

GR 12/08



The Department of Agriculture, Fisheries and Forestry

Developing a Reliable, Sustainable, Self Reliant Manx Agriculture

Our vision:

"to achieve a reliable, sustainable and self-reliant Manx food chain that profitably produces a diverse range of products and staple foods to feed the Manx nation, whilst continuing to protect and enhance the Island's landscape and natural heritage. This industry shall offer opportunities for new entrants by providing a realistic business opportunity and shall allow both co-operative and entrepreneurial behaviour to flourish."

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Index

Executive summary	3
Recommendations	5
Introduction	6
A Policy for Manx Agriculture	7
1. Direct support of agricultural marketing initiatives	8
2. Further reform of Agricultural Marketing and trading legislation	9
3. Reform of current agricultural production support	10
4. Extension of the current Redmeat Derogation	11
5. Increased support for our food infrastructure	12
6. The development of a “can do culture”	15
7. An enhanced role for farmers in managing the countryside and natural habitats	15
Expected outcomes from this policy	16
Appendices	
1. Why move support away from production?	18
2. Is food security a growing issue?	20
3. The future policy for the Meatplant	22
4. An overview of DAFF’s proposed support policy (as recently supplied to Manx Farmers)	26

Executive Summary

This document is intended to advise Tynwald of the way forward for Manx agriculture identified by the Department and the agricultural industry and to seek Tynwald's support in principle for the Department's proposals.

Following two years of intense debate with all stakeholders in the Manx food chain the Department has concluded that its future agricultural support policy should aim to achieve the following important outcomes for the Manx food chain:

1. A reliable, sustainable and self reliant industry capable of feeding the Manx nation with a diverse range of food products including our staple foods.
2. An efficient production system combined with a tailored market focus and a strong, clean Manx brand image so that reliable profits can be obtained from the marketplace.
3. Responsible custodians of our countryside, natural heritage and food larder, whose contribution is trusted and valued by the Manx people.

A wide range of policies and strategies will be required to achieve these outcomes requiring close, cooperative working between farmers, food processors, government and retailers. These are summarised below and are addressed in more detail further on in the report.

Manx food producers need to develop high value, innovative and distinctive products. The Department can assist with this by offering direct support to food marketing initiatives which improve the long term profitability of locally produced food.

There is a delicate balance to be struck between continuing the current strengths of a co-operative agricultural marketing structure, whilst facilitating a more consumer focussed market place and the opportunity for individual entrepreneurial activity. Further reforms of the marketing legislation may be necessary and together with a wide range of initiatives to improve the labelling, transparency and integrity of local food sales.

To ensure that future production is focused purely on the needs of consumers and in an endeavour to improve our food chain's ability to innovate and react quickly to consumer demands, the Department proposes to introduce a new Countryside Care scheme in April 2009 which will redirect current Government support away from direct agricultural production. The objective of this new scheme will be to maintain and protect our countryside and natural heritage while ensuring that the Island retains the capability of producing its own food.

As farmers' support will no longer be linked to production, the Meatplant, the Creamery and Laxey Glen Mill face increased pressure to offer a good return for farmers if they are to retain their current market share. The plants are closely examining their business and marketing strategies and the Department expects to provide significant support to assist the plants improve their efficiency and significantly enhance their product development and marketing.

The Department is firmly of a view that the plants must be able to offer an equivalent processing charge and return to farmers as their UK competitors, as without this level playing field the move away from production related support will fail to deliver the reliable, sustainable and self-reliant Manx food supply chain. The Department intends to find EU compatible ways to provide the support needed to ensure that all the plants operate in a competitive manner providing both UK equivalent charges and returns to our farmers.

Our red meat market is currently protected by an EU derogation which restricts imports of beef and lamb into the Isle of Man. In granting the last derogation extension the European Commission stated that it did not expect to grant further extensions, however, the Department believes that due to the significant structural reform which our farming industry has agreed to undergo, there is a very strong case to robustly pursue a further derogation extension.

With the impact of the loss of our derogation being estimated at anything from £110,000 to £1,100,000 per year, the Department expects to provide a significant contribution towards offsetting the impact of derogation loss, should we be unsuccessful in winning a further extension.

The Department's advisory team will take an active role in helping to demonstrate how the industry and individuals can adapt their businesses, farms, personal skills and knowledge to better meet the challenges ahead. Similarly the Department will broaden its support for diversification inside and outside of agriculture and for initiatives which will introduce new perspectives, skills, experience and knowledge

The farming community's role in countryside management will be enhanced by the proposed decoupled support scheme, and the Department expects to continue to offer additional finance for countryside management through its Agri-environment Scheme which delivers more targeted wildlife benefits.

It is anticipated that many benefits will be generated for farmers and consumers if these proposals are implemented. A wider range of innovative products will be developed, food quality will continue to improve, and increased market returns will enhance farm business viability. A more vibrant, diverse, self-assured and sustainable rural community should develop through the improved ability for farmers to restructure and rejuvenate their businesses.

Farmers' roles as custodians of our countryside and natural heritage will be enhanced leaving it better maintained and protected for the enjoyment of Manx residents and visitors alike.

The changes will limit the need for future increases in taxpayer support for the sector in the longer term, by moving away from production related support and hence breaking the link with inflation in fixed costs.

Recommendations:

The Department recommends that Tynwald should:

1. Support in principle the broad concepts outlined in this policy document.
2. Provide our farmers with levels of support at least equivalent to that provided to their European competitors.
3. Support the strategic objective of ensuring that the Isle of Man retains a reliable, sustainable and self reliant food production industry capable of feeding the Manx nation with a diverse range of food products including our staple foods.

Introduction

Following the recent rapid changes in world agricultural policy, market developments and the 2005 announcement by the European Union (EU) that the Isle of Man's redmeat derogation would only be extended for a final 5 years, our agricultural and associated food processing sectors have undertaken a period of intense debate regarding the future of our agricultural support policy.

The debate has been facilitated by the Department of Agriculture, Fisheries and Forestry and it has become clear that the scale of change required to achieve a vibrant industry is significant. The debate has included an industry working party (the 2010 Committee) which reported in November 2006 and a subsequent external independent review of the committee's proposals instigated by the Manx National Farmers Union and mainly funded by the Department. The review was undertaken by Andersons Agricultural Consultants, who reported in December 2007 concluding that they supported the long term direction of the 2010 proposals, though suggesting some alternative transitional options should be adopted to ease the change.

The thorough debate has produced a broad consensus that:

- A complete regime change is required to facilitate a vibrant industry which is capable of attracting new entrants and ensuring a sustainable future food supply and method of countryside management for the Island. The current agricultural support regime is no longer delivering a profitable or innovative sector and the Department has concluded that simple adjustments to this regime would be insufficient to deliver significant improvements.
- The agricultural industry's reliance on exports into the EU via the UK means the industry is directly affected by the rapid changes in innovation and efficiency which are currently underway in those markets and will need to react to these challenges.
- It is essential that our agricultural policy acknowledges the many unique aspects and needs of the Manx agricultural sector. However, the Island's reliance on access to export markets means it is important that Manx Agricultural Policy is broadly in line with that of the EU.

