



House of Commons
Environment, Food and Rural
Affairs Committee

The Common Agricultural Policy after 2013

Fifth Report of Session 2010–11

Volume II

Oral and written evidence

*Additional written evidence is contained in
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at www.parliament.uk/efracom*

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Environment, Food and Rural Affairs Committee

The Environment, Food and Rural Affairs Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Environment, Food and Rural Affairs and its associated bodies.

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The current staff of the Committee are Richard Cooke (Clerk), Lucy Johnson (Second Clerk), Sarah Coe (Committee Specialist—Environment), Rebecca Ross (Committee Specialist—Agriculture), Clare Genis (Senior Committee Assistant), Jim Lawford and Anna Browning (Committee Assistants), and Hannah Pearce (Media Officer).

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Oral evidence

Taken before the Environment, Food and Rural Affairs Committee on Wednesday 8 December 2010

Members present:

Miss Anne McIntosh (Chair)

Tom Blenkinsop
Thomas Docherty
George Eustice

Mrs Mary Glendon
Neil Parish
Dan Rogerson

Examination of Witnesses

Witnesses: **Gareth Morgan**, Director of Agricultural Policy, **Jenna Hegarty**, Agriculture Policy Officer, Royal Society for the Protection of Birds (RSPB), and **Ian Woodhurst**, Senior Rural Policy Officer, Campaign to Protect Rural England (CPRE), gave evidence.

Q1 Chair: Good afternoon, ladies and gentleman. May I first of all welcome you very warmly indeed. I am going to ask first of all Mr Morgan to introduce himself and his colleague, and then Mr Woodhurst to introduce himself for the record.

Gareth Morgan: I'm Gareth Morgan and I'm Head of Agricultural Policy at the Royal Society for the Protection of Birds. I am accompanied by my colleague Jenna Hegarty, who is one of the Agriculture Policy Officers who works alongside me.

Ian Woodhurst: I'm Ian Woodhurst; I am the Senior Rural Policy Officer for the Campaign to Protect Rural England.

Q2 Chair: If I could just ask each of you a very brief question. I particularly pay tribute to the work of RSPB in my own area and I have been out to see the project. It was a particularly wet day but the recreation of the wetlands and the contribution that that's making is obviously very important. Working with the local farmers, it was a joy to see. If I could ask the RSPB first and then Mr Woodhurst afterwards, do you think we're focusing a little bit too much on the environment in this round of reforms; too much on the birds and the environment and perhaps not enough on people and earning a livelihood? Bearing in mind that if you look at the mission statement of Commissioner Ciolos on his website, it is about a secure and stable income and livelihoods for farmers.

Gareth Morgan: Thank you for that question. You're not going to be surprised by the answer. If I could deflect it slightly, if we do end up in a polar debate about the environment versus agriculture and competitiveness, I think we are lost in this round of the CAP. We really have got to move forward on a twin-track approach. One of the ways in which the RSPB would characterise is that our long-term food security and farming industry is inextricably linked with the good health of the environment, and that it is in our long-term interests and the long-term interests of the farming industry. I think when you talk to the farming unions, who I know are going to be following us, I think a lot of them share the same view that we do; that if we end up talking about it as being a debate of one or the other then we are going to have serious problems. Clearly we are going to be putting forward

a strong case today that the environment needs to remain at the heart of the CAP and if anything become stronger within it.

Ian Woodhurst: I would agree with much of what Gareth has just said. From CPRE's point of view, we recognise that the environment is inextricably linked to the social make-up of rural areas and the economies of rural areas. The basis of these is the environment and that includes the landscape, and the quality of the landscape is very important for a whole range of rural businesses. Obviously from CPRE's point of view it is essential to maintain our landscape features. We think the best way of doing that is through agri-environment measures.

Q3 Chair: Mr Woodhurst first, in terms of maintaining the biodiversity of the countryside, and all the different interest groups that you and we all represent, do you think there is a "one size fits all" policy or do you think that we need a menu of policies?

Ian Woodhurst: The United Kingdom has had a very strong track record in delivering those biodiversity benefits, the landscape benefits, in terms of maintaining both habitats and landscape features. I don't really see anything wrong with the policy approach we're taking at the moment and that is recognised throughout Europe as being a very good approach to the use of rural development money.

Gareth Morgan: I think the debate about the extent to which the CAP should remain a common European policy is going to be at the heart of the discussions we are about to go into. Deciding what needs to be retained at a European level in the policy and what is most appropriately devolved down to national and sub-national level is absolutely crucial. Clearly there is no point in Brussels dictating what sort of agri-environmental policies, for example, are appropriate in the south-west of England. Equally, if we lose sight of a common policy I think both the environment and potentially the farming industry has got a lot to lose. How we strike that balance should be one of the major talking points in the next 18 months, but, unfortunately, it is a little bit of a taboo topic still.

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Q4 Chair: You referred earlier to the farming unions coming in. You'll be aware that not all farmers are members of any particular organisation. Do you think it's necessary that financial support be paid to all farmers to achieve the environmental benefits, such as biodiversity or rural landscapes, or could this be delivered through more explicit and targeted environmental schemes?

Gareth Morgan: I think what we have established in England could form the basis of a really strong European policy. The fact that every farmer is entitled to an environmental payment should become a Europe-wide concept. Not all farmers will want to avail themselves of that but I think it's absolutely vital, and one of the principles of the entry level scheme is that all farmers should be able to access that money. In the longer term it will be helpful for those farmers who are going to operate in the market to receive a clear signal at this point that the income support they receive is in some sense time-limited.

One of the major problems at the moment with the Commission's proposals is that it doesn't have a very clear destination and so farmers are left in a limbo about this. I think it would be excellent if there was a clear signal in 2014 about those groups of farmers that were going to receive income support in the long term, for example upland farmers and marginal farmers, and those farmers who should be looking to the market but who should be able to access environmental payments if they want to make that part of their business mix.

Ian Woodhurst: Again I would agree with that. As has been said, we have a very good model in the UK for agri-environment schemes and that has been recognised in Europe and could provide a model for the rest of Europe. I think we do also need to think about the push for intensification, the push for restructuring and how we deal with that because that will have quite significant impacts on rural landscapes and the way that the countryside is managed overall. Again, I think to have the option of the biggest recipients of Single Farm Payments being able to do something to ameliorate some of those impacts using agri-environment measures would be essential.

Chair: It would be remiss of me not to acknowledge the work that you do in areas such as North Yorkshire as well, for which we are very grateful.

Q5 George Eustice: I wanted to ask how much you thought was going to be possible to achieve in this current round, because clearly people talk about CAP reform, and it's been talked about with reform as the tag for as long as I can remember. It is a very slow process and very wide range of views. You are on the perhaps more hawkish, reformist end of that in terms of putting the environment into it. How much do you think is actually practical to achieve?

Ian Woodhurst: I would hope that the Commission and the Governments of the Member States would be as ambitious as possible because, as you said, this has been going on for a very long time. We are still seeing major declines in biodiversity; we are still seeing landscape quality being degraded; we still haven't dealt with some of the problems with water quality; we have possibly got massive problems in the future

to deal with the effects of climate change. This is a golden opportunity to make a real difference to the way the countryside is managed in Europe and it should be seized as much as possible to make the changes that are necessary. I think it will be a shame if farming unions don't recognise that, because it is in their and their members' interests as well as in the taxpayers' interest who are the people who are paying these monies to the farmers for environmental outcomes. I think we will need to seize that opportunity for change.

What we are really talking about is seen as radical but I don't know how radical it really is to ask for more funding for sustainable land management given the challenges that are ahead and the amount of funding that will be needed. So yes, we are pushing a very pro-reformist agenda that some might see as extreme, but I think it is absolutely essential that we take this opportunity at this time, otherwise we will be back here again in seven years' time asking why are we still suffering biodiversity declines and facing the same problems that we have now, but probably with the added problems from climate change.

Gareth Morgan: Let's not beat about the bush. The two primary foci for the debate that we are going to have over the next 18 months are the budget and the way that the money is carved up between Member States. That is an inevitability. I think the tragedy would be if that was the total extent of the debate, and there is a great danger it could be. That's one of the reasons we have been working, for example, with the CLA and the European Landowners Organisation to try and make clear that on balance I think the environmental and farming interests need to get together in this debate to make sure we have a slightly more elevated discussion than just about who gets what out of the budget. That is why in our evidence we suggested it should be about who gets what for what. That's the interesting part of this debate that could easily get lost.

Q6 George Eustice: The CPRE talk about getting rid of Pillar 1 altogether, or certainly weighting things quite heavily into Pillar 2 on environmental schemes. Do you think that's something that is realistic in this current round?

Ian Woodhurst: Our position is as a signatory to Wildlife and Countryside Link's *Beyond the Pillars* document, in that we want to see the CAP reformed away from its two-Pillar structure into a single policy and a single funding mechanism. We want to do away with a lot of the complexity and administrative burdens that this kind of architecture that's evolved since the late '50s has constructed. We think there is a lot of value in looking at greatly expanding Pillar 2 along the lines we have set out, and run in the way that we use agri-environment schemes in the UK. CPRE does recognise that there is a need for some kind of support elements, perhaps as an income support measure, for those farming activities, and management practices which are delivering environmental outcomes or environmental public goods. That doesn't necessarily have to be the traditional ones we see at the moment; we and the Commission have identified additional needs to

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recognise and award farmers for carbon storage, for water flow management from the uplands down to the coastal areas. A lot of farmers have a role in that, but some farmers have a greater role than others. I think we need to focus the payments on those farmers who are delivering the most for environment and providing support for them if they need it in some form.

Q7 Tom Blenkinsop: In your evidence you express support for the Commission's option three and you said, "We believe that the Commission's option three for reform, which is explained in more detail in the Commission's impact assessment document, has considerable but as yet untapped potential to provide a clear, justifiable and sustainable vision for CAP reform." The scenario 2020 impacts of these trade liberalisations and the abolition of the single payment scheme would lead to land abandonment in marginal areas and intensification on productive areas. Do you agree with that and do you think that there would be any potential negative consequences for biodiversity and sustainability of resources?

Jenna Hegarty: A number of studies that have been done in recent years looking at the impacts of the loss of the Single Farm Payment from both a farm-viability point of view and also the impact on the way land is used in the UK and wider in Europe. The effects are quite nuanced. Whilst more productive areas are likely to intensify and less marginal areas may well intensify to the point of being taken out of production, although not necessarily to the point of land abandonment as is being seen in the wider EU at the moment, we would also probably see a further simplification of agricultural practices; so larger areas of single crops and a further shift away from, say, cattle to sheep in upland areas. Those possibilities have been quite well mapped out.

In terms of the impacts of SPS loss on farmer incomes, the UK does not come out particularly well in the EU but what is very interesting in all these studies is that none of them argues for the retention of direct payments as a solution to these issues. What they argue for are targeted measures. If income support is determined to be a key objective, then who should that go towards? At the moment it is targeted at everybody, but is that really a meaningful way of targeting public money? In terms of environmental effects or impacts, again, targeted measures, whether through broad and shallow agri-environment or more targeted HLS-type approaches, could be considered. Whilst the removal of this system would inevitably have impacts, there are solutions to those impacts that can work in favour of the environment and farming incomes.

Gareth Morgan: Perhaps I should make absolutely clear we are not talking about a big bang type approach as they used in New Zealand. It is essential that any change is phased in. I think some of you have been to visit our own arable farm, Hope Farm, in Cambridgeshire. One of the reasons we are running that is to look at a real farm example of how this works. Most of our profit at that farm consists at the moment of the single payment. We are acutely aware that just taking away the rug of the single payments from farms at the moment would have a devastating

impact on farm businesses. It wouldn't mean that farming stops; this is why we are stressing the need for a clear route map that might take 10 or 20 years to reorder the way that public support is given. Unless farmers are given a clear signal about the destination, it is extremely difficult for them to plan for that.

Ian Woodhurst: I don't really have anything to add. As I said before, we recognise that in some cases, particularly, we will need to increase support payments or provide some level of support to the farmers producing particular environmental outcomes. Other farmers may not need the same level of support that some other sectors might do, or some farms in some areas might do. To avoid being back here in seven years' time, I still say that we need to have a clear path to a different way of rewarding farmers to make sure that we get the environmental outcomes that we need.

Q8 Neil Parish: Do you consider food production to be a "public good"? How do you want to balance environment and food security; do you think they compete with one another?

Gareth Morgan: Sadly we didn't bring our economist, who I am sure would have enjoyed a debate with you on that. The way I look at this is that food security is a legitimate public policy objective. It would be crazy if the CAP didn't secure food security for its citizens. The real issue is how it sets about doing that. The evidence seems quite clear that giving farmers a decoupled payment is not a particularly efficient way of achieving food security. Clearly we need to proof the CAP against its impact on food security, otherwise we would be running a huge risk. The more interesting question there is how we support farmers in a way that ensures food security whilst freeing up as much money as possible so that they can be rewarded for the environmental services they can provide. I didn't quite answer your question straight there, but that is how I see it.

Ian Woodhurst: It is always very difficult to know what people mean by food security. Are we talking self-sufficiency?

Q9 Neil Parish: A security of food supply then, if you like.

Ian Woodhurst: Are we talking about resilience then or the capacity to withstand food shocks or are we looking at capability to produce? I think we have to be clear as to what we mean by food security. We can't produce food unless we have some form of environmental security. We need to make sure that the soil resources are there and haven't been degraded; we have water supply issues to think about, water quality and so on. I always wonder, in terms of England's role in meeting the food security challenge, if we are looking at such a massive increase in production—the Commission's Impact Assessment talks about a 70% increase to meet the 9.2 billion population increase—given the size of the United Kingdom and the land use pressures on it that are so immense from all different areas whether developmental, military training grounds, food production and the need to have a sustainable environment, how big a role can we expect to play in

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meeting that increase? First of all we need to be sure and be clear about what we mean by food security and what role we see for the UK in either export terms or in meeting our own needs. The basis of all food production capability is going to be the quality of the environment.

Q10 Neil Parish: Can I come back on this because there is no doubt that with either climate patterns or climate change, whichever it is, northern Europe/Britain will have to do its fair share of food production in the future. How do you see that? My idea would be that you'd let the productive land almost be more productive, and that land that is in environmental schemes get more out of it for the environment. I just feel that in some ways, for argument's sake, if you're going to reduce production on the very productive land in East Anglia, where are you going to make up for that reduction? I think that your environmental schemes come in on the less favoured areas and on the difficult-to-farm areas. You will need livestock and all those things. How do you view it going forward, because we do have to have food production, don't we?

Gareth Morgan: The RSPB is intensely relaxed about the notion of a food and environmental security common policy which is one of the reasons we decided to produce a joint statement with the Country Land and Business Association. We don't see those two aims as opposed. I agree with you that there is no point in looking at every piece of land as equal in terms of what it can do in terms of food production and what it can deliver for the environment.

Having said that, our experience of working with farmers, for example in the Fens, is that there is plenty of scope in intensive areas for environmental services to be produced. The Fens are full of rare and threatened bird species; you can find farms with plenty of skylarks and hares on them. There is no reason you can't do that at the same time as farming intensively. Equally, we want to see farming continue on the marginal areas. It is essential, not just in the UK but countries like Romania and Bulgaria, where there is low-intensity farming systems that would otherwise be abandoned if they weren't supported. We need to see farming continuing in those areas to produce food alongside the environment goods. But I accept your premise: we have got to be intelligent about the way in which we use different bits of land and we shouldn't expect them all to deliver exactly the same.

Q11 Mrs Glendon: Related to the effectiveness and sustainability, what are the main risks involved with focusing on producing a more competitive European agricultural sector?

Jenna Hegarty: It depends what you mean by competitiveness. I think some might interpret that as producing more, or is it just making a better return from farming? There are plenty of ways that improved competitiveness in farming can either be environmentally neutral or environmentally positive. There are a number of ways you can add value to commodities by either communicating the environmental credentials to consumers and getting a

higher price for it or doing more and doing the same. I think that the UK's strengths are producing high-quality agricultural commodities and it should focus on this more rather than on a race to the bottom in terms of cheap and trying to out compete. Whereas some might view factoring in the environment at all stages of production as a risk to UK competitiveness in terms of either increasing costs or making things uncompetitive compared with others outside the EU, I think this should be seen as an opportunity in terms of added value, certainly for the UK farming sector.

Ian Woodhurst: Again I would agree with much of what Jenna has said. We have to ask are we trying to continue to compete in terms of low food prices without internalising environmental costs. Are we going to compete to maintain those prices so that we can continue to have massive amounts of wasted food, so that we can continue to have serious health problems caused by obesity, and so on? We need to think about on what grounds we want to compete, and I think our strengths will lie in high-quality food and I think the UK farming industry should play to that strength.

Q12 Mrs Glendon: Going on from that, are there any suggestions for what practical steps could be taken so that farmers could be both competitive and maintain sustainability as well?

Gareth Morgan: There is a phrase I use that is maybe a little bit glib, which is "environmental modernisation of farming". It seems pretty clear to me that farming is going to look different in 20 years' time; for example, if it is going to meet its commitments on greenhouse gas reduction and if we are going to meet the biodiversity targets that we recently agreed at Nagoya and our obligations under the Water Framework Directive. The role of investment in competitiveness, to my mind, is to enable farms to make that shift between the way that they are operating now and the sort of infrastructure they are going to need to invest in to be able to perform at a different environmental level. Now that could just be left to the market but it seems sensible to me to use the resources that we have under the CAP to enable farmers to make that shift at the moment. To some extent, that would seem to me to square the circle.

Q13 Chair: Are you not worried about us not being as self-sufficient in production as we were? We are importing a whole lot more that we were five, 10, 20 years ago.

Gareth Morgan: "As we were when?" is the first question about that. Self-sufficiency has clearly fluctuated enormously over the centuries and I think one of the reasons we're not self-sufficient now is that we like eating avocados and tomatoes in the winter and the rest of it. We are never going to be self-sufficient in those commodities at that time of year.

Neil Parish: Maybe with global warming!

Gareth Morgan: Maybe with global warming we might do more. You can grow bananas on Everest if you try hard enough.

Chair: As long as we can still have our Brussels sprouts for Christmas.

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Gareth Morgan: Part of our food security as a nation is about the trading networks in which we are engaged. If I remember rightly, last year a diet was tried out in Fife, and people there ate what was available within Fife—rather than me to be honest.

Chair: I wonder if we should move on here. You might have a more luscious diet in Witney.

Q14 George Eustice: Just on Fife, I wanted to broaden that idea. In terms of the idea of capitalising on our higher animal welfare standards and higher environmental standards, we are signed up to the WTO and we are in a global agricultural market. How feasible do you think it is to achieve those standards? The farmers will say it is all well and good, but there is a symmetry here in that you have introduced legislation that forces us to do these things and when we ask how we can afford to do that, you say we should market our production as being of a higher standard. But they are not making that choice; if they were to choose to have higher standards and market their production on those higher standards, that is one thing, but there is a symmetry in that you are forcing them to do it. What do you say to that? How feasible do you think it is in an international market?

Ian Woodhurst: From our experience at the CPRE with the work that we have been doing on local food and mapping local food webs, I wouldn't agree that farmers are being pushed into producing higher quality; I think that is what a lot of farmers want to do. The farmers who have done that have seen significant benefits in terms of income through providing high quality foods. It has the additional benefit of creating public interest in food, but I am not suggesting local foods at farmers' markets is going to be the answer to all consumer needs because quality obviously, even at large scale through supermarkets, is very important. I think whenever we look at competitiveness we see this push towards restructuring and consolidation, and we see that in places such as Thanet Earth for example, which offers a very extreme way of producing horticultural products. We are seeing it come through in terms of the Nocton mega-dairy. All of that suggests that quantity is the way to go, but consumers have been giving quite strong messages previously on other food items—chicken or pig meat for example—that they want to see much higher quality and higher welfare standards. I think farmers have benefited from producing food in that way, and I don't see why they shouldn't want to continue down that route rather than the lowest common denominator route.

Q15 George Eustice: Just to push this point, with the WTO, do you think their remit should be changed so that they could actually look at issues like animal welfare in international trade negotiations? At the moment, as I understand it, food safety is the only grounds on which free trade can be affected. Do you think it would be a positive step if issues like environmental and animal welfare standards were recognised?

Ian Woodhurst: I think that would be a step in the right direction, definitely in terms of environmental

quality and environmental sustainability. I don't see any reason why, given the global challenges—and biodiversity is a global challenge, climate change is a global challenge—that the WTO shouldn't recognise that as addressing these challenges legitimately adds value to farmers' produce.

Jenna Hegarty: I think the criticism that we, as a member of the EU, get is that this is just protectionism dressed up under another name. I think if we were going to go down that route, which I agree I think would be positive, there would have to be some global project to support countries outside the EU to improve their standards to bring them up to our level because we are all in it together in terms of biodiversity.

Q16 Neil Parish: Carrying on this theme about the fact that we need to improve farmers' returns from the food chain, and we also want to encourage organic, free range, eating the landscape, as we talk about, and being cynical, how do we get the public to pay for it? They sign up to it all but then they don't necessarily buy it. Have you any magic solutions for that one?

Gareth Morgan: I have every sympathy for farmers and their position in the food chain on this. The supermarkets talk the talk on this but everything we hear about it, particularly the mid-range and the lower-range supermarkets, is that they go back to the farmers and expect the farmers to bear the increased cost that that entails. I think there are some encouraging signs of change. I am not sure if it is Hovis or Warburtons that is currently making a big play about using British wheat for their products, but we need to move beyond that to making clear that the customer is potentially going to have to pay a bit more for that. I think we also need to move beyond just "buy British". I think it would be great if Hovis said, "We're supporting British farmers who are in the entry level scheme and doing great things for the British environment," and putting that message onto the packs so that people know that they are buying into that and that they are going to have to pay a bit extra for that. But I wouldn't underestimate the supermarkets and the way that they are going to play this.

Ian Woodhurst: Precisely. If we look at the milk supply chain, there is obviously something not working in terms of how it and our supermarkets function, which is why the National Farmers Union and the Women's Institute recently launched a campaign to get greater transparency in the supply chain for milk. Absolutely, we need to make sure we're clear about whether the consumers are being given a choice. Are consumers getting what the supermarkets give them or is it, as the supermarkets claim, "We are just supplying what the customer wants"? In terms of the CAP, it's hard to know the proportion of any effect that can be achieved through what it can dictate and what can be achieved by adjustments to the supply chain in terms of the power of the supermarkets and their purchasing power.

Q17 Neil Parish: The point I was going to make is that we are putting in this new food adjudicator—food ombudsman; it might be useful if both your organisations could help in that because one of the

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problems I see is that some of the farmers and farming organisations aren't necessarily going to want to put their heads above the parapet to get shot by the power of the supermarket. I know you do work very well with farmers; it might be a way of joining forces.

Chair: Nodding of the heads in agreement. That is very good, thank you.

Q18 Thomas Docherty: I probably should declare that probably until about 10 minutes ago I was a member of the RSPB.

Chair: Have you not paid your sub?

Thomas Docherty: After that crack, I might ask for my money back. Can I ask you both: obviously the Commission wants to green Pillar 1 of the CAP, but are you convinced that the Commission's proposals will deliver genuine environmental benefits?

Jenna Hegarty: Obviously, the Commission have set out a number of options and it doesn't take a genius to figure out that option two seems to be their favourite, which is a bit of a middle ground approach. I think there are some really promising steps in the right direction in terms of what they have proposed particularly the new compulsory greening payment under Pillar 1, which explicitly links direct payments to some tangible environmental outcomes. Obviously, it all boils down to the detail. All we have got so far is some suggestions including crop rotation and ecological set-aside, so how beneficial this will be will depend on what they look like on the ground. That is where organisations like us excel in terms of populating detail.

We were quite disappointed that for all the talk of greening Pillar 1 there really was only one new proposal under it that actually linked payments to environmental outcomes. The rest of the payments are either basic income support or support measures for small farmers or marginal areas. I think what is necessary in the next round, because of the increasing public scrutiny on where the money is being spent, is that this money needs to have environmental conditionality attached to everything. That in turn will act as a means of income support and stabilisation for farmers. It's a way of demonstrating that public money is being used for tangible societal benefit. I think the Commission's proposals could go a lot further along the lines we highlighted and which option three has potential for but hasn't as yet explored.

Ian Woodhurst: We've tried to green Pillar 1 through cross compliance but I don't think it has really delivered that much and neither does CPRE in terms of achieving good agricultural and environmental condition; there is no guidance really from the European Commission on what cross compliance should be achieving beyond the statutory management requirements. I'm also a bit confused why, when the Commission is seeking to reduce the amount of complexity within the next CAP reform and the farmers' unions are also very concerned about adding to that complexity, we are going to try and do something that seems to be very complex and could add even more. Surely the most simple approach would be to go for the more radical option of not having a two-Pillar structure and making sure that all

the money therefore goes into providing environmental public goods and ecosystems services provision. The danger is that with greening Pillar 1 we would probably end up achieving not much more than we have right now.

Q19 Thomas Docherty: I think it would be fair to say that you would suggest that they are not consistent with simplifying the way that the CAP works, but do you think they would deliver real reforms by greening the Pillar 1?

Ian Woodhurst: As Jenna has said, there would have to be a much stronger push for real environmental public goods, much stronger guidance and perhaps there would have to be more targets focusing on proper environmental outcomes. I think there is a danger that we could have some sort of green wash of Pillar 1. That won't serve the purposes of what we need to do in the next seven years in Europe in environmental terms.

Gareth Morgan: I really wrestle with this simplification issue. As you are probably aware, the RSPB is a significant farmer in its own right. We have several tens of thousands of hectares of land on which we claim. We have had a cross-compliance check on our holding, and I wouldn't say it was a nightmare—it is perfectly legitimate and it is right that it is done—but it took dozens of inspectors many weeks in order to check our estate was in order and we had to jump through endless hoops to do it. We have seen it from both sides.

Having said that, it must be right that if we're spending £40 billion a year of taxpayers' money in Europe, we are clear about what the taxpayer is getting in exchange for that transaction. We need to find ways of satisfying the taxpayer that they can be sure that it is a good investment without strangling the farmers in red tape and we're obviously not there at the moment.

Q20 Thomas Docherty: There's obviously a concern that by greening Pillar 1 it will simply divert resources away from Pillar 2. Do you think that is a fair assessment of the danger ahead?

Jenna Hegarty: I think that is certainly a risk. Whilst there's a clear need to improve and inject, where absent, the environmental delivery of all CAP payments, there will always be a clear need for targeted Pillar 2-type spend—whether it is called that or something else—under agri-environment schemes. There are certain species and habitats that will never do well under a broad-brush approach that may deliver resource protection objectives or more simple environmental outcomes. But going back to the 2020 biodiversity target, agri-environment schemes will be critical in meeting that and managing our protected site network.

One thing that is interesting to point to is the Land Use Policy Group did a study on the scale of needs in terms of the financing necessary to achieve the environmental objectives already set out for the UK, and they came up with a figure of between £1 billion and £3 billion, which is significantly more than the current Pillar 2 budget. It is actually more in line with the direct payment budget. I think there is a robust

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evidence base for the need to spend more on targeted environmental measures, whereas, as far as I know, there is not the same robust evidence base for continuation of direct payments in their current form.

Q21 Chair: On the issue of simplification and complexity of the current arrangements, how much is due to the CAP itself and how much down to gold-plating and implementation by Defra?

Gareth Morgan: As you are probably aware, the RSPB operates as part of a European-wide partnership, Birdlife International. We hear quite a lot about gold-plating, and I think in fairness the UK is not particularly at one end of the spectrum or the other on this; we are about mid-range. I don't think Defra routinely looks at legislation and decides to embellish it. I think it is fair to say a lot of this is actually embedded in the CAP itself. You are also aware that a review of farm regulation is going on at the moment, and we're very pleased to see that the emphasis on that is not about reducing the environmental benefits that come from farm regulation; it is about seeing if we can get those benefits in ways that impose less of a burden on farmers, and I think that is the right emphasis for that investigation.

Q22 Tom Blenkinsop: Are you campaigning for retention of the CAP budget at current levels?

Jenna Hegarty: Going back to my previous point about the Land Use Policy Group study and the scale of needs for environmental measures, the RSPB, as a science-based organisation, will always argue that the CAP needs tangible objectives, and we would argue for a public money for public goods principle to underpin it all, and then a budget that is commensurate with that objective. I think a significant amount of work needs to be done on building on top of the LUPG study to determine what that is in terms of the environmental objectives we need to achieve to underpin long-term viability of the farming sector. I would wager that to meet those environmental outcomes the CAP budget would not be less than what it currently is, although I appreciate there is considerable pressure for all Member States to reduce spend.

