

Rural Recovery after Foot-and-Mouth Disease

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October 2001

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Introduction

The Prime Minister asked me in late July to have a look at the problems being encountered by the Cumbrian rural economy as a result of the foot and mouth disease outbreak.

During August and September I have spoken to many people and organisations in the county, as well as making visits to other areas which have been particularly affected by the foot and mouth disease outbreak – Devon, Gloucestershire and North Yorkshire.

1. Background

All these rural economies were underperforming before the onset of the disease. This was due to a number of long and short-term factors:

- For over forty years it has been clear that farming in the remoter, hilly parts of the country would not survive without substantial special financial support, in addition to the subsidies paid to all other farmers. This is because the land and the climate are not suitable for commercial farming.
- In recent years, the position of hill farming has further deteriorated as the strong pound, an excessive supply of sheep, and chaos in the beef market following B.S.E., have all contrived to reduce incomes significantly.
- The farming population has been declining for generations as farms have become fewer and larger, and people sought more remunerative work elsewhere. This has led to a progressive reduction in the supply of rural services, including shops and transport.
- Improved access to towns and cities has led in recent years to the development of the rural commuter, and the second-home phenomenon where people in cities acquire houses for use at week-ends and holidays. But these citizens tend to support urban rather than rural services.
- Most people in the countryside have access to motor transport, which enables them to carry out their main shopping activities in the supermarkets of nearby or not so nearby towns.

So the impact of foot and mouth disease on the already suffering hill farmers and rural service industries has been very painful.

It has also had a severe effect on the more commercial farms, as well as the significant rural tourist industry, and various related service activities:

- For those who have lost their stock, there has been an emotional as well as an economic impact – though the latter has been mitigated by the Government’s compensation scheme.
- The essential restriction on livestock movements has created problems for those livestock farms in affected areas which were not culled-out. Economically, this group of farmers is probably in more difficulty than the culled-out ones.

The restrictions on the movement of visitors to the countryside brought much of the tourist industry to a standstill. Furthermore, the distressing pictures of burning carcasses beamed around the world put many people off visiting Britain, not just the countryside. Though the reduction in visitors from North America was partly caused by other factors, including the economic down-turn over there, unpleasant perceptions of the British countryside did not help.

2. The Government’s Response

The Government has intervened to support the countryside in a number of ways:

- Firstly, it has met its legal obligation to pay farmers full compensation for the loss of livestock resulting from the enforced slaughter. This figure is now more than £1 billion.
- Next, it has made available £39 million to the Business Recovery Fund to help small non-farming businesses. The Regional Development Agencies have contributed a further £11 million, including matched European Union structural funds. These funds are now virtually all committed.
- The Inland Revenue and Customs & Excise have treated sympathetically those businesses - both farming and non-farming - which have been affected by the outbreak. They have allowed Tax, National Insurance and V.A.T. payments to be deferred, without attracting interest, where hardship could be shown. By late September, the total of deferred payments was £160 million.
- A Loan Guarantee arrangement was made available, but has not been taken up by many businesses.
- The Business Link Network and the Farm Business Advice Service have provided professional advice to farmers and small businesses to enable them to cope with the difficulties they found themselves in.

The Banks have taken a sympathetic and helpful line with those customers experiencing short-term difficulties, and I have found little evidence of unreasonableness on their part.

Finally, the farmers and businesses affected by the outbreak have, for the most part, shown great resource in coping with the situation by finding work elsewhere. Farmers' wives have been particularly enterprising in this respect.

3. How serious is the economic crisis?

It is difficult at this stage to find evidence on the ground to suggest that the Cumbrian rural economy is on the brink of collapse. Certainly some tourist businesses, such as hotels and restaurants which are entirely dependent on walkers for their trade, were devastated by the restrictions on movements. These restrictions were universal in the early months, and still remain in place in the affected areas.