In the light of the progress with this debate and the significant amount of consultation feedback received at each stage of the process, the Department has now developed proposals for a new support regime. The proposals seek to adopt a consensus view while not compromising the ability of the industry to evolve rapidly into a self reliant, sustainable, world class, innovative food sector which will successfully protect and enhance the Island's countryside and our unique natural heritage.

This document outlines the Department's 10 year vision for future support of the industry, providing a framework from which the sector can confidently plan its future. This 'vision' would allow the industry to better focus on the needs of the marketplace without the distraction of attempting to maximise support payments, which will become independent of future production levels.

A Policy for Manx Agriculture

The Department's vision for the agricultural sector is *“to achieve a reliable, sustainable and self-reliant Manx food chain that profitably produces a diverse range of products and staple foods to feed the Manx nation, whilst continuing to protect and enhance the Island's landscape and natural heritage. This industry shall offer opportunities for new entrants by providing a realistic business opportunity and shall allow both co-operative and entrepreneurial behaviour to flourish.”*

The Department aims to achieve the following outcomes from our future support policy for Manx agriculture:

1. A reliable, sustainable and self reliant industry capable of feeding the Manx nation with a diverse range of food products including our staple foods.
2. An efficient production system combined with a tailored market focus and a strong, clean Manx brand image so that reliable profits can be obtained from the marketplace.
3. Responsible custodians of our countryside, natural heritage and food larder, whose contribution is trusted and valued by the Manx people.

The Department believes that to achieve these outcomes, the following seven steps will be required:

1. Direct support of agricultural marketing initiatives.
2. Further reform of the Agricultural Marketing and trading legislation.
3. Reform of current agricultural production support.
4. An extension of the current Red Meat Derogation.
5. Increased support for our food infrastructure.
6. The development of a “can do culture” with the capital, skills and knowledge to thrive.
7. An enhanced role for farmers in managing our countryside and natural heritage.

These steps are explained in more detail below:

1. Direct support of agricultural marketing initiatives

In order to develop an increased focus on high value markets, long term commitments to achieve gradual growth will be required, following careful targeting of specific markets.

The Department aims to facilitate the development of high value, innovative and distinctive products which are profitably supplied to high value markets. To do so, it will continue the recent strategy of providing direct support to food marketing initiatives which improve the long term profitability of locally produced food, funded through the Marketing Initiatives Fund and the Agricultural Development Fund. During 2007 the Department has succeeded in providing in excess of £600,000 of grants for this purpose.

The Department expects to provide substantial grants for initiatives on or off Island which focus on substantially improving the value and volume of sales and identify further product innovation and market opportunities. The support shall on the whole be targeted towards co-operative initiatives.

These initiatives will also need to ensure an efficient and focused food chain is in place which has the innovative approach required to profitably supply the target markets with attractive products of a quality, taste and value to attract sustainable premiums.

This policy is already well underway, as demonstrated by the following examples from the last year.

The Meatplant has received initial support for a phased marketing strategy worth £170,000 over the next two years. It is expected that further support will be supplied for phases two and three as the business progresses. The Department is already supporting the role of Marketing and Sales Manager at the Meatplant to allow improved focus on this crucial role.

An external review of business and marketing strategy is being commissioned for Laxey Glen Mills and this is expected to lead to a clear future strategy which may require support from both the Agricultural Development Fund and the Marketing Initiatives Fund, in order to continue the local flour making operation.

With direct support from the Department, the Isle of Man Creamery has recently launched a marketing campaign targeted at specific high value European and American premium cheese markets. These should double branded cheese sales over the next few years, which combined with innovative product development, will build on the Creamery's existing successful strategy.

The Department has also provided a three year support package for Pure Produce of the Isle of Man, a local co-operative type business consisting of most of the Island's premium food producers. The campaign is intended to raise the profile of Manx produce in the UK and develop new high value sales for the long term benefit of the industry.

2. Further reform of Agricultural Marketing and trading legislation

Our unique Agricultural Marketing legislation gives Manx milk and meat producers a strong position with regard to organised negotiations and sales of their produce both on and off Island. Despite recent legislative reforms which took effect from the beginning of 2008, the Department has long acknowledged the need to evolve this legislation further so that it better reflects the current and predicted agricultural trading environment. There is a delicate balance to be struck between continuing the current strengths of a co-operative marketing structure, whilst facilitating a more consumer focussed market place and the opportunity for individual entrepreneurial activity.

The Department proposes to bring forward further reform during the next 2 years, which combined with recent marketing reforms and changes to tenancy legislation, should significantly enhance the industry's ability to restructure so that it can better respond to the opportunities future agricultural markets will offer.

It is clear that Manx consumers are best served by a reliable, sustainable and self-reliant Manx food supply chain. The UK Competition Commission Inquiry into British supermarket trading behaviour recently concluded that there is a need for a powerful independent ombudsman who can investigate and prevent excessive use of the "super powers" that large retailers' purchasing strength provides. The Department intends to consider the conclusions of the Commission Inquiry in conjunction with the Office of Fair Trading with a view to introducing appropriate legislation to protect Manx consumers and producers from the potential excesses of "super power" retailers.

Similarly, the Department is aware of legislation in other jurisdictions which directly limits retailers' ability to sell products below their cost of production. If appropriate, the Department may bring forward similar legislation in the Isle of Man.

Food labelling is another area which the Department intends to explore and reinforce, to ensure that consumers are not misled through inappropriate packaging and labelling. Improved labelling on products such as Manx grown (rather than processed), environmentally friendly, low carbon footprint and organic may be developed by the Department and where appropriate, legislation will be enacted to ensure the label's claim meets the expectations of consumers. It is likely this will be accompanied by a local food assurance brand, harnessing existing assurance standards and local standards to re-assure consumers and retailers that they are purchasing genuine items.

The Department is especially aware of the need for accurate food labelling in the food services sector, for example in restaurants and public food procurement contracts, where the end product is consumed by individuals who have not been involved in the purchasing decision. If we are to develop a reliable, sustainable and self-reliant Manx food sector, consumers must be provided with clear and accurate information about the food offered to ensure they can make informed purchasing decisions.

The marketing tools available through the European Protected Food Name Scheme will be explored with a view to supporting producers undertaking the substantial administrative challenge involved in achieving Protected Designation of Origin (PDO) and Protected Geographical Indicators (PGI) status. These have a reasonable profile in the European market and are also useful tools in demonstrating to the European Commission the great strides being made towards embracing a market related culture.

3. Reform of current agricultural production support

Current production related agricultural support places considerable restrictions on our farmers' abilities to make decisions about their farm businesses, to innovate and react quickly to consumer demands. There is now a clear understanding among farmers that significant change is required if they are to be in a position to meet the challenges presented by the potential loss of our red meat derogation in 2010.