Q23 Tom Blenkinsop: Just one point: you were quoting the Land Use Policy Group (LUPG) figures. In its communications the Commission made no mention of the level of the budget, and the Commissioner said that they trusted that the Parliament and Council would agree a budget commensurate "with our ambitions". In those ambitions it fails to mention agri-environment schemes at all. Does that concern you?

Jenna Hegarty: Yes. I think the lack of specific reference to agri-environment in the communication and then the impact assessment is worrying, but through all our engagement with various officials, both at Commission level and here, we hear, "Agri-environment is safe; of course it will be in the next CAP." I think we would feel much safer if we saw that in writing. Agri-environment is a core part of the CAP; not just Pillar 2 but in terms of the concept of rewarding farmers for sustainable land management

and recognising what it is that they deliver on their land. But yes, the budget issue is sadly a game of politics, and we would like to see the environmental objectives retained as a key priority within the process of determining the level of the CAP budget full stop. Then what level of spending is allocated to targeted agri-environment spend must form part of the next CAP.

Ian Woodhurst: Just from CPRE's point of view, yes, we do think that we need at least what is currently in the CAP. The problem is that there has never been a comprehensive evaluation across Europe of what is needed when we are talking about European funding for environmental policies. We know that, if we are looking at future challenges, the Lawton Report—looking at landscape-scale conservation and habitat protection measures for example—suggests a figure of around £600 million to £1.1 billion would be needed to establish that network in the first place, on top of costs for the Water Framework Directive to improve water quality, on top of the existing biodiversity funding costs, and on top of the need to restore landscape character, which is not just about maintaining landscape features but about our need to restore things like traditional farm buildings. I really do think that the money we are looking at in European terms is at least going to be equal to the CAP and will probably need to be a lot more because this is about land management. At the end of the day this money is needed to manage land and to protect the countryside and to maintain and enhance it, which is what the citizens of Europe and the public have asked farmers to do. So my short answer to that is: yes, we probably will.

Q24 Tom Blenkinsop: So in terms of the whole problem, how do you think the budget should be allocated between Pillar 1 and Pillar 2, and between the income support and the environmental measures elements of Pillar 1?

Gareth Morgan: As you probably picked up from the tone of our answers to date, we would like to see a much clearer focus of the resources on the second Pillar. In relation to this overall budget question, I think Mr Cioloş has got this. He knows that unless he can make a really convincing case that the CAP does things that European citizens value, then saying that we need £40 billion, £50 billion, £60 billion per year to the budget Ministers isn't going to work. My worry is that not all the farming unions have woken up to this yet. Unless collectively we can make a convincing case in the next six months for these resources on the grounds that they do good things for the environment whilst providing food security and underpinning sustainable farm businesses, that budget is going to be severely reduced. When push comes to shove from our side of things, we are going to want the focus to be on environmental payments if we are in the situation of a reduced budget. I would rather be in a position alongside the farming unions of making a case for CAP resources at the current level, but unless some of them end this slight air of denial about this current financial situation, that is going to be problematic for us.

Q25 Chair: In terms of encouraging and incentivising farmers to do more for the environment, do you think mandatory payments are the best way forward? Mandatory payments for the environment. Is that the best way to incentivise?

Ian Woodhurst: It depends what you mean by mandatory. Do you mean it would be for a percentage of land to be managed under environmental terms?

Chair: They would make it much more linked to the environment. It's option two of the Commission; one of the things they are proposing is a direct payment.

Ian Woodhurst: I think the problem is that we are not quite sure exactly what a direct payment is for. There needs to be an adequate amount of money to manage the land and to produce the environmental outcomes we need. I am not really sure if I would go down the line of forcing farmers to take a mandatory payment..

Q26 Chair: To a certain extent Mr Morgan has already answered it because he said the Commission prefers option two. Can I just ask, if the budget was not agreed this year, and the Commission was to proceed by twelfths, would that impact on yourselves?

Ian Woodhurst: It would definitely impact on the ability to deliver the environmental outcomes we need. Inevitably any delay would have a knock-on effect, as we have seen in the past when budgetary negotiations have taken longer. With the current Rural Development Programme for England, it took a lot longer to get some of the other measures in place and to get them moving; I think that did have a knock-on effect on farmers and consequently on the environment.

Gareth Morgan: Not wishing to be flippant but for the RSPB, from a very self-interested point of view, it wouldn't make much difference because our single payment usually arrives about three years late.

Chair: We won't go there on this occasion.

Q27 Chair: Talking in terms of active farmers and the discussion there, do you think, particularly the RSPB—being a major recipient—limiting payment to active farmers would have an impact on your organisation and environmental benefits to other non-Governmental organisations?

Gareth Morgan: You have to be quite careful about trying to distinguish our self-interest in this as an organisation and the broader interest in this. I think this is an entirely distracting debate and I am not sure who wants to have it or why. The pejorative term in Scotland at the moment is "Slipper Farmers", which no one has satisfactorily defined, and we could spend at least a year having arcane discussions about who is a real farmer and who isn't.

Q28 Chair: Do you have any tenant farmers?

Gareth Morgan: Yes, in fact we have assigned a significant amount of our single payment directly to our tenants because they are the people doing the work on the farm. I understand the debate to the extent that the payment is not intended to go to investment companies that own land. In practice as soon as you have farm payments the money slips up the chain and ends up with landlords however you do it. It does less so for agri-environment payments. It certainly does so

aggressively for direct payments. It's capitalising into land and into rents and it is very hard to get around that problem.

I don't think we need a long debate about whether the RSPB is a proper farmer or not: we have 15,000 animals; we have wheat fields like everyone else. You could say that we don't need the money in income terms and others do. For example, Butterfly Conservation had a visit from the European auditors to work out whether the sheep fields they had were for sheep or for butterflies. I don't really think this matters. The whole point is this is multi-functional agriculture, trying to maximise the benefits for ecosystem services whilst undertaking agricultural activity. For me that's the end of the debate, and I hope that we are not going to get ensnared in what I would regard as an entirely distracting discussion, but there are those out there who would love to have 12 months discussing it.

Q29 Chair: I just think for certain tenants it is an appropriate discussion to have. Do you have a view Mr Woodhurst?

Ian Woodhurst: I agree for certain tenants it is probably a problem. I don't think it's insurmountable and I think it shouldn't be beyond the wit of either the UK Government or the European Commission to find a way round it. Yes, it could be distracting because what we want to see is the outcomes really, and who provides those outcomes should obviously be the people who receive the payment. If that's not working, and other people are receiving payments who are not doing the management or undertaking the work or who are not trying to up their environmental standards then that needs to be dealt with.

Q30 Neil Parish: I think you are right, wherever the payment goes it will be recognised either in the rent or whatever because the landlord is not going to let the land for less than what the payment is and it all adds to it. My question really is on less favoured areas on hill farming. Are you happy that the less favoured areas should be defined by a bio-physical indicator? Also the Tenant Farmers Association and the NFU would quite like headage payments in some places because they feel there is destocking, especially of suckler cows. I know from what has been quoted here that the RSPB might not be in favour of that. What is your position on this?

Gareth Morgan: The RSPB remains vehemently opposed to recoupling payments. I had the good fortune to have lunch with the Agricultural Attaché from the French Embassy today, who was enthusiastically explaining why recoupling payments would be a good idea, which I have to say, although I like him, makes me very worried about the proposal. I think it is a slippery slope. I can understand why the Tenant Farmers Association are attracted to it, but it's a short cut and it would take us back to the days of the 1980s and 1990s of milk lakes, grain mountains, wine lakes and the rest of it. A little bit of recoupling sounds to me like being a little bit pregnant. You either have a system that is about supporting farmers for what they produce or you talk about supporting them for the benefits they produce for wider society.

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It's quite hard to envisage a system where you have a bit of one and a bit of the other.

Q31 Neil Parish: If you restricted it in particular areas, then I think your beef mountains and milk lakes are probably not going to really affect the global picture. The Republic of Ireland have a special payment linked loosely to suckler cows and to do with the type of grass and grazing because there is a problem, especially in the hill areas, of having enough suckler cows in particular because they are replaced by sheep and they don't do the same job. So would you be open to considering perhaps thinking slightly outside the box?

Jenna Hegarty: Is that the Burren project you're thinking of?

Neil Parish: Yes.

Jenna Hegarty: I think that's a really good example. I think it was previously a LIFE project but it has now been turned into a national envelope type approach. I think what's critical with these issues is that it is about supporting the systems of farming that produce food and these environmental benefits. I think coupled payments are an incredibly blunt tool that could risk ticking all of those boxes in terms of cows being on the hills or coming off the hills and becoming meat, but might miss everything else and might even end up with environmental dis-benefits. I think with some not even particularly in-depth thinking there is a way of capturing all these benefits and recoupling is not the answer.

Q32 Dan Rogerson: The communication is a little bit sketchy on the details in Pillar 2 and about how that development can be used. I know that is an issue that both organisations have raised concerns about. Do you agree that measures to help farmers to work together on green infrastructure are needed, and what shape those might take?

Jenna Hegarty: The issue is how we would interpret green infrastructure as a kind of landscape-scale approach to a lot of the environmental challenges that are facing us. You might have heard of the RSPB's Futurescapes Project, which is effectively looking outside protected area networks and ways that land managers can work together; having a big-picture vision for wider countryside using, particularly, agri-environment schemes. I think taking a landscape-scale approach through targeted environmental measures is critical, and again makes me wonder why agri-environment was not pinpointed as one of the key tools for green infrastructure delivery.

Q33 Dan Rogerson: Coming back to what we were saying about targeting active farmers for example, what you are suggesting would presumably potentially go beyond that because it would be looking at other people in the landscape as well, so bringing those together.

Jenna Hegarty: Farmers and land managers, yes.

Q34 Dan Rogerson: When the Commission talks about preferential aid intensity rates for improved targeting, what is your understanding of that and what effects do you think that might have?

Ian Woodhurst: I think your understanding is probably as much as my understanding. It's not clear what they are intending to get out of that really and how it might operate. I think that will be up for negotiation. That's my way of saying I am afraid I don't really have an answer to that question because there is not enough information.

Dan Rogerson: It's the same questions you're asking effectively as organisations?

Ian Woodhurst: Exactly. What do they want to achieve?

Q35 Dan Rogerson: In the Uplands inquiry that the Committee's been doing we identified the problem that the income-forgone payments in agri-environment schemes aren't really sufficient to make farming in these areas viable; the sorts of issues that Mr Parish was talking about. Also, they don't even incentivise better delivery of agri-environment schemes. What scope do you think there is in CAP reform to effect that issue?

Ian Woodhurst: I think the Commission for Rural Communities Report has already identified the fact that there's additional and currently undervalued and unrewarded activities that farmers are either doing or could do in terms of carbon management and water flow management that would provide ideal opportunities for the CAP to address. It could then also look at the fact that we would maintain our peatlands, which are very high in biodiversity and landscape value, as well as storing carbon. I think we need to maintain the multi-functional land use approach in particular areas, and the uplands is definitely one of them.

Q36 Dan Rogerson: Do you think the view of some of the other Members States would be interested in that as well, or is that something that we are talking about here that isn't being talked about in other places yet?

Ian Woodhurst: I think it doesn't necessarily have to be upland areas but in parts of Spain and Romania there are probably the same sorts of issues, where they are currently looking at marginally economic areas that will need support to maintain their environmental benefits. I think that is definitely a role for the CAP.

Gareth Morgan: We are acutely aware that the income forgone and basis for agri-environment payments does disadvantage more marginal farming systems because there is often not a lot of income to forgo unfortunately. This relates to Mr Parish's question about LFAs; we have tried to introduce this concept of high nature value farming into the debate. There are many farmers who are producing environmental services at, at least the level that they are producing food services for the market. Trying to identify those farming systems and ensure that we are targeting the support that is on offer to those farmers, so that they are maintained to continue their farming in order that they provide those biodiversity and wider environmental benefits, could be a way in which we could get around this problem. It would potentially also enable us to have a simpler support system for those farmers, because many of them find the paperwork that surrounds agri-environment quite

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challenging. For example, in Romania, there are effectively many peasant farmers who do not read and write, so going to them with a high-level scheme handbook is out of the question. We have got to find imaginative new ways of supporting those farmers who are doing so much for the environment.

Q37 Dan Rogerson: Certainly during my time as an MP the feedback on the high level scheme is that it has been improved in this country. It was not very successful in terms of getting take-up earlier on, but it has got better now. Should the CAP include measures to increase consistency in the quality of the implementation of agri-environment schemes across the Member States, so that we get a similar approach and we can have confidence that we are achieving results across Member States?

Ian Woodhurst: That will come down to the negotiations on the regulations. It is a tricky balance, is it not? You want to make sure that member states are applying things consistently, but then you also want to make sure that you are able to target and pay for the things you need in each Member State and in each area of each Member State. It is a difficult balance, but I do not think there would be any harm in regulations perhaps being a bit more stringent about the sort of things that the European Commission expects Member States to produce, which may get round some of the issues in terms of gold-plating of regulations sometimes.

Gareth Morgan: Agri-environment is actually a great British success story. It is something that we should be out there selling in Europe. We have got a lot to offer. That is why we were so delighted that the high level scheme was largely spared the spending cuts axe, because it really benefits things. It does good things for things like skylarks, curlew buntings and marsh fritillary butterflies and landscape features too, and we have got evidence that it really works. We have developed this and I think we have got a good case to go out to Europe. The European Auditors are about to produce a report on agri-environment. I am a bit fearful because there are some bad examples of agri-environment out in Europe, which include states

giving out money without checking that the farmers actually do what they are meant to be doing.

Q38 Tom Blenkinsop: It is slightly off what we have been talking about as it is about the timing of this round of CAP reform. Obviously, the UK has been put in a position where it might have to make policy trade-offs with other EU Member States in EU CAP reform. What impact do you think that these possible trade-offs between CAP and other elements, such as the rebate, might have on CAP reform?

Gareth Morgan: We saw a suggestion of a leaked conversation about this between President Sarkozy and David Cameron. There could be a deal about the UK rebate in exchange for leaving the CAP alone. I suppose that goes back to my initial point: it would be a shame if this CAP reform becomes reduced to an issue of political trade-offs about the budget. There is a real golden opportunity in this reform to do some great things not just related to the farmed environment but to enable us to achieve the targets on biodiversity recovery that we have set ourselves in Nagoya. The farmed environment will be crucial to that, and it will be incredibly disappointing if we throw that opportunity away just on the basis that there was going to be a trade-off between the budget and the CAP.

Ian Woodhurst: I think there are issues in terms of our funding allocation because of historic spends on rural development money, for example, which has resulted in some of the horse-trading that has gone on in the past with regards to the budget. I think that there wouldn't be any harm in looking at need, at least in land area terms of what needs to be done environmentally if we are going to move to a much more environmentally focused policy. I do think that we need to avoid horse-trading at the final stages. We need transparency in the negotiations over the budget to ensure that everyone knows and is clear about what is trying to be achieved by the reform.

Chair: Thank you very much indeed. We are most grateful to you, thank you very much for being here to answer our questions and sharing your thoughts with us. I am sure we will be in touch again.

Examination of Witnesses

Witnesses: **George Dunn**, Chief Executive Officer, and **Greg Bliss**, National Chairman, Tenant Farmers Association (TFA), gave evidence.

Q39 Chair: Thank you very much indeed for joining us. You are most welcome. I understand that Mr Dunn will be joining us. If you will bear with us, there may be a vote, in which case we will have a very short interruption. If you are happy that we proceed, may I ask you to introduce yourself and, in his absence, Mr Dunn, who I am sure will join us just as soon as he can.

Greg Bliss: I am Greg Bliss. I am the National Chairman of the Tenant Farmers Association. We are the body in England and Wales that works solely for tenant farms and those who work within the tenanted system of agriculture. George Dunn is my Chief

Executive. He is the real expert on tenancy law. I am the farmer and layman, really.

Q40 Chair: You are very welcome. Just at the outset, both in the present CAP and looking to the Commission Communication for Future Reform do you think that we have the balance right? Do you there is too much focus on the environment and the birds, and perhaps not enough on farmers, in the measures that the Commission is proposing?

Greg Bliss: As the Tenant Farmers Association, we certainly worry about the greening of the CAP. I think we need to look very hard at what we are trying to produce. If we are going to produce enough food and

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achieve the food security to feed us, we do have to be careful that we get the balance right between food production and environmental protection, or this basket of public goods that we talk about, which includes all of these things. I think there is a risk that we might lose sight of food production, particularly in the way it balances amongst the other EU members, in terms of the way they work to their own budgets in terms of modulation and that sort of thing. We could find ourselves disadvantaged in this country if we do not have the right balances.

Q41 Chair: I know that you have previously said that the landlord tenant sector is unique to England and Wales. Do you believe that is an issue going forward in the current proposals for current CAP reform? Do you think the concept of landlord tenant, as we understand it here, is one understood by the decision makers in Brussels?

Greg Bliss: I do not think it is particularly well understood. We have had some communication into Brussels and we have a specific case. However, in this country, the landlord tenant system works in such a way that there is quite a large risk of the landlord taking quite a lot of benefit from the payment in this country, through whatever measures he puts in place in terms of the tenancy that we work under in this country. In Northern Ireland and Scotland the rules are different, but in England and Wales there are several situations where benefit from the CAP can bypass the active farmer and go straight to the landlord through clauses written in the tenancies. We are very clear that we want the active farmer, that is the tenant, the man who is taking the risk, to take the payment that comes out from the CAP.

Q42 Chair: Excellent. May I just pause to welcome Mr Dunn. You are not late; we are early. Thank you for allowing us to continue, George. You are most welcome.

George Dunn: No problem.

Q43 George Eustice: One of the things that I know the Commission is looking at in this current reform is the tightening up on the definition of an active farmer. I wondered if you could say what you think an appropriate definition of an active farmer would be.

George Dunn: I will start with the premise that we are looking at people who are involved in an agricultural activity or keeping land in good agricultural or environmental condition. We would then say that in order to identify the person who should be the recipient of the CAP support, they have to meet three criteria above that. Firstly, that they are in occupation of the land concerned; so they are not a contractor and they are not providing a service to the owner. Secondly, that they are in day-to-day management control, and that means taking the decisions about what happens on the land over the year. Again, this means that it is not a contractor who is taking the decisions from the owner. Thirdly, and most importantly, they are taking the entrepreneurial or business risk of operating that land; so they are not just taking a fixed fee or a rent, they are actually taking a risk in operating that land.

What we would say is that we are not expecting there to be a great amount of information provided at the time the application is made to prove that you are this individual. It should be self-assessed criteria by which people are then aware that they will be open to inspection upon at a later date, should they be selected for an inspection. It would create the circumstances within which, agents, for example, who are advising people on their applications, would be very conscious of their own PI cover if they were advising people to do things that make them fall outside that criteria of an active farmer. Therefore, it is not something that we would see as a great regulatory burden up front.

Q44 George Eustice: Do you think that it should exclude people that do not actually earn their living from the land, or even directly engage with agricultural production? I know earlier when we spoke to the RSPB, they were saying that there had been some discussion of whether their field was for butterflies or sheep, which affected the definition.

George Dunn: The CAP was developed as a mechanism to support the farming community and to provide food security and other environmental benefits. We would absolutely say that it is right that the applicant should be the person who is carrying out the agricultural activity of keeping land in good agricultural and environmental condition. That rules out things like golf courses and football pitches at one end, but also people who are simply involved in biodiversity management. It has got to have some aspect of agricultural activity to it.

Q45 George Eustice: Yes. Do you think there would be a case for restricting farmers only to one or two of the Pillars, so that people who are not active farmers might be eligible for benefits in one of the others? Pillar 2 or Pillar 1 could be reserved just for farmers.

George Dunn: I think you would have some difficulty in making that distinction between the two Pillars, because obviously a lot of what you do in Pillar 2 relies upon there being a fundamentally basic agricultural activity going on in that holding, to which you are adding particular management criteria to provide biodiversity and keep land in good environmental condition. We can absolutely see that there may be individuals outside agriculture per se who need public support for other types of activity, but we do not think CAP is the place within which they should necessarily sit.

Q46 Neil Parish: I think you have partly answered the question. I am going to ask you a slightly different question. In your *Vision for Agriculture*, you said: "Measures must be put in place to ensure that support payments do not become capitalised into land values." That is very laudable, but how do you stop it? Because once the landlord knows that the payment is coming to the tenant, he or she is going to want that reflected in the rent, I would have thought. How do you want to get this vision across, and do you see anything in the Commission's proposal to help you in that?

George Dunn: The Commission proposal lacks the necessary detail for us to be able to answer your question precisely, on that aspect. One would expect

it not to have too much detail at the moment. It is difficult to see which way the Commission document will go once we have the legal texts in draft next year. However, there are two specific things that could be done to assist. The first is that, if it is absolutely clear that the only applicant for Pillar 1 or Pillar 2 is the sort of applicant who I have been describing, the landlord has to then enter into a proper negotiation with that tenant about how the rewards of those schemes are going to be provided. Currently, the marketplace in agricultural tenancies is very slim, and there are many more people seeking land—and Greg will tell you about his area, I am sure—than there are offering land. Even if landlords are able to take the SPS benefit and the Pillar 2 benefit, people are still willing to pay very high rents simply to get access to land. By putting the tenant farmer in the prime position to be the applicant will immediately change the necessary negotiating ethos.

The second thing is that we need to put rules in place to stop individuals from acquiring SPS entitlement rights, or whatever comes next, over and above what they need for their application. We are already aware of many landlords who are asking tenants to give up Single Farm Payment entitlement at the end of their tenancies, for little or no compensation, and then renting that back. We believe that that should be outlawed, as well as stockpiling entitlement to rent out with land elsewhere. Those two things, particularly, could help sufficiently. It is not going to take all the value back.

Q47 Neil Parish: You would say that the entitlements belong to the tenant then, would you?

George Dunn: The entitlements belong to the tenants, yes. That was a battle that was fought over the 2003 reforms when we were looking at whether the entitlement should be a land-based entitlement that needs a farmer to activate it, or a farmer-based entitlement that needs land to entitle it. We plumped for the latter, but we would very much see the entitlements remaining in the hands of the active farmer.

Q48 Mrs Glindon: This is not quite a wish-list question, but what would your organisation hope to achieve in this round of CAP reform?

George Dunn: I think that is a wish-list question, isn't it? It is quite interesting that this reform is being conducted against a very different basis to previous reforms. There is not really the WTO impetus that there was in the last reform, or the reform before that. I know that the budget issues are still important, but they are not as important as they were when the CAP budget was more than half the total amount of spending in the EU. We think this is going to be a much more principled reform than we have perhaps seen in the past, particularly with the involvement of the European Parliament and a greater degree of democratic control over the decision making. There could be much more of a principled approach to the whole CAP reform debate. I think our key messages are: food security; benefits to the active farmer so that he is recompensed going forward; issues to deal with volatility in both output markets and input markets;

and help for competitiveness structural issues, including retirement and new entrants. These would be the key messages.

Q49 Mrs Glindon: What are your views on the feasibility of the Commission's three options?

George Dunn: The Commission often do this, don't they? They give you three options and go for the middle one. I think that is exactly what we have got this time. The Commission is quite clearly not wedded to options one and three; they want option two. From our perspective, the document is broadly welcomed, because it seems to have a great resonance with what we have said in our 2020 Vision report, which Mr Parish referred to earlier. A lot of the concepts that are in the Commission's communication, we were talking about a few months before in our 2020 Vision document. Therefore, option two seems to us to be the most appropriate way forward.

Q50 Neil Parish: Regarding policies at the EU level: what is there that would enhance the competitiveness of agriculture, especially in the UK? Also, what is your position on capping of the larger farms? Would that make agriculture more competitive, or how do you see it affecting the tenanted sector?

George Dunn: I will take competitiveness and you can talk about capping, Greg. On the competitiveness issue, the Commission's document is very helpful when it talks about the problem that agriculture has to be a strong player in the marketplace and its own supply chain, because of the concentration in the retail and the input supply sector. Competition is about how agriculture provides itself with a fair return in its own supply chain; that is part one. Part two is about how agriculture in the EU fights its corner against third-country agricultural systems, within the context of the WTO, where perhaps things are not being produced to the same environmental, animal welfare or water quality standards to which we are producing at home. There is another question about the extent to which British agriculture is competitive, as opposed to the other 26 Member States of the Union and their agricultural systems. So we will try and take those three. The Commission's document, with which we agree, indicates that the reason why we continue to need a Pillar 1 is that agriculture has a weak position in the supply chain and is unable to really have its costs of production properly covered, with an element of profit, in the supply chain which exists. Pillar 1 is vital to ensuring that farmers can remain competitive in their own supply chain. However, we also see the need for some form of ombudsman adjudicator to be able to parachute in to supply chain situations, and look at whether or not that supply chain is acting in a morally or ethically efficient way.

In terms of the position with regard to the rest of the world, again the Commission's document recognises that other countries are perhaps able to export commodities into the EU that are perhaps not produced at the same high standards that we expect at home, but consumers find it difficult to distinguish between the two products. Therefore, again, Pillar 1 support in that market, border support, is important for competitiveness in global terms. If we are going

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to have these higher standards, we need to protect those higher standards and not undermine them by exporting our environmental and animal welfare issues abroad. That is very important.

In terms of the British agriculture against other Member States, we are quite pleased that this document has not considered it appropriate to have considerable renationalisation of agricultural policy, because that would lead to a large degree of different levels of payment. We would see that we need equal levels of modulation, equal level of cross compliance and equal levels of decoupling across the EU to prevent a particular Member State from having a particular advantage in an area because it decides to favour that area. We know that there are other reasons why other Member States will have more or less competitive agricultural systems. That can be because of the taxation regime that they are operating under or because of the planning system that operates in those countries. However, in terms of the CAP, the more that we have agreed at an EU level, from our perspective, the better. That is perhaps not a straightforward answer to your question, but we see those elements as all very important.

Greg Bliss: If you look at Pillar 1, when you look at how many agricultural producers are actually producing, and living, below the official poverty line, it just makes you realise just how important Pillar 1 is, particularly in the tenanted sector, where they have to pay a rent before they take any drawings. Take Pillar 1 away, and I think you take you snatch the rug from a huge proportion of the tenanted sector. The tenanted sector needs encouragement rather than being drawn back.

In terms of capping, the TFA are ambivalent over whether to cap or not to cap. This is the third time that it has come up in CAP reform; the time for it has maybe come. I guess it would encourage a splitting of businesses, and we do have some larger members who might be affected; but generally within the TFA's membership, they would all be below a cap, if you guess that cap is going to be at somewhere around the €300,000 mark. Therefore, capping would not be a huge issue for the TFA, but in terms of how it reacts with the structure of agricultural businesses in the UK, then it would have a bearing on us in terms of how it affected our members who were involved with those businesses.

George Dunn: The figure of €300,000 is what was floated.

Neil Parish: I think that is right. I think that is the existing one. It will probably come down from that, I expect. It is still probably €250,000, anyway.

Q51 Chair: Can I just return to what you said there about the poor position of farmers in the food supply chain and making the farmer remain more competitive? You mentioned, in particular, the role of what is now called the Adjudicator, previously the Supermarket Ombudsman. Do you believe that there should be a role for the CAP? Do you believe you are being disadvantaged in this country by not having a mechanism at EU level to protect the place of the farmer in the supply chain?

George Dunn: The debate is, firstly do we need an adjudicator? We have all learnt the new acronym, GSCCOP, the Grocery Supply Chain Code of Practice adjudicator, have we not?

Chair: It just trips off the tongue!

Neil Parish: It is very catchy.

George Dunn: Yes, it is. We believe that we do need an adjudicator. The question is at what level that adjudicator should be introduced. Up to very recently, we know that the political masses in this country were not particularly keen on having a formalised role for such a person. We are now pleased to see that is firmly on the agenda. We are expecting a draft Bill for that. Effectively, we are much further ahead in the UK than we would be within Europe. However, it was not very long ago that Europe was probably ahead of the game in terms of where we were when they were thinking about these issues, when our Government was well behind the game on that front. So, we don't really mind where it comes so long as it is a fit for purpose individual with the teeth to be able to get into the issues that we need to see changed.

Q52 Chair: What about the question of a potential complainant being worried about, or losing, their anonymity if they make a complaint?

George Dunn: We would suggest that the organisation, or the adjudicator, operates less in a reactive role and more in a proactive role, in the sense that it can decide on a Monday morning which supply chain it wants to look at and which particular retailer or processor arrangement it wants to dip into. It should have the ability to say to that processor or retailer, "We are coming to see you on Tuesday. We want your books open and we want to see your arrangements with your suppliers."