But, so far, most farmers and businesses have coped better than might have been expected, for the following reasons:

- Those farmers who had their livestock destroyed suffered emotionally, but have received fair and, in some cases, generous compensation for their stock losses. While not receiving farming income, they are benefiting from the interest on this money. They are also using the money for a variety of purposes – to restock, to modernise assets, and to reduce stretched balance sheets. They have also been paid for the lengthy clean-up of their premises after the disease.
- Economically, those farmers who have not lost their stock, but are unable to move them for sale or to other grassland, have probably suffered more – and their situation is now precarious as the winter approaches.
- The agricultural service industries, including transport, engineering and supply, have been hit hard by the outbreak, but they, too, have found short-term work opportunities in cleaning up premises on behalf of the Government.
- The tourist trade, after the dreadful experience of the spring and early summer, have benefited from a recovery in business during the past three months, except, of course, for those in areas where visitor movements are still restricted.
- The substantial influx of government employees has boosted parts of the local hotel and restaurant trade.

As a result, unemployment levels in the county remain low, and there appears to have been no significant increases in social security claims.

Overall, therefore, the economic suffering has been less than the emotional, and less than the forecasters have suggested. But the latter might still be proved correct, for the following reasons:

- The clean-up operations are running down as the outbreak declines, thereby impacting on the earnings of those engaged in these activities.
- Serious obstacles are being encountered by farmers who want to restock after culling.
- The tourist season is now coming to an end, and cash flows will deteriorate from now on.
- Feed is running out as the over-stocked farmers are unable to move their stock to market, which they would normally do at this time of the year. Even if the movement restrictions were lifted, they would find their regular customers wary of buying sheep from the hills in case of hidden infection.
- The terrorist crisis will probably deter foreign visitors next year as well, but may also lead to more British holidaymakers staying in this country.

4. Short-term survival measures

The Government's extensive support for those badly affected by the foot and mouth disease outbreak was based on the hope that the disease would have run its course by mid-summer 2001. This has been the case in most parts of the country, but in Cumbria, which experienced nearly half of the outbreaks, the disease has not disappeared. North Yorkshire has had outbreaks in July and August, and Northumberland more recently. As a result, many farmers in these areas and in Devon are still experiencing severe restrictions, which prevent the over-stocked farms from moving their livestock away, and those farms that were culled-out are seriously disadvantaged when they seek to restock.

The following are my recommendations to minimise the impact of all this on the relevant rural economies – notably Cumbria, but also Devon, North Yorkshire, Northumberland, and parts of Gloucestershire. (Wales was not in my brief.)

- **First recommendation: the banks must remain the key to business survival**, and it is essential that they maintain their sympathetic line with their customers. In my conversations with them I felt that they would do this, assuming that the Government, for its part, delivered in two areas:
 - Continued support for rural businesses, especially from the Revenue departments. If the latter were to seek to recover tax due too quickly, this would probably harden the attitude of the banks.
 - Next, the banks are looking for assurance from government that the countryside will be back in business by April 2002, in time for Easter, with no movement restrictions on visitors and, hopefully, the eradication of the disease itself.

Another season of restrictions, determined by the veterinarians in order to tackle the disease, would have a catastrophic impact on huge sections of the rural economy – especially tourism, and its related services. This, in turn, would make the banks more cautious about further lending.

