated within the amount exempted from compliance with some of the subsidy control principles as referred to earlier.

In respect to an Independent regulator, it is important that it does have enforcement powers including the recovery of subsides which are not compliant with the subsidy control framework. Under the UFU proposals, its role in relation to agricultural support should be relatively straightforward in terms of ascertaining compliance with the exempted financial limit and the minimum percentage that would need to be WTO Green Box compliant.

In conclusion in response to the issues raised by many of the consultation questions, UFU considers that the following is necessary to ensure an effective and equitable subsidy control mechanism is in place for NI.

The devolved administrations of Scotland, Wales and Northern Ireland must remain in charge of their own spending decisions and the UK Government must create a subsidy control regime with the devolved administrations which works for the whole of the UK.

The UFU is clear that such commonly agreed approach would help safeguard the integrity of the UK internal market and avoid agricultural support which might distort competition between farmers and food producers across the UK and which might induce poor value for the taxpayer.