The Department proposes to introduce a new Countryside Care agricultural support scheme in April 2009 which will decouple Government support from agricultural production. The objective of this new scheme will be to maintain and protect our countryside and natural heritage while ensuring that the Island retains the capability of producing its own food.

During a ten year transition period the current overall level of support will be maintained with a gradual change from an historic payment (based on previous payments received by each farmer) to a flat rate acreage payment by 2018. The proposed new scheme will be voluntary and will require farmers to comply with a set of countryside and agricultural management standards ("Cross Compliance" standards) in order to access support payments.

The move away from production related support is expected to ensure that future production is focused purely on the needs of consumers. Together with appropriate Government structural support across the Manx food chain, this should protect the future capability of the Island to feed its people through stimulating an efficient and profitable agricultural industry and associated food chain.

The new scheme envisages two distinct phases with a review towards the end of the first phase to ensure market and policy developments are in line with expectations. The first five year phase shall involve a mix of some production and some historic payments and almost all production related support will be gradually removed during this first phase. Some variation in the pace of change will be included, reflecting the differing needs of each production type, and providing time for adjustment in management and marketing so that the more fragile aspects of our food chain are supported.

The second five year period will involve a steady transition away from historic payments to flat rate acreage based payments. The only variation would be to reflect higher or lower value land quality and associated land management costs. These more consistent payments are intended to reflect the cost of compliance with the countryside management standards required by the scheme.

Further information is provided in Appendix four, and if the general policy direction described in this statement is supported by Tynwald, the scheme will be worked up in detail with a view to presenting it to Tynwald for approval later this year.

4. Extension of the current Red Meat Derogation

The current Manx meat market is significantly protected by the EU's provision of a derogation which empowers the Department to restrict the import of beef and lamb into the Isle of Man. The Department strongly believes that a further extension of the current derogation (due to expire December 2010) is hugely important, particularly bearing in mind the significant structural reform which our farming industry needs to undergo.

When the Department was granted this current derogation extension in 2005 the European Commission clearly stated that it did not expect to grant further derogation extensions. The Department believes, however, that it has a strong case and will be robustly pursuing a further extension at least for the duration of the first phase of the proposed Countryside Care scheme.

While some argue the red meat derogation has allowed the red meat sector to become complacent, the Department believes that a legitimate case can be made that the red meat sector is responding well to calls for reform and is working hard with Government and consumers to bring about a significantly improved market for red meat. It can be reasonably argued that significant change has already been achieved but there is still a lot of work to be done before Isle of Man Meats will be in a position to compete against much greater scale British or European meat processors and wholesalers.

Accepting the industry and the Department's keen desire to see a further red meat derogation in place, the Department also recognises that its future agricultural support strategy must be able to adapt to the significant possibility that a further extension will not be granted.

The EU report regarding the Island's Redmeat Derogation can be obtained at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52005DC0712:EN:NOT>.

5. Increased support for our food infrastructure

The impact of decoupling support from production may significantly affect our food chain infrastructure namely the Creamery, Meatplant and Laxey Glen Mills. As farmers' support will no longer be tied to production they will have much greater freedom to decide about their future production levels and are unlikely to produce for unprofitable markets or poor returns.

The food processing plants will face much greater pressure to offer a good return for farmers from the marketplace if they wish to retain their current market share. This pressure will be compounded by the relatively small scale and fragile nature of these dedicated processing facilities, which would be unlikely to survive in the larger countries with which we are competing.

As it is difficult to envisage our dairy, meat or milling wheat sectors surviving without their respective processing plants, it is clear that significant support will be required to assist the plants improve their efficiency and significantly enhance their product development and marketing. The Department is firmly of a view that the plants must be able to offer an equivalent processing charge and return to farmers as their UK competitors, as without this level playing field the move away from production related support will fail to deliver the reliable, sustainable and self-reliant Manx food supply chain.

The Department readily acknowledges that to achieve this level playing field, Government support will be required, particularly bearing in mind the scale and speed of change required. To this end the £5 million Agricultural Development Fund was established last year to provide support for initiatives to improve efficiency, aid restructuring, support initiatives to develop markets and importantly to provide direct subvention of the Meatplant during the transitional period if required.

It would not be realistic to expect the required improvements in returns to producers to be delivered overnight, nor that market prices will increase sufficiently to match current rate of increase in production costs in the short term. So it is inevitable that changes in the processing sector will need to be combined with increases in efficiency on farm.

Our processing plants are starting from different positions, with the Creamery being relatively stable due to its valuable local market and world class off Island marketing focus. Conversely, the Meatplant and Mill both face considerable challenges due in part to their high cost of processing and relatively narrow markets both on and off Island.

These two more challenged plants are both closely examining their business and marketing strategies and the Department expects to continue to directly support initiatives designed to help them develop and grow over the next few years.

Meatplant Subvention

A recent review of the Department's agricultural support proposals by Andersons Agricultural Consultants identified that the Meatplant has inherently higher costs due to the need to accommodate all of the Island's production of three species of meat producing livestock. The report identified that the main area of difference was in labour costs and concluded that while significant cost savings have been recently achieved and there is scope for further reductions, the plant will always operate at a higher cost to UK based equivalents. The report identified that the current cost structure was around £300,000 higher on the total killing line costs of £1,700,000 per annum.

The Department believes that the higher costs are an unavoidable consequence of our red meat industry ensuring self sufficiency for the Island in pork, beef and lamb. Therefore, it is the Department's intention to find EU compatible ways to provide support to ensure the Meatplant can operate in a competitive manner providing UK equivalent killing charges and returns to our farmers.

Andersons also raised the question of the cost of transport of meat products off the Island which amounted to £490,000 in 2006 and it has been suggested that this additional cost to the industry should be supported by Government. While it is clear that export costs place Manx food at a competitive disadvantage in UK and EU markets it is equally clear that the cost of importing food, if fully passed on to consumers, should give Manx produced food a competitive edge in the home market.

The Department believes that it would be unacceptable to the Manx consumer to support transport costs off island only and indeed export subsidies such as this are frowned upon internationally. The Department currently believes that export or import subsidies would not be an appropriate area for support. However, it will work with Manx food exporters to explore opportunities to improve the efficiency of exporting through improved technology and logistics.

Equivalent returns to Manx redmeat producers

The Department has clearly stated to red meat producers that if the proposed decoupled support system is to be successfully introduced, farmers' returns and killing costs will have to be equivalent to their UK counterparts. The Department acknowledges that this may require further funding in excess of the calculated subvention levels but the Department is committed to achieving this 'level playing field' for our farmers and is currently working with Isle of Man Meats, the Meatplant operator, to establish how best to deliver this commitment.

This level of proposed support will of course be reviewed at the same time as the planned review of the Countryside Care scheme in 2012 though clearly if our food chain is to be reliable, sustainable and capable of feeding our people, farmers must not be at a competitive disadvantage to their competitors.