- **Second recommendation:** the Government should make clear that the **Inland Revenue and Customs & Excise will continue to take a sympathetic approach**, on a case-by-case basis, to deferral of tax payments by businesses that have suffered from the foot and mouth disease outbreak and the measures to control it, until the end of the financial year. The additional subsidy enabling local authorities to give relief from business rates without imposing undue costs on local residents should likewise be extended. This will send a positive message to the banks, encouraging them to maintain their sympathetic approach.
- **Third recommendation:** there should be **no general or “regional” restraints on the movement of visitors in the countryside**, whether the outbreak has been contained or not, except, of course, where a farm has been directly affected. Such an unqualified statement needs to be made by Christmas, to enable the tourist trade to give the appropriate messages to their potential customers.
- **Fourth recommendation:** the Government should give some **financial support to generic advertising**, aimed at the domestic market. In the case of Cumbria, this could be linked with the promotion of the Commonwealth Games in Manchester in 2002 by the North West Regional Development Agency.
- **Fifth recommendation:** the Government should consider providing further assistance to distressed businesses, by the injection of **an extra £40 million into the Business Recovery Fund**. About half of this money should be allocated to Cumbria, recognising the disproportionate impact of the disease on that county. However, this money must be carefully targeted at those businesses which are fundamentally sound, and deserve to live to fight another day. Three criteria should apply:
 - That claims for support are backed by a practical, credible business plan, which does not require cumbersome administration.
 - That special consideration should be given to claims from the tourist industry to finance necessary winter renovations and upgrading of assets and standards. Without such work, the quality of the proposition declines and, of course, this work creates essential income for thousands of small businesses and skilled self-employed people in the countryside.
 - That these funds should be made available very soon.
- **Sixth recommendation:** the **Business Links Service**, offering good advice to farmers and businesses on how to manage the crisis, should be **funded sufficiently** to provide such advice to anyone who needs it. If businesses do

not avail themselves of such advice, they should not expect help from the Government. In particular, whilst all culled-out farmers have been given free advice, this has not been available to all “live” but locked-up farmers.

- **Seventh recommendation: the Regional Development Agencies should be the catalyst** for overseeing and targeting support for all sections of the rural economy. They should consider reallocating some more of their own funds to help distressed rural businesses, and should ensure that they are businesslike in the way they deliver the Government’s programme. The R.D.A.s are best placed to target and deliver support for businesses in need of help as quickly as possible. This crisis is a real test of the R.D.A.s’ credibility . They will need to lead at Regional level in delivering the integrated approach I refer to later, and should be tasked with bringing together relevant agencies and funding sources to deliver regional recovery plans.
- **Eighth recommendation:** relates to **European Union State-Aid rules** which restrict the scope for National Governments to give support to farmers and related agricultural service industries, because this might be used to distort markets through national subsidies.

Given the impact of the foot and mouth disease outbreak on agricultural service industries in the badly affected areas, **the U.K. Government should interpret these restraints as flexibly as possible** and, if necessary, should seek the European Commission’s approval to disapply certain restrictions in order to cope with the impact of the foot and mouth disease crisis, thus enabling these businesses to bid for support from the Government through the Business Recovery Fund.

- **Ninth recommendation:** as the **restricted livestock farmers** will not now find a market for their “store” animals, some **special compensation** should be considered for this group.

Urgent steps must be made to remove surplus stock in locked-up herds, as otherwise a serious welfare problem will arise when the grass runs out and the weather deteriorates. Any such scheme should be time-limited, say till the end of November 2001, and should only apply to those farms which are denied access to their normal markets because of the movement restrictions.

There may also be a case for finding ways of moving feed from culled-out farms to those with far too much livestock, or vice-versa. (There is an abundance of feed and shelter on many culled-out farms)

- **Tenth recommendation: restrictions on the movement of animals** into infected areas are creating serious problems for farmers who want to restock. These farmers can only buy animals from within those areas – and the stock are simply not there. **These restrictions should be minimised**. Whilst recognising the concern of DEFRA that vehicles which enter and then leave infected areas may possibly spread the disease to areas which are clean, **tight bio-security** should be sufficient to enable farmers to restock from outside their local markets.

- **Eleventh recommendation:** the Government, with the approval of the European Union, should consider a one-off scheme to **reduce excessive sheep stock levels by purchasing quota**. Over-stocking is a serious environmental problem, and does not make economic sense.
- **Twelfth recommendation:** many potential beneficiaries are not aware of the various **support schemes** that are available to them. **More effort** needs to be made to promote these schemes.

5. **Summary of short-term position**

My view is that a combination of continued support from the banks, and the Government and its agencies, during the next few months, will enable those farmers and businesses who deserve to survive to fight another day, to do just that. But in order to do so, they in turn will need to be resourceful and enterprising in tackling their problems. The Government should not support fundamentally unsound businesses.

