Engaging Business with a Natural Capital approach to post brexit agri – environment policy

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Introduction

- The triggering of article 50 has placed the UK on a course to leave the EU.
- Impacts of trade negotiations and a new agriculture policy could be significant.
- Defra is also developing a 25 year plan for the environment
- These policy changes will have implications on agricultural trade, farm subsidies, farm labour, environmental regulation and management and investment in the natural environment.
- Such factors may effect business competitiveness and resilience.
- Much of the discussion around these change centres on a natural capital approach
- The Natural Capital approach aims to manage the natural environment in a way that protects the stock of nature from which society receives wellbeing benefits. It provides a way to measure the state of natural assets in way it can be considered alongside other forms of capital.

Aim

- To produce business driven scenarios which will provide an understanding of how the integration of natural capital in agri-food policy would likely influence business under various post brexit outcomes
- This research sets out to identify business views, improve their understanding around these changes and help them to engage with this at the policy level.

Approach

1. Based on the literature a number of key policy issues were identified which related to Brexit and integration of natural capital in agri-environment policy. (figure 1)

2. These were used to develop a structure for interviews with six large UK based national and multinational businesses to identify:

- Which policy issues are most important to consider in scenarios
- What effects from Brexit are most significant/uncertain
- What effects from Integration of natural capital are most significant/uncertain
- Appropriate time frame to run the scenarios over

3. Key themes which emerged from the interviews (table 1 & 2) are used to inform business driven scenarios to be presented at a workshop on the 31st October 2017.

- Trade Agreements with EU and others
- Proportion of current total subsidies
- Degree to Autonomy in Environmental Regulation
- Shift of Subsidy focus to Natural Capital Investment
- Private investment Incentives -Natural Capital Tax Allowance/ government co investment etc.
- Private/public investment alignment
- Degree of Natural Capital Accounting

Figure 1. Key Policy issues identified through the literature related to Brexit and integration of natural capital in agri-environment policy

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Business Perspectives on Brexit Effects

Table 1. Business perspectives on Brexit Effects

Brexit effects	Business perspectives
Trade outcomes	• Concerns over high level of uncertainty • Concern about Impact on food prices (cost to supply chain and consumers). • Concern about opening up the UK agricultural sector to competition from cheap produce with lower standards.
Environmental Regulation	• Uncertainty about what might be enhanced, retained or removed and how this may impact on divergence from the EU • Concern about the potential need to produce 'niche' products for the EU market • Queried effects on planning regulations due to the effects on protected area designation
Devolution	• Queried effects of Brexit may have on intra-UK trade. • Indicated that need for type of farm support, types of natural capital investment, and level of priority place on natural capital may vary between devolved countries.
Labour and Resourcing	• Concerns about brain drain due to uncertainty of treatment of EU citizens in the UK and UK citizens in the UK. • Concerns about loss of labour from farm production within supply chains.
UK business investment	• Concerns about uncertainty around Brexit leading to reduction or delay in UK investment.

Business Perspectives on Policy Changes

Table 2. Business perspectives on Policy Changes

Policy Changes	Business perspectives
Changes in farm subsidies	• Reduction in subsidies and shift in subsidies in focus of subsidies to Natural Capital payments likely. • Change in subsidies will impact differently on different sectors depending on proportion of income dependent on subsidies and level of exposure to global market prices. • Potential for different sectors to be treated differently by government in terms of level and type of subsidies. • Suggestion subsidies for natural capital could act as competitor for private investment in natural capital.
Private investment in Natural Capital	• Two major objectives for private investment in natural capital were highlighted by companies: ○ To reduce externalities and enhance natural capital across supply chains ○ To offer green infrastructure projects that replace hard engineering solutions • Indication that government incentives (e.g. tax allowances, government co-investment, loan interest loans) would be effective in increasing levels of private investment. • concerns were raised about the risk of private investment leading to a hierarchy of types of natural capital based on rates of return.
Alignment of public and private Investment in Natural Capital	• Commercial return on investment will motivate private investment. • However difficult to strictly align private investment to commercial return and public investment to societal benefits as public and private benefits often different to disaggregate.
Types of private investment in Natural Capital	• Companies highlighted that the type of investor would make a difference to the type of natural capital to be invested in and the investment role they could play. This may be influenced by the types and scale of benefits the investor would receive.
Redefining Farming Policy terms	• The question was raised as to whether we need to redefine farming in policy terms. Is farming natural capital still farming? This could have an impact on the tax benefits which farmers currently receive and access to agricultural mortgage rates.
Natural Capital Accounting and Metrics	• It was expressed that companies are keen to set natural capital goals and outcomes alongside government. It was agreed by companies that metrics to assess the current baseline and measure improvements need to be outcome driven, not onerous to measure, and assess return on investment from private and public funds.