Transitional support in response to the loss of the redmeat derogation

The redmeat sector faces another distinct challenge in January 2011, when the EU red meat derogation is due to come to an end. As was made clear earlier in this document, the Department intends to press the EU for a further 'transitional' extension. However, our policy must be based on the assumption that no further extension is received, acknowledging the EU's expressed intention not to renew it.

The exact scale of the impact of the loss of our derogation is impossible to quantify, however, it is likely to reduce the overall local market share for Manx produce and may reduce the market price of locally produced meat on the Island. The loss of market share could also displace meat sales into lower value export markets, with accompanying increased transport costs and lower returns. Impact assessments suggest the cost could range from £110,000 to £1,100,000 per year depending on the level of success of interim marketing actions.

The Isle of Man Meats marketing strategy has the potential to significantly reduce the impact of the loss of derogation, through broadening local sales with innovative products and improving the brand image off Island so as to access high value niche markets. This underlines the importance of providing early and sustained support to the marketing strategy, although given the remaining time available, the results required are unlikely to be achieved prior to 2011.

The Department expects to provide a significant contribution towards offsetting the impact of derogation loss during the initial years after 2010.

The Department also believes that there may be scope to further restructure the operation of the Meatplant which should help offset these challenges. Subsequently a long term solution will need to be evolved, reflecting factors such as the level of marketing success, the level of Meatplant throughput and the remaining design life of the existing plant. The Department will work closely with the industry, during the next few years, to find the best solution for our meat plant, reviewing all available models, including subvention, municipalisation, or the possible development of several smaller scale plants

This aspect is expanded in Appendix three.

6. The development of a “can do culture”

If it is to find a profitable and sustainable future, our farming industry faces the greatest level of change which it has experienced in the last 70 years and it is essential that the Department takes an active role in supporting and facilitating the changes necessary on an individual level.

The Department’s advisory team will take an active role in helping to demonstrate how the industry and individuals can adapt their businesses, farms, personal skills and knowledge so that it can better meet the challenges ahead. As well as farm visits and individual advice to farmers, this will include regular meetings, seminars and conferences to share best practise, showcase success and identify opportunities.

It is expected that many producers will actively explore diversification inside and outside of agriculture, so the Department will need to broaden its support in this area. The Department proposes to introduce a capital grant scheme to directly support initiatives which have a realistic prospect of success.

The Department is also proposing to offer direct support for initiatives which will introduce new perspectives, skills, experience and knowledge through the introduction of a scheme to support individual’s needs. This would provide small grants for training, attendance at events, market research, advice and specialist business planning support.

7. An enhanced role for farmers in managing the countryside and natural heritage.

In recognition of the farming community’s active role in countryside management which will be enhanced by the proposed decoupled support scheme, the Department will be increasing the level of targeted awareness raising and advice it offers through its advisory team.

This will consist of assistance in understanding the cross compliance requirements and the way in which these are designed, for example, to protect and maintain existing habitats, protect water quality, enhance hedgerow management, prevent invasive plants affecting farmland and avoid over and under grazing land.

The valuable qualities of our wildlife, countryside and natural heritage potentially offer opportunities for diversification and marketing. The Department expects to continue to offer additional finance for countryside management through the Agri-environment Scheme which delivers more targeted wildlife benefits.

Expected Outcomes from this Policy

For consumers

A wider range of innovative products will be developed for consumers both locally and off Island. Food quality will continue to improve as producers tailor their products to consumer needs, through initiatives which improve seasonality, quality, convenience and product innovation.

Our countryside and natural heritage will be better protected, ensuring the current high quality landscape and amenity value of our land is available for Manx residents and visitors alike.

A more vibrant, diverse and self-assured rural community should develop through the improved ability for farmers to restructure and rejuvenate their businesses.

The changes will limit the need for future increases in taxpayer support for the sector in the longer term, by moving away from production related support and hence breaking the link with inflation in fixed costs.

For farmers

Over time it is expected that increased entrepreneurial behaviour and improved efficiency and market returns will lift business viability to a level that provides confidence to potential new entrants. This is seen as an essential part of the success of the reforms.

Manx farmers will have far greater control of their own destinies, in marked contrast to the previous regime which sought to use direct production support to provide specific guidance to individual producers. Farmers are expected to respond in a wide variety of ways, as they seek individual solutions to address their specific farm business needs.

There is likely to be a requirement to find new relationships such as contract and share farming to help individuals balance the needs of their farms and their businesses.

Many older or under-invested farmers are expected to use the opportunity to step back from commercial production. This could result in their land being freed up for new entrants or farmers wishing to expand their businesses, or their farm businesses being simplified to free their time for alternative ventures. Some may seek direct employment off farm or seek to diversify their farm business and use their existing assets (capital, buildings, machinery and livestock) in other ways.

For Government

These proposals will ring fence the current agricultural support budget and remove the moral obligation for ever increasing support due to the restricted ability of producers to react to market changes.

An increased emphasis on profitable business management is likely to increase the level of on and off farm diversification, which will provide some challenges for the Island's building and land use planning policies.

There is a risk that the move away from direct support for agricultural production will lead to an equivalent shift into support for the Island's food processing sector. It is important that any such

support is planned on the basis of a transition to long term self-reliance. During the transitional period it is all but inevitable that Government will inject significant amounts of funding to facilitate the transformation of the sector to an efficient food chain producing high value products which are desired by local and off Island consumers.

The farming sector will continue to be Government's main partner in maintaining the Island's rural infrastructure, communities and natural heritage, bringing broader benefits to Manx residents, the tourist sector and the wider economy.

For the economy

A shift to more market focused business ethics will increase the value of economic output from the industry and increase its efficiency. This will help to ensure that highest possible economic contribution from the sector is achieved. The expected increase in local sales will provide a disproportionate contribution due to the "multiplier effect" of local spending. Combined with diversification into wider rural businesses, these changes are likely to significantly increase the agricultural sector's contribution to our national income.

For our countryside and natural heritage

Our unique natural heritage and countryside, with its lattice work of fields, sod hedges and cropping patterns has been heavily influenced by centuries of Manx farming activity. The changes proposed by the Department are intended to ensure that our farmers will continue to undertake their superb role as custodians of Manx countryside.

The introduction of cross compliance obligations associated with the new support scheme will help to continue the current high standards of countryside management.