5. **The medium-term strategy for Rural Recovery**

Much has been written about the need for new initiatives to revive rural economies, and the foot and mouth disease crisis has clearly exacerbated the problems.

I would encourage a realistic approach by all concerned, for the following reasons:-

- Substantial increased public expenditure, over and above that already committed, is unlikely to be forthcoming or justified because of the scale of existing commitments, and the need for caution in the light of current uncertainties in global financial markets.
- Moreover, the substantial long term financial support for agriculture has not solved the problem, suggesting that more subsidies would not get to the core of the issues.
- The pursuit of a more sustainable environment, will not necessarily be best achieved through increased regulation. Farming is already heavily regulated, so the priority should be to improve the effectiveness of existing rules.
- Many of the problems of the rural economy can only be resolved in Europe, and primarily through the Reform of the Common Agricultural Policy.
- And the most damaging short-term problem, the strong pound, which is affecting all manufacturing industries, but farmers worst of all, can only be resolved by the market itself.

6. Preconditions for medium-term regeneration

There is a bewildering range of frequently contradictory proposals for tackling the problems of the countryside. The Government should only be interested in endorsing those initiatives which have the support of the vast majority of rural stakeholders. For this reason, I believe that the work of the Cumbria Rural Task Force, as well as the Devon recovery plan, need to be supported.

One good outcome of the foot and mouth disease tragedy has been the willingness of all the different countryside groups to come together in a spirit of co-operation and compromise, to submit agreed mainstream policy proposals to the Government. These initiatives need to reconcile the differences which exist between the various stakeholders:

- Between farmers and the tourist trade, about the movement of visitors in the countryside.
- Between farmers and environmentalists, about the appropriate level of environmental regulation.
- Between different interest groups, about a responsible but flexible approach to rural planning.
- Between large and small farmers, about the appropriate split of public support.

And, more positively, the various stakeholders must also demonstrate their commitment to co-operating with each other:

- Co-operation between farmers and farm service businesses, to improve their efficiency as producers and marketeers, including joint buying and selling and more sharing of equipment.
- Co-operation between everyone in the countryside, to support local services and local shops and markets.
- Co-operation between everyone to improve the quality of the countryside, as a place to live in, and visit.

Our ability to respond effectively to the crisis in the short term, and develop rational and integrated Rural Recovery Action Plans in the medium term, is seriously impaired by the existence of a plethora of publicly funded agencies and programmes, with little effective co-ordination or integration. The improved co-ordination that the crisis has engendered must be built on. **The Government must create the conditions to enable the various agencies to integrate their funding streams and programmes, and must insist that they do so.**

7. Priorities for medium term regeneration

1. I suggest that the **Government endorses the concept of a Cumbrian Rural Action Zone, and works with the Cumbrian Task Force to develop realistic, cost-effective recovery plans for the region, paying special attention to the delivery implications of any proposals.**

These plans would be based on an integrated economic, environmental and agricultural strategy for the rural economy.

2. Agreement at local level to a **more flexible approach to rural planning**, to enable farmers and businesses to diversify without putting the natural assets of the countryside at risk.
3. Agreement at local level on a range of options to sustain and enhance the environment under existing rules with the Government agencies playing their role by adopting a stance of “helping farmers to comply” rather than “penalising them after they have failed to comply”. **The enforcement of existing regulation of farms could be improved and streamlined** without endangering either the environment or public safety.
4. The development of **agreed co-ordinated local market initiatives**, predominantly food, which are businesslike and realistic, concentrate on adding value to local produce, and persuade, particularly, local buyers and consumers to support such markets. Such proposals must be realistic and, where investment is needed, attract the support of private as well as public finance. However, there may be a problem with State Aid rules.
5. **The development of the tourist industry, putting a priority on quality rather than quantity**, which will need the engagement of all rural stakeholders if it is to succeed.
6. All rural businesses need to be encouraged to take full advantage of the **benefits of the Internet**, which in turn will require the Government to ensure that the providers of broad-band will make this commitment feasible. The Internet should be of more benefit to farmers and rural businesses than anyone else, because it overcomes the geographical problem of doing business from the countryside, offers them unprecedented opportunities to diversify their businesses, and enabling them to receive advice on their options and obligations, as well as processing their I.A.C.S. payments in an efficient way.
7. Pending the outcome of the foot and mouth enquiries, farmers and the support services should suggest **changes to agricultural marts which make them more effective and better regulated**, to ensure that they are no longer a weak link in the spread of animal disease. These marts can be an opportunity for farmers to help each other, but if they remain fragmented they will face the risk of enforced closure.
8. It might be possible to persuade the European Commission to allow waivers from C.A.P. rules, so as to permit the U.K. Government to **pilot various**

