

Symposium: Direct Payments as an Alternative Approach to Conservation. Complete text of presentation by Jon Lovett with overheads in boxes and explanatory footnotes.

### **Direct payments for conservation in the UK: an example from the North York Moors**

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I am going to talk firstly about Agriculture in the UK and Europe in general, particularly the policy shifts that are occurring at the moment. Secondly, I would like to touch on some of the theoretical background behind direct payments for conservation, in particular the issues of ownership, entitlements and transaction costs. And thirdly I will look at the case study of the successful use of direct payments in the North York Moors.

#### **UK Agriculture in Crisis?**

- BSE
- Foot and mouth
- Low producer prices
- Common Agricultural Policy

Agriculture in the UK is in crisis. Since 1996 evidence has been gathering for a link between Bovine Spongiform Encephalopathy (BSE) in cattle and Creutzfeldt-Jakob Disease (CJD) in humans. The result has been a ban on British beef and massive culling of the national herd at huge expense. Last year, the livestock industry was gripped by an outbreak of foot and mouth disease – with many cases on the North York Moors. The outbreak hit rural communities in two ways: firstly animals on infected farms, and nearby farms were slaughtered; secondly the countryside was “closed down”, completely stopping tourism. To top all this, producer prices barely meet production costs, much of the market is in the grip of supermarkets to the detriment of small farmers, and the Common Agricultural Policy is an expensive shambles.

If agriculture is such a mess – why don’t we let the farmers go bust and the land revert to wilderness? This would surely be in the interests of both economics and conservation. But we don’t, and for two important reasons. Firstly it is in the interests of national security to maintain some form of national food production, and as we all know “national security” is the easiest way of shaking money out of government coffers. Secondly, the countryside is part of national identity. For the North York Moors this identity is locked in a time period between the 1930’s and 1950’s; and this is what the direct payments are trying to protect<sup>1</sup>. The payments only

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<sup>1</sup> The North York Moors are known as “Herriott Country” after the stories by the veterinary doctor James Alfred Wight who lived and worked in the area in the 1940’s and 50’s and who wrote a series of books about his experiences that were published in the 1970’s and 80’s. The village of Goathland in the middle of the moors is used in the television series “Heartbeat” which is set in the 1960’s. The

indirectly benefit the ecological health of the North York Moors – which are an overgrazed, fire dominated, podzolised, species poor heathland.<sup>2</sup>

### What Does it Cost?

UK taxpayers spend **£3 BILLION** annually on agricultural support

- Rural Development Regulation (RDR) – £189.4 million
- Countryside Stewardship Scheme - £51 million
- Environmentally Sensitive Areas Scheme - £48 million
- Hill Farm Allowance Scheme - £27 million
- Organic Farming Scheme - £18 million
- Woodland Grant Scheme - £16.6 million

The amount of money involved is non-trivial. UK taxpayers spend **£3 BILLION** annually on agricultural support<sup>3</sup>. Large amounts are spent on social and environmental objectives, the so-called second Pillar of the Common Agricultural Policy, through Rural Development Regulation support which in England includes schemes such as the Countryside Stewardship Scheme, the Environmentally Sensitive Areas Scheme, the Hill Farm Allowance Scheme, the Organic Farming Scheme and the Woodland Grant Scheme. These schemes pay land managers for provision of environmental goods under the principle that public money should be used to pay for public goods.

### A New Dawn for Agricultural Policy?

- FARMING & FOOD: a sustainable future
- Farming as a steward of the countryside
- Reconnect farming with its market and the rest of the food chain
- Reconnect the food chain and the countryside
- Reconnect consumers with what they eat and how it is produced

The crisis in UK Agriculture has, of course, lead to the creation of lots of committees and think-tanks. An important output from this deliberation and consultation has been the so-called “Curry Report” (after Sir Donald Curry, not the Indian cuisine) on “Farming and Food: a sustainable future” which came out in January of this year<sup>4</sup>. This report has a vision of farmers as stewards of the countryside being linked to consumers through “reconnection”. Whilst the Curry report deals primarily with the

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moors were also used as a location in the Harry Potter film “The Philosopher’s Stone”, and the vision of 1950’s moor’s life have been used in television advertisements by the bread baking company Hovis.

<sup>2</sup> A “wild” ecology of the moors would be mixed deciduous woodland inhabited by wolves, bear, boar and beavers, all of which are now extinct in the UK. To fit into a wild ecology national park concept, the current human population would either need to be excluded or change their livelihood strategy from settled agriculture to nomadic hunter gathering.