Support for the Recommendations

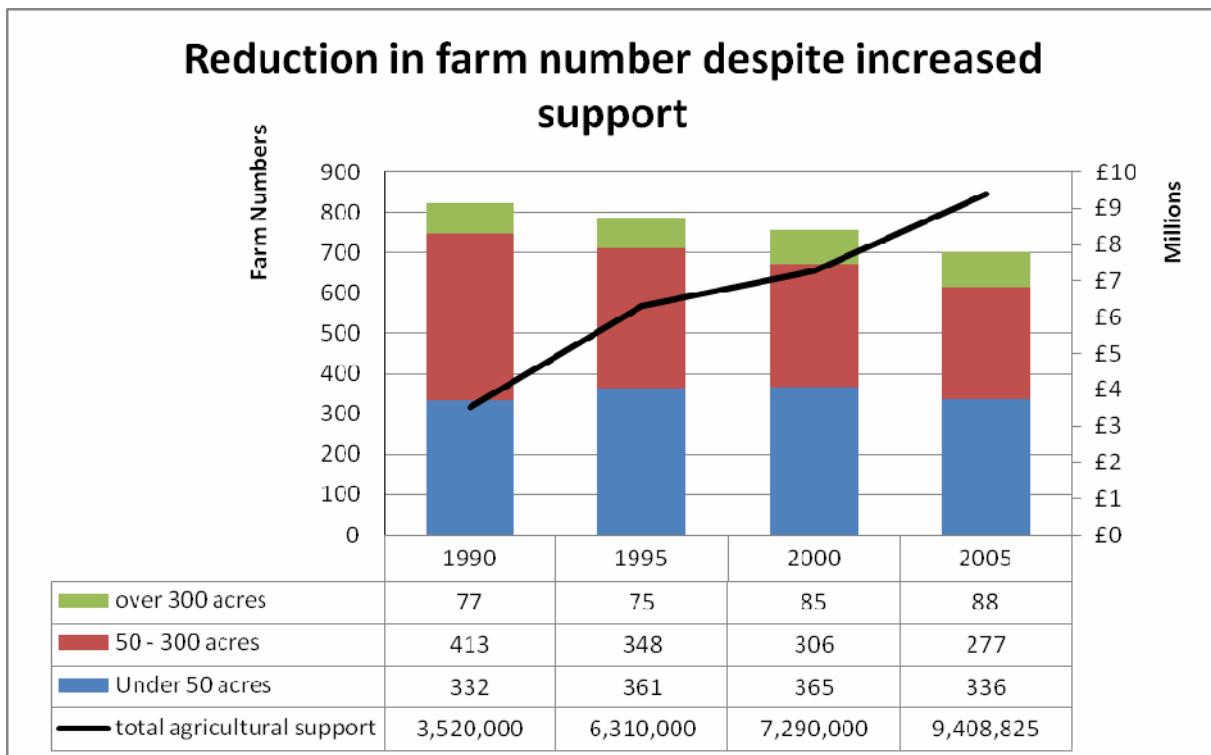
The Department requests Tynwald support for the recommendations listed on page 5 of this Report.

Appendix 1: Why move support away from production?

Manx Agricultural support has previously aimed to maintain both farmer numbers and agricultural production, through matching the UK levels of agricultural support. The table below shows that over the last twenty years there has been a rapid increase in levels of support payments, whilst the overall number of farmers has continued to drop. Indeed when the numbers of full time farmers are considered, which could be classed roughly as those over 50 acres, the number has reduced 25% over this period from 490 to 365.

The current support regime is failing to keep pace with inflation in producers' input costs, whilst arguably preventing them from re-directing their efforts due to the implicit loss of support through diversification.

Table of support payments compared to farm numbers on the Island:



This situation is not unique to the Isle of Man as the majority of the developed world has for the last 50 years adopted agricultural policies intended to directly ensure sufficient food is produced to feed their nations. Combined with technical developments, this has resulted in a 250% increase in world food production, which has more than matched the rapid growth in world population.

The EU production support, which the Manx support has recently been modelled on, has tended to focus primarily on the production of numbers of animals or acres of crop. This has caused a focus on production numbers, rather than on meeting the demands of the market place for quality, timeliness, convenience and innovation.

The increasing trends of globalisation of food production and retailing have combined to create a trading environment where retailers are able to source their products from anywhere in the world. Retailers have the economic understanding of farmers production costs such that they can use

their global buying power to purchase food at prices which are below the average production cost, knowing governments will take steps to ensure production continues. So accompanying the supermarket buying behaviour, governments have been increasing support to offset the losses which producers are suffering. These two factors combine to shift profit from producers to retailers, with government facing ever increasing farm support in a vicious circle.

The change in EU support policy with effect from 1st January 2005 means that through-out Europe, one of the world's largest food producing areas, farmers will arguably produce only if they can achieve a profit from doing so. This is expected to help re-dress the power balance and also to help producers work in partnership with processors and retailers to focus on supplying the exact needs of the market.

This is intended to produce a win:win situation where the retailer is able to supply local products which the consumer values, whilst ensuring the producer is paid a sustainable price for these better targeted products which the market wants.

The need for a tailored Manx solution

The EU continues a laborious reform process, which has achieved gradual change over the last 18 years and is expected to continue for another 10 years. Throughout this process, it could be argued that they have failed to provide a clear long term vision of their support policy, possibly due to the political differences of the member states. The result has weakened their farmers' ability to confidently plan for the future.

The recent expansion of the EU means that their farmed area has doubled in the last 5 years, whilst their budget has remained level, indeed it is expected to contract in the next budget round. This has clear implications for their future agricultural support payments per acre, which will reduce.

The Island situation emphasises the strategic need for local food production whilst introducing unique production challenges due to the high costs associated with imported inputs such as fertiliser, sprays, feeds and fuels. The Island also has a high cost production system due to the wonderful latticework of small fields which reduces production efficiency but significantly enhances the countryside heritage and the rural enjoyment of the Island's residents and visitors.

The land and farm type on the Island substantially restrict the producer's ability to diversify into alternative products, restricting much of the Island's landscape to grass based livestock production for human consumption.

The Department believes that it is essential to provide a 10 year vision for future support, to provide the industry with a framework within which to confidently plan their business and to invent their own particular future. The Department also believes that it is important to acknowledge the unique production environment on the Island and to ensure that the current support levels are maintained throughout the period of this policy framework. This is intended to acknowledge the producers restricted options and to reflect the high value placed on their role as countryside managers in a high cost environment.

Appendix 2: Is food security a growing issue?

There has been a rapid shift in several global food commodity markets over the last few months, most notably milk and cereals, where concerns about reduced supply have created rapid increases in market prices.

The growing world population will undoubtedly increase pressure on world food production, with the need for increased food and renewable energy supply being exaggerated by reduced land availability as housing and infrastructure expand to match population growth. Whilst production technology advances have allowed food production to exceed population growth for the last 50 years, there is currently a valid debate about the future potential which adds to the strategic importance of local sustainable food supplies.