options to existing agricultural policies in the Cumbrian region. This would involve developing “integrated” land management schemes, based on co-operation between groups of farmers and environmental groups, which might attract U.K. Government and European Union support. An innovative, integrated woodland policy would be an example of such local co-operation.

9. The England Rural Development Programme, under the “second pillar” of the C.A.P., provides a useful range of schemes to assist rural development and environmental land management. There is however widespread criticism of the ERDP’s complex and rigid rules, which stem largely from the EU’s Rural Development Regulation itself. The UK Government should ensure that the ERDP operates as flexibly and unbureaucratically as possible, helping potential applicants to access schemes, and transferring funds between schemes and areas to meet post-foot-and-mouth disease recovery needs.
10. A common determination to **strengthen and widen the skills** of those in the countryside who need to adapt to market and technological change if they are to remain in work. The Government, through the Learning and Skills Councils, is ready to support such commitment. The Higher and Further Education sectors have an important role in this.

8. Summary of medium term position

Recovery and regeneration in the Cumbrian rural economy will need to be based on:

- Initiatives which are supported by the majority of local stakeholders.
- Initiatives which are realistic in terms of the existing economic situation.
- Initiatives which do not require the endorsement of the European Commission (other than an agreed pilot), and which do not require the reform of the Common Agricultural Policy.
- Business initiatives which attract private finance.
- Initiatives which make full use of existing funding streams and Government agencies, especially the Regional Development Agencies.

But for further substantial recovery and change to be achieved:

- The currency position will need to be more favourable.
- The Common Agricultural Policy will need a radical reform of the way it supports the rural economy, switching from a system of subsidies and dependence, to one which promotes environmental sustainability, rural diversification, and enterprise.

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(02.10.01)

Summary of Recommendations

A. Short-term “survival” recommendations

1. Ensuring that the banks remain sympathetic.
2. Roll over tax and VAT deferral and rate relief to April 1st 2002.
3. End all restrictions on visitor movements, well ahead of April 1st 2002.
4. Support for generic advertising, aimed at the domestic market.
5. £40 million additional money for the Rural Recovery Fund.
6. Business advice available to all who want it.
7. Make the Regional Development Agencies the catalyst for delivery.
8. Lift some State-Aid restraints affecting agri-service businesses.
9. Short-term measures to deal with problems of over-stocked farms.
10. Minimise restrictions on farmers wanting to restock.
11. Reduce sheep numbers by buying in quota.
12. Make businesses and farmers more aware of what they are entitled to.

B. Medium-term priorities

1. Support the concept of a Cumbria Rural Action Zone.
2. Co-ordinated flexible approach to rural planning.
3. Co-ordinated flexible approach to other rural regulation.
4. Support for business-like local market initiatives.
5. Support for upgrading the tourism proposition.
6. Get the countryside onto the Internet.
7. A co-ordinated approach to the reform of agricultural smart structures.
8. Developing ideas for C.A.P. reform, which might be piloted in Cumbria with the approval of the European Commission.
9. More flexible operation of the England Rural Development Programme
10. Develop new skills among the rural workforce.