Q53 Chair: Without naming a company, we all know that if you take potatoes and a contract for chips, or apples, or whatever the product is, it is the supermarkets that hold the power. Do you believe that the mechanism is there? It was put to us last week in our briefing session in Brussels that there is this fear that no supplier in their right mind wants to make a complaint because they will lose their contract if that comes out. I was in DG IV as a stagiaire and we used to read about these dawn raids. Whoopee, it gets a lot of publicity and then everyone goes back to sleep. But someone could lose their potential contract, so do you have a view as to what the solution could be?

George Dunn: We do not see it as being a complaint-driven operation. We believe that this should be a much more proactive operation, so that all retailers and all processors know that they are subject to inspection by the adjudicator, on the terms of the Grocery Supply Code of Practice, at any time within a short notice period. That puts retailers, processors and others in the food chain on notice that they could have someone coming to look at their books and arrangements within 24 to 48 hours. You would get a better operation of the Supply Chain Code of Practice across the piece, rather than dealing with a particular point where there is a single complaint from an individual, who, as you rightly say, would be nervous about putting their head above the parapet.

Q54 Chair: Would you accept that it should perhaps be proactive the other way, by swooping on producers and asking how their negotiations are going and what contracts they have in place?

George Dunn: They will obviously want to take evidence from whomever they like, but we think we will protect individuals if it is not a complaint-driven operation but is a proactive engagement of the Supply Chain Code of Practice and how retailers and processors are implementing that.

Chair: Thank you. That's very helpful.

Q55 Tom Blenkinsop: The long-term investment sustainability for farmers, whether it be predominantly retail or commodity speculation, by which farmers originally used to try to maintain long-term investment in the industry, has not borne out. Would you say insulation from market signals through a risk management toolkit would reduce the competitiveness of the agricultural sector?

George Dunn: Well, maybe Greg, as an active farmer, could speak a little bit about the volatility that he has experienced in both input and output prices over the past few years. He can give you an idea of the sort of issues that we are facing, and then we can see how those might fit into a risk management toolkit.

Greg Bliss: A lot of people have talked about risk management. In terms of running a business, wheat has traded from £95 a tonne to £206.50, or £211 as I heard the other day for January. In this season alone, fertiliser started off at £160; it is now back in the £300s. In terms of supermarkets again, if you have got a supermarket contract delivering, then people are held to that contract, even with the weather that we have been having recently. If people cannot deliver their contracts, then they are bought against. The supermarkets are bumping prices up and I would say that they are profiteering on the basis of the weather and none of that money is trickling back. It is very difficult to plan. We use all the tools that we can, but with extra volatility you get extra cost. The means that we have in terms of options and forward contracts are very expensive, with the cost of insurance. For example, people are not willing to insure wheat for 20% of the cost of a tonne, as it may be. If you deal in vegetables, you cannot buy an option in a tonne of vegetables; you have got to actually own the contract and buy it. Then you have got all the risks of call-up costs as the market alters until you come to sell.

We have very little time to do that sort of thing, and if you are sitting on a tractor and not sitting in front of a screen, you miss the chance. This is where the CAP, as it was, worked so well in terms of intervention. Everything was simpler and it smoothed the whole thing out. In terms of working for the EU as a whole with regards to cost, it did not work; but it certainly worked for agriculture. Somewhere between the two there has got to be a balance, I think.

George Dunn: I did have a meeting today with a member of the Commissioner's Cabinet and asked, "What is in this toolbox, apart from intervention and insurance?" The answer was, "That is it at the moment: intervention and insurance." I don't think that there has yet been a great deal of thought being put into what those tools look like in the toolkit.

Certainly we have seen insurance markets operate to a lesser or greater extent in America and other parts of the world. We have had intervention before; it may not be WTO compatible to continue with some forms of intervention. There is a great deal of work to be done on that issue, but we believe that volatility is a big concern. We always said that when we moved from the direct payments that we had under the old system of CAP, towards the decoupled system, that the farming activity itself would be subject to a much greater degree of volatility. As Greg has explained, boy, have we seen that over the past five years, and that is only likely to continue. We need to find some system that provides for the buffers to be put on, so that investment decisions can be made long term.

Greg Bliss: It is where you put the value of food security, I think. If you support farmers and you smooth the volatility out for them, it keeps farmers in agriculture and keeps them producing, so you have got your food security. You may never have a particularly profitable agriculture, but you have got happy consumers because they have got a cheap food policy and it keeps ticking over.

If you are going to make profit in agriculture and have a competitive agriculture, that is probably not the answer. I do not have a silver bullet to do that; it has to be somewhere between the two where people can pick the top of the market, but there is a certain amount of luck involved in that at the moment. I am not just farming: I am a currency speculator and I have got to deal with the soft commodity speculators and all the people in between who are taking what is generally a fixed margin.

George Dunn: There are certain things that we can do domestically as well, without having to bother with CAP. For example, if you are a tenant farmer in a modern context, your average length of term today is three and half to four years. In a marketplace as volatile as it has been, this is not a very safe place to be. Whereas, if we had tenancy agreements that were 10 or 15 years in duration, then individuals would be able to ride the bad years with the good years. We are certainly talking to the Government about how we can encourage landlords, through the taxation system, to let longer term and to provide that greater period of time over which to deal with volatility. Because if you are on a three-year farm business tenancy, and you have had two bad years because of harvest and your price goes down or fertiliser goes up, you are going to come out of that arrangement as not a very happy tenant farmer.

Q56 Tom Blenkinsop: Do you support the retention of voluntary coupled support in Pillar 1?

George Dunn: We would not support the retention of it being voluntary on Member States, because we think that would lead to the sort of competitive issues that I have mentioned to Mr Parish. If different Member States are providing differential levels of support, then it could lead to serious problems within the internal market for how those commodities are traded. We would not want those to be voluntary; we would want everybody to have the same level of decoupling across the piece.

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Q57 George Eustice: I want to just pick up on this issue about insurance not being cost-effective. I am just curious as to why we have not got more developed markets in hedging or futures contracts in some of those other sectors. If you look at coffee and sugar and other international traded commodities, there is a very, very efficient futures market that allows people to hedge their bets and protect their income. Is it just that, because of the CAP, perhaps traditionally there has not been a culture that you need to defend yourself against volatility, and so it has just not developed? Or is it just the case that it would never be a big enough, or liquid enough, market?

Greg Bliss: I think when you are talking about things like coffee and sugar, you are talking about some very big players. When you are talking about wheat at the farm gate, then you have only got to look at all the options for fair trade coffee: there is the same issue. These guys are selling a small amounts off the farm into a world market and getting very little for them. I think you have a point when you say we have been used to wheat being a set price into intervention, and it being balanced by that.

Certainly as a tenant farmer, I am in a situation where I have some land that is half of my holding. In five years' time or in three years' time I might not have the security of that tenancy. What happens if I sell wheat forward and then I do not have the land? If you have an annual renewing tenancy you can only afford to sell a year ahead, so in that way, you are more or less bound to take the market and you have to be a prudent tenant. You have got to pay your rent, and so you might have to sell something early for cash flow reasons, which does not allow you to perhaps take advantage of a future price that you may think would be considerably better. There are a lot of other issues with short-termism in tenancies that preclude us from taking a much longer term view.

George Dunn: I do not think that it is all sweetness and light in the sugar and coffee sectors. It was not that long ago that we were looking at the African, Caribbean and Pacific countries that got a reasonably good deal under the EU Lomé agreements, saying that because of the WTO case against the EU on sugar, they were no longer going to be competitive in the world market against the likes of Brazil for selling their sugar. There are some very big players who are playing the market very well, and cornering the market, but that does not mean that it is absolutely okay for everybody in the market place. There are a significant number of producers in both those two sectors who are losing out.

Q58 George Eustice: The other thing I just wanted to ask you about is how important you think food security is as an element to be considered in the discussions about CAP reform. There has been some dispute. You have obviously got some groups who are still pushing very hard for the greening of Pillar 1 and much more emphasis on Pillar 2 and agri-environment type schemes, and you have also got this Scenar study that suggests that you could actually remove direct payments altogether and it would not have a huge impact on the amount of land that was farmed in

Europe. Have you got an idea, at your end, of how big a consideration it should be in this current review?

Greg Bliss: I think food security has always been a fundamental plank in what we have been saying in terms of the basket of public goods that we provide. I know that a lot of people have said it is not, it is the environment, but I think that it is a fundamental part and a mainstay of that basket of public goods that agriculture provides. Without food security and the ability to do as much as we can to support ourselves, you can't eat butterflies and birds. I know that they are important, but you do need to have a balance. It seems to me that if you do not have a certain amount of production, the environment is very soon forgotten when you have issues with shortage; for example, there have been food riots in other parts of the world. People can soon forget the environmental side of things when it is driven. I think if you have a much more balanced approach, the environment does not get pushed aside, because we have a vibrant and productive agriculture that is pushing towards a good chunk of our own food security.

Q59 George Eustice: How important do you then think the Pillar 1 direct payments are to ensuring that food security? To be a devil's advocate, there are those who would say, "If you look at New Zealand in the '80s, they just took away all of their subsidies altogether, and the farms adjusted and were able to compete in world markets without support."

George Dunn: New Zealand is often cited as an example of where subsidies were removed, but New Zealand also did quite a lot of other things, including devaluing their currency and altering their banking system and everything else. There was almost a big bang; it wasn't just about agriculture in New Zealand. I think if you were to talk to New Zealand farmers today, they would tell you what a tough environment it is to be farming in today's terms. It is not just all about the quantity of the food; it is about the quality of the food, which we have talked about before. Certainly there is a clear demand for animal welfare, higher environmental standards, food of local provenance and so on. From our perspective, Pillar 1 provides that return to farmers that is not available to farmers in the marketplace, because it is very, very difficult to price those costs into the goods that you buy on a supermarket or retailer's shelves, yet we are expected to bear them. So, Pillar 1 is vitally important to that.

If you take a sector like the dairy industry, for example, we have seen a great exodus of dairy producers in Great Britain over the past 10 years or so, and most of those decisions are made on the basis that when they come to the point of reinvestment, there is not enough in the game for them to be able to make a return on the investment; to be able to make a return on the investment you have got to put in a new parlour or a new dairy, and so on. If you remove any support that we are getting from the single payment scheme from that equation, they would go much earlier, because milk prices only just match the day-to-day costs of running those businesses in most cases. In a lot of cases it is below, unless you are a

dedicated supermarket chain. We would see a rapid removal of a lot of farmers.

Q60 Mrs Glindon: I just want to go on a bit more about competitiveness, the sustainability issue and greening. The Commissioner said that there is a false dilemma between being competitive and sustainable. Do you think both are possible to achieve?

George Dunn: A false dilemma is an interesting phrase, because if you are requiring individuals to be farming to a certain level of standard, and you are not properly recompensing them for the costs of those standards, that is not sustainable. You need to have a transfer from another part of society—and that happens to be the CAP and the public purse at the moment—which supports that level of production. We already have cross-compliance. People would argue that statutory management requirements are only obeying the current law, but we have also got the good agricultural and environmental conditions (GAEC) requirements, which go beyond the current law, and we have got Pillar 2 payments as well. All those elements are important to support the fact that direct payment is needed, so that individuals can get a proper return from their production.

If you look at economic theory, it will tell you that as economies grow, less of a proportion of the national income is spent on food, because we only have a certain size of stomach and we can only eat so much. We tend to spend our growing incomes on other things. Okay, we might eat higher quality or eat out a bit more, but in terms of the basic foodstuffs, less and less of a proportion of the national income is spent on the basic foodstuff elements. That means as economies grow, farmers are always going to be behind the curve. They are not going to be able to take advantage of the economic growth in other parts of the economy. If you want them to be able to sustain their businesses into the long term, there has got to be transfer payments from society, and that is what direct payments effectively are. Unless you want to see a fundamental change in the way that we do farming in this country, so that it is ranched or is based around single operators in large areas with potentially lower quality produce because of the way that it is done, then we need to retain the systems that we have got.

Greg Bliss: That was going to be my plank: if you look at the way people would make money in the situation that George explained, you lose everything. You would lose quality of food, you would lose quality of environment and you would lose employment and people living in the countryside, because the jobs would not be there and it would be run on a completely different basis.

Q61 Mrs Glindon: What green measures do you think could be included in Pillar 1 that would improve the environmental sustainability, but would not have an adverse affect on the agricultural competitiveness?

George Dunn: If you don't mind, I would not start where you are. We do not think that Pillar 1 needs further greening from the extent that it already is greened. I know that the Commission thinks otherwise and they want ecological set-aside and permanent pastures introduced. However, Pillar 1, from our

perspective, already has a large green element with the cross-compliance requirements. We believe that to add anything more into that situation would tip the balance too far towards the environmental and away from the food security argument, which would cause real detriment to the industry.

Greg Bliss: The other issue with that, of course, is if you are on a tenancy paying a rent, every acre of land or every hectare of land that you have to take out of production is a loss of income to you and the viability of your business, given that you are paying rent on that land. Suddenly, if there were ecological set-aside of 10%; that is 10% of your land that you are paying a rent on. You do not get a decrease in rent on that, regardless. It would be anti-competitive for tenant farmers. It would be a big bash to their business.

George Dunn: It seems so strange that we are expecting this industry to supply things to the general public on a free of charge basis, which is effectively what we are saying should happen. Currently farmers get recompensed to a certain level for making food to high standards within the environment that they are producing in, and now we want them to do something else, but we are going to do that by not giving them any more recompense to provide that. We are expecting them to simply bear that themselves for the public benefit. We would not expect any other industry to provide that sort of model, in terms of providing those goods.

Q62 Mrs Glindon: Is including environmentally friendly measures in the direct support payments the most effective way of improving sustainability in farming?

George Dunn: We argue that they are there already. The current CAP mechanisms, with Pillar 1, the cross-compliance and the elements from Pillar 1, matched with Pillar 2 with all the various schemes for ELS and HLS, are already in place. We do not need to over-egg that pudding any more than has already been done.

Q63 Dan Rogerson: In your evidence you did not really talk about the budget. Are you campaigning for the budget to stay the same?

George Dunn: Yes, we have not got any particular view that the budget should move one way or the other. We cannot see necessarily that the budget is skewed too much one way or the other, so our view would be that it is sustainable at the current level.

Q64 Dan Rogerson: Would you be concerned if Defra do what do what they say they are going to do at the moment, and look to reduce the budget?

George Dunn: Yes, we would, absolutely. Definitely.

Q65 Dan Rogerson: Finally, you have talked in general terms about your views on the Pillars. How do you think the budget should be allocated between Pillar 1 and Pillar 2, and then within Pillar 1, between income support and environmental measures?

George Dunn: Let us take Pillar 1 and Pillar 2 first, and that will differ between Member States because of historic reasons as to how much money they have in their direct funding. The UK has always come out

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unfavourably in terms of the amount of direct funding it has had, and therefore it has had voluntary modulation to prop it up. There perhaps needs to be a greater degree of consistency across the EU about the percentage of the budget that goes into Pillar 2. From our perspective, we are certainly concerned that farmers are expected to be modulated to a higher degree than other Member States, apart from Portugal, which is using it to a certain extent. But intrinsically, this is an area where we do not have too much skill, in terms of the budget area. We are not campaigning for it to change either up or down.

Q66 George Eustice: When it comes to Pillar 2, is there an issue in that it is something that is much harder for tenant farmers to access? A lot of the schemes tend to be more geared towards owner-occupiers or landowners.

George Dunn: There are a number of aspects and I do not want to bore you for too long in relation to my answer, because it is a particular hobbyhorse for the TFA and us at the moment. The first place is that the rules on management control are a problem, in that if you are a landlord and you are able to pass scheme conditions through a contract or tenancy to a tenant farmer who is farming your holding, has occupation over it and taken the entrepreneurial risk, then you can do that in this country. You cannot do that in Wales, but in England certainly. We think that is wrong. There are many landlords who are claiming agri-environment scheme money, because they can do it by contract or tenancy. Secondly, there are those tenants who are on agreements, as I explained earlier, of less than five years. Most agri-environment schemes require at least a five-year commitment, if not longer. If you are on a tenancy agreement of less than five years, you need to get your landlord's counter-signature on your application. Those counter-signatures are not always easy to come by, because of the landlord's unwillingness to bind himself to something beyond the end of your tenancy. Then we have got the problem, which we have had in the Uplands, for example, where you change the scheme from Hill Farm Allowance (HFA) to Uplands ELS, and you change the nature of who the applicant is, because the landlord has traditionally claimed for ELS on some land in the Uplands. The tenant loses HFA payments, and he cannot get into Uplands ELS, because the landlord is already in ELS on that ground, so he's stymied from getting in.

Yes, you are right, there is also an element of the interests of the Pillar 2 schemes being about the capital of the holding: the hedges, the ditches, the features and the trees, which tend to be the ones that are excluded from the tenancy agreement in terms of the tenant's responsibility. There is a concern that they are not always geared towards the active farmer.

Q67 George Eustice: Would it almost be better for you if you put more money in Pillar 1, but made it greener? So you did do the greening of Pillar 1.

George Dunn: Yes, but that is not going to happen. Politically, that is simply not going to happen.

Q68 George Eustice: Should it happen? You probably would like that to happen.

Greg Bliss: I think we would much rather have the active farmer. The sensible conversation is that the landlord's income and his recompense is always within the rental agreement. The active farmer takes advantage of all the schemes and then has a grown-up conversation with the landlord, and the landlord takes his income through the rent, rather than taking everything away from the active farmer and him being just left with his own income. That is by far the simplest way of doing it, rather than turning it around and trying to move things from Pillar 1 to Pillar 2. I think it is best to have an active farmer arrangement where he can access all these schemes and then the landlord and he, within their tenancy agreement and their rental, divide it on that basis. Rather than the landlord having sway over it, he can do it in a sensible rental agreement.

George Dunn: It is a much more realistic position to believe that we could get Pillar 2 to work better and more fairly than it does now than it would be to suggest that Pillar 2 should be abolished in favour of a bigger Pillar 1.

Q69 Chair: If the 2011 budget is not agreed this year, would that create problems for your members if we proceed on twelfths?

George Dunn: Again, I had a conversation with a member of the Commissioner's cabinet, and asked him that question about what happens if the budget is not there? Whilst he would not give me the technical detail, he said, "It will be fine." Now, the EU budget arrangements are a little bit beyond our ken.

Q70 Chair: We thought we were quite well briefed last week. What we would like to know is how it would impact on you if it did not proceed by twelfths. It probably will not happen, but would it be very bad news for your members?

George Dunn: We have not got an answer to that question, to be honest. It is beyond our ken.

Q71 Chair: No, that is fine. Earlier this afternoon we heard that UK farmers could become more competitive by selling value-added products, which make use of higher environmental standards. Do you agree? Do you think UK consumers would pay, even if it was labelled up, "This is someone who has participated in an EU agri-monetary scheme?" Do you think that would work?

George Dunn: Greg will be able to talk to you about the commodity markets that he is involved with and the sorts of contracts that he has got with potato processors and so on. What I would say is that there will always be room in the marketplace for people who want to supply very high environmental, animal welfare, provenance foods to a very niche market. But I am afraid the vast majority of people, despite what we hear and see in the press, still buy on price. The vast majority of commodities sold through supermarkets are sold on price. There have been consumer studies done where people have been asked, before they go into a shop, what they are going to buy in terms of animal welfare and the environment, and

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then what is in their baskets on the way out does not really fit very well with what they said they were going to buy on the way in. That is not necessarily because they told lies, but when they get into the supermarket they are faced with a plethora of choices on a shelf, they have got the kids screaming behind them, and they lift what they think is the right thing. There may be co-mingling of commodities so that you have got English and foreign commodities on the same shelf. So there are lots of issues as to why we do not necessarily think it is going to be a big issue for most people, particularly where you are making commodity products.

Greg Bliss: I think it is a very limited market. You seem to have a choice: you either produce on a large scale on a small margin or you produce on a small scale and increase your margin. You work just as hard and your marketing has to be just as good. You will find that even on large-scale commodity production, they will provide another hoop for every one that you have had to jump through. Once you get up to Tesco Gold Standard you can spend three days in your office doing your welfare check and making sure that you have no child labour on your farms. It is quite interesting because you do not realise just how many hurdles you have to jump just to get through, just in assured schemes.

George Dunn: If you look at it in detail and take, for example, the milk market. I challenged Sainsbury's on this the other day. Sainsbury's have a dedicated supply chain with 300 or 400 farmers who supposedly provide milk, and they can make great claims about that to their consumers as they walk through Sainsbury's stores. But in fact, all the milk that Sainsbury's get comes from a processor who is pooling the milk with other producers. It is exactly the same milk.

Q72 Chair: I know George probably strayed on to this, but is there any further action that you think is required to actually help and recognise the system of land ownership and management that we have in this country, in terms of CAP reform?

George Dunn: I think at an EU level, we just need to make sure that there is sufficient scope within the regulatory texts when they come to identify the rightful recipient of any CAP support financing. So long as we have this concept of the active farmer developed, that will recognise the fact that that individual is the person who is the rightful recipient.

Q73 Chair: That is really helpful. Off the wall and on a different matter, obviously my area and many other parts of the country have been very badly affected by the weather. Have you been contacted by your members about problems with actually feeding animals and the cost of feeding animals, bearing in mind that this weather normally does not happen before January and February?

George Dunn: Well, the issue is much wider than that.

Greg Bliss: We have got sugar beet that is in the ground and frozen that will never get in for process, and there are thousands of acres throughout the east that are in that same situation. That is just a loss of income through bad luck because it was not harvested. It is not just sugar beet; everything that you cannot get into the field to get is just going by the wayside.

George Dunn: We have got people who are finding it difficult to get their milk collected and people who are finding it difficult to get out and feed their stock. There are a plethora of issues.

Greg Bliss: With wheat going up to £200 a tonne, the cost of feeding chickens isn't chicken feed.

Q74 Chair: I am particularly concerned about the sheep on the moors and that more of them will be kept out. Of course, whether the farmers can even get to them is another matter.

Greg Bliss: Well the hay price has doubled and the straw price has doubled since this weather came on, and that is if you can get it delivered.

Chair: That is helpful information. Thank you very much for being with us, and I am sure we will be in contact again.

Tuesday 11 January 2011

Members present:

Miss Anne McIntosh (Chair)

Richard Drax
Barry Gardiner

Neil Parish
Amber Rudd

Examination of Witnesses

Witnesses: **William Worsley**, President, and **Professor Allan Buckwell**, Director of Policy, Country Land and Business Association (CLA), gave evidence.

Q75 Chair: Good morning everybody, and a particular welcome to our guests. Happy new year to everybody. Just a little bit of housekeeping, if I may: as this is a report on the Common Agricultural Policy, in the spirit of openness, we'd like to declare those of us who are in receipt of any Single Farm Payments and I have declared on the Register a half share in a smallholding in the upper Pennines, on which I believe we do receive Single Farm Payments. I don't know if any other colleagues do so.

Richard Drax: Yes, I am in receipt of Single Farm Payments.

Neil Parish: I have a farm, but it's let, so I don't directly receive the Single Farm Payment. It goes to my tenant, but the land is in receipt of a Single Farm Payment.

Q76 Chair: Thank you very much. Now if I can warmly welcome William Worsley and ask William if you would introduce your colleague?

William Worsley: Very good morning, Chair. I have to declare that, as a farmer, I'm also in receipt of the Single Farm Payment. I am the president of the CLA; I am also a farmer in North Yorkshire. With me is Professor Allan Buckwell, the policy director of the CLA.

Q77 Chair: Thank you. Let me just ask at the outset what you would hope to achieve as an organisation in this round of CAP reform.

William Worsley: I think what we would like to see is an adequately funded Common Agricultural Policy that is far better justified in the eyes of the public and the taxpayer; one that helps sustain the ability of the European Union to feed itself and, indeed, contribute to global food security, but which also makes clearer and better provision for rewarding farmers for the public goods they provide and, in short, I would suggest it should be a Common Agricultural Policy for food and environmental security.

Q78 Chair: Thank you. In the balance between food production, and you've touched on feeding ourselves—being self-sufficient, presumably—and also the relationship with the sustainable environment and sustainable farming, bearing in mind that the mission statement of the Directorate-General for Agriculture in the European Commission is to promote “a robust and competitive agricultural sector which respects high environmental and production standards, ensuring at the same time a fair standard of

living for the agricultural community”, where do you believe this balance would best lie?

Professor Buckwell: Yes, this is the \$64,000 question—judging the balance. I don't think anybody disputes that for both elements of a competitive, productive and profitable agriculture, and an agriculture that provides the environmental services the public wants, the trick we're trying to play is to put these together and balance them better. If you ask us what's the direction of change on that, our perception of that is that there is still more to be done on the public good provision. As global markets have become more buoyant in recent years and, we hope, will stay that way, then farmers get more of the reward from the market, and that in a sense will increase the incentives for them to intensify production and potentially threaten the environment. Therefore if society wants the environmental goods then we have to take care that we make provision that farmers are paid the full costs of providing those public goods. Therefore, that's why if there's a change in balance, it's a slight—we don't want to overstate this because a core part of the CAP is ensuring productive agriculture—drift in the direction of sustainability, hence this greening of the CAP.

Q79 Chair: Are you comfortable that the definitions that the Commission is bandying about are sufficiently well understood, particularly their definition of active farming and, as you've just mentioned, public good?

William Worsley: No, I think the definitions are pretty unclear. On the point about active farmers, we're unconvinced that there's anything wrong with the existing definitions in the single payment scheme regulations of who is the farmer and what qualifies as farming, and what is eligible land. There's talk about airfields and golf courses, and all these things are perfectly possible to be dealt with under existing regulations, so we think this concept of, “Who is an active farmer?” is a little bit of a red herring.

Q80 Chair: We'll revert to that. We often take evidence from yourselves and the National Farmers Union together. What would you say were the main points of difference of opinion between the two or indeed the three leading organisations if you take the Tenant Farmers Association as well?

William Worsley: We spend a lot of time, obviously, debating these issues with the NFU and, indeed, I note that they're sitting in the audience—

Chair: They always are.

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William Worsley: They are listening to what I am saying and, indeed, I shall be doing the same for them. The answer is that firstly we have a number of things in common in what we're talking about. We have big areas of agreement. We're both arguing for a strong, adequately funded agricultural policy; the need for competitive, productive agriculture; and fairer terms to farmers in the food chain. But there are some areas where our members are, perhaps, willing to contemplate more reform, and I particularly look towards that farmers can produce the suite of public environmental goods and that they should be paid for according to what they cost to deliver. I think perhaps we go slightly further on this than our colleagues in the NFU do.

Q81 Chair: Are you concerned at all that we may be discriminated against as a country in the next round of reforms, compared with other member states?

William Worsley: I think it's extremely important that our Government fights very hard on our behalf and actively engages in debate to ensure that we are not discriminated against. We have gone further as a nation than most countries towards environmental management. Through the ELS and the HLS, we've done much more than many others, and it's very important that in the work that's done we are not discriminated against. This is why we argue very strongly for a common agricultural policy and not for one where it is left too much to each every individual nation to do what they want with it. I personally believe that land management is all about balance and it's a balance between productive land management and stewardship, and it's getting that balance right.

Chair: Thank you very much.

Q82 Neil Parish: Considering the comment you made about "adequately funded", do you think that it's overfunded at the moment? What does adequate mean?

William Worsley: We believe that by arguing for both food and environmental security we can justify the current funding of the CAP. The current funding of the CAP is 0.4% of European gross national income. We believe that that is a justifiable amount to pay to achieve both of those things. The productive agriculture, to a large degree, is paid for by the market, but the market has tremendous volatility. You've seen the variation of prices of wheat, for example, over the past four years; it's gone up and it's gone down and it's gone up again and it'll go down again, so farmers need support on that. But also there's public goods which farmers deliver for which there is no market, and that is another major part for the CAP, and that is why we believe, by arguing for both food and environment, and support of both, that the size of the Common Agricultural Policy is justified. Perhaps Allan could add to that.

Professor Buckwell: Can I just add that the UK, funnily enough, has done a lot of research on this area, as to what is a reasonable cost for delivering the environmental services that we're asking from our farmers? There was a study that was published two years ago that showed that those costs were about three times what we're currently devoting explicitly

to environmental programmes—the Pillar 2 agri-environment schemes. There's comparable research now being done at an EU level that is coming out with similar indications. That's the right way to do it. We should be deciding what we want the policy to do, trying to get some estimates as to what it will reasonably cost farmers to do that and then scaling the budget accordingly, rather than picking a budget figure out of the air and saying, "That's what you've got, fellas."