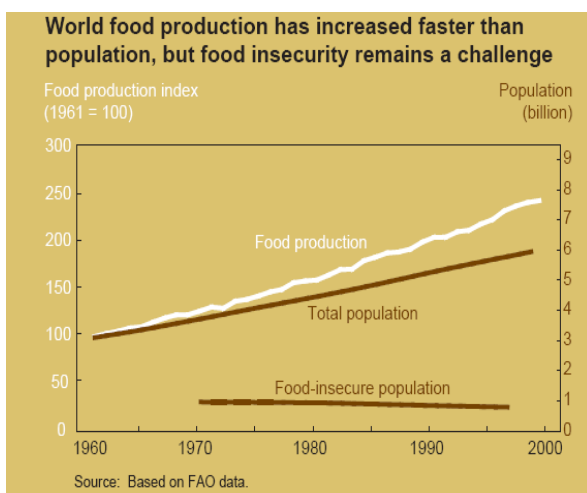
Table of UN population growth rate history and projections¹:

Year	Population (Billion)	Interval (number of years)	Annual Growth Rate
804	1		
1927	2	123	0.81%
1960	3	33	1.52%
1974	4	14	2.38%
1987	5	13	1.92%
1999	6	12	1.67%
2013	7	14	1.19%
2028	8	15	0.95%
2054	9	26	0.48%
2183	10	129	0.09%

The table of world population growth demonstrates that the rate of world population growth is slowing, with the time taken to increase per further 1 billion expected to increase significantly over the next century. The rate of growth is expected to slow from the current level of one billion every twelve years to one billion every twenty six years by the middle of this century.

The slowing rate of population growth suggests that agricultural productivity should continue to grow at or above that rate.

Graph of world food production compared to population growth trends²:



The world population has doubled over the last forty years however, world food supply has increased by almost two and a half times during the same period.

There are concerns about the further potential to increase food production based around the availability of oil (and the associated inputs such as fertiliser), possible degradation of many areas of land (such as desertification and climate change) and the technical capability of further yield developments.

There is a separate issue which is that increasing affluence especially in the developing countries such as China and the Pacific Rim countries means that the type of food being sought is changing significantly. There is a shift from staple food such as rice towards meat and dairy products and these latter foods are less efficient to produce. However, whilst this is a very important trend, the

impact is more on food price rather than food volume, as a more affluent population compete to buy more aspirational foods and choose to reject their previous staples.

Climate change and energy shortages

The increased acceptance of climate change leads to concerns about future food production capability and also to the possibilities of changing cropping patterns to reflect the projected climate variations. The Island is currently mainly grassland based, producing livestock products for human consumption and current projections do not significantly alter this scenario, though the current cereal production may be less viable. Indeed some of the preliminary investigations into the methane and nitrous oxide greenhouse gas production of cattle and sheep suggests that their production may need to be focused into areas which are not capable of production of crops for direct human consumption. This could provide the Isle of Man with a competitive marketing advantage through being able to demonstrate we are farming in a climate friendly manner.

Other concerns revolve around the need to source alternative energy supplies, however, these supplies are expected to change from the current generation of production processes which are in competition with food supply (such as bio-fuels using cereals), to become complimentary to food supplies (such as bio-fuels using food by-products).

A further issue is the possibility of increased adoption of Genetically Modified Organisms to achieve step changes in issues such as yield potential, disease and pest resistance or drought and temperature tolerance. Such technology is currently unpopular in Europe where food supply is not perceived as a threat to consumers however, in other areas of the world where food supply is an acknowledged issue, the technology has been enthusiastically embraced by both producers and consumers alike, due to the increased production they provide.

Conclusion

The increasing agricultural productivity seems likely to keep pace with population growth, either with existing processes, or by adopting newer technologies. However, changes in consumption patterns, as developing countries' consumers switch to buying more aspirational foods, means there will be increasing pressure on foods such as dairy products and meats leading to increased prices. If this analysis is correct, this bodes well for the Island's producers who supply these products.

Sources:

1: The world at 6 Billion. Population Division, Department of Economic and Social Affairs. United Nations Secretariat. <http://www.un.org/esa/population/publications/sixbillion/sixbillion.htm>

2: Linking Land Quality, Agricultural Productivity, and Food Security By Keith Wiebe, Agricultural Economic Report No. (AER823) 63 pp, June 2003. <http://www.ers.usda.gov/publications/aer823/>

Appendix 3: The future policy for the Meatplant

The case for Meatplant support

The Department strongly believe that a Meatplant is a fundamental part of our local food supply process from the perspective of adding value on the Island, contributing to the local economy, ensuring staple food products are available irrespective of unforeseen ferry transport issues and the possible public concern about the animal welfare aspects of large volume live exports.

The cost efficiency of the Meatplant, like most manufacturing processes, is very dependent upon throughput. This introduces a delicate balance between the strategic need to produce the number and type of animals that the market needs, versus the sometimes conflicting need to stabilise the plant's economics through optimising the number of animals processed.

Over the last five years, agricultural support incentives have been used to stimulate production to the current situation where the 2007 throughput of the plant was the highest for sixteen years. The management team have also undertaken considerable cost cutting initiatives reducing costs by over £100,000 year on year. Combined, these two factors have significantly reduced the average cost of throughput at the plant to 43.01p/kg in 2007 compared to 49.99p/kg a year earlier.

The reform of the agricultural support schemes reduces the security of supply for the Meatplant in two ways:

- Individual producers may choose to diversify or extensify and so produce less finished stock as their support payments are secure without the continued production levels. Evidence from elsewhere suggests less breeding animals may be kept, though with improved production efficiency, producing similar levels of output.
- The current support payments are only payable if animals are supplied to the Meatplant, which has significantly reduced the profitability of the live export of younger, part finished animals ("stores"). This disincentive will be reduced as a by-product of de-coupling.

This reduced security of supply will place the Meatplant in a difficult position during the transitional period, until such point as a clearer view of future production levels can be established. They may face reduced throughput and hence increased processing costs at the exact same time as they need to provide clear price signals to ensure their producers and suppliers are confident of a viable future.

The situation is further complicated by the expected loss of the redmeat derogation at the end of 2010, which is likely to introduce a greater level of competition into the local meat market. The implicit pressure on retail prices will again impact directly onto the Meatplant business.

Whilst the new management team are making great strides to improve their local market loyalty, service and product quality, plus introduce a long term marketing strategy, the scale and pace of change is too significant to realistically expect the business model to adapt within the time available. The Department therefore believes there will be a period when the plant economics will need direct support until a longer term solution is agreed, once a more stable outlook is established.

There are other options such as looking to a small plant for local consumption accompanied by the live export of animals, these are not believed to be an option at this stage and the existing plant

has around ten years of design life remaining. The local market now utilises almost all of the high value beef and pork carcasses, with only the low value cuts and seasonal imbalances being exported. Therefore a smaller plant would be unlikely to be appropriate unless great progress was made with removing the seasonal variations in supply.

Meatplant efficiency

When considering costs and operational efficiency of the Meatplant it is important to acknowledge the plant is subject to a very different trading environment to that enjoyed by most UK based competitors which complicates comparisons. Some of these issues are summarised below:

1. The FMA is required to undertake the slaughter of all animals supplied by Manx producers, irrespective of time of year, market demand and livestock quality. This requires surplus capacity to be maintained in order to meet seasonal peaks in supply. However, the obligation to purchase all stock does not set the prices to be paid for each class of stock.
2. The powers provided by the redmeat derogation have been argued in the past to have avoided the level of financial pressure which has been placed on equivalent businesses in less protected markets over the last 10 years. This may have reduced the level of innovative cost control which has been achieved in other countries. Conversely, there will be a distinct and possibly significant administration cost associated with the management team providing a range of services to a large number of supplying farmers, which elsewhere might effectively be delegated to supplying auction markets, or not undertaken.
3. The restricted market in which the Meatplant operates means that the management cannot realistically bring extra stock into the plant from outside the local catchment area to boost throughput and reduce costs per unit, due to the Island situation.
4. Prices quoted for small numbers of extra animals slaughtered in UK meat plants are often intended to only cover the marginal cost and may not reflect the full overhead costs of the plant, which have already been covered through normal trading. Single species plants are believed to offer significant increases in efficiency, provided throughput is sufficient.
5. The relatively low target carcass weights will almost certainly increase the slaughter cost per Kg, due to lower yield per animal slaughtered.
6. Transport costs to take stock to the plant for slaughter and relevant levies are included in the FMA costs, but would be paid separately by the supplying farmer in UK plants.

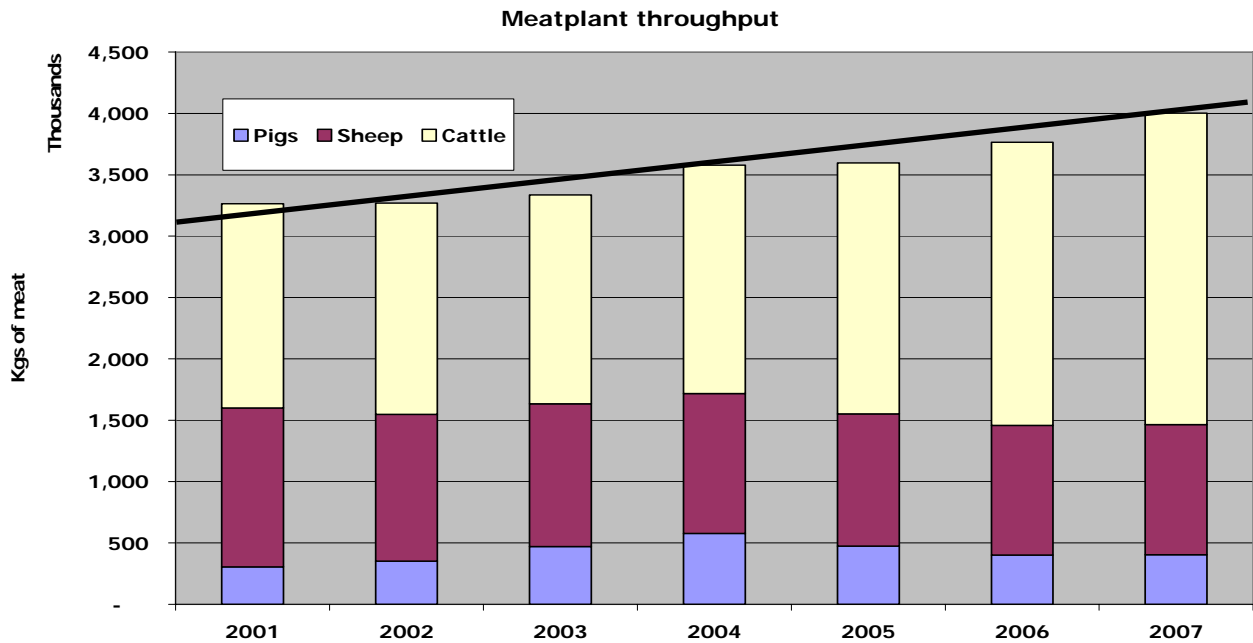
Optimum Meatplant size

The current throughput of the Meatplant is the highest since 1991 and has increased 20% in the last seven years however, the plant is still operating 7% below its design capacity. The scale of increase in beef production in the last few years has more than offset the reduction in lamb and pork. As most of the pork and prime beef cuts are used on the Island, a smaller plant would be unlikely to be a serious option.

Meat Plant throughput compared to design levels:

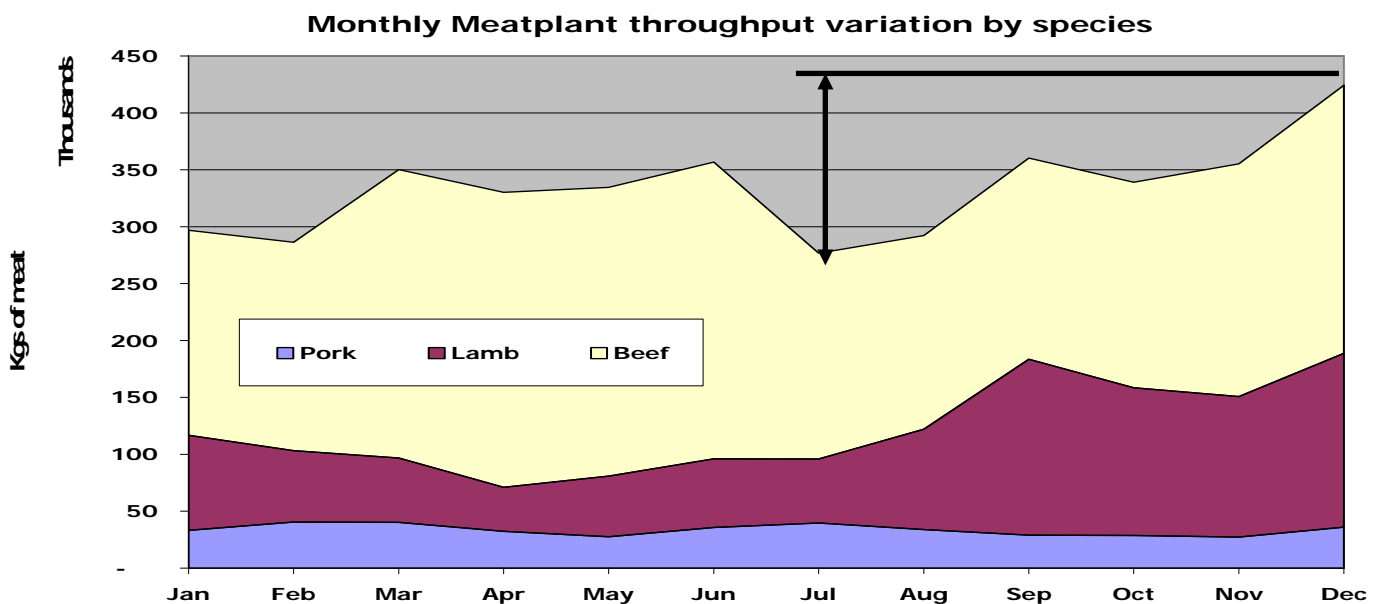
Throughput:	Design	2007 actual	difference
Cattle (head/year)	7,800	8,804	+13%
Sheep (head/year)	72,600	57,408	-21%
Pigs (head/year)	15,300	6,857	-55%
Combined throughput (tonnes/yr)	4,295	4,003	-7%

Table of Meatplant throughput trends over the last 7 years



Potential for further reductions in Meatplant costs

The killing line currently has a total annual cost of around £1,700,000, which is well in excess of a UK equivalent according to the recent Andersons report. However, it is important to acknowledge that the new management team have already reduced the costs of the killing line by over £100,000 year on year to the end of 2007 and that expectation regarding the potential for further cuts must be reduced. The report also clarified that £166,000 of the costs are due to the farm to plant transport costs which would be paid individually by farmers elsewhere and should be excluded from this comparison. On this basis the Andersons report concluded that there is around £300,000 of extra cost associated with the Killing line.



A major impact on Meatplant workload is likely to be the variation in animal throughput on a monthly basis as shown in the graph above. The variation is over 50% between the highest and lowest months, which will significantly contribute to the capacity requirements of the plant and there may be cost saving to be achieved through levelling the supply. This would depend on the impact of changing the timing of sale of the meat, the on-farm production costs to shift the timing of supply and the impact on the minimum staffing levels within the Meatplant. The Department will continue to explore opportunities to better manage supply with the Isle of Man meats.

The recent Andersons report also identified that:

- The largest single area of difference between the Meatplant and the UK equivalents used to benchmark against was regarding labour costs. *Therefore it may be there is scope for further re-organisation of the plant's workforce, especially alongside supply management initiatives.*
- Another contributor to high slaughter costs is the lighter carcass weights on the Island. The 2006 throughput at UK average weights would have added 9.9% to total throughput in Kgs and significantly reduced Manx slaughter charges by 3.4p per Kg. The FMA price schedules clearly target these lower weights; whether these are the correct weights for both the Manx and the UK markets is not clear. *If there is an opportunity to slaughter at higher weights, costs can be reduced which Andersons indicated could be worth around £130,000.*

Whilst it does seem likely there may be scope for further progress, the potential is much less than often suggested and will require considerable adjustment to the farmers supply patterns and behaviour.

Appendix 4: An overview of DAFF's proposed support policy (As recently provided to Manx farmers)

- Implementation:** 1st April 2009 with 5 years based on Historic payments, followed by a 5 year transition to flat rate payments. Review of progress starting in 2011.
- Dairy sector:** Full de-coupling on implementation. Cap at £300/acre.
- Pigs:** Anderson's proposals adopted indefinitely, adjusted to 70% re-coupled headage and 30% Historic. To be reconsidered as part of the interim review in 2011. No cap at £300/acre.
- Arable:** De-coupled on implementation. Cap at £300/acre.
- Horticulture:** Introduce a flat rate payment of around £85/acre based on cropping area during reference period, on implementation.
- Milling Wheat:** 3 years re-coupled and then 2 year transition. Historic payments then allocated on basis of previous 3 years' inputs. Cap at £300/acre.
- Beef and Sheep:** Fully de-couple suckler cow and ewe premiums immediately on implementation, with phased withdrawal of slaughter premiums over following 2 1/2 years, as per table below. These payments will still vary with quality as per the current matrix and would not be reduced in the event of increased claim numbers. Historic payments to be purely on the basis of claims during the reference period. Slaughter premium element of historic payment to be reduced during phased withdrawal period to fund transitional headage. Cap at £300/acre.
- Appeals over reference data:** To allow individuals to request to use a third (more recent) year to calculate their historic average reference period if preferred and data will be supplied in the next few months to help with individuals' decisions. The reference average chosen would still need to be based on two consecutive years. This will introduce a significant uplift in the reference amounts due to the upward trend in beef production during this period. Appeals would still be considered in exceptional cases where both options were still unrepresentative. The sheep data may be recalculated to reflect the lamb marketing year, subject to technical capability issues.
- Entitlements:** Historic entitlements to be issued on the declared acreage of the 2007 census divided by agreed historic entitlement. For example, a farmer who declared 150 acres in the 2007 census and had a historic entitlement of £14,000 would be entitled to 150 entitlements of £93.33/acre. Entitlements not used in the first or second year of the scheme will lapse.
- Initial applications to National Reserve:** Appeals to be based on changes since the reference period up to 31st January 2008, reflecting structural changes to the business such as expansion, diversification or new entrants. Any extra entitlement received from the National Reserve will not be eligible for transfer.
- Future applications to National Reserve:** New entrants after the 31st January 2008 may periodically be able to apply for historic payments to reflect the typical payments rates for their area of the Island, subject to there being funds available from the National Reserve.
- Payment frequency:** To initially move to monthly and subsequently quarterly payments for headage payments and three times per year for Historic payments.
- Land area declarations:** This is assumed to be based on the 2007 census data of land farmed. A summary will be circulated over the next few months to allow individuals to confirm that mapped data now held is correct. A third party project is to be commissioned to categorise land into two grades on a field by field basis.
- National Reserve:** This will be established with the funds previously used for the BSE livestock payments and it is expected that all funds will be used for appeals or any remaining funds will be used to increase the size of payments to existing producers.

Table. A 30 month beef and sheep headage transition period

Payments during 2009-10:

Percentage (%)	April 2009	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec 2009	Jan 2010	Feb	Mar	Average '09/10	Historic '09/10
Beef & Sheep	95	95	90	90	85	85	80	80	75	75	70	70	83%	17%
Pigs	90	90	80	80	70	70	70	70	70	70	70	70	75%	25%
Headage (£/hd)														
Beef	190	190	180	180	170	170	160	160	150	150	140	140	£165	
Sheep	16.17	16.17	15.30	15.30	14.45	14.45	13.6	13.6	12.75	12.75	11.9	11.9	£14.03	
Pigs	25.74	25.74	22.88	22.88	20.02	20.02	20.02	20.02	20.02	20.02	20.02	20.02	£21.45	

Payments during 2010-11:

Percentage (%)	April 2010	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec 2010	Likely loss Deterioration	Jan 2011	Feb	Mar	Average '10/11	Historic '10/11	
Beef & Sheep	65	65	60	60	55	55	50	50	45		45	40	40	40	53%	47%
Pigs	70	70	70	70	70	70	70	70	70		70	70	70	70	70%	30%
Headage (£/hd)																
Beef	130	130	120	120	110	110	100	100	90		90	80	80	80	£105	
Sheep	11.05	11.05	10.20	10.20	9.35	9.35	8.50	8.50	7.65		7.65	6.80	6.80	6.80	£8.93	
Pigs	20.02	20.02	20.02	20.02	20.02	20.02	20.02	20.02	20.02	20.02	20.02	20.02	20.02	£20.02		

Payments during 2011-12:

Percentage (%)	April 2011	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec 2011	Jan 2012	Feb	Mar	Average '11/12	Historic '11/12
Beef & Sheep	30	30	20	20	10	10							10%	90%
Pigs	70	70	70	70	70	70	70	70	70	70	70	70	70%	30%
Headage (£/hd)														
Beef	60	60	40	40	20	20							£20	
Sheep	5.10	5.10	3.40	3.40	1.70	1.70							£1.70	
Pigs	20.02	20.02	20.02	20.02	20.02	20.02	20.02	20.02	20.02	20.02	20.02	20.02	£20.02	