<sup>3</sup> The amount paid by UK taxpayers on agricultural subsidies is rather more than the World Bank spends on global biodiversity conservation.

<sup>4</sup>Policy Commission On The Future Of Farming And Food report is available at: <http://www.cabinet-office.gov.uk/farming/>.

food industry, it does have a chapter on the Environment, and the same theme of reconnection is found there. From an economic perspective, the most efficient way of reconnection is through direct market linkages, in other words, if the consumer wants environmental quality, then they should pay the farmer for it. Otherwise we will all motor about the North York Moors looking at quaint dry stone walls, free-riding on the farmer's cost in maintaining them.

### **Some Theoretical Considerations**

- Ownership
- Entitlements
- Transaction costs

If the “reconnection” theme of the Curry Report sounds a bit “New Agey” and “Third Wayish”, that’s because it is, and in fact connections are not so easy to make<sup>5</sup>. Let’s have a look at some theoretical considerations to find out exactly what it is that we’re talking about.

Firstly the concept of ownership is very important. When we talk about farmers being “stewards of the countryside”, who actually owns the countryside? By the sound of things it is a common property resource, owned by the public at large. But in fact the Yorkshire farmer will tell you that he paid good money for his farm, and it belongs to him not some soft southerner in far off London. So how do we persuade him that it is not his farm at all, but ours? Well, we tie him up in regulations, planning policy, take away his traditional way of making a living and then trickle money back from the public purse. For those of you who know the Ngorongoro Crater in Africa, this sort of arrangement probably sounds familiar.

Secondly, let's think about entitlements. There are three broad types of entitlements: those based on property rules, those based on liability rules and those based on inalienable entitlements<sup>6</sup>. Under property rules the commodity can be traded freely in the market – this is the economically most efficient system. Under liability rules the state sets the price, but the commodity is still traded. Inalienable entitlements are different. They are determined by moralisms and social preferences, and the market plays no role in setting their value. Issues such as conservation are covered by inalienable entitlements, which is one reason why connecting the consumer and producer of environmental goods is not easy, and why we have to wrap the farmer up in regulation.

Thirdly, is the important, but oft forgotten subject of transaction costs. Transaction costs are the costs of negotiating an agreement, then enforcing and monitoring it. In some of the environmental RDR schemes, transaction costs account for as much as

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<sup>5</sup> For example, if we look at water as an output from the countryside, then establishing a market between consumers and producers is complicated by non-point sources of pollution, flat rates for water abstraction and delivery, water quality regulations which are designed on the precautionary principle, the high fixed capital costs of building water treatment plants and infrastructure, and the relatively inelastic prices of fertilizers.

<sup>6</sup> Calabresi, G. & Melamed, A.D. 1972. Property rules, liability rules, and inalienability: one view of the Cathedral. *Harvard Law Review* 85: 1089-1128.

25% of the programme spend. When we look at direct payments for conservation on the North York Moors we need to bear in mind the cost of maintaining the whole national park infrastructure that makes the scheme possible, and the cost placed on the farmer by participating in the scheme.

### **North York Moors National Park**

Formed in the 1950's

Area: 1436 square kilometres (554 square miles)

Highest point: 454 metres (1490 feet)

Vegetation:

- Heather moorland 35%
- Woodland 22%
- Farmland 40%
- Other (lakes, reservoirs etc) 3%

Staff: ~80 full time, ~60 part time.

Budget: ~£5.6 million.

Population: ~25,500, mostly in four village centres.

Land ownership:

- Private 83%
- Forest Enterprise 14.5%
- National Trust 1.5%
- National Park Authority 1%

The North York Moors National Park covers a large area of upland moor and also includes a section of scenic coastline. By upland, we are not talking about the Rocky Mountains here, they are not very high. The rocks are mostly Jurassic sediments and the area was denuded of forest a couple of thousand years ago, leaving an infertile podzolised heather moorland. Maintaining this moorland is now one of the principle objectives of the national park authority. Most of the land in the park is privately owned, but the owners are subject to stringent planning controls with the national park heavily influencing the planning authority<sup>7</sup>.

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<sup>7</sup> Town and Country Planning Act 1990. 4.—(1) As respects an area in a National Park outside a metropolitan county all functions conferred by or under the planning Acts on a local planning authority or district planning authority shall, subject to subsections (2) and (3), be functions of the county planning authority and no other authority, and references in those Acts in their application to a National Park outside a metropolitan county to a local planning authority or district planning authority shall be construed accordingly.

### **North York Moors Farm Scheme**

- 1985 Trials conducted in giving higher priority to conservation in farm management
- 1990 North York Moors Farm Scheme launched
- Agreement between farmer and National Park Authority drawn up under Section 39 of the 1981 Wildlife and Countryside Act.
- Entry is voluntary
- Aims to compensate farmers for improving landscape and wildlife values
- Uptake excellent with 108 agreements
- 90% of eligible farmers
- 7441 hectares
- Budget increased from £50,000 in 1990/91 to £449,000 in 2000/2001.
- Each agreement monitored annually
- Achieving all its objectives

The North York Farm Scheme is very successful with a high uptake and relatively low direct costs. The legal basis for the scheme is quite interesting. Section 39 of the 1981 Act states:

“39 (1)A relevant authority (i.e the National Park) may, for the purpose of conserving or enhancing the natural beauty or amenity of any land which is both in the countryside and within their area or promoting its enjoyment by the public, make an agreement with any person having an interest in the land with respect to the management of the land during a specified term or without limitation of the duration of the agreement.

.....(The authority) may impose on the person having an interest in the land restrictions as respects the method of cultivating the land, its use for agricultural purposes or the exercise of rights over the land and may impose obligations on that person to carry out the works.....

.... May contain such incidental and consequential provisions (including provisions for the making of payments by either party to the other) as appear to the relevant authority to be necessary or expedient for the purposes of the agreement.”

The key points here are the expression of power that the national park has, and the fact that the payments are not linked to the public's values as consumers of the environmental goods. There is no direct reconnection here in the sense of the Curry report, but rather a hegemonic control<sup>8</sup>.

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<sup>8</sup> The need for hegemonic control in creating a coherent planning objective is necessary due to the well known difficulty of aggregating social preferences, the so-called “Arrow Impossibility” which needs to be overcome by either a dictator or religion. Arrow, K.J. 1950. A difficulty in the concept of social welfare. Journal of Political Economy 58: 328-346.

### **Objectives**

- Remove pressure for increased production
- Encourage lower intensity farming
- Guarantee environmental protection and enhancement
- Stimulate local employment
- Retain individual farmers' flexibility to manage their farming business

The scheme's objectives have a high social content, with conservation almost coincidental to encouragement of particular types of land use practise that were in use 50 or so years ago. For example, the objectives are not to protect rare plants and animals or maintain species richness, but it is assumed that these conservation goals will result as a by-product of other activities.

### **Membership and Benefits**

- Farmer must spend at least 50% of their time working on the farm
- Farmer must derive at least 50% of their income from the farm
- All eligible enclosed land belonging to the farmer must be brought into the Scheme

#### **Area payments**

- a) Conservation land £71.47/ha
- b) Conservation woodland £55.00/ha
- c) Improved land £7.66/ha

Up to a maximum of £3573.50 per annum for any individual farm holding

#### **Field Boundaries**

- a) Drystone walls 18.6p per metre
- b) Hedges 15.3p per linear metre

The scheme is designed to only benefit farmers who are actively working the land, in other words you can't get payment for the meadow on your holiday home. Eligible farms are those in the national park's designated target areas, and the farmer must have secure tenure over the land.

We are not talking a million dollars here. The levels of payment are quite small for each individual farmer – but bear in mind that income from farming is pitiful. Some of these farmers are extremely poor with annual incomes around £4000, so income for conservation related activities can be very important.

### **Conclusion**

- Owners or stewards?
- Consumer-producer linkage, or hegemonic power?
- Seems to work!

What general applicability is there in the North York Moors Farm Scheme to the use of direct payments in conservation?

Firstly, I think it demonstrates clearly that, although the National Park is composed mainly of private land owners, the legal framework is such that they are definitely stewards of the land. In many respects this approach has similarities with customary systems of land ownership in Africa.

Secondly, anyone who thinks that we should have a market-based consumer-producer linkage for environmental goods is off with the fairies. The North York Moors scheme works because there is a paternalistic hegemonic power that sets the entitlements and then has a system of payment that it hopes is both fair and affordable. The market has no place here: there is no buyer and seller, the entitlements are inalienable and based on a perception of mid-20<sup>th</sup> century England, and transaction costs are covered by general funding to the Parks authority.

Thirdly, it seems to work! Though don't forget, this is largely because normal agricultural economics have collapsed. These agreements are voluntary, and I'm sure that if farmers could get a better deal by selling sheep or cows then they would go for that. However, they can't, so they may as well accept money for keeping their dry stone walls standing.