Q83 Barry Gardiner: Professor Buckwell, you've just alluded to the €20 out of the €950 subsidy that the families are paying towards the Common Agricultural Policy that is directly targeted to specific environmental policies. What in your view would be the right figure?

Professor Buckwell: At the UK level, I've seen estimates that the costs of delivering the current level of environment—and incidentally we're told by the Government's Environment Agency, Natural England and Government that we're not delivering sufficient environment; we could have a discussion about that, but this amount is insufficient—is of the order of £2 billion per annum. In other words a very large proportion of the existing expenditure, and I have no reason to suspect that it's different across the rest of the Union.

Q84 Barry Gardiner: Yes, but with respect that's not the question I asked you. Of the €950 subsidy per family that each family contributes in the UK towards the CAP, only €20 goes directly to targeted environmental additional public benefit policies that you were talking about. What I'm asking you is what do you think would be a better figure than the €20? You've said that you believe that there are additional public benefits that farmers should be providing and, in terms of that €950/€20 split at the moment, what's the sort of split that you think would be reasonable?

Professor Buckwell: A very large part of it, but to be honest I don't know if—

Q85 Barry Gardiner: A very large part, so more than half?

Professor Buckwell: Oh, yes. Yes.

Q86 Barry Gardiner: And that should be targeted to specific environmental benefits?

Professor Buckwell: It could easily be justified as an order of magnitude, yes. To be honest, I don't recognise your €950 and €20. I'm not familiar with those particular figures.

Barry Gardiner: In Britain we're providing—

Neil Parish: In Britain is it 20 million families? It's now €10 isn't it?

Q87 Barry Gardiner: It's from the Treasury's *A Vision for the CAP* and it points out that what the CAP is costing to taxpayers via the EU budget and to consumers via higher food prices: in 2005 the average cost to an EU family of four was estimated at €950 a year with only around €20 of this spent on targeted environmental programmes.

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Professor Buckwell: And since then global agricultural prices have rocketed, and so the €950 will have changed. European prices are no longer systematically above world prices, where they were—I don't deny that—and so that figure has changed. On the justifiable amount to be spent on public good provision, what I'm suggesting is that the figure you quoted is unreasonably small; it should be bigger and much, much bigger—orders of magnitude bigger. The CAP is not there just to pay for environmental services; it's also there because we have a situation in Europe where consumers don't pay the full cost of their food production and where we ask for standards to be adhered to in Europe that are not adhered to in other major exporting parts of the world. And so, if we didn't have some kind of arrangements of agricultural policy, we wouldn't have an industry and we'd be importing from countries that are more environmentally destructive.

Q88 Barry Gardiner: Indeed. I understand all of that, but just for clarity: your view is that over half of the monies that we've talked about should or could be specifically devoted to targeted environmental programmes?

Professor Buckwell: Could be justified in terms of paying for public goods that farmers provide, yes.

Barry Gardiner: Thank you very much.

Q89 Amber Rudd: In your view is the Commissioner sending out clear enough signals about the changes that are going to come to CAP for farmers and investors to plan?

William Worsley: I think at the moment he's giving signals—the signals as a guidance towards what he calls, perhaps, option two—but they're not clear yet. It's still very much for debate. Are people going to invest at the moment on what the CAP is producing or will deliver in 2014? No, because we don't yet know what it's going to be. It's very much in debate. There are, therefore, conflicting messages coming out of Brussels; they're taking views of people at a time of exactly that.

Professor Buckwell: Just to add to that, I really think the Commissioner has a genuinely difficult job at this point. In previous reforms there was a very clear problem with the CAP and a pretty clear solution. We used to support commodity prices and we'd got markets that were way out of touch with the reality, so we had to reduce price supports—that's back in the '90s. We then set up direct payments and it was clear that the direct payments were incentivising production, again not justified by the market. They had to be decoupled—that was a clear message in the 2004 reform. So, the problem was clear; the solution was clear.

Now, I think it's genuinely difficult. We are trying to strike, as our chairman said, a very difficult balance between sustainability and competitiveness. We want both and they're both complicated things to measure and to work on, and so it's not surprising that there's a less clear message. What in this reform the Commissioner is suggesting is that if there's more to be done on public goods, and that's certainly what we read into his communication, it should be done in

Pillar 1, not Pillar 2. More modulation was the way we were going, but they've now backed away from that. I think we support that—we weren't very fond of modulation, especially when it could be differentiated. He's also signalling perhaps that we should be doing more for farming in the marginal areas that have more to deliver on the environment. Again, that's a difficult and sensitive balance to strike, but one which we think definitely has to be debated.

Q90 Amber Rudd: So while these conversations are going on, is it significant, do you think, that investors are presumably waiting to see what the outcomes are?

Professor Buckwell: Yes of course, but luckily the farmers are smart people. They know that the current system will operate through to 2013 more or less as it is, and so we're talking about the changes thereafter, so they can plan their businesses on that basis. The volatility—to be honest, there's much more volatility in the markets—is what's disturbing them rather than the political volatility at the present time.

Amber Rudd: Okay. Thank you.

Q91 Neil Parish: There are two parts to my question; they're almost contradictory really. First of all, what are the main risks if you reduce direct payments to farmers in Pillar 1? The other part of the question is: does the Single Farm Payment actually make farmers less globally competitive? So they're almost two contradictory questions, but I'll put them to you together.

William Worsley: I think—sorry, remind me of the first one?

Neil Parish: The first one is what are the risks of reducing the direct payments to farmers in Pillar 1 and the other side of it is, by giving Pillar 1 payments, are you making British agriculture and European agriculture less globally competitive?

William Worsley: I think if I can say that, looking at farm businesses large and small, they are hugely dependent upon the Single Farm Payments. I look at my own farm business: if I didn't have a Single Farm Payment, I would make a small surplus, but I would not pay my depreciation; therefore I would be out of business within five years or so. So I think that the risk of reducing the Single Farm Payment is significant. It would be hugely detrimental. What would happen is that you would end up with agribusinesses farming the pick of the land, leaving the less productive bits of land unfarmed.

Does Pillar 1 make European agriculture less competitive? It was very interesting at the Oxford Farming Conference, where there was a fascinating lecture given by an Irishman with a massive agribusiness in Argentina. I was hugely stimulated by it and was very excited by what he was talking about and everything else. When I went away I thought deeply about it as I drove home and it's totally different; he is farming vast acreages with virtually no environmental benefit at all. We're farming—depending on where you are in England—relatively small farms with relatively small fields, with considerable environmental benefit given. My average field size is about 20 acres, his is probably 2,000 acres—it's completely different scales of agriculture.

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It is that sort of thing that we need to support our European farmers, because the counter is that you get what's happened, for example, in the Paris Basin where if you fly to Paris you fly across acres and acres of land where all the hedges have gone and it's just pure agribusiness with very little environment with it. I think that, as I go back, that farming land management is about balance and you want a bit of both.

Q92 Neil Parish: Yes, you've just fallen into my trap there for the simple reason that those farmers in the Paris Basin—some of the best arable land in Europe—are getting some of the highest payments under CAP. You talked about how, if we took away the Single Farm Payment, the only land that would be farmed would be that that's very productive, so is there an argument to reduce significantly the payment that goes to the very productive land and push that more towards the margins?

William Worsley: If I look at the figures—looking at UK agriculture—we're talking to some big Lincolnshire farmers and they were saying that without the Single Farm Payment their businesses wouldn't make any money either, so it's not as simple as that unfortunately.

Neil Parish: Okay, I'll leave it there.

Q93 Chair: What would happen if the Single Farm Payment monies were not so much reduced but could be applied through Pillar 2? Would that have the same impact?

William Worsley: One of the risks of Pillar 2 is that it's co-financed and therefore there is much greater political risk and lack of commonality between the two. We aren't particularly hung up between Pillars 1 and 2. We believe you can certainly deliver both through Pillar 1. One of the problems with Pillar 2 is the complexity of it and the fact you have a means of getting less of a common policy, and we believe this would be disadvantageous to British farmers.

Professor Buckwell: Could I add that the problem with shifting the policy to Pillar 2, which was the drift of the last decade—to create the two-pillar CAP and slowly move resources from Pillar 1 to Pillar 2; that was the Fischler concept—was that the opportunity was offered to the member states with voluntary modulation, and all but the UK ignored it because they didn't want to put any additional money into matched funding, into the co-financing. So, whilst we might be in principle in favour of co-financed Pillar 2 measures, the political reality is that there isn't the money to do it. We're therefore suggesting take the good aspects of Pillar 2—multi-annual, voluntary contractual schemes—and integrate them in Pillar 1 to avoid this co-financing problem.

Can I just take us back to this issue about the role of the single payments and the effect of reducing them, but also of their scale? The single payments for cereal production in the Paris Basin are not as generous, I suspect, as was being suggested. It tends to be the livestock producers in certain livestock systems that have the highest payments per hectare, whereas cereals are around the average. They're not especially high, it's just that they're operated on a big scale, so

it's a big payment. The point is if you reduce the single payments, then in the marginal land there's a risk of land abandonment, but in the non-marginal land of course that isn't a problem. The land will still be farmed, but its structure may well be different.

This is the genuine question that we all have to ask ourselves: does the European public want and expect that its agricultural land is farmed South American-style, in estates of tens of thousands of hectares with 50 combines in a field? Is that what Europe wants and expects its food production to look like? Do we want our dairy production to be taking place in units of tens of thousands of animals? We each have our own personal view on that. Some will say, "If it's cheap and efficient and high quality"—which it can be, and I'm not saying that those things are bad quality—"then bring it on." But others will say, "No, that's not the European way of doing it," and we're trying to find a balance in there. We will have some large farms, I hope, but I think Europe wants smaller farms, so that's part of it. And so these payments, do they make us less competitive globally? It's partly to compensate our farmers for the fact that they are required to farm in structures and according to standards that are not applied in other parts of the world. Quantifying that margin is not a simple thing either, but that's at least part of the justification for the payments—and, of course, the bigger the farm, the more those additional costs are.

Chair: Very briefly, Neil Parish.

Q94 Neil Parish: Yes. Can I come back to you, Professor, because the way the Single Farm Payment is set is because of the historic claims made between 2001 and 2002. I don't agree with you that those farms in the Paris Basin don't receive a lot of support, and they receive support through co-operatives and other things all done by the French Government, but that's another issue. The key to it is that, surely, as we move to 2013, the historic element of what was being produced on those farms has to be shifted somehow or other. I'm not arguing about the principles of the Single Farm Payment, but I think the way it's distributed surely has to be challenged because at the moment there's still too much money going to very productive land, in my view.

Professor Buckwell: I'm not sure about the last sentence, but the CLA were very happy to be alongside the arguments to move towards area payments back in 2003–04, so we've seen for a long time that if we're restructuring the way we're supporting our farmers, it should be land-based, paid to the guy who's doing the job and we have to argue about the scale of those payments according to what's being delivered. So those principles don't worry us at all.

Q95 Barry Gardiner: Can I just be clear? You like conditionality, but whether you like it or not, you accept that most people in Europe don't like co-financing and therefore you'd like to see conditionality taken from Pillar 2 and pushed into Pillar 1, so that far more requirements are placed upon landowners to deliver environmental and public

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benefits in return for the money that they receive under Pillar 1. Is that correct?

Professor Buckwell: I wouldn't have used precisely that language, but broadly speaking, yes.

Barry Gardiner: Please use the language that you would like to use. I wouldn't like to misquote you.

Professor Buckwell: We genuinely believe that farmers are primarily in business to produce food, but because they manage the bulk of the territory, they're the only businesses out there who can supply biodiversity, landscape management, water protection, climate protection over a wide scale, and in principle they're willing to do this, but they want to see it as a business. Therefore, talk about voluntary contractual arrangements, where you're saying, "Here's the price for delivering carbon sequestration. Here's the price for delivering flood protection, for delivering biodiversity. Sign up to a contract," because farmers are businessmen and they're very happy to see it in that way. Whereas if you use the language of, "We're going to come at you with a big stick and a book this thick as to the conditions and the requirements," and so on, you get into a negative tailspin about, "Oh, more blooming bureaucracy."

Q96 Barry Gardiner: We regulate other areas of industry as well, so it's not to say that that sort of imposed regulation shouldn't exist, but broadly you are saying, "Give a menu and a price list and allow the farming community and landowning community to deliver public benefit at a known price for its Pillar 1 payments?"

Professor Buckwell: Yes.

Barry Gardiner: But it's performance based.

Professor Buckwell: Yes, and recognise that if agricultural prices go up then of course the price of environment will go up too, because the opportunity cost of delivering it has just gone up, and that's something we haven't got our heads round at all, which is why we say, "Don't throw the budget away before you realise what it's going to cost you to buy the environment you're seeking."

Q97 Richard Drax: I'd just like to say that farmers are the most overregulated industry already—I'd just like to make that point. If I may ask you, your evidence suggests the Commissioner is not proposing any new measures to help competitiveness. What would you suggest can be done at an EU level to increase competitiveness in farming, in particular, obviously, in the UK?

William Worsley: Sustainable food production is that which involves both economic/social as well as environmental aspects. Again, I go back to my point about balance. We have to talk about food and the environment both in the same breath because our food producers, as Allan has just said, are important environmental managers. What we are arguing is that the CAP should be supporting that part that the market cannot pay for. I think that we need to encourage farmers to be competitive and that will involve some restructuring of farm businesses to push the way forwards, but I think that the key thing is to support farmers to run their businesses efficiently. I'm not sure I've answered that question particularly well.

Professor Buckwell: Just to build on this, what the CAP does for competitiveness is a series of measures: there's some help for restructuring of farms; there's some help for producer organisations; there's help for better marketing and for certain kinds of investments; and there's also help for knowledge and skill acquisition. The CAP has not traditionally been a vehicle through which you fund research. I think there's an interesting question as to whether it should be. We're not pushing it particularly hard; we're saying that there are other routes through which research funding is organised.

Q98 Richard Drax: Can I interrupt you? Sorry, but that is actually my next question to you. So, while you're on that point, what can be done in R and D (research and development) as far as CAP reform is concerned?

Professor Buckwell: Our view is: not a huge amount. In other words, it's hard to see how you could create a separate and different European research funding apparatus that's distinct from the existing DG research budget, through which research on all subjects is done, which already includes biotechnology, food production and the environment. They have very active programmes in those areas, quite rightly. We're not suggesting that the CAP and the CAP budget is the right mechanism through which to do that. I think arguments can be made that that should be done, but the CLA has not chosen to push in that route. So we're saying the things that the CAP can already fund are things like knowledge and skills training, and there's more that can be done there. We don't underestimate the importance of more R and D and more activity in getting the R and D out into practice on farms, but to be honest some of the critical issues in that area are national issues rather than CAP issues—the fact that we don't have a well developed extension service now and we're still struggling to get the systems we do have in place working better.

Q99 Richard Drax: Could I just go back to the competitiveness point and just pose a question from the farmers' point of view? I've met many farmers. Many say to me that to meet this new competitive world that they're living in, with all the regulation and so forth and environmental stuff that's being chucked at them, they need grants to upgrade their farms to meet all these requirements. Would you say there aren't enough capital grants, particularly for the tenant farmers, to invest in their farms to buy expensive bits of equipment to ensure they can reach these levels that are being imposed on them? I.e. and then make them more equally competitive.

William Worsley: There are very few grants available now; also the tax system has changed, so you no longer get agricultural building allowances and everything else. So from the tax point of view and the grant point of view there's very, very little money. Going back, historically, to the agriculture and horticulture development scheme and the like, which is what a lot of farmers used to upgrade their drainage systems, their farm buildings and so on, they've all gone. I believe that there is a significant build-up of lack of capital investment in infrastructure for

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farming, and I think this a problem that will come and hit us before too long.

If you look at most drainage schemes in the country, they were done in the '60s, '70s and perhaps early '80s, after which they really pretty well stopped. Drainage schemes on the whole have a lifespan of about 30 years, plus or minus, and I've certainly seen the schemes I did on my own farm beginning to—well, my farm has certainly got wetter over the past few years. Also if we look at farm buildings, the like, and I think there is an intrinsic problem there. There is also the point that could be made that many farmers have too much expensive machinery; that perhaps they over-invest in the machinery compared with a lot of other parts of the world, but I think there is a major problem with the lack of ability to invest in capital. When you've been farming on £70 to £80 a tonne of wheat, actually it's jolly difficult to find money to put aside. Most farm businesses struggle to meet the depreciation costs, and I think that is quite a problem building up for the future.

Professor Buckwell: I think when Europe comes at us with pretty heavy regulation, for example, in nitrates and water protection, some assistance on enabling farmers to make the investments in slurry storage and so on to deal with this is not unreasonable, to find some sharing of the costs there.

Q100 Barry Gardiner: We were told in previous evidence to the Committee on the uplands inquiry that, "Subsidies allow farmers to continue farming who probably should not be." Do you think it's fair to say that the same might be said of landowners: that subsidies allow landowners to continue being landowners who probably should not be? And given your remarks earlier about payment for performance, do you think that there should be a cap on the amount of subsidy that landowners receive, particularly, obviously, large landowners?

William Worsley: I think perhaps I ought to take this in two parts. Should there be people farming who perhaps shouldn't? I think that, as every industry develops, people should look at their businesses and question whether and how they're running their business, and I think that there are people who are farming that actually would be much better to sit back and get other people to farm their holdings for them—i.e. mergers. We talk about contract farming arrangements, share-farming arrangements, FBTs (Farm Business Tenancies) and the like, but there are quite a lot of people who perhaps may run unviable businesses who should be looking at partnerships, other ways of running their business. With regard to capping, no we oppose capping and we oppose this for the reasons of both principle and practicality. Firstly, it would hit most severely the most productive and commercially viable farming operations. Also if we attempt to adjust the payment caps according to farm employment there is a danger it would create a disincentive for improving labour productivity.

Q101 Barry Gardiner: Sorry, I don't want you to answer a question that I'm not trying to ask, and forgive me if I've misled you in the way I've stated the question. Let me put it more specifically. In

Professor Buckwell's earlier comments to the Committee, you were looking to a much greater proportion being in Pillar 1, at it being performance-based, and the money that people receive being performance-based in return for a public benefit. Your own opening remarks to the Committee focused on public subsidy should be for public benefit quite clearly in that context. So if it were the case that that transition of greater conditionality did not occur—did not occur—given the situation that we're in, from the CLA's point of view, those landowners who are simply landowners but not actually engaged in producing increased public benefit are not farming—the clue is in the title, Common Agricultural Policy—and if they're not providing those additional public benefits, environmental benefits that we would've wanted to see put into Pillar 1, why should they not be capped? Why should there not be a system that says, "Look, you don't just get a lot more money for owning land. You get a lot more money for doing something with it that is a public benefit."?

Professor Buckwell: It seems to me an odd question in that we're not aware that people who are neither farming nor producing any public goods are getting substantial payments. In order to get a payment you have to be in management control of the land, you have to have the land at your disposal and the people who are doing this are taking the business decisions about the land use. They may not be sitting on a tractor; they've devolved that and they're paying for those services from people who are more equipped to deliver them. That's a normal business process. So we're not clear that there's a widespread category out there of people who are doing absolutely nothing in the way of farming or environmental management who are getting large payments, because we wouldn't make the case that they should be.

Q102 Barry Gardiner: But with respect, I'm not making allegations or accusations that there are and therefore you don't need to defend those people if they exist or if they don't. What we're talking about is principle. We're talking about the principles: the principles of subsidy and the principles of receipt of subsidy. Given that what you said is about public subsidy being given in return for public benefit, it's not simply the fact of owning land that should actually entitle you to receive that subsidy, should it?

Professor Buckwell: Yes. No problem with that.

Q103 Barry Gardiner: And beyond a certain level, it's clear that it is possible under the current circumstance for people who, by virtue of owning land, without providing those additional benefits, will receive, under Pillar 1, subsidy.

Professor Buckwell: That's the bit I'm questioning.

Q104 Barry Gardiner: You think that's not possible?

Professor Buckwell: As far as I'm concerned where people are not doing the farming because they've got tenant farmers in place, it's the tenant who's claiming the money, and there is an arrangement between the owner and the tenant as to who's doing what other functions. So sometimes it can be the case that the

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tenant is claiming the single payment and the owner is claiming some environmental money because he's arranging the environmental stewardship.

Q105 Barry Gardiner: So why has the Tenant Farmers Association said maybe it's time to think about capping?

Professor Buckwell: Well, you should ask them that.

Barry Gardiner: I'm asking you for your view.

Professor Buckwell: To be honest we don't understand what the problem is that they're pointing to because they haven't detailed it. This whole issue about active farmers: we keep asking the Commission, "What's the problem that it's addressing?" and all we hear talked about is golf courses and airfields. That's a problem about eligible land, and I don't think Heathrow and Gatwick get single payments, as far as I know. This isn't a problem in the UK because we have a perfectly adequate description of what is eligible land and what isn't. Eligible land for this is land that's producing agricultural commodities or environmental services.

Neil Parish: There is an argument that golf courses actually deliver a very good environmental system because it's not being disturbed, other than by playing golf on it. I'm just playing devil's advocate now. If you're actually talking about land management, then the Commission has got itself into a real problem over this and I think it's something that we and our Ministers have to face up to very strongly.

Q106 Barry Gardiner: Just to try and make this point. You have agreed that subsidy should be in return for benefit and you've agreed that we should be pushing more conditions into Pillar 1. You said the majority of the money should be for targeted policies delivered under the Pillar 1 structure. My point is this: at the moment, although you have the good agricultural and environmental condition as the condition in Pillar 1, most of the money in Pillar 1 gets delivered without the delivery of those additional public benefits. We agreed on that earlier. And, therefore, without the reform that you and I would both wish to see, should there not be a cap on the amount of Pillar 1 payments that a landowner can obtain because, ipso facto, unless that change that we both want to see comes about, they would be receiving much more money without delivering the environmental benefits?

William Worsley: If I can say, firstly, I don't think in talking about public benefits we're talking solely about environmental benefits. I think food security is a very important part of it. The second part is that if we're talking about attaching the payments to land, which is what we believe is the right place to be, it's irrelevant whether you're farming 20 acres, 100 acres or 1,000 acres because the management requirement is the same. If we cap, it will be regressive; it will stop our industry modernising and reforming. So I don't think that a cap is right or relevant because I think it will frustrate moving businesses forward and what you will find is that the large farming businesses will just divide themselves up into smaller, more inefficient units. Whilst payments and support is on

an acreage basis, I don't think capping is the right way to be looking at it.

Professor Buckwell: We're arguing that the policy should move towards justifying some of the single payment for environmental benefits; therefore, that removes the logic for the cap. But in addition, as William Worsley says, part of the payments are compensating for the higher costs, and bigger producers incur more of these higher costs.

Chair: I think we need to move on because we have another set of witnesses very shortly.

Q107 Neil Parish: Yes. Really, the Commission is in a bit of a false dilemma because they talk about competitiveness and then talk about sustainability. Can they have both? And also your evidence also says that you feel that producers are being overloaded with environmental requirements, so can you give us a bit more detail on that?

William Worsley: Farmers are hugely regulated, as are land managers. You can't do anything. The only industry that's probably more regulated than farming is forestry, which for an inefficient, incredibly unprofitable industry is staggeringly regulated; you can't do anything without getting consents for this and the other. Sorry, I've lost my thread.

Neil Parish: Yes, about the competitiveness and environmental control. Is there too much regulation on environment at the moment or too little?

Professor Buckwell: Obviously, commercial producers of food would like to see most of this regulation disappear, but unfortunately—and the rest of society would say fortunately—it's not going to disappear. In Europe we want very high standards of management of our water, of the atmosphere and of biodiversity; these are things that people campaign about and this kind of regulation, if anything, is going to increase. We're still fighting off a soils directive and we're almost certain to have further regulations on farming to deal with greenhouse gas emissions and climate change. These are the realities, and so what it seems to me that the rational society is trying to do is say, "Yes, we want competitive agriculture that has to be able to compete with parts of the world that are less rigorous about these standards, but we're expecting in the fullness of time these environmental standards will have to apply there as well. In the meantime, we don't want our agriculture to disappear overseas and then ask for us to import environmentally destructive produce."

Therefore, both the competitiveness and the sustainability argument comes around to: what is a workable and affordable way of compensating our farmers for the impositions that we put on them to abide by higher standards than apply in many other parts of the world? That's why we keep coming back to: how do you do that? That's why we think it's a mixture of Pillar 1 and Pillar 2; let's build in the broad-brush environmental conditions that should apply to most farming in Pillar 1 and leave the higher level and more regionally adapted environment schemes to Pillar 2. I think there are reasonable reasons to do that sort of thing, but the argument is about the resource that it is reasonable to spend to

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help farmers achieve those high environmental standards and still make a living producing food.

Q108 Neil Parish: But do you consider that there is enough attention paid to food security? There is a balance between how much you dedicate your land towards the environment and how much towards food production. I agree there's a balance to be hit here.

Professor Buckwell: And the answer is that, until recently, anyone who mentioned the words "food security" was pooh-poohed in this country, but thank goodness things have changed in the last three years. That's to do with a long-term agenda about research and development, but it's also—and this is a European question, but it's not a CAP question—are we or are we not going to allow our farmers to use the fruits of 20th century biotechnological research. At the moment we're saying no and so we're just going to drive a bigger and bigger wedge between our own farmers and the farmers abroad, and also we deprive ourselves of the ability to grow crops that would be less environmentally harmful, too. The way we regulate pesticides has elements of the same problem. We are a bit over-precautionary in Europe on these issues.

Q109 Amber Rudd: Do you have any suggestions of practical steps to enable farmers to become more competitive and sustainable, combining those two requirements?

Professor Buckwell: Practical steps. To be more sustainable, the farmers who are taking that seriously, and lots are, are doing it through the agri-environment schemes that we've developed. This has been a Government; industry activity. We and the NFU are fully engaged with Defra and Natural England in developing these schemes and trying to make them practical. It's hard work, but farmers who pay attention to those issues and get engaged in those schemes, in a sense, in that process learn about biodiversity and landscape and rural protection. A lot of farmers already know it; this isn't brand new, but the more we've encouraged farmers to just focus on production then I think there is a reorientation of views needed. On competitiveness, ever since I've been in agriculture, for 40 years now, we've been asking or encouraging farmers to do their accounts, to get engaged in benchmarking, to know what their costs are, to compare themselves with like farmers and find ways to improve, to work together in machinery rings and collaborative investment and equipment, and so on, and to better market their produce. These are slow processes though. I don't think there's any new magic bullet that we haven't invented. It's just constantly pushing those sorts of activities.

Q110 Amber Rudd: Do you think that a climate change mitigation top-up, as proposed by the European Parliament, would be more successful in achieving this competitiveness/sustainability balance than the mandatory green measures proposed by the Commission?

Professor Buckwell: The problem is that the top-up and how it's to be scaled and the conditions that would apply to it have not been spelt out. I think

everyone's agreed that in this next reform we have to pay more attention to climate change and that means helping farmers to reduce their emissions, which means using their fertilisers and their feeds more efficiently. Well, farmers want to use their fertilisers and feeds more efficiently; they don't want to spend a penny more on fertilisers than they have to, so this is part of the knowledge transfer and those functions that we have to constantly work on.

Q111 Amber Rudd: And on this issue of the debate around annual payments or multi-annual payments, your evidence refers to "an obsession with annual payments for multi-annual commitments in Pillar 1."

Professor Buckwell: Yes, we do think that if you're pushing the environmental debate, which is a long-term process, that it makes sense, we would've thought, both in the administration and for the farmers, to set up a five-year or a seven-year or whatever period contract where each side knows what's to be done, what's to be delivered, what the price is for it, then get on with it instead of filling in forms every year and having inspections every year. This could be a significant simplification, and so we don't quite understand why, given we're working those principles quite well in Pillar 2, we can't extend them to Pillar 1. What's the legal or other objection to that is the question we keep posing, and we haven't had a very satisfactory answer.

Q112 Amber Rudd: So it's driven by simplification and by working with what seems to work?

Professor Buckwell: From our perspective.

Amber Rudd: Yes, which it should be.

Professor Buckwell: Yes, exactly.

Chair: Thank you very much

Q113 Chair: If the Commission wants to green the first pillar, do you at the CLA think that the proposals will deliver genuine environmental benefits?

Professor Buckwell: They'll have to.

Q114 Chair: How will you force them to?

Professor Buckwell: Whichever pillar the greening is done in, it must deliver some public benefit. If it doesn't and people are being paid to deliver this, then of course the whole system collapses. There can't be any doubt about that, and so the question is practicality and workability. I mean, what's the difference between the two pillars? It's to do with where the funding has come from. How does that affect whether it works or not? The critical thing is to design the schemes in a way that takes account of local knowledge, so the farmers buy into them and don't see them as heavy-duty regulation. Then I think they will deliver, because they are delivering.

Q115 Chair: I think you answered this earlier, but do you think that environmental benefits can best be delivered through the universal measures in Pillar 1 or targeted measures in Pillar 2? You touched on that earlier.

Professor Buckwell: The answer is both. There will be the broad-brush measures—the sorts of thing the Commission is talking about—and the sort of things

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that we do in entry-level stewardship are relatively straightforward, don't require massive set-up work, which higher level stewardship does require, so there's scope for both. Some things can and should be achieved in those relatively straightforward ways of identifying the elements that farmers have to abide by and then for higher delivery, for more sophisticated land management, you have to get a much more active programme set up that is suited to the farm.

Q116 Chair: On the green aspect of Pillar 1, do you think that what the Commission is proposing is consistent with simplifying the CAP?

Professor Buckwell: To be honest, we think it's not a smart thing to say, "We want the objectives of the policy to get more complicated,"—i.e. you have to learn how to do sustainability, which is a pretty complicated process wherever it's applied—and then pretend that the policy's going to get simpler. There's nothing simpler than dishing out single payments based on how many cows you had in 2002, but the problem is it wasn't very justifiable. If we're trying to deliver landscape biodiversity, water and climate protection, those are not simple things. So I think we're generating unreasonable expectations if we're encouraging farmers to think that the future is going to be simpler than the past. It's unfortunately not.

Q117 Chair: And creating a carbon sink? Is that something that would benefit?

Professor Buckwell: Yes it would benefit mankind that land management can sequester carbon in soil and trees and should do. This is an area where the money doesn't necessarily have to come from the public purse, if we're smart about this.

Q118 Richard Drax: Would direct payments to farmers or trade liberalisation be the better way of ensuring Europe's citizens have access to sufficient quantity, quality and variety of food in the future?

William Worsley: Certainly with cereals, we are in a world market as it is. The problem is, of course, that you have countries like Russia that suddenly close the doors to exports and create terrible problems. On trade liberalisation in agri-products, the problem is, as we have said earlier, that you have some countries in the world that are operating on completely different rules than we are: far greater scale, far lesser environmental management. That creates a huge difference between that and the sort of farming we're doing in Europe, where we very often—not always—have small fields, have much greater difficulties with economies of scale, there's far more people around, and therefore the ability to farm the way that you can, for example, in Argentina or New Zealand means there's just not a level playing field. The scale of farming in North America, again, is fundamentally different from the scale of farming in Europe and this creates a huge differential. If we want to protect the landscapes, protect the farming systems, protect farmers, European farmers have to have a form of support. After all, there's no farming or very few areas of the world that don't have some form of support.

Q119 Richard Drax: We all assume, though, that this is all done in the EU. Do you as an organisation see that, if we ever left the EU or reorganised our role in Europe, British farming would be better looked after within national confines than international confines?

Chair: That's a personal view of Mr Drax.

Amber Rudd: I think you can safely say that.

Richard Drax: It's just an observation. I'm just asking, as an observation, do you see a future for British farming outside the EU in some way or other?

William Worsley: I think that British farmers have hugely benefited from the EU because they've been recipients of the Common Agricultural Policy.

Chair: And it's also given them a market.

William Worsley: And it's given them a huge market. I believe if we were outside the EU, we would have to persuade our Government to support farming in exactly the same way that it's been supported through the Common Agricultural Policy, and I would question whether the British Government would do that. The second thing is we'd have to make sure that we have the markets because, if by moving outside the EU we closed off the markets that are currently available to us, it could cause us great deals of difficulty as British farmers. So I think that we're probably better off in the EU and with the CAP than being outside, from a farming perspective.

Q120 Neil Parish: I think with trade liberalisation the key would be that you may be able to get the quantity of food, but it's whether you'd actually be able to get the quality and the different types of food. Brazil will plough up more savannah and cut down more rainforests and it can produce as much sugar and beef, probably, as we would require, but at added environmental damage. I think those are the keys that we have to get over and I think that is something that is probably not talked about enough. I would suggest the threat to farming and the environment in this country is probably almost greater by trade liberalisation than probably—I'm speaking as a heretic now—in anything else.

William Worsley: I think that one of the real risks is that we'd just export the problem if we buy from the cheapest common denominator. It's much cheaper to produce crops in South America or whatever because there are none of the constraints that we have. If we want our food, quality food, from sustainable sources we have to look after our farms to be able to do that, because we set our farmers hugely high standards within which to operate. If they are trying to compete against those who have fundamentally lower standards, we will find it almost impossible to compete. Therefore, what we would effectively do is export the problem overseas and I think that is an irresponsible way as a nation to behave.

Professor Buckwell: But in fact the trade liberalisation talks—the Doha round that has been grinding on for a decade now getting nowhere—are negotiating relatively simple things, such as tariff barriers and agricultural subsidies. When we get into negotiating non-trade concerns—these environmental issues—that's when we hit the really difficult stuff. So we're not going to solve this problem very quickly, in

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my view. Therefore, in the meantime, it's absolutely right that Europe ensures it has a support system that brings about the land management and the food production that suits its citizens and that they're paying for. I think that's why it's a perfectly healthy debate that we're having.

Q121 Chair: Can I just ask your reaction to the Commission's thinking on restricting payments to active farmers and the view of your members?

William Worsley: We don't think there's anything wrong with the existing definitions in the single payment regulations as to who is a farmer and what qualifies, so I think that this is perhaps what I might call a bit of a red herring. I don't see that there's a problem in the definition of active farmers. We're talking about the user of the land, the active decision maker and the person who's taking the business risk. I think we have to be very careful not to define that in an incredibly prescriptive way because I think that it will just create huge difficulties in the administration of the payment. We must go for something that's simple and straightforward. There are currently definitions of what farmers are who are the recipients of the Single Farm Payment; I don't see a problem with that. I just see this as being unnecessary.

Professor Buckwell: This could be an administrative nightmare. They're going to start asking farmers to keep timesheets of how much time they spend on different activities to show how much they're

spending on farming, or how much of their turnover. We've been encouraging farmers to be more diversified and we're now going to penalise the ones who have 51% of their income from their non-farming diversified activity. It would be barmy. Once you define thresholds and criteria that have to apply to every business, and then all of our businesses where the farming has been through a sophisticated system of outsourcing certain operations, the question will be posed, who is the farmer? If we get into these sorts of arguments all these contracts have to be rewritten, this will be an immense complication, but for what problem? That is the question we keep posing.

Q122 Chair: So, just to confirm, are you saying that he or she who takes the business risk should—

Professor Buckwell: Yes. We saw the evidence that the TFA gave to this Committee and the words that they used seem not unreasonable at that level of generality at which they were speaking. The problem comes at the next (administrative) stage where you have to specify what forms applicants will have to fill in, what evidence they have to provide, or what inspections they are subjected to, to back this up. This is the sort of apparatus that we think is not necessary.

Chair: You've been very generous with your time. Sorry we've overshot slightly, but thank you very much indeed. It's always a pleasure to see someone from North Yorkshire and, indeed, Thirsk and Malton, so thank you very much indeed.

Examination of Witnesses

Witnesses: **Peter Kendall**, President, and **Tom Hind**, Head of Economics and International Affairs, National Farmers Union (NFU), gave evidence.

Q123 Chair: Good morning to you both. You are very welcome. Peter, can I ask you to introduce your colleague for the record?

Peter Kendall: Good morning Madam Chairman, and thank you very much indeed for inviting the NFU to respond to questions and explain our evidence to you. I am Peter Kendall, President of the National Farmers Union, a recipient of the Single Farm Payment when they get round to paying it—it has not yet been paid—and as I said, I am a farmer in Bedfordshire. I am trying to work out exactly what Tom Hind's title is.

Tom Hind: Head of Economics and International Affairs, President.

Peter Kendall: That is what Tom's title is. Apologies, Tom. I would like to say that I think this is an incredibly important time to be looking at how we evolve the CAP, the message we send and the influence we have, as a UK Government, on the direction it takes. We had a fascinating couple of days last week at the Oxford Farming Conference. Our presentations talked about how 85% of the world's inhabitants live in economies that are currently growing in excess of 5%. You listen to John Beddington talking about the need to increase food production globally by in excess of 50% in the next 20 years. I think the signals that we send out within this CAP reform, the language we use and the way we

address the challenges that we face, are incredibly important.

We also accept that this is done against the backdrop of incredibly tight financial constraint. The main philosophy you will see in the work we have presented is to try and get farming to a place where it depends less on direct support for farming, and not one where we have to go around justifying why we get that. We do think there is an opportunity to start that journey, and start having a discussion about what we need to do to put farming in a better place.

Q124 Chair: Do you believe we are sufficiently self-sufficient in food in this country at present?

Peter Kendall: We are very wary of setting targets about where we should be. What I have tried to do over a number of years now is to advocate to different Governments how we should have an early warning system. We should look at what is happening to production in different sectors vis-à-vis Europe, and see what is causing that decline, because I think in nearly all sectors—probably soft fruit would be the one exception—we have been declining over recent times. In our New Year's message we highlighted the fact that in the last 20 years we have gone from being over 75% self-sufficient in indigenous products to being under 60% now. What is important for us is we

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look at what is causing that, we look at where farmers are failing in that equation and where Government regulation of the environment—I meant that in the business environment—is wrong for farmers to be competitive both in a European and global context. So we are worried by the decline, but I would be nervous about setting distinct targets.

Q125 Chair: Mindful of the comments we had from the previous witnesses, do you believe that the balance is about right in what the Commission is proposing in the next round of CAP reform between environmental measures and food production?

Peter Kendall: I think the European Commission's narrative at the start of this document is right to put food security, in the context of what I have just said, at the start of its context setting for this current reform. I then think there are discussions within option two that takes us into confusing areas around sustainability and greening of Pillar 1 that, as yet, we do not have enough detail on to allow me to fairly answer your question as to whether the balance is right or wrong. We think it is going in a worryingly complicated area that could send some rather conflicting messages to the farming industry.

Q126 Chair: Do you believe that through the reforms the Commission will be able to meet what they have set out in their own mission statement on the website? That is, at the same time as delivering “a robust and competitive agricultural sector” with “high environmental and production standards”, there will be “a fair standard of living for the agricultural community”?

Peter Kendall: I was fortunate to take Commissioner Ciolos out on the farm on Thursday morning last week, and I think what was very telling was that the ambitions he might have are constrained now by the involvement of the European Parliament and the way this discussion is going to be had for the first time. I do think that if we said, “Well this is a very fair return for every single farmer in the 27 Member States,” I would say now that I think there is going to continue to be rationalisation, particularly when you look at the Commissioner's own country of Romania for example; we cannot say that this is going to deliver a fair standard of living for every single farmer that currently exists in the EU.

Q127 Chair: Just to be personal for a moment, what about the hill farmers in North Yorkshire in 10 or 15 years' time?

Peter Kendall: Again, we talked about the balance of how we help farmers. I think there will continue to be rationalisation. I look at younger farmers coming in who employ new technology, whether it is through electronic tagging of animals or whether it is using smart technology in scanning and handling their livestock, and I don't see us being stuck in a single structure forever. Mr Parish and I have discussed on many occasions the benefits of being an arable farmer in East Anglia. In my farming in Bedfordshire, what has happened in the technology drive has enabled me to do in an hour what we used to do in a day, with any one of the single machines. It is quite remarkable.

We see it with robotic milking now, where people become more technologically advanced. I think the challenge for some of those farms in remote areas is to help them with some of the competitiveness support, as previously discussed, to help them be more resilient, more robust, and to adapt to that challenge in the future.

Q128 Barry Gardiner: Peter, you said that at the moment the Commission was not being specific enough about what it wanted to see in Pillar 1 for you to properly answer the Chair's question. In a sense this is your opportunity to provide that specificity. Could you tell us what you would like to see as those elements of Pillar 1, mindful of the discussion that we had earlier that you heard, but also mindful that the Commission is seeking to make, in some ways, the subsidy that the public pays more acceptable to the public—to show that, “Yes, money is being paid, but it is being paid for damn good reasons and this is what they are.”? So, could you set out a sort of, “This is what they are”—that sort of element of the menu that we talked about earlier in our discussion?

Tom Hind: Let us take a couple of steps back first. As I see it, the Commission's approach is to try to legitimise, as best as possible, the current support arrangements to try and mount a tactical defence of the policy and a tactical defence of the budget. Whether it will succeed or not I think is a matter of some debate. Our approach is to try and fight for the policy that we think is fit for purpose. Broadly speaking, as Peter outlined at the start, that policy is a policy that gets farmers to a place where they can be less reliant on public support. That requires essentially two ingredients. First of all, it requires measures that help farmers become more competitive; and secondly it requires measures to ensure that the supply chain in the food industry works correctly. In the meantime, until we create those conditions, direct support payments given as a form of income stability to help farmers weather the storm of market volatility remain an important component.

We do not share the Commission's thinking about the two pillars. We believe that the two pillars are logical and perform separate, but complementary, functions, and we believe that it is right and proper that they should. For example, we believe that Pillar 1 is an economic policy. It is there to try and ensure that farmers can hack it in quite a difficult market situation, whereas Pillar 2 is more flexible, more adaptable, more targeted, and more suitable for helping farmers improve their performance—either improving their economic performance, or improving their environmental performance. If we share the Commission's logic about the need to green the Common Agricultural Policy—and we do agree that it is important that the policy is legitimate in the eyes of society—we think it is better to do that through Pillar 2 than Pillar 1.

Q129 Amber Rudd: Do you agree with the Commissioner's position that reforms such as payment capping are a necessary evil to justify and legitimise the CAP?

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Peter Kendall: No, and not because I'm somebody who would be affected by that—nor Mr Parish; I would not suggest that for a moment. Actually, I look at this industry becoming competitive and dynamic in the way it structures businesses, and when I see people already listening to what the Commissioner says about how they can restructure their business, how they can employ accountants and solicitors and how they might break up family businesses, that strikes me as contradictory to helping us meet the challenges I outlined right at the start of having to produce more food while impacting less on the environment. Why would we want to send signals to people that actually breaking these up into complicated substructures would be a better way of doing it? I think it is making the mistake of saying, "We want to get the PR right, rather than have the right policy." It would complicate it. I know there are people saying it would not have any impact, but I just think it sends a message that we don't want people to come together, make their businesses more efficient and try and get it in the right place for the long term.

Q130 Amber Rudd: What do you hope to achieve in this round of CAP reforms then, thinking of policy?

Tom Hind: From our point of view, we would like to continue the progressive path of reform that we have seen led by the two previous Agriculture Commissioners, which is about more market orientation for agriculture and facilitation and support to help farming become more competitive; the retention, and potentially enhancement, of measures that help farming improve its environmental performance, particularly with regard to climate change; and then finally, an enhancement of measures to strengthen the position of farmers within the supply chain. As I said earlier, the key challenge for us is to help farming get to a place where it can be less reliant, so the focus really has to be on helping farming become more competitive and help farmers address any concerns and problems that exist within the marketplace.

Q131 Neil Parish: Before I move on to my next question, do you not think that Mariann Fischer Boel and Fischler were different animals to the present Commissioner? I don't see an awful lot in this Commissioner's proposals to make agriculture more competitive across Europe.

Peter Kendall: I think that the jury is out on whether there might be some measures involved that do that, but I would share your concerns that the direction of travel and the sort of policies that will work or were being developed by Mariann Fischer Boel and Franz Fischler are not being followed. In fact, I actually asked Commissioner Ciolos̄ exactly that question when I had him in the car on Thursday morning last week, and he just chuckled. He did not really answer the question at all and went off in a different direction.

Tom Hind: To be fair to Commissioner Ciolos̄, he is from a new Member State and he is dealing with reform under 27 Member States. He is also dealing with reform with the European Parliament, which in a sense has already set something of a precedent for the way that it might treat reform in the future. Therefore,

his challenge, potentially, in negotiating the path of reform, might be more difficult than it was for Franz Fischler and Mariann Fischer Boel, particularly because—at least with regard to Franz Fischler—there were external and exogenous factors that were driving reform, namely the WTO.

Q132 Neil Parish: Yes, I would just say he is starting from a different position. That is all and that is what worries me. Anyway, I will move on to the next question. Do you agree with the Secretary of State's assessment that future food prices will result in greater return to farmers, removing the need for income support payments?

Peter Kendall: I regretted the way the Secretary of State expressed her views last week at Oxford. I would have preferred that she talk more about the conditions we need to put in place to make the market work properly and to make sure that we have a fair position with global trade. We have talked a lot already about different standards of products coming into the EU, et cetera. I would also have liked her to talk about the time scale for when this might occur. I think using the phrase "abolition of support" immediately makes farmers very nervous about the long-term trajectory. But do we share the ambition? I say this wherever I am with a group of farmers. Farmers do not want to be in the local public house having people say to them, "You must have had your subsidy cheque. It is your round, Mr Kendall. Get the beers in." We want to be in a place where the market returns us a fair living. We want to set a target to try to get there, rather than just say this is about abolishing subsidy.

I think it is impossible to say whether we are going to see continuing firming of global markets. Sometimes we have very benign years on global markets, where all of a sudden production clicks. However, the fact that we have now had three back-to-back record harvests in grain, particularly in wheat—we have had the third biggest wheat harvest—and we are still seeing record prices, tells me that there are some strong signals out there. There is a lot more to be done before we talk about abolition.

Tom Hind: I think we can see globally, by the analysis given, that you have got the UN FAO (Food and Agriculture Organization), the OECD (Organisation for Economic Co-operation and Development), and various other organisations, predicting that compared with the previous 10 years, food prices for the next 10 years might be higher, although we have to bear in mind that within the European Union, we operate within a tariff, which is a slightly protected market. However, I think the analysis is potentially flawed for three reasons. First of all, we are seeing rises in input prices just as fast, if not faster, than we are seeing rises fall for output prices across agriculture. Markets are volatile, perhaps increasingly so, but what matters more for farmers is not the extent of volatility, but how exposed to that volatility they are. Partly because of CAP reform since the 1980s and onwards, farmers have become much more exposed to that volatility in market prices. Finally, we are seeing much more concentration in the supply chain, which helps to subject farmers to much more significant downward

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pressure, which of course keeps a lid on the extent to which farmers can benefit from any commodity price increases.

Q133 Neil Parish: Right, so you would be keen to see us put this adjudicator in place and hope that he or she has real teeth?

Peter Kendall: Sooner rather than later.

Q134 Neil Parish: Right, fine. I knew that would probably be the answer.

The next question is: given the budget restraints in the EU and given the fact that Greece at the moment is getting €500 a hectare and Latvia, €75 a hectare, there is going to need to be an equalisation of payments across Europe. How do you think that's going to affect us, particularly?

Tom Hind: I think this is one of the thorniest issues that the Commission has to grasp, and I am not convinced at this stage that it has grasped it, at least as far as the communication is concerned. That might partly be because it falls into the hands of high politics. This is all down to a discussion about the future of the financial perspectives, who gets what and who puts in what in terms of the European budget. I do not think it is easy to be intellectually pure about it. You might argue that on the basis of pure agricultural eligible area, because the UK is below the average level of €271 per hectare at a European level, we might stand to benefit from some equalisation. However, we are an old Member State. We are, by and large, a net contributor to the European budget. We are a Member State that favours radical reform of the Common Agricultural Policy. Therefore, I am not convinced that we stand to gain. Equally, we do not benefit particularly well from rural development allocations—I think we get 1.3% of the core European Agricultural Fund for Rural Development. So for us, the pursuit of some sort of more objective approach to distributing support across both pillars is one that we should be looking to pursue.

Q135 Neil Parish: That leads me neatly into another part of the question. Would your members accept the reduction of the Single Farm Payment if it was offset by a greater availability of money in Pillar 2?

Tom Hind: Peter may be in a better place to judge than I am, because he is a member and I am not, but I think they will be more predisposed to accepting some change in the value of Single Farm Payment if that change was uniformly applied across the European Union. The key issue for us is fair treatment.

Peter Kendall: I think that is really important to us. I will take you through one example, if I may. When you consider how the last implementation occurred, in your part of the world, Mr Parish, intensive beef finishers would have been receiving very large payments. If you compare that with someone now in Scotland, for example, who is doing exactly the same type of job, they would still be getting an historic payment in Scotland and the person in the south-west, in your part of the world, would maybe getting maybe a third of that payment. I think we understand the need for budget constraint and the challenges we face, but

I think when one farmer not that far away is receiving a significant amount more for doing a very similar job, it causes real concern. When you also get, across the water, coupled payments, which also incentivises production in those sectors, I think again you get more disquiet. For us, it is about having a common agricultural policy, and then making sure that the policy works to encourage the right outcomes.

Q136 Neil Parish: Of course, the different level of payments between Scotland and England was a Government decision of the English Government, rather than necessarily a European one, was it not?

Peter Kendall: I will be very discreet about that. Of course, at the time Margaret Beckett made the decision. It was around a very complicated set of proposals, where some talked about having historic payments for animals, and regional payments for arable or crop farmers. There were many different proposals put forward, but I think the big shame of all of it was they ultimately designed the computer systems for a historic system, and then asked the computer systems to deliver a dynamic hybrid, hence the problems we have had in England and why I think we are probably looked down upon by the rest of Europe on the delivery of this last reform.

Q137 Chair: Do you share the concerns expressed by the CLA about Pillar 2, in the sense of responding to its complexity and the fact that it has to be co-financed?

Tom Hind: I think there are some valid points. Pillar 2 is complex. It is complex because it confounds a series of axis with a series of different measures, with quite complex rules in terms of administration, authorisation and approval of payments and so on. But the response from our point of view will be to refine and develop Pillar 2 so that it becomes a much simpler policy. The point about co-financing is fair, but again, there is no preordained rule that says in future Pillar 2 has to be co-financed.

There is, from a pragmatic and political point of view, a point that we do need to bear in mind. In this time of substantial austerity across the European Union, every Member State is going to be looking for significant savings in the way that it spends money, and agriculture is not immune from that. The European budget is not going to be immune from that. The CAP in totality is not going to be immune from it, but it does make co-financing much more challenging in the future. If the UK Government continues to promote a policy of transferring more resources to Pillar 2, it has to come up with a credible plan as to how it is going to achieve that and how it is going to buy significant support across the 27 Member States and the European Parliament for that policy. I am not convinced it has been able to prepare an alternative vision as to how it is going to do that yet.

Q138 Richard Drax: The Commission talks about improving competitiveness but doesn't seem to do much about it. What ideas do you have, by using the CAP, or the tools of the CAP if you like, to increase competitiveness in UK agriculture?

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Tom Hind: The CAP already provides support to help farmers become more competitive. Professor Buckwell already gave some examples of that. I think it's partly about what the Commission could do, and what the Commission should not do. What the Commission should not do, perhaps, is overload Pillar 2 with more measures and more objectives. It seems to some extent that it is trying to do that; sometimes in good ways, sometimes not necessarily so. The second thing that we could see is much more uniformity in the way that support is allocated to the different axes under rural development. Here in England, for example, a very small proportion of our rural development budget is allocated towards measures that support competitiveness. Perhaps that should be revised in future.

Q139 Chair: Pillar 2, or did you mean Pillar 1?

Tom Hind: Pillar 2. There is a role that the CAP could play in facilitating the delivery of research and development. I agree, the CAP is not the place to fund research and development, but it could play a greater role in terms of supporting the costs of knowledge transfer. That is one of the interesting ideas that does come out in the Commission communication. But, as I said, it is also important to bear in mind what the CAP should not do to impede competitiveness; for example, capping of support, increasing the conditionality on direct payments and locking farmers increasingly into environmental programmes that not only undermine their competitiveness but also increase their long-term dependency on support.

Q140 Neil Parish: When it comes to food production, though, do you not think the reticence to embrace biotechnology is going to affect our competitiveness in Europe?

Peter Kendall: I think this is probably a debate for another occasion, but I think that when we talk about the competitiveness of EU agriculture, whether we are discussing the availability of certain molecules in pesticides, the licensing process of those chemicals, as well as plant breeding materials, is absolutely essential. I do worry that we, as a trading union, often go to the most risk-averse level rather than trying to go to national independence. To make sure that you move this forward, I think it is absolutely critical that we do not stand back. When you see the vast sums of money that are being invested around the world in smart plant technology, I think we are making a grave mistake standing out of it.

Q141 Richard Drax: We have touched on this already, but do you think the competitiveness could be better enhanced by trade policy or the CAP? We have touched on this already, certainly with the CLA. What is your view on that?

Peter Kendall: I do not think it is an either/or. I think the within the competitiveness agenda of the CAP, we can look ways of incentivising smart use of modern technology, whether it be precision farming technology, smarter buildings for housing livestock or anaerobic digestion. I think we can use Pillar 2 to make sure we help farmers. The previous Government made the decision not to use Pillar 2 funds to help

farmers meet regulatory imposition. I will give you some examples. In Scotland, for example, they do receive grants for meeting the abolition of battery cages for NVZs. In England, we have taken none of those decisions. So I think we can use Pillar 2 money to help us invest in anaerobic digestion; better nutrient storage and management; soil testing; and precision application of nutrients, which would make us more efficient and competitive. However, just exposing us to international trade, of course, makes us have to worry about how we get our costs under control, but I think it would worry me if it was done unchecked. The fact is that the only times the WTO prevents trade is in endangered species or when there are health issues. Under WTO rules, you cannot keep product out because it is at a different welfare or environmental standard. When I see what has happened to our pig industry, which has nearly halved over the last 10 years, and about 70% of all the pork that comes into the UK today would be illegal by UK standards, I worry about unabated trade liberalisation. But of course, if we want food security and if we want to make sure we are matching the best international trade, we will make sure that we meet those objectives.

Q142 Barry Gardiner: In a sense you have already responded to the question I was going to ask, which was about R and D and support for knowledge transfer, so let me pick up on the theme that you have just left us with. It goes back to some of the things that you were saying earlier about Pillar 1 being needed in order to enable farmers to compete, given the international pressures and the lower standards elsewhere that their competitors enjoy. How, in practical terms, do you believe the Government could reduce the need for that subsidy in Pillar 1 and give farmers greater protection and more of a level playing field? It is very difficult, obviously, to ensure that standards elsewhere in the globe are going to be brought up to the level that we enjoy in the EU, which would imply that the only other method of doing that would be by some sort of trade barriers or tariffs. I think we do need some clarity here, because I have listened carefully to what you have said about Pillar 1 and the need to have a level playing field, but are there proposals that you would wish to make that would stop products from other parts of the globe coming in to compete with European farmers? If so, what are the barriers or tariffs that you would put in place?

Peter Kendall: Let me first reiterate Tom's point. A very important part for us of making us less dependent on Pillar 1 is a properly functioning supply chain. That is really important for us. I think that could go a long way, because, for example, if you see what is happening in pig meat in supermarkets today, they actually go to a lot of trouble to demonstrate, "This is British pork; produced to British standards," not by co-mingling or badly labelling or putting product that is produced to a lower standard on the shelf and misleading consumers. That can be supported by Government and public procurement in the message right across the whole of Government to send a really strong signal that we are going to reward our farmers for meeting these standards. So, actually we would

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prefer a market solution to that, but as we look at future rounds of trade liberalisation, I think it is important—actually, I think it is absolutely essential—that something like climate change should affect trade programmes. If we are going to have a country that was quite open, and I do not think some of the South American countries are as bad as we paint them to be—I think there is a lot of environmental protection in those places—but I would hate to see our farming in Europe or in the UK undermined because countries were adding to climate change significantly more than we are in the UK. That is a long way off in this short term, but it is why, in the medium term, that we believe that Single Farm Payment is so important.

Tom Hind: First of all, the Government's room for manoeuvre when it comes to trade policy is very limited, because it is set at a European level; it is a European competence. There are things that it could do. For example, in respect of negotiations on bilateral free trade deals, like the one that is under way with the Mercosur countries, it could, for example, insist that certain non-trade concerns are built into a bilateral trade deal. It is different to the WTO. I agree with Professor Buckwell; trying to get non-trade concerns into a WTO deal is pushing water uphill, but when we are talking about bilateral deals, things become a little bit more interesting. So there are things that it could do, but I am not sure that we are essentially looking for new trade barriers. If you look at what is on the cards in terms of a Doha Round deal, it would be challenging for some UK agricultural sectors, but the extent to which it could be challenging could be mitigated. I think the important thing from a UK production point of view is whether we are able to compete within the European market and whether we can compete at marginal cost, not whether we can compete with the Brazilians.

Barry Gardiner: Thank you.

Q143 Chair: What about those commentators that say that farmers could develop organic products, niche products or high-value products. Do you believe that is feasible in the current global agricultural market? Is there a market? Would people pay a higher price for those products?

Peter Kendall: It remains an exciting opportunity—probably less exciting than it was a few years ago. My very simple philosophy on this is that niche products need to be demand pull, not supply push. The worst thing you can do is have either the Commission or national Governments trying to give incentives to people to revert to certain types of production when the market is not there. I think we have seen the results of that in some of the collapse of the organic market in recent times. Actually, these need to be genuine markets that have support for the long term. I think it is very dangerous not to be at least very cautious when politicians and bureaucrats try and tell people where the market is going, because we have seen in the last two or three years that dramatic decline.

Tom Hind: As an obvious necessity, niche is niche. It has its place, and so the pursuit of added value is an important strategy for all agricultural sectors, but the niche is a necessarily small part of the market. We

cannot all be niche producers. For one reason or another, the vast majority of UK production is either commodity or commoditised by the nature of the supply chains that we operate in. I think we have to be realistic about the future of the sector. It is not based around a single one-size-fits-all strategy; it is based around ensuring that we have a solid, profitable and ambitious, competitive commodity production base, as well as trying to ensure that we open up and exploit market opportunities both here and indeed abroad.

Q144 Neil Parish: We talked a bit about the supply chain in this country, but what can the Commission do to strengthen the position of farmers in the supply chain, especially when it comes to trading within the single market? Dare I say it, some of our competitors across the water sometimes find ways of restricting trade, so is there something you would like to see the Commission put in there?

Tom Hind: I am not convinced that our colleagues across the water have found ways of restricting trade that have not been found out by the European Court of Justice. In fact, I recall the case against the FNSEA (Fédération Nationale des Syndicats d'Exploitants Agricoles) and the French beef organisations a few years ago, in which they were fined a significant amount of money. So it seems to me that the single market broadly works.

Neil Parish: It got there eventually, yes.

Tom Hind: It got there eventually. I think one of the arguments that is placed against our policy is that the Common Agricultural Policy cannot find all the solutions for the supply chain. I agree with that, but the CAP can provide some of the answers. It can provide support for producer organisations, including cooperatives that help farmers to concentrate supply and improve marketing. Although the fruit and vegetables regime has not been a universal success in the UK, there is an embryo of an idea behind that that is not unsensible. It can help by creating more market transparency, so that farmers understand how markets are operating in different EU Member States. It can help improve the marketing skills and competence of farmers and their representatives who are involved in selling agricultural products. It can support adding value and innovation. Finally, it can either permit or not impede the consolidation and concentration of farming businesses into larger units. We are interested by some of the ideas that are presented in the dairy package, which came out just before Christmas, which interestingly presented new proposals to give Member States the flexibility to put in place contracts that reduce the extent of exploitation that exists within the dairy industry at the moment. It might help farmers to become more competitive within the supply chain, and we certainly urge the UK Government to look with interest on those proposals.

Q145 Neil Parish: Is that the length of contract that you are talking about?

Tom Hind: It is not just about the length, Mr Parish. It is also about the terms and conditions that contract should contain, including price or price formula.

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Q146 Richard Drax: The Commission has suggested introducing a risk management toolkit. How do you see this working in practice and would it reduce competitiveness in agriculture?

Tom Hind: We have some insight into the Commission's thinking. Essentially, what it is looking to do is give Member States the ability to use a proportion of rural development funds to support the costs of revenue or risk insurance tools on mutual funds. It is similar to, but not exactly the same as, the AgriInvest Program in Canada or some of the programmes that operate in the United States. It is something that we have debated; we don't see an awful lot of interest in it in the UK. Some other Member States may see an interest in it, and fair play to them if they choose to use it. No doubt it will be restricted to WTO Green Box rules, which limit the amount of support that can be given, therefore making it potentially less than attractive. We just think it is likely to be quite a complicated mechanism, a much less efficient mechanism for providing farmers with a degree of income stability, and a risk management tool that is efficient as a Single Farm Payment.

Q147 Richard Drax: If it is optional, could it distort the single market?

Tom Hind: Based on the information that I have about the ideas that the Commission has, I do not believe so, no.

Q148 Barry Gardiner: Do you think in Europe we should be supporting small farmers to the extent that we are and to the extent that the Commission is proposing to push more money towards small farmers?

Peter Kendall: I unashamedly bat for UK farmers, so whenever I hear the Commission talking about small farmers I always wonder what they mean, and whether that would involve any of—

Q149 Barry Gardiner: Well, the average holding in the UK is 81 hectares, isn't it? In Poland it is 12 hectares, so I think we would be above average rather than below it, wouldn't we?

Peter Kendall: You have more clearly demonstrated my point, but I remain nervous about the notion of small farmers. Actually, having discussed a bit of this with the Commissioner last week, there are no real details at this stage. If they talk about the simplification of how they manage rules for those small farmers, then perhaps that might apply to some of my members and some of the farmers in the UK as well. But I think at this stage, it is too early to know what they mean. Again, if for all smaller units the rules are simplified, as we have, for instance, via schemes already, that is something that we would see no objection to.

Q150 Barry Gardiner: What about capping payments to large farmers? There has been a suggestion that it should be capped at around €300,000. Is that a fair thing to do?

Peter Kendall: I made the point earlier on that I worry about where we are trying to get. There are some really good examples from my part of the world of

where four or five farmers come together and share all their machinery, keep the business under one umbrella and have one set of accounts. It makes three or four go-ahead individuals much more competitive and much more efficient. They might only be drawing €150,000 or €200,000 today, but it is the principle of saying we want to get people driving synergies and trying to become more competitive long term and then telling them to go away and break all those businesses up again and become small subsets of one organiser—one business, if you like—so they can claim independently. I think it sends a message that you are almost disincentivising competitiveness.

Q151 Barry Gardiner: Can't you be accused in your last two answers of wanting your cake and eating it? On the one hand you are saying, there should be a limit and we want bigger enterprises with the efficiency savings they can make to keep on getting the rewards or the subsidy to enable them to get those rewards; but on the other hand, you are not prepared to say, well there should not be benefits down the other end of the scale to small farmers.

Peter Kendall: No, I talked about simplicity to small farmers. I did not say specialised payments because you are below a certain size or top-ups because you are a small farmer; I talked about simplifying the rules to people who might be on a small scale, which we are happy to look at and consider. I am passionately behind helping farming, and to Madam Chairman's question about outcomes, I want to help people be more competitive.

Q152 Barry Gardiner: Let me be more specific in the original question I was asking, then. Would you be in favour of the Commission's suggestion that they might be putting more money towards small farmers in Europe, or would you be against that?

Tom Hind: I am not sure that is the Commission's suggestion.

Barry Gardiner: I was asking Peter.

Peter Kendall: Going back to your example of the sizes: I want a fair deal for UK farming. We have already seen in England with the implementation last time how we have seen distortions already. If we do not know any of the rules, if it means a larger part of the budget goes to help people who probably are not making a full-time living in farming—they might be doing part-time work in a BMW factory in Bavaria, let us be provocative—I do not see that helping my members and the farming industry become more competitive and efficient in the UK. I would not support that.

Barry Gardiner: Good, neither would I.

Q153 Neil Parish: Do you accept that the increasing requirement on farmers to carry out environmentally friendly activities is a means to justify the CAP budget? Certainly that is how it has been portrayed in the last few years. What are your views? Some farming groups have tended to oppose the greening of Pillar 1 as being anti-competitive.

Peter Kendall: Again the detail is all to be explained to us in due course, but if I just pick up some of the suggestions and look at the notion of rewarding

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permanent pasture, green covers, crop rotation and ecological set-aside, for example—I had a very long negotiation with the previous Government when set-aside was abolished in the European Union about how we would develop the Campaign for the Farmed Environment in the UK so we did not need more regulation and we did not need to make ourselves less competitive—then putting those sort of measures into Pillar 1 strikes me as going in the wrong direction. We think there is a very justifiable reason for Pillar 1 payments while we try and make the market work better, and I think we run the risk of making it very complicated. I think again, and I have touched on this already, our experiences with the implementation of our regional hybrid within England have left me scarred about complicated implementation of CAP. This looks not only anti-competitive—it could damage our competitiveness—but it looks incredibly complicated. One of our key drivers for CAP reform from the NFU is commonality and simplicity. I do think greening could not only be complicated, it could be distorted in how it is implemented between Member States as well.

Q154 Neil Parish: Do you also think the environmental set-aside is probably the wrong direction to go? I rather feel that having strips around the field and enhanced hedgerows is much better. I do not want to go back to set-aside, but what is your view?

Tom Hind: We agree. We do not think it is the right approach, particularly as a compulsory approach. If I might say, I think it brings two additional risks that are very important, and important for the UK Government to pick up on. One is simplification: it makes the CAP a lot more complicated if it becomes a compulsory requirement for farmers in receipt of the Single Farm Payment in certain parts of the country. That is the first point. The second point is that it would do irreparable damage to our existing agri-environment schemes under Pillar 2, because of the risk of non-compliance in respect of double funding.

Q155 Neil Parish: I think that leads me next on to the fact that the Campaign for the Farmed Environment aims to encourage farmers to be more environmentally friendly. Does your experience of this give you confidence that these additional green measures can be implemented without reducing productivity or competitiveness?

Peter Kendall: I spent yesterday afternoon speaking to the Association of Independent Crop Consultants up in the Forest of Arden, and it was really encouraging. Although I am fighting some reticence with farmers to explain what they are doing on their farms at this moment in time, I think it is absolutely vital, without a Government extension service, that we engage with people who are on farms day in, day out. The feedback I got from the agronomists was that we can work in a much smarter way to improve some of the margins you talked about. We discussed cultural ways of using certain machines to put pollen and nectar into those grass margins and wild bird flowers, so that without taking all of that out of the middle, we can make what we have already got in environmental

schemes work harder. Although I think we have a long way to go in the Campaign for the Farmed Environment, personally, and, with the NFU, we are investing a lot of effort to make sure this takes hold and we fold in the industry as much as possible, because I think we realise that paying farmers money all the time is not the only option. We have to demonstrate that we can do this ourselves, at as low a cost as is possible.

Q156 Neil Parish: So in a nutshell, you are saying that land that has been farmed for the environment, let us farm it even more for the environment, but not necessarily take more productive land out of production. Is that what you are saying?

Peter Kendall: I think the Royal Society, which has been quoted by the Secretary of State, talks about sustainable intensification. I think that actually applies to farming for the environment as well as it does for producing crops. We can do it smarter and better, such as the work Syngenta are doing at Jealott's Hill and their Operation Bumblebee. These people are going to be doing a lot of investment now in how we can get not even win-wins, but win-win-wins, out of how we manage that environmental land.

Q157 Amber Rudd: At the start of your remarks you talked about food security and population growth and the need for additional production. We have heard global food production needs to double by 2030, as well. Do you think the Commission is taking this issue of food security seriously enough?

Peter Kendall: As I tried to explain earlier, I think in its narrative it does identify the big challenges that we face going forward. However, I refer myself to the previous batch of questions. If we look at ecological set-aside and the way we force crop rotations and green cover, I think we run the risk of overcomplicating a policy that is not focusing on competitiveness and farmers doing the right things. Again, as Tom made the points about, when you have capping being proposed and when you have other measures being thrown into the mix, we think some of the proposals coming out of the communication do not seem to be pointing towards taking the food security challenge as its core objective. I think, as Tom said, it appears to be about justifying the budget slightly more than it is about how we make sure the European farming industry steps up to the plate in production terms.

Q158 Chair: In your opening statement, you said that the Commission was correct to highlight food security. In the Commission-sponsored study that was Scenar 2020, it showed that abolishing the Single Farm Payment would not lead to reduced food production, so do you believe that food security is one of the main justifications for the Common Agricultural Policy?

Tom Hind: The CAP objectives are laid out in the treaty, and you can take them with a pinch of salt. For us, if we bring it down to absolute basics, the reason why the CAP exists is that the market fails to ensure that farmers receive profitable returns. You may argue that is partly a wider food security justification. There

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are other justifications associated with it as well. I prefer not to be too pure about that. From our point of view, the challenge, as we said at the start, is to help farming get to a place where it can be less reliant. We think the best way of doing that is within a Common Agricultural Policy, rather than outside of it. From our point of view, that requires a number of measures to be undertaken to get us there.

Q159 Chair: If we could turn to the budget, what is your starting point on the level of the EU farm budget?

Tom Hind: We make no recommendation as far as the agriculture budget is concerned. If I were to look at this pragmatically, I would suggest that the CAP budget is likely to fall after 2013, at least in real terms, if not massively in absolute terms, but the extent to which it will fall will be determined partly by the financial circumstances of other Member States, partly by the other priorities they have for the European budget, and partly by the situation within the farming industry. If farm incomes are on the floor in 2012, you can bet your bottom dollar that a case will be made for a stronger Common Agricultural Policy budget.

Q160 Chair: In terms of an area-based direct support payment possibly creating imbalances and distortions between the different sectors—I think you mentioned yourself, pigs and poultry—do you think the Commission should address this in reform of the CAP?

Peter Kendall: We still favour the area-based support payments. We think it is the simplest way of administering that. The problem is we see volatility. I think if you looked at grain prices a year ago today, it would have been in the high £80; today it is in the high £180. I do not know what the price will be in a year's time. My members who are producing lamb today have had one of their better back ends in your part of the world, Madam Chairman, yet the beef producers and dairy farms are having a pretty torrid time. We face volatility. We have already talked about it, but it is very difficult to predict.

Q161 Chair: Has the bad weather that we have had, particularly in the north and the north-east of England, had a bad impact on prices, particularly of animal feeds? I understand there is not enough fodder and there are not enough bales of hay.

Peter Kendall: Yes. We think it has led to some people marketing in an unplanned way, because of the challenges they have faced. Dairy farmers have spent weeks thawing out parlours and what have you. It has been a challenging time, but the farming industry is actually incredibly resilient, and I think the message you have seen portrayed in the media has been one of, "This is business as usual. We sort our problems out and we get on with it, and by the way, we get on and help other people by cleaning the roads for them." We try and give out a positive message as to what is going on.

Q162 Chair: Can I just ask, would you suggest any objective criteria the Commission could use in terms of distributing the budget in a different way?

Tom Hind: We have taken a look at some scenarios. I know economists elsewhere, both here and in Brussels, have taken a look at scenarios. You cannot find a single scenario that is likely to buy a qualified majority within the Council of Ministers. It seems to us that the Commissioner starts from the premise of ensuring that allocations fit within the three objectives of the next reform. That might sound sensible, but how you translate that is difficult. Area is one starting point, but you have to reflect the different circumstances in agriculture, agricultural incomes, household incomes, and so on, across the community, and you have to have some form of transition in place as well.

Q163 Neil Parish: On area payments, I think we all accept that area payments are the way that probably most of Europe is going to have to go, especially the new Member States. Peter knows this, but the way in which the area payment has been distributed across England has left some livestock areas—and those happen to be partly in the south-west—actually losing money. Do you think that the way we distribute the area payment throughout England needs to be looked at?

Peter Kendall: I think there are ways in which we can do additional things to help certain areas. Mr Parish, we have disagreed on this on a number of occasions. Why? Because actually it is an average within lowland England, then SDA and then the uplands, as we have seen those area payments, and they are therefore averages. Where I think we have seen the biggest losses have been the intensive beef finishers, as I have highlighted. The extensive sheep farmers have actually benefited. As a lowland arable farmer, I have lost because we have included 40,000 new claimants in the lowlands, a lot of them being the keepers of horses and horticultural sectors, and now the top fruit industry. So we have seen a dilution, both in my payments in East Anglia—

Neil Parish: You can afford it. That's right.

Peter Kendall: My point is, I think where the disparities concern me most is where people are doing similar things in your part of the world to people in Wales and Scotland who are getting potentially three times as much for operating in the same market. That bothers me. I am nervous about this, because when I look at the details, the incomes of lowland livestock farmers and incomes of upland livestock farmers are very similar, so I would be nervous of saying we are going to take money, using Article 68, from all farmers in England to give to one specific area. I think we need to look at how we help specific sectors adapt to the market more and help them as investments to become more competitive. That is the debate, but it is not simple; it is a complicated one to have, but I do not think we can just generalise and say, "East arable great; south-west having a terrible time."

Q164 Neil Parish: I agree with you, there is market distortion between devolved Administrations. There should be some mileage then in talking to Wales, Scotland and Northern Ireland about how we could perhaps reduce some of these anomalies.

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Peter Kendall: I think devolution is something that is going to remain a thorn in the side of agricultural policy for some time, and I do not envy my counterparts in Scotland, because when there are winners and losers, as a representative organisation, it is very difficult as to how you manage that.

Q165 Chair: When you say that there is very little difference between incomes of lowland and upland farmers that is, of course, probably taking into account less favoured area payments. Of course, if they were to go for any reason, then there would be a big difference, would there not?

Tom Hind: Yes, it does take into account all payments, including agri-environment payments, save area payments, which are agri-environment payments.

Peter Kendall: That is why we have been so supportive of those payments continuing in a new scheme being put in place.

Q166 Richard Drax: Would you agree with the Commission that coupled support needs to be retained to protect certain types of farming in particular areas?

Peter Kendall: The NFU have become pragmatic about this. We used to be ideological and say we did not like it at all, but I think we have seen that within other Member States they are incredibly strong-willed about maintaining certain types of production in certain areas. If, through the use of Article 68 to a small non-market-distorting level that meets WTO limits as well, we can see people having coupled top-ups, there might be some people who argue for it for parts of the UK; certainly Scotland talks about using it. I understand that need for people to do that. We do not advocate it within the NFU, but we understand other people wanting to do it. As long as it is done within certain boundaries, then we are happy to go along with that.

Q167 Neil Parish: So suckler cow payments could increase?

Tom Hind: I think if we were to get technical about it, we take the view that the existing coupled supports, or re-coupled supports under the old schemes, should be abolished after 2013, but that should not preclude Member States having some flexibility to target payments using a national envelope-type mechanism,

provided that envelope was very limited, and what they could use that envelope for was limited as well. Peter mentioned the livestock sector; equally, one of our big concerns amongst some of our protein crop growers is the use of Article 68, without any kind of approval mechanism in the Commission, to support protein crops in France. That is distorting the single market, and we would not want to see those measures introduced.

Q168 Chair: Who do you think your main allies are amongst the other Member States?

Peter Kendall: I think for us the Germans have to be an absolutely key ally. I work very closely within COPA, a farm organisation within Europe, and I think they are absolutely vital. I am really actually quite pleased about the way the UK Government at the moment is looking to forge those alliances. Minister Jim Paice has been to Poland; that is the sort of thing we need to be doing. We just need to be very careful on the language we use about abolition and other messages—they need allies—

Barry Gardiner: And about Bavarian BMW farmers!

Q169 Chair: You mentioned one Member State; do you have any concerns about France?

Tom Hind: I think we have to get over some of the prejudices we have about France. French agricultural policy has changed immeasurably since 2003. That is not to say that we support every aspect of France. The things that they did post the *grenelle de l'environnement*¹ in 2007 are not the kind of measures that we would want to do here. We would not want to follow the approach that they went down in the health check. But if you look at some of the measures that the French are doing in their agricultural modernisation law in respect of the supply chain, there is some sense and some logic in some of the ideas that are coming out of France. My approach is: let us be open-minded.

Chair: Thank you. Thank you very much for being so generous with your time. I am sure we will have opportunities to meet again very soon. Thank you very much indeed.

¹ France's Environment Round Table.

Thursday 13 January 2011

Members present:

Miss Anne McIntosh (Chair)

Thomas Docherty
Richard Drax
George Eustice
Barry Gardiner

Neil Parish
Dan Rogerson
Amber Rudd

Examination of Witness

Witness: **Dacian Cioloş**, European Commissioner with Responsibility for Agriculture and Rural Development, gave evidence.

[This evidence was taken by video conference]

Q170 Chair: Good morning. You're most welcome, Commissioner. I am the Chairman and I welcome you. Can we start with the questions?

Commissioner Cioloş: First of all, I would like to apologise for my delay. I just came from Parliament; I was invited for a discussion in a committee discussing the future of the European Union, so this is why I was a little bit delayed.

Q171 Chair: You're most welcome, Commissioner. Could I just start by asking this? In your mission statement, you have potentially conflicting objectives that you might find it difficult to achieve through the reform; in particular, there is the objective of delivering high environmental production standards while, at the same time, ensuring a fair standard of living for the agricultural community. Are you confident that your reforms will deliver what you hope to achieve through your mission statement?

Commissioner Cioloş: Thank you very much for the first question. Of course, the challenges that you have raised regarding agriculture are several. You talk about delivery of public goods and the standard of living of farmers. This is why I think that the first Pillar—*[Interruption.]* There's just a little bit of a problem².

Q172 Chair: Could we turn down the volume at this end? We are doing that, Sir. I caught most of that, and it will be recorded, Commissioner. Thank you. Carry on.

Commissioner Cioloş: When we talk about agricultural policy for the future, first of all I think we have to take into account the Treaty of the European Union. One of the most important objectives of the Common Agricultural Policy is to ensure a good standard of living for farmers, but I think also the Common Agricultural Policy has to integrate current challenges more and more. These current challenges are grounded in the production and delivery of public goods around good management of natural resources. This is why I think that the direct payment, which was in the CAP, needs to remain to stimulate

production³, because direct payments were coupled with production. With the last reform in 2003 and the new reform that we propose, we will reorient the objective of that payment in order to, first of all, ensure a minimum level of income for farmers—ensure a minimum stabilisation of the income of farmers—and, at the same time, use this direct payment to stimulate farmers to produce public goods and to link a part of these direct payments to the delivery of public goods. Of course, I don't think there's a contradiction between these two objectives, but it will depend on the resources that we have for the Common Agricultural Policy.

Chair: Thank you. Commissioner, can we just break for one moment to resolve a technical difficulty?

Commissioner Cioloş: Okay, thank you.

Q173 Chair: Commissioner, can I just ask one of your technicians to listen for one moment? We've turned the volumes down at this end. We understand the volumes at your end are too loud, or possibly you might be too close to the microphone, Sir. How does that sound to everybody? Commissioner, if I ask you just one last question before I turn to a colleague: it looks from remarks you've made that you prefer Option 2 of the Options you outlined. Is that the end point of the reform, or an intermediate step towards more radical reform, such as Option 3?

Commissioner Cioloş: It will depend on the objectives that we have in the future with the Common Agricultural Policy. If we still want to ensure a good supply for our markets of products with a high level of quality standards, as well as safety standards and diversity, and at the same time we have not only cross-compliance rules but also new attempts for our farmers regarding the delivery of public goods, I don't see how our agriculture can, at the same time, be competitive in the international market and have higher level of standards than farmers in other parts of the world. This is why I think that if the expectation of European society evolves, of course the CAP will evolve also, proportionally.

If not, we have to make a choice. Do we want to maintain our production capacity in the European

² Note by witness: Evidence was provided by video conference and there were considerable sound transmission difficulties, in particular a significant echo effect for Commissioner Cioloş while speaking from Brussels.

³ Note by witness: Again, sound transmission difficulties affected proceedings. As is evident from the preceding sentence, production in this respect relates to the production of public goods. This was the meaning of the response provided by Commissioner Cioloş.

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Union with our specific high-level standards, also taking into account what is happening in the world now with food security and food supply? At the same time, do we need agriculture for 10 million farmers to play a role in the management of natural resources? This delivery of a public good means higher costs of production for our farmers, so there is the issue of competitiveness and, at the same time, the delivery of a public good only in Europe—not, at the same time, in the United States, Latin America, Asia and other parts of the world, in order to be on the same level of competitiveness. If we have this specific request for our farmers in Europe, I think we also have to maintain the instruments. Maybe these instruments can evolve; maybe in the future we can use more and more of the money to stimulate innovation, to stimulate farmers to invest in innovation and modernisation. Maybe some categories of farmer will need less direct payments than others. We have already started this process with this reform. Generally speaking, we have to have a proportion between our requests and our capacity to support this policy financially.

Q174 Richard Drax: Commissioner, good morning. Just to quote you, if I may, you said recently that you felt there was a need to “renew the legitimacy and credibility of the CAP”. Both a public consultation and the Eurobarometer have indicated that the public think the CAP is going in the right direction, so why do you need to legitimise it?

Commissioner Cioloş: I don’t think that the public debate is that the CAP goes 100% in the right direction. The conclusion was that a large majority of European citizens want and are ready to support farmers in the European Union, but with some conditions, and not all these conditions are already met by the current CAP. The citizens in Europe want to be sure that food is safe, is diverse enough, is of high quality and is at good prices.

At the same time, citizens want agriculture to deliver more public goods in terms of management of natural resources. Citizens also want agriculture to be maintained even in Less Favoured Areas, because it’s the only economic activity in some rural areas. People think that we have to have more balanced support between several categories of farms, that the level of payment for very big farms is too high, and that there is not enough chance for the small farms to play a role in some important areas, in terms of the delivery of diversity of food and quality of food. In reaction to this, we have to make that reform. To conclude, the message that I understood was this: we still need the Common Agricultural Policy, but this Common Agricultural Policy has to be more in line with the expectations of the citizen. The Common Agricultural Policy has to integrate with all of the other expectations, like those regarding the environment, climate change and territorial cohesion.

Q175 Barry Gardiner: Commissioner, good morning. I think it’s difficult to see how you resolve the tension, in that you seem to be facing both ways. On the one hand, you said earlier this morning in your response to the Chairman that we have to ensure a

good standard of living for farmers but then, at the same time, we should be paying public money only to secure public goods. There is this tension between those two aims; it is reflected in the tension regarding competitiveness, and the need for the improved competitiveness of the industry, and also in your remarks just a moment ago about the need to maintain cohesion and about small farmers. These tensions seem to be pulling the reform apart; intellectually, they are not coherent. Now, single farm payments allow more inefficient businesses to continue. They don’t improve conditions or competitiveness and they don’t necessarily deliver the public good for that public subsidy. How are you going to resolve those tensions?

Commissioner Cioloş: I don’t think that there is a tension in the CAP between ensuring good standards of living of farmers and the delivery of public goods if the first Pillar of direct payment is reformed, because more than 90% of the direct payment is decoupled from production. These direct payments already have a role in maintaining the minimum level of payments. Anyway, this minimum level of income for farmers is not enough for a farmer to live on if he is not competitive at the same time. Now, the first objective for a farmer is not to try to have more and more direct payments from the CAP, as it was in the past. His production choice is not in this direction—to have more and more payments—because payments are decoupled from production. His objective now is to be more and more competitive, to answer more and more market signals. This is the result of our market instruments and the decoupling of direct payments. But if we don’t have this minimum support for income and compensatory payments, the risk is that a lot of farmers who can be competitive without the cross-compliance rules that we have in Europe but not in other parts of the world—who in normal situations can be competitive—will not be competitive. This is why payment is justified to maintain a minimal level of standards, but not all the level of standards that a farmer needs.

An important part of this level of standards is recovered through the market, by farmers. As for the delivery of public goods, we ask our farmers to do more than is set out in the basic regulations in Europe regarding the environment or animal welfare. This delivery of public goods has a cost that is not internalised by the market price. We have to cover this type of complementary cost with this supplementary payment. In the first Pillar that we propose for the future Common Agricultural Policy, we will have a clear separation between the part of payment to support this minimum level of income and another part of payment stimulating the production of public goods—in all Europe, not only Less Favoured Areas. This is the difference between the greening in the first Pillar and agri-environmental methods in the second Pillar. In the second Pillar, regions or Member States can decide to use this for some categories of farmers or some categories of measures but now, in the first Pillar, all Member States and all farmers will need to take into account these good practices in order to have part of the payments. This is why I think that it’s not real tension. We tried to make these pillars so that

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there was not contradiction but complementarity between these two objectives.

As for competition, I don't think there is a contradiction here if we want to maintain agriculture, even in Less Favoured Areas. If we decide to produce only in the good areas for agriculture, we don't need support for Less Favoured Areas, but that would mean that, over the next years, we would not have farmers in a lot of regions in Europe and we would concentrate production in very favourable regions only. In the short term, it could be a solution, but I think in the long term we risk having a problem of pressure on resources—soil and water—in these regions, more problems of pollution and also problems of diversity of food and, especially, problems regarding the management of the landscape, because small farms in some areas have an important role, a separate role, in the management of landscape, not only in production. That is why, if we want to have a Common Agriculture Policy for 27 Member States, we have to take into account the diversity. Of course, there are some clear European objectives. That is what we try to do with this reform.

Q176 Thomas Docherty: Good morning. You attended the Oxford farming conference last week, and your speech was well received by quite a lot of the people who were there. Do you agree with the Secretary of State for Defra that the current CAP is morally wrong?

Commissioner Cioloş: Morally wrong?

Thomas Docherty: Yes.

Commissioner Cioloş: I cannot concede that all the Common Agricultural Policy is morally wrong. Why could it be wrong? First of all, the current Common Agricultural Policy has evolved a lot, if we compare it with the Common Agricultural Policy of 20 or 15 years ago. I just want to underline the fact that export subsidies represented last year, in 2010, only 1% of the total budget of the CAP, so how can we say that the Common Agricultural Policy has an influence on agriculture in other parts of the world? 90% of the direct payments are decoupled. We eliminate and we reform a lot of market measures with the role of the market. Of course, the Common Agricultural Policy needs to evolve, but I don't think we can say that it's morally wrong, because we ask a lot of our farmers and it is normal that we pay those farmers for that. It's the only sector, I think, in Europe that has to play an economic role and plays a part in the market but, at the same time, has to integrate a lot of rules imposed by society. The automotive industry, the textile industry and other industries do not integrate a lot of expectations from people in the way that agriculture does. This is why I think it's not morally wrong to support agriculture when we have specific expectations from agriculture.

Q177 Thomas Docherty: I'll just quote what the Secretary of State specifically said at the conference: "The CAP continues to distort trade by maintaining high EU prices. This gives rise to high import tariffs and the use of export subsidies to clear market surpluses—all of which undercuts production in developing countries." Do you agree with that?

Commissioner Cioloş: I would like to give you just one example. This year, the world price for sugar, for example, was higher than in the European Union. We had market intervention in the milk sector because we had these prices, and we put on the European market this surplus of production, currently during 2010, without affecting the price on the market. This is why, with the reform of some farms and the reform of direct payments, I don't think that we can now say that we influence the level of prices in countries in the south. I also want to remind you that European markets import more food from these countries in the south than the United States, New Zealand, Australia and Japan together. This is also the result of the openness of our market.

I don't think that you can say that we have a very high level of protection in the market. It was the case 20 years ago, but we have a new policy now. Policy has been reformed in the last 20 years a lot in this direction. I also remind you that the discussion in Doha was not blocked because of the resistance of the European Union, but because of the resistance of the other partners; they tried to play it, in media communication with the world, that their position was more open than the European Union's, but that is not the case. If we look at the figures, I think it's clear that the CAP is now adapting and does not affect the decisions of production in the countries from the south. That is why I cannot agree with this position.

Q178 George Eustice: Thank you, Commissioner. You talked earlier about competitiveness and how some of the requirements for production standards that we put on farmers actually affect their competitiveness. I wanted to ask you whether there was anything more proactive that the reform of CAP could do to make our farming more competitive, in particular looking at research and development, where there is a lot of evidence in the last 20 years that its status has declined and the levels of research we're doing are not high enough. Secondly, ought the Rural Development Funds to have a greater emphasis on business development, rather than environmental schemes?

Commissioner Cioloş: Regarding research, development and innovation, even yesterday, I had a good discussion with the relevant Commissioner on this, and we now work together in order to ensure that in European research policy, agri-food industries and agriculture will have an important position, an important place. At the same time, my objective is to create in the Common Agricultural Policy financial instruments in order to encourage farmers and the agri-food industry to take the results from the research and to put them into practice. We think now of a common framework for research and innovation, of creating a network and partnership between research and development institutes and the farmer organisations of the farming industry, and of doing more preparation in order to ensure the transfer to practical results.

Also, we will use the financial instruments that we have in the second Pillar more and more to stimulate investment in the modernisation of the farmer or in trading, so that there is an innovation component—to

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try to innovate in order to be more competitive in terms of production, but also in terms of diversity of products on the market. I also want to remind you that the agri-food industry in Europe is the first exporter of food in the world. We export not commodities, like the United States, but specially elaborated products; high added-value products. We have to go in this direction, but this needs more investment in innovation. We will do this in rural developments. My answer to your second question is that, in the second Pillar, we will have more instruments and it's our objective to promote more instruments in order to support the business development of the agriculture and agri-food industries in two directions: the reduction of production costs with good, sustainable management of natural resources, and the diversification of production for the market.

Q179 Dan Rogerson: In the communication, you made it clear that you would like to focus support on active farmers and, indeed, that you would seek to define who is not an active farmer. Clearly, there would be some concerns among people who are currently in receipt of money about that. Are you able to define a little more clearly for us what you mean by the groups you wish to exclude—whom you would define not as active farmers?

Commissioner Cioloş: The objective of this definition is also to answer a request of European auditors, who think that it is not morally right, to take an expression one of your colleagues used, for the Common Agricultural Policy to pay landowners who don't use this land to produce—for agriculture. A farmer produces products for the market and a public good, and I think both objectives have to be covered by a farmer, so the objective is to try to eliminate for the time payment for non-agriculture, and to focus more of these payments on the farmers who produce not only food and agricultural products for the market but also a public good. That is the objective. It's clear that we have very diverse situation, with regard to who is a farmer in Spain, the UK, Poland, Sweden, Italy, France and so on. The idea is not to eliminate these farmers, but to try to eliminate the farmers who request the same level of payments only because they have a certain area of land.

Q180 Dan Rogerson: In the United Kingdom we have, for example, some environmental charities that are large landowners, and their focus is on things such as biodiversity. There may be some production, but that would be incidental to the aims of those charities. What view would you take towards them and do you think they should still be in receipt of money under Pillar 1?

Commissioner Cioloş: First of all, if it's agricultural land, and it's not productive land but is only maintained in good agricultural condition, I think maybe we have to take into account this area with payments, but maybe not the same level of payments as those for productive farmers. We are now realising an impact assessment for several different situations, in order to see what answer we could give in this specific situation.

Q181 Dan Rogerson: So you haven't decided yet whether there must be some agricultural production on all of that land?

Commissioner Cioloş: If this land is used for agricultural production and, at the same time, it's maintained for the production of environmental or public goods, I think it will be integrated in our definition of agricultural land. My objective is not to have a restrictive definition at European level, because it's rather impossible to take into account the diversity. Our objective is to give, in the European regulation, some elements that the Member States will have to take into account when they define the specific situation of active farmers at the level of Member States.

Q182 Dan Rogerson: Just to confirm, you would expect some agricultural goods to be produced for someone to be defined as an active farmer?

Commissioner Cioloş: Yes. If not, we cannot talk about agriculture or the farmer.

Q183 Dan Rogerson: In England, there is a large tenanted sector. Would you agree, for our understanding of your definitions, that the tenant would be the active farmer in those circumstances?

Commissioner Cioloş: Yes. I think it's a juridical problem of the contract between a landowner and the farmer who produces on this land. Even now, we are clear that the beneficiary of payments is the farmer, and he can benefit from these direct payments for his own land or for the contracted land that he works. I think even now, that's the situation. I don't want now to go into this detail, because I don't know the juridical situation in the UK very well, but even now, Member States have enough flexibility to take into account this specific situation. If a farmer has worked the land, it's normal that this farmer has the right to payments.

Q184 Dan Rogerson: That's your starting point, and then there are some clarifications. A final question: how would you expect Member States to audit this process of determining whether someone is an active farmer or not? What evidence would you expect them to look for?

Commissioner Cioloş: We had the first discussion at the Agriculture Council of Ministers on that subject, and the conclusion was that we have a diversity of situations, and we have to integrate around this diversity of situations. We can't expect to have a common definition at European level. This is why now the objective of the Commission is to come with, let's say, a negative definition—who is not an active farmer—and then the Member States will define who is an active farmer, taking into account the specific situation at national level. Of course, we have some Member States that find that this definition could be complicated. I have not understood, however, that the majority of Member States reject this idea of a definition of active farmers, because it's also the main request concluded by the public debates. As Commissioner for Agriculture, I think I have to give an answer in the proposal for the reform of this treaty. Then the Council and the Parliament, which have the

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power of decision on the reform, will decide, but I think we have to find a solution to this, if we want to be credible with the utilisation of public money.

Q185 George Eustice: I wanted to ask you about the issue of capping direct payments in Pillar 1. I think you suggested a cap for larger farms at €300,000. As you said earlier, the rationale for those direct payments under Pillar 1 is that those farms deliver public goods and protect the environment. Isn't it the case that even a large farm may do as much for the environment as a small one? Why is it justified to place a cap on those large farms?

Commissioner Cioloş: The objective for this direct payment is to support a minimum level of income for a farmer; with very large and big agricultural societies it is difficult to discuss a minimum level of income of a farmer. When we have a turnover of several hundred thousands of euros, even millions of euros, we don't talk about the level of income of a farmer, but rather about the remuneration of capital invested in a business. This is why I think that to use public money to support the remuneration of capital for these kinds of big farms is not justified, and is not in line with the Treaty, which asked from the Common Agricultural Policy a good standard of living for farmers. I have in my country, in Romania, farmers who have 1,000 hectares. It is difficult for me as Commissioner to explain to the taxpayer that we will give €1 million or €2 million a year as subsidies to these farmers to support their minimum level of income. This is why I think we have to put a limit on these payments. I don't know if it will be €200,000, €300,000 or more, this maximum level of payments. There is already an amount to cover, partly, increasing production costs for these farmers, because they respect several norms and rules. Even these farmers will be eligible for some payments, I think. We started to limit this part of the payment in the Pillar. If this farm is delivering public goods, they should be remunerated for these public goods.

Q186 George Eustice: A final point on that: is there a danger that the larger farm holdings will simply reorganise themselves into smaller holdings to get around any cap? Therefore, what you'll end up with through doing this is simply a larger number of smaller holdings still owned by the same landowner, but you will still have to pay out those large payments.

Commissioner Cioloş: You know, I'm an agricultural engineer, and I know that a manager in agriculture, when he takes a decision to concentrate the land, does so to make some economies of scale. I don't know if a farmer will decide on the size of his farms only to ensure a payment. Here we have a problem with economic logic in agriculture. Especially with big farms, I don't think their objective is only to have a big amount of payments from public money. I don't think that we will have a very important phenomenon of the splitting or separation of farms only to have payments. I think a farmer uses other logic when he decides on the structure of production and farms, and is thinking not only about having a level of direct payments. Although direct payments could be important at a certain level, I don't think they're the

most important objective of a farmer when he decides on the level of farms and the structure of production.

Chair: Commissioner, are you able to stay two minutes extra at the end?

Commissioner Cioloş: I can stay until 12 noon—11am in London.

Q187 Chair: Turning to your proposed reforms and rewarding environmental activities in Pillar 1, can you clarify whether the mandatory greening component that you describe would be an additional requirement on farmers, just as cross-compliance is, or do you intend it to be more like a reward for carrying out the additional activities to benefit the environment?

Commissioner Cioloş: Cross-compliance and eco-conditionality are the result of environmental regulation in the European Union. This regulation already exists, and we only link the direct payments in respect of this regulation. With the greening, we propose that our farmers do more, in terms of the management of natural resources, the quality and fertility of soil, and biodiversity, and we will use part of direct payments as an incentive in order to do more production of public goods.

What does "mandatory greening" mean? It means that we will propose in the regulation six or seven measures for all of the European Union, like rotation of the type of agriculture and maintaining pasture—we gave some examples in the communication. The Member States will be obliged to propose this to farmers, so this is mandatory. It's not voluntary for the Member States, as with some agri-environmental measures in the second Pillar. It's mandatory, because it's compulsory for Member States to propose the implementation of the CAP to the farmers: two or three from this menu of six or seven measures most adapted to the specific situation in this Member State. The farmer who respects this new norm will have a complementary payment.

Q188 Chair: Thank you. Could you tell us why you opted for greening Pillar 1, as opposed to allocating more funds to targeted programmes under Pillar 2?

Commissioner Cioloş: In Pillar 2, agri-environmental measures take into account a specific situation in an area, in a region. We finance some agri-environmental measures for some farmers who decide to do this, but taking into account the specific situation. The production and delivery of public goods is not to as high a level as it would be if we had this greening of the production of public goods in all the European Union, for all Member States and for all farmers. This is why we propose introducing a part of these agri-environmental measures of greening in the first Pillar—in order to have more linkage of these direct payments to the production of public goods, but in all Europe, and with the same metric for all states, in order not to create a disturbance in the market between some farmers and others.

Q189 Amber Rudd: Good morning. How do you envisage money being shared between the two main elements of the new direct payments—that is, basic income support and the greening component?

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Commissioner Cioloş: How will we divide the budget in the first Pillar between the support of income element and the greening? That is the question?

Amber Rudd: Yes.

Commissioner Cioloş: It's difficult now to say exactly what will be the percentage for greening. We are analysing several scenarios, but I think we can go up to maybe one third of the direct payments being linked to the production and delivery of public goods of greening.

Amber Rudd: One third?

Commissioner Cioloş: Yes. It will depend; that may be the proposition of the Commission, but you are aware that the final decision on the reform is taken by the Council and by the Parliament. I hope to have arguments for going up to this level, with the part for greening.

Q190 Amber Rudd: Are you considering basing the payment for greening activities in Pillar I on objective criteria, such as the additional cost of delivery or the environmental benefit?

Commissioner Cioloş: I can see that this part of the greening payments is exactly the level of the production costs for a farm that decides to integrate this measure. The objective, in fact, for us is to use this part of the payments to incentivise a farmer to do more, not only to have a payment in exchange. The interest is to have a good level of fertility of soil, for example, or good biodiversity or good management of water. The farmer does this not only to have payments for public goods in exchange, but also because it's in his economic interest. If he wants to have a good level of production per hectare, he needs to have a good level of fertility of soil or good quality of water. To use a part of these direct payments as an incentive instrument is already a good start in reorienting the Common Agricultural Policy in another direction—and, I hope, in a good direction.

Q191 Neil Parish: Good morning, Commissioner. I have lived through all the reforms of CAP and the historical element of the payment, where the old 15 Member States received their payment due to the amount of production they had on that land during 2001 and 2002. New Member States, like your own of Romania, are paid on an area basis. You are committed to changing this. I wish you well, because of course you're going to have to spread money, with Latvia on €70 a hectare and Greece on €550. How do you intend to sort this out over the next period?

Commissioner Cioloş: First of all, I am happy to see you again. We had the opportunity to work together when Neil Parish worked for COMAGRI in the Parliament. I'm happy to see that you're still very active in the field. To answer your question, of course it's an ambition to propose a more equitable system of payments; another is a realpolitik emphasis—the political realism at European level to obtain this. As a Commissioner, I have to propose this and then make a proposal that could be politically acceptable to the Member States, in order to reduce these discrepancies between several Member States. The idea is to propose, at the end of this transitional period, a common system for all 27 Member States. Now, as

you mentioned, we have two different systems. One is based on historical reference per farm or per region, and the other is an area-based payment without technical detail about the specific situation.

The idea is, at the end, to have a mixture of area-based payments and some regional-specific situations, and also to propose, during the transitional period, a reduction in the payment in Member States where the level of payment is higher than the European Union, and to increase the payment for the other part. I am also very aware that it will depend on the level of the total budget of the CAP. If we reduce the budget, we will see how much it will be reduced by, and which Member States would be affected by this. It's very possible that part of this reduction of payment for some Member States will be done by an eventual reduction of the budget of the CAP. This is why we have to take into account all these elements when we calculate and propose a methodology for the criteria for payments.

Q192 Neil Parish: Thank you, Commissioner. My theory is that in a single market, you have to have a reasonably uniform level of payment across the whole of Europe. Otherwise, the payments given to farmers in different Member States distort the market. I do think it's important for you to deal with this.

Commissioner Cioloş: Yes. In a common market we have to ensure that the same categories of farms are treated in the same direction, with the same criteria. We have to recognise that farmers work with a certain level of fertility of soil, and a certain level of production costs or standards of living. We have differences between Member States, taking these criteria into account, and we also have to take into account the different occupations of farmers.

For me, the objective is that farmers working with the same conditions, as regards the fertility of soil, level of production costs or standard of living, have the same treatment. Here we can have a distortion in the market if categories of farms have different treatment. We have a difference between cereal production, for example, and animal production; and milk production and fruit and vegetable production. We have to take into account these differences because, if we give the same levels of payment for permanent pasture, for example, and an area of vineyards, we have a problem, because the level of production costs and also the benefits in a hectare of vineyards or a hectare of cereals are also different. We have to take into account this difference, but then apply the same criteria in all the European Union; that is the ideal situation.

Q193 Neil Parish: That leads me quite neatly to my final question, and that's on decoupled payments. As you know, England in particular has got rid of all coupled payments. Some Member States still have coupled payments, which could distort the markets, especially in the beef sector. Are you committed to getting rid of coupled payments?

Commissioner Cioloş: We propose to generalise decoupled payments in all Europe and to maintain coupled payments only in some specific regions, for some specific products. We also have to recognise

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that, in mountain areas for example, without coupled payments, we used to not have milk production. Milk production is important not only for the production of milk, but also for the maintaining of the landscape and maintaining the population in this area. I don't think that we will have a disturbance in the market if we have these partially coupled payments for those specific situations. We have very clear rules, regarding the utilisation of coupled payments, to apply the same rules in all of the European Union.

Neil Parish: Thank you, Commissioner. It's good to talk to you again.

Q194 Richard Drax: Commissioner, we're almost there. I just, if I may, want to ask a couple of last questions on small farms. What's the best way, in your view, of supporting small farms? Is it by direct payments, or what?

Commissioner Cioloş: Even now, we have direct payments for small farms and we also have support for the modernisation of these farms. We have to maintain these two instruments. The idea of direct payments is to ensure, like for the other farms, a minimum level of income for farmers, in order to stimulate the farmer to produce more for the market, to invest more, to innovate and to develop their competitiveness. What I propose is to have simplified direct payments for these small farms. Taking into account the level of the farms, I think we can reduce the bureaucracy for small farms a little, in order to give small farms access to these direct payments.

The objective is to increase direct payments for small farms not only because they are small farms. The idea is to attract these small farms to the market and to stimulate them to invest and make credit, in order to mobilise and to develop their competitiveness. Now, in a lot of regions, that is not the case, because of the starting budget that small farms need. We think these basic direct payments, simpler for small farms, can be used in order to stimulate small farms to be more integrated in the market. I know that some people think that the idea of the Commission is to pay small farms only because they are small farms, and I also agree that this payment, if it's too high, can stimulate the small farms to do nothing to modernise themselves. The idea is not to increase direct payments for small farms, but to make them simpler, and then to propose a lot of instruments—like training, investment and organisation of production groups—in order to integrate the small farms more into the market than at present. In a lot of regions in Europe, we have a lot of small farms that are not integrated in the market. It's subsistence production. The objective relates to the Common Agricultural Policy and investment, but this basic payment can play a role in this direction.

Q195 Richard Drax: Commissioner, lastly, bearing in mind that the definition of "small farm" is so different right around Europe—different sizes, different cultures, lots of differences—do you think these sorts of direct payments to farmers could distort the market?

Commissioner Cioloş: No. If we look, the level of production in the European market is not affected by

the small farms. Small farms produce especially for local markets, and the level of production for these small farms is not at a level that would disturb the market. I think the question is: do we want to maintain these small farms, which are essential for a lot of regions, and which could also play an essential role in the diversification of production at regional level; or do we want to eliminate farming for a lot of regions, which have social problems and other problems? With the level of payments that we seek to propose for these small farmers, taking into account the specific economic and social situation of these small farms, I don't think that we will create a disturbance in the market but, of course, we are now undertaking an impact assessment to see what type of impact these measures can have on the market and on the social situation in some regions.

Q196 Chair: Can I just ask you about the budget before you go? In your communication, particularly under Option 2, you seem to increase the number of objectives to be delivered by the Common Agricultural Policy. How do you hope to achieve this on a reduced budget?

Commissioner Cioloş: I don't say that I propose to reduce the budget and to increase the objectives of the Common Agricultural Policy, but with the payments that we have for the Common Agricultural Policy, the Common Agricultural Policy can do more for the general objectives of the EU 2020 strategy, for example. To talk about sustainable growth, we cannot have sustainable growth in the agriculture and agri-food sectors if we don't have the Common Agricultural Policy. On the other hand, the Common Agricultural Policy can do more for sustainable growth, with greening, more innovation in the second Pillar and better orientation of support in order to have sustainable development of competitiveness.

We also have in the EU 2020 inclusive growth. For Less Favoured Areas, rural areas with agriculture, it is difficult to have another economic activity. I think that we also have a contribution to make to the objective regarding inclusive growth. Utilisation of part of the CAP budget to do more in research and innovation, and research and development, will stimulate the agri-food sector to have smarter growth. This is important, because the agri-food sector is the most important industrial branch in Europe, in terms of turnover and employment. That is why I think that the Common Agricultural Policy can have a positive impact in the development of smart growth in the agri-food sector. Of course, if the budget of the CAP is significantly reduced, we have to be clear that we cannot ask our farmers to fulfil all these requests or objectives.

Q197 Barry Gardiner: Commissioner, I certainly welcomed the part of the communication that spoke of the need for restructuring and consolidation of the sector in order to address the current imbalance of bargaining power along the supply chain. I thought that was very helpful. Again, that is in tension with what you said about support for small farms, but leaving that to one side, do you think that it may be that, while you improve the position on the supply

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chain, you create competitive distortions between Member States as a result of this?

Commissioner Cioloş: First of all, I don't think there is a contradiction between increasing the bargaining power of farmers and support for small farms. Increasing the bargaining power of farmers means that the small farmers can work together in order to have more power of negotiation.

Barry Gardiner: Fair point.

Commissioner Cioloş: But to be clear, we have small farms or we don't have agriculture—nothing—because in some areas we cannot concentrate on the land, work in an efficient manner and also maintain the population in these difficult rural areas if we don't have small farms. I recommend that you visit some mountain areas, not only in Romania or Poland, but in Italy, Spain or some difficult areas in Finland. You will see that we cannot have big farms. In Romania, we have big farms, but we also have small farms. We cannot have big farms only. That is why we have to take this diversity into account.

Q198 Barry Gardiner: What about the competitive distortion that may exist between Member States as a result of that?

Commissioner Cioloş: As a result of the difference in support of farms?

Barry Gardiner: No, improving the functioning of the supply chain.

Commissioner Cioloş: This is not a specific problem for one Member State or another. In the food chain, retail distribution and even the processing sector are more and more concentrated. In the milk sector, for example, we have some processors that have a network in all the Member States. They have factories

or plants for processing milk in all Member States. That is why I think this issue has to be treated at the European level, this question of bargaining power. We tried to propose a solution for the milk sector, with a proposal for regulation that we put on the table for the Council and the Parliament at the end of last year. Also, this issue cannot be treated only within the Common Agricultural Policy, because it's a question of competition, the internal market and industrial policy. That is why we decided, at the level of the Commission, to work together—four Commissioners—so that we could come forward with proposals regarding negotiation and bargaining power in the food chain. To avoid disturbances between several Member States, we have to come forward with some common ideas at the European level.

Q199 Chair: Can we thank you for being so generous with your time? How big is a small farm—how many hectares?

Commissioner Cioloş: Here we have the same situation as with active farmers. We cannot impose a definition at the European level, because we have several situations. We cannot define small farms only by taking into account their area, because the area of land can be used in a different manner from that intended. That is why I think we have to have some economic criteria regarding the definition of small farms, and we are working on that. We will propose some criteria in order to define small farms.

Chair: Commissioner, we look forward to continuing our discussions. On behalf of everybody here, we thank you very much for joining us this morning.

Commissioner Cioloş: Thank you also very much for this opportunity.

Wednesday 19 January 2011

Members present:

Miss Anne McIntosh (Chair)

Thomas Docherty
George Eustice
Barry Gardiner

Mrs Mary Glendon
Neil Parish
Amber Rudd

Examination of Witness

Witness: **Dr Joan Moss**, Principal Agricultural Economist, Agri-Food and Biosciences Institute (AFBI), and Senior Lecturer, Queen's University, Belfast, gave evidence.

Q200 Chair: Dr Moss, good afternoon. Thank you very much indeed for joining us. You are most welcome. May I at the outset just ask you a general question, about what the Commission is trying to achieve in its reforms? You will remember that when the Common Agricultural Policy was created, there was always an understanding that there would be a fair standard of living and a sustainable income for farmers, and that now is still in the Commission statement. What the Commission is trying to do is to pursue these two things of sustainable development in rural areas, but still maintaining a fair standard of living for farmers. Do you think the Commission is going to succeed in both greening up the CAP and ensuring farmers a good standard of living going forward?

Dr Moss: Well certainly in the original setting-up of the CAP, the fair standard of living for farmers was there as one of the objectives, but starting with the MacSharry reforms of the early 1990s and then the Fischler reforms, there was not such an emphasis on income support. There was much more of a move towards the market ruling and controlling the surpluses that had built up with the type of supports there had been previously. So this reintroduction, almost, of income support in the Commission's documentation is losing the momentum that was there towards a more market-orientated agriculture. I could understand if they were talking about having price support measures in periods of market crisis, maybe for income stabilisation, but the fact that income support is attracting attention now is a definite change, in my opinion, in the way that the CAP has been moving.

Q201 Chair: Having noted that there is a change, do you think the Commission will be able to achieve both aims?

Dr Moss: Well, for so many of the small farmers, even with Single Farm Payments and the returns from the market, which may in many cases be very modest, they are unlikely to achieve a viable living wage or a wage that would support the farm family and, as such, many of the smaller farmers, particularly in the more remote or the upland areas, already are turning to either on-farm diversification or, more often, off-farm employment. It is not possible to deliver every single farmer in Europe an acceptable standard of living via the CAP.

Q202 George Eustice: We have seen some of the slides you have done on the basic economic modelling of different scenarios.¹ I wondered firstly if you could say what your overall conclusion is about which way to go in the light of that modelling. We see lots of graphs, all of which look quite similar. Secondly, how have you actually constructed the model that makes these projections? What assumptions are in there? How much of it is based on actual experience that is real from the recent past, or how much of it is based on assumptions and guesstimates?

Dr Moss: The modelling system has been built up over the last 13 years. It is econometrically estimated; it is based on data. We started with one or two key sectors, so we have built it up in terms of adding sectors to it. The model is part of the FAPRI (Food and Agricultural Policy Research Institute) European model; it is not free-standing in that sense, so it solves at the European level so that the results are consistent across Europe. It is not a model that we just build and use and then occasionally just re-estimate; each year it is re-estimated and recalibrated. That is done in very close consultations with panels of industry people. This is one of the key features of the whole FAPRI methodology, because no matter how much information and data we have, we cannot possibly hope to capture everything that is important that is going on in the agricultural sector. That is why we have this opportunity to recalibrate in consultation with industry. It is a very key factor.

Q203 George Eustice: When you say that it is based on data, does it basically look at what the impacts of previous CAP reforms have been? Is that it, fundamentally?

Dr Moss: Yes, that is all the data.

Q204 George Eustice: What are the main drivers of it? What are the key criteria that influence, for instance, what the price of milk might be if you remove x amount of direct payment?

Dr Moss: Yes, it is based on past experience; observable changes.

Q205 George Eustice: And is it just European experience or does it look at other countries like New Zealand, where they have taken more radical—

Dr Moss: No. We concentrate at Queen's and AFBI on the UK element, which is the four countries that make up the UK, and that is embedded within the

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European model. I do not want to get too technical, but when we do this baseline projection once a year, which is running forward with what our model is saying for 10 years, that is linked in with the FAPRI global model and we have a lot of macroeconomic assumptions in there.

Q206 George Eustice: And that makes use of other countries?

Dr Moss: So, for example, if we are saying that there will be an increase in imports into Europe, the global model has established that there is supply out there that could come into Europe. So in that sense, we also have assisted FAPRI with some European aspects of their work. In fact, that is how we initially got involved in this collaborative research with the University of Missouri. They were looking for agricultural economists who spoke English that they could easily work with, who had experience of the Common Agricultural Policy. They were having difficulty getting their heads round the intricacies of the Common Agricultural Policy, and that is when we first started this collaborative research. Initially, it was just for Northern Ireland, but in the last number of years it has been for all the administrations and is funded by all the agricultural administrations.

Q207 George Eustice: Right. And the second part of the question was about your basic conclusions from the modelling.

Dr Moss: Yes, I have turned to the last couple of slides that I have presented on that. I apologise for providing so much information.

George Eustice: No, it is always good to have more.

Dr Moss: But I was asked for it; it came in as a request later on. What we modelled was ostensibly option three, which is the most extreme version of CAP reform proposals. The way we do our scenarios is that we build them up. We started with the Health Check, then we had assumptions; WTO Doha round compatible trade liberalisation assumptions. Then at the beginning of the scenarios, we went full decoupling across Europe and that is what I want to talk about in the conclusions. Scenario four was further trade liberalisation, which would bring agriculture to the position of the other sectors in the economy, where it was not getting special protection; there were no sensitive products. Then the last step was that plus phasing out the Single Farm Payment. In our models, we assumed that funding would be in Pillar 2, for agri-environmental measures.

Our conclusion was that the full trade liberalisation was creating the big changes, even before there was the removal of the Single Farm Payment. The big changes were to be found in the beef and sheep sectors and to a certain extent in the dairy sector; very little in the cereal sector, because already cereal prices are very much in line with world prices. The dairy sector was a little bit influenced, but the biggest impact was on the beef and sheep meat sectors, where production would be down about a quarter for the beef and just under 20% for the sheep meat; a big reduction in production. That was a result of removing the trade protection and the inflow of imports. I feel, having had to talk on many occasions to the farming industry,

your average farmer is not as aware of the protection that is there with the export subsidies and the import restrictions, but that is really what is maintaining the prices in many cases for Europe. I think there is this idea that we are becoming much more market-orientated, and certainly that is the trajectory of recent CAP reform, but that trade protection is still there and even if what had been proposed in Doha had been accepted, there was still significant protection. It is only when that existing protection is removed that you start to see a big knock-on effect on the beef and sheep meat sectors particularly.

Q208 Chair: You referred to production going down. Are you actually saying that farmers then are going out of business or could potentially be forced out of business?

Dr Moss: That is a very interesting question, because we would anticipate there would be structural reform.

Q209 Chair: Which is politely saying that there will be fewer farmers?

Dr Moss: No; not if being an active farmer still secures Single Farm Payment. In other industries where you have innovation, innovating entrepreneurs will increase their production and will be able to have lower costs because they are adopting new technology—this is a very simplistic model—and this will ultimately drive down prices. For those producers who have not adopted the new technology and are on higher cost production systems, they either have to adopt the new technology or they will be priced out of the market. Agriculture is rather different in that, particularly because of the unique position of land and the finite area of land, if farm businesses are to grow and take advantage of economies of scale or size in modern technology, they have to get the land from somewhere else, either in terms of buying it or of taking in land, letting land, or entering into new sorts of farming partnerships. The farmers who are most likely not to innovate are probably those smaller farms, and if we think Europe-wide rather than just in the UK, there are a lot of these small family farms. And if I could refer to work I have done at the micro-level looking at farm businesses—work I have done with Dr Claire Jack from AFBI and Dr Michael Wallace from University College Dublin—it is totally rational in economic terms for these small farmers not to sell their land.

Q210 Chair: Are you talking specifically in this country?

Dr Moss: No, I am talking at this stage just about work I have done on Ireland, but the principle still holds that to exchange land for money in the last decade would not have been a very rational thing to do. Thinking in specifically UK terms, if the family's wealth is embodied in the land, you have agricultural relief so it can be handed on without the predation of inheritance tax, land has not only maintained but increased its value despite the recession, and the rational thing to do is to hold on to that, and perhaps because there is a very small family farm income augmented with off-farm employment. If by maintaining farming, albeit at a very extensive level,

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you secure your Single Farm Payments on top of that, then again that adds to the rationality of remaining in farming. So as I said, unlike other sectors, there is a stickiness there that I referred to in my notes; you do not get the rapid structural change. Now that is not to say that structural change is not occurring; of course it is occurring, but at a far slower rate than you would get in other sectors. And if I could just refer to when I lectured to students at Queen's on structural adjustment issues, I used to point out to them, from a rural development point of view, where social cohesion in these upland areas may be a priority—and of course this is one of the objectives of the CAP as well—that the one thing worse than having lots of elderly small farmers would be having lots of young small farmers who were having to get additional sources of income in these areas. Sorry, that is rather a long answer.

Chair: No, that was very helpful. Thank you.

Q211 Neil Parish: Carrying on along the same lines really, on your scenario modelling, how dependent are UK farmers on the current level of income support in the direct farm payment? Does this vary between the sectors of agriculture as to how much they are?

Dr Moss: Yes, very much so. I know for England the Single Farm Payment is now in trajectory to be area-based, but for the other parts of the United Kingdom, there is still a strong historical element, and the main direct payments, which were decoupled and became bundled up in the Single Farm Payment, were attached to the beef and sheep meat sectors. So where you have these farmers in these sectors, they will usually have larger Single Farm Payments per hectare than elsewhere. So there is a difference among the sectors in terms of their reliance on the Single Farm Payment, and if you think of our intensive livestock sectors—our poultry and pig meat sectors—farmers in these sectors are not getting Single Farm Payments at all.

Q212 Neil Parish: Yes. And going back to what you were saying a while ago, there is an argument that the Single Farm Payment does increase the price of land and also increase the rental value of land. So how do you square those circles?

Dr Moss: Well going right back, I suppose, to the Second World War—in fact before it; in the 1930s—any agricultural economist I think would agree—they don't always agree on many things—that support to agriculture ultimately ends up capitalised in land values. Even where you have a tenancy arrangement and the payment may be going to the tenant as the active farmer, the land owner will obviously take that into account in the setting of the level of the rent. So I think the issue at stake really is that the Common Agricultural Policy in general and the Single Farm Payment in particular are being asked to address a number of objectives, and if you take just one of those objectives—any one of them—you would say, "This is a very blunt instrument. It is not addressing in any way perfect or efficient manner." It raises the question, of course, if you take the totality of the objectives, it may be the least worst option if you have this single instrument called the Single Farm Payment, but there is definite conflict between going for market

efficiency and having something that is actually impeding structural adjustment.

Q213 Amber Rudd: Does your analysis suggest that reducing the level of direct income support could actually have an effect on EU food production?

Dr Moss: Yes, it does show there would be a reduction, particularly in the beef and sheep meat sectors; a significant reduction in production.

Q214 Amber Rudd: So in those particular sectors?

Dr Moss: They are particularly affected because it is the farmers in those sectors who have most to lose.

Q215 Amber Rudd: Your written evidence notes, "The level of production in a globally competitive UK agriculture would not necessarily even match current levels."

Dr Moss: That is because, as I have already said, the structural adjustment that for other sectors would lead to the least efficient producers leaving the sector and taking advantage of new technology—you could expect to have an increase in supply—does not necessarily happen in the agricultural sector.

Q216 Neil Parish: So should we target the money more towards the beef sector, then?

Dr Moss: I'm sure the beef farmers would say, "Yes please." Sorry, that was a flippant answer; I apologise.

Q217 Chair: Is there not already a danger, though, that we are already larger scale farmers than the rest of the European Union and that is reflected often in the Commission proposals? From what you are saying, are we drifting towards a situation where there are going to be bigger and bigger units in this country through efficiencies?

Dr Moss: I work with agricultural economists in America, and there is already some incidence of large dairy units with many thousands of cows or a large beef unit; I have observed these in the United States. Apart from the local objections there may be to that sort of a set up, it is difficult to see how, if we are talking about global competitiveness, we can attain that so easily here in the UK in these livestock sectors. I am reminded of a comment from one of my American colleagues in relation to the role of international American agribusiness in South America. He said, "If you have cutting-edge technology, cheap land and cheap labour, it doesn't matter which card game you are playing; you are probably holding a winning hand." So I distinguish between global competitiveness and EU competitiveness. If you stand back and look at Europe, with its high land prices, with all the support over the years capitalised in land values, expensive labour because of the standard of living that we aspire to in Europe, and a farm structure where there is this predominance of the family-run farm and the reasons I have already given why they may not be operating solely like businesses, it is hard to see how Europe will be the bread basket for all the additional population that is projected over the next 50 years. I might say that when people talk about the 9 billion plus people, I think what is more important than the

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actual number of people will be the purchasing power of those people in the emerging economies. That will have a greater impact; not just the fact that there are going to be more of us, but that many more of us will have more money to spend on food. This is my personal view. That is not to say that we cannot be competitive in certain aspects of agriculture, but that I find it hard to see how the great increase in food that will be required will be produced by European farmers, certainly with the Common Agricultural Policy that we have and are likely to continue to have.

Q218 Mrs Glendon: So overall, on balance, from the consumer's perspective, would reducing the level of the direct income support make food prices lower?

Dr Moss: They may make food prices lower, but I think from the consumer's point of view, food security also becomes an issue. While I am not for a moment suggesting that Europe should be self-sufficient or should be increasing its level of self-sufficiency—in fact, in the UK we have been reducing our level of self-sufficiency latterly—strategically, food is very important. As a young researcher, I worked in east Africa and I was exposed to economies where purchasing food is paramount; either you have to be self-sufficient in terms of producing it yourself, or you have to be able to secure the income to purchase it. So from a consumer's point of view, we have not had to think that way for many years here, but strategically, I think it is important that Europe retains a significant degree of self-sufficiency in food for strategic reasons. Very simply—again, what I would have told my students—we can opt not to buy a motor car, we can opt not to have fancy clothes or live in fancy houses, but food is of absolute importance; imperative importance.

Even now, in parts of Europe and in parts of the developing world, the current high food prices are causing political agitation. I often used to tell my students, "If you hear in the news that there is a riot in some country in some less developed part of the world, nine times out of 10 it will be to do with food prices." I think for consumers what is more important than getting the cheapest possible food is knowing that we have security of food. That does not mean I am arguing that we should be producing physically as much food as we could, but I think that is very important. I think also consumers are concerned about the quality of their food, but at the same time I feel that it can be used, this thing about the quality of food and the poor quality of imported food, as an excuse to be keeping out imports. Certainly many of the physical attributes of food can be checked to make sure they do not have pesticide residues and things like that in them.

Two areas are very difficult to address from the consumer's point of view: one would be animal welfare. It is very difficult to be assured; you cannot tell by the egg you are eating or the meat you are eating whether or not an acceptable level of animal welfare was observed. The other one goes to the much broader issue of addressing climate change and whether or not the rainforest has been cut down in order to produce the feed that this animal was fed on. That is going way beyond my remit here, but those

are issues that will be of concern to consumers. But undoubtedly, already we have seen quite an increase in food prices over the last year in the UK, and that is reason for concern. That is coming from global pressures; the global market. I do not know if I have fully answered your question, but I think it is not just price that is the issue for our consumers.

Q219 Mrs Glendon: Do you think that would even continue over the next few years by people seeing the economic squeeze, or do you think that will change?

Dr Moss: Well there is the economic squeeze and I know that if you ask people whether they are concerned about price or quality of their food, everyone says it is quality, but if they are observed—except for the niche, which is usually associated with high-income, highly educated people—people will go for cheaper food. I appreciate that, but I think there is every indication that, as I mentioned earlier, given the increasing population of the world, many of them will have increasing purchasing power and a lot of the long-term projections are for strong international food prices.

Q220 George Eustice: You spoke just now about the strategic importance of a strong farming industry, and the two ways you can safeguard your industry are either through direct payments or some sort of subsidy, or alternatively tariffs to try to protect it against international competition. Which do you think is the biggest threat to farm incomes? Is it trade liberalisation or is it the removal of subsidy support?

Dr Moss: One is hitting the pocket that the market revenue goes into and the other is hitting the pocket that the direct payment goes into. They are both important, but certainly our modelling results showed that the significant reduction in beef and sheep meat supply and prices will occur with full trade liberalisation. But I must add that that is not a scenario that is likely to occur. I cannot see Europe pursuing trade liberalisation to that extent.

Q221 George Eustice: Right. That is quite interesting, because as part of the negotiations of the Doha round, they have made some quite sweeping offers to cut tariffs by 60%.

Dr Moss: You can cut a lot off a tariff and it is still effective. The term that is used is that there is a lot of water in the system, in that if you have a very high tariff, you may cut it by what looks like a very large amount, but it is still acting as a barrier and giving protection. We do not know if the Doha round will be achieved, but what was being negotiated under WTO Doha was our scenario two, which did not have those very big impacts. But what we are saying is if it is taken to the point where agriculture is treated like any other sector, at that point the trade protection falling would definitely have a big impact.

Q222 George Eustice: Which do you think is the right way to safeguard the farming industry in this country? Is it through maintaining those tariffs or through subsidies?

Dr Moss: As an agricultural economist, neither are attractive, for lots of reasons in our basic training.

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Professor Swinbank behind me is laughing at that comment.

Q223 George Eustice: But if you accept that an industry like that has a strategic importance?

Dr Moss: Well I think that probably a bit of both is required; I do not think it can be one or the other, again because of the multiple objectives. While there are social objectives tied in with economic cohesion and keeping people in areas that otherwise they would be leaving and there are local environmental objectives—as opposed to climate change environmental objectives, which of course are global—then I think there is a role for some measure of direct payments being retained. My other answer is I do not think we would get to the point—again because food is strategic—that we would want to be in a position where we did not have a measure of trade protection. I'm sorry if I have not given you a direct answer.

George Eustice: No, it's fine.

Q224 Thomas Docherty: Just following up on George's question about protectionism, so I understand correctly, you would suggest that it would be wrong for us to abandon protectionism for farming within the EU?

Dr Moss: Well there is a difference between abandoning it and reducing it.

Thomas Docherty: Right.

Dr Moss: Well, we have looked previously as well at the Doha agreements; I would not have any objection to that. But to end up treating agriculture like any other commodity I think could threaten the strategic importance of food and domestically supplied food, yes.

Q225 Thomas Docherty: That's fine. Going back to the earlier remarks about modelling, I do appreciate that you said, if I heard correctly, that you had not done a great deal around cereals—

Dr Moss: Sorry, I beg your pardon. We did the work, but it has very little impact; that is why I have not produced it in the results.

Q226 Thomas Docherty: Right, sorry. That is helpful. Correct me if I am wrong here, but my understanding is that around about 2008, there was a bit of a spike in the global wheat price and it is my understanding—again, tell me if I have got this entirely wrong—that we are likely to see a further spike in the relatively near future.

Dr Moss: Well we already have strong cereal prices at the moment.

Q227 Thomas Docherty: Right. If that continues, what impact would it have on the wheat policy within the European Union if the world wheat prices do continue to drive up?

Dr Moss: Well for those cereal farmers of course, it is good news, because it is augmenting their revenue. But because cereals in general are also feed and as such are an input into the intensive and the grazing livestock sectors, high cereal prices cut the margin—cut the profit—for those farmers who are having to

purchase them to feed to their animals. By and large, European policy has been more concerned when the prices have plummeted, rather than when the prices have risen, and that is why in the past we had intervention buying, where we have export subsidies to dispose of surpluses on to the world market. It has not so much been a case of what Europe will collectively do when there are very high prices.

Q228 Barry Gardiner: We are being bombarded from all sides, as you can imagine, on this Committee. We have the Commission telling us they think we should put more money perhaps into Pillar 1; we have Defra saying that perhaps it might be better to put more money into Pillar 2; we have the NFU telling us that, "Oh no, no, no; we don't like this greening of Pillar 1." Now I wrote down something that you said earlier on that I rather liked. You said, "It is not possible to deliver to every single farmer in Europe an acceptable standard of living through the CAP". There would seem to me to be a great element of realism in that. Given all the different views that we are being bombarded with, what do you believe the function of the CAP should be, what do you think is the correct balance between Pillar 1 and Pillar 2, and should there be additional elements in either?

Dr Moss: Well, I am sure you will appreciate that from the perspective of leading a team that analyses agricultural policy, in order to retain our credibility we have to remain impartial.

Q229 Barry Gardiner: So you're not going to help me out here?

Dr Moss: I am not using this as a scapegoat, but I have to start by saying that we do not advocate specific policies, because obviously the next time a raft of policies came round, we would be assumed to have an inherent bias there. Policymakers, and ultimately yourselves as parliamentarians, have an incredibly difficult task. As I alluded to right at the beginning of my response, the CAP has a number of competing objectives. Pillar 1 is the main CAP. We talk about Pillar 1 and Pillar 2 as if they are equal in some way, but the vast bulk of the funding is channelled through Pillar 1 and most of that is via the Single Farm Payment, which is the bundling together, certainly for us in the UK, of these decoupled direct payments. That is a very blunt instrument to address these issues of environmental protection, the social objectives of keeping people in rural areas and at the same time delivering a market-focused agriculture that we hope will be as efficient as possible in the production of food. I am not using this as an excuse for not answering your question, but it is a very difficult question.

As I also said earlier, if you look at the income support element of the CAP, most people think of income support as a welfare issue. But if you use the Single Farm Payment for income support reasons, the vast bulk of Single Farm Payments are not going to recipients who by any stretch of the imagination would qualify for welfare under our normal meaning of welfare where you have these transfers from taxpayers to recipients of welfare grants. So if it was

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to just be income support for those in need, it is a very blunt instrument. That is one issue.

Q230 Barry Gardiner: May I pursue you down that rabbit hole first perhaps and then we will go through the other one? I recall that when the NFU were giving evidence to the Committee they were very strong on this issue of Pillar 1 being necessary. Now, they did not quite put it in terms of social welfare for poor farmers, but what they did say was that it was necessary to make up for the inequalities in the playing field as they competed in a global market. Is that something that you would agree with? Or perhaps you can comment on that statement in the light of the actual purchasing contractual relationships. Where does most of our food go? Does it actually compete with that in the rest of the world or does it not?

Dr Moss: Well European agriculture, as I said earlier, is still protected a lot via our import tariffs. As far as I am aware, most of our farmers are not directly competing in the global market anyway. Most of what is produced is consumed within Europe. I am not sure where the evidence exists of these different costs; I know there is the issue of very high compliance costs with various regulations. Some of these regulations are there to protect society, and I have heard it said, "Do you pay people not to break the law?" There is one counter argument that could be used. All industries are subject to environmental controls and certainly if we are talking about, say, greenhouse gas emissions, which is something my team has also been looking at, agriculture potentially has an important role to play in the mitigation of greenhouse gas emissions. The environmental protection or the animal welfare protection, or whatever other regulations are put in place, are there specifically to address the concerns of European consumers and they go beyond what is being asked for elsewhere. This may be justification for our trade protection, for example. That is a way of protecting; it does not have to be through Single Farm Payments.

Q231 Barry Gardiner: Thank you; that is extremely helpful. Going back to trying less to get you to state opinion rather than research, what does your modelling show about the impact that would occur on farmers if more was delivered through agri-environment schemes rather than through direct payments?

Dr Moss: As it stands at the moment, Portugal and the UK are the only two Member States that took the option of additional modulation of Single Farm Payments, so we have voluntary modulations apart from the compulsory modulations. By and large that has been used with matched funding for environmental measures. That is not just taking Single Farm Payment out of one pocket and putting it into another, because there are high compliance costs in environmental management, which we have to take into account in our models. Whereas the Single Farm Payment comes as the proverbial brown envelope in the post, about 70% of money given to farmers for environmental management, where there is actual work being undertaken, will go in compliance costs. So in the production of the environmental good, there

are costs involved. But of course, if those costs are paying for the labour on the farm as opposed to materials that may be required, this is augmenting the income of the farm. But I think we have to make that distinction.

Q232 Amber Rudd: Could you expand on the concern that you expressed about the environmental specification needing to be very carefully set out to avoid seeming populist?

Dr Moss: Well because of the heterogeneity of rural areas, what is an environmental priority in one area may be very different from what it is in another area, which may be very close at hand. So if we are talking about, say, the protection of habitats or ecosystems, that has to be very site specific and it is hard to see how that sort of environmental protection or enhancement could be incorporated within the general cross-compliance for Single Farm Payment, which by its very nature has to be fairly broad brush.

I must start by saying that not being an environmental scientist, I am speaking in a somewhat amateur way here, but where what is being asked of the farmer is something very specific like maintaining rare bird populations or something like that, obviously that has to be done separately from Single Farm Payment. That sort of measure is not possible. But where it is maintaining the land in good agricultural standing, I think that is very important in the long term. I know they say a week's a long time in politics and the CAP looks at things for four or five-year cycles, but that is still actually very short term when we are talking about the strategic importance of food for the United Kingdom. We have to be thinking not just decades ahead but much further ahead, and as I have stated in my submission, maintaining the agricultural land is very important. How intensively it is used at any one time is not as important as making sure that we are retaining our potential for food production in the future, because we are facing a very uncertain future, not just in terms of climate—although I have heard some argue that the UK as a whole may be advantaged from climate change in terms of our production of food, although we do not know what plant or animal diseases we may encounter—but in terms of global political issues, population growth and various instabilities in international politics. I think it is very important that we are maintaining our agricultural land, and if that means paying people to retain land that may otherwise not be kept in agriculture, I believe that is a price worth paying. Just what level that payment is is another matter, but it cannot be in terms of guaranteeing satisfactory levels of income to people who, by virtue of having relatively small farms, cannot hope to get all their income from their farm holding.

Q233 Mrs Glendon: Some of our witnesses have felt that the retention of voluntary coupled payments in some sectors, which the Commission has suggested, could distort the common market. Is this suggested in your analysis?

Dr Moss: Well, we have worked on the assumption that where we are applying a new policy scenario, it is applied uniformly across the EU of 27 Member States.

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Certainly, certain sectors historically had more direct payments, so those sectors retain the decoupled payments. Are you saying that if we move to area level payments, some sectors will be affected more than others? Is that what you are saying? That obviously would be the case, because England is already of course in transition to area-based payments, which means that farming sectors that previously had the highest historic payments are net losers in that. If this is happening Europe-wide, I am not sure I see where the distortion within the single market would come.

Q234 Chair: I think we have been told that it is happening in certain Member States and perhaps not here.

Dr Moss: I couldn't answer that, I am afraid. Certain Member States have not as yet decoupled; that is true. If they were allowed to remain coupled, obviously their farmers would be at an advantage. Just to follow on from that, I said earlier that I think we have to distinguish between global competitiveness and fairness in terms of a level playing field within Europe, and I can see that one of the issues is that, if significant chunks of the CAP were renationalised, you could very easily see a situation where there would be an uneven playing field, if I could just make that additional comment.

Q235 Mrs Glindon: We have talked about the global market, but could I just ask what measures you think the Commission could introduce that would enhance agricultural competitiveness?

Dr Moss: Well, speaking as an economist rather than in terms of the research I do, the market is an effective mechanism for enhancing competitiveness. The workings of the market usually drive efficiency. Now that is very much a first year economic textbook answer, I fear, but generally, as an economist I would have to say that subsidising a sector may impede competitiveness in the long run if it leads to people not adopting new technologies and not responding to new technologies as they become available, or remaining in production where otherwise they would not. That is very much a textbook answer, I fear, but I think that is how I am going to answer it.

Mrs Glindon: Did you say that it could impede competitiveness?

Dr Moss: Yes.

Q236 Thomas Docherty: If I understood correctly the evidence that you have given us in writing, you are concerned that the Commissioner's intention to end the historical basis of payments could have an adverse impact on Wales, Scotland and Northern Ireland's structure. If that is the case, could you very briefly—in view of the time—just outline what measures could be used to try to mitigate that impact, whether that be, for argument's sake, transition periods or modifying the payment scheme?

Dr Moss: I have to go back to your earlier assertion that I referred to the loss of the historical payments, because from my dealings with the devolved administrations I think that there is a recognition that these area-based payments are coming. The devil will

be in the detail of how these monies will be distributed. At its simplest, you could have every hectare of agricultural land in Europe all getting the same direct payments. In my opinion, that is not going to happen and there is very good reason why it should not happen. You will want tiering to take account of low-quality land, where it takes very much more of it to produce a certain amount of agricultural production. I think you also would want to take account of purchasing power in different countries; that is also an issue.

But if we could park those concerns for a moment and just look at the United Kingdom, taking the total amount of Single Farm Payment and the area that is claimed for it in each of the four countries and looking at it simply that way. If we were just pooling all the Single Farm Payment in the UK and then divvying it out per hectare, there would be big changes. For example, Northern Ireland would lose about 30% because of the preponderance of beef and sheep production. The simple per hectare payment, if it was area-based for Northern Ireland, would be about 30% above the UK average. Scotland, because of its very extensive farming systems, has a lower per hectare payment, so Scotland would benefit. This isn't talking about EU-wide level payments, but just within the UK.

There is a further issue with Scotland, which was drawn to our attention by our Scottish funders, and that is that there may be—and this is where the whole concept of active farmer could be very thorny—up to 1.6 million hectares of land in Scotland that could come into play with area-based payments that currently are not registered for Single Farm Payment, taking them from something like 4.4 million to 6 million hectares. This is only an issue for Scotland; it was not drawn to our attention that there were large areas of land in other parts of the UK that could be brought into play. So I think it is widely accepted that there will be a move to these area-based payments, if for no other reason than it was very difficult to justify to taxpayers the payment that is based on what you produced 10 years ago. I think there is this recognition, but it will lead to significant transfers of funding and that is why I think the negotiations over how this area-based payment will be brought into play will be very protracted and very contentious among Member States. Just in the way that farmers do not want to lose their Single Farm Payments, Member States or regions within Member States do not want to lose what they currently have. I think they will be very, very difficult negotiations.

Q237 Chair: Returning to what you said about global competitiveness, could some of the balance be restored if there were grants for innovation or research and development?

Dr Moss: So much of the new technology for agriculture involves GMOs, which is pretty well a no-no for Europe, so I am just wondering which areas of innovation you would be thinking of, Chair.

Q238 Chair: I just wondered if you had any thoughts.

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Dr Moss: It is not an area that I would have expertise in.

Q239 Chair: I was taken by your remarks where you mentioned we were becoming less self-sufficient.

Dr Moss: Well, that is just a factual statement.

Q240 Chair: Does it worry you that we are importing more and exporting less than we did, say, 10 or 20 years ago?

Dr Moss: As an economist, not necessarily, other than that I think we do not want to get to the position where we have such a low proportion of self-sufficiency that it becomes a strategic threat. But I do not see that. I am aware, because I have observed it elsewhere in the world, for example in cereal production, there are very large economies of scale and size associated with

modern, cutting-edge technology, and a lot of the farms in Europe just are not of a scale to take advantage of that. We have all seen the photographs of the 50 tractors side-by-side, all satellite controlled, whether for planting or applying fertiliser. That is agribusiness. When I think of European family farms and then I think of cutting-edge agricultural technology, so much of the cutting-edge agricultural technology is large-scale agribusiness, rather than family farms.

Chair: Thank you for being so generous with your time. We apologise for both running over and for the late start because our private business took us on, but it has been a great pleasure to hear from you today. We hope we can keep in contact in the future. Thank you very much indeed, Dr Moss.

Dr Moss: Thank you.

Examination of Witness

Witness: **Professor Alan Swinbank**, Emeritus Professor of Agricultural Economics, University of Reading, gave evidence.

Q241 Chair: May I welcome you.

Professor Swinbank: Good afternoon.

Chair: Good afternoon. You are most welcome. We apologise for running over. Thank you very much for being with us this afternoon. Just a general question at the outset. Do you think the Commission is being overambitious in the potentially conflicting objectives of greening up the CAP but also delivering a fair standard of living for farmers?

Professor Swinbank: It is really quite difficult to get a clear picture of what the Commission wants to do in its document, to be frank. Its attempts to green the Common Agricultural Policy are to be lauded. It needs to think very hard about what it means when it is talking about income objectives, because I am not quite sure that part of the document is particularly clear. It worries me in particular that 40 years after the Common Agricultural Policy was invented, we are still worrying about an income problem in agriculture.

Chair: That is helpful; thank you very much.

Q242 Barry Gardiner: “Now is the time to make very significant progress towards reducing our reliance on direct payments.” That was the Secretary of State; I have no doubt you recognise her words². Do you think it is actually realistic? Is it a realistic goal given the position that other Member States are adopting? Equally, do you think that it is the right thing?

Professor Swinbank: As a retired academic, I can boldly state that I think it is the right thing to do. Clearly, politically it is very difficult, so the Secretary of State is perhaps being quite bold in suggesting that this is possible. It will take time to reduce the reliance of the agriculture sector on direct payments, and of course those direct payments are not just of benefit to individual farmers and landowners and entrepreneurs in the farming sector, they are also very important to individual Member States. Two countries which

benefit significantly from direct payments are Greece and Ireland, and it is not exactly the right time to start talking about taking huge chunks of money away from them.

Q243 Barry Gardiner: We heard in the earlier discussion my colleague Thomas Docherty talking about the spike in prices of wheat at the moment, but rising prices in general have also been a feature of this debate and talked of as being able to counterbalance any loss of direct payments. Is that something that you would agree with?

Professor Swinbank: Well it is very difficult to foresee the future, but most experts do seem to suggest that commodity prices will continue to rise positively and if that feeds back through into farm incomes, then that is a buoyancy as far as the farming sector is concerned and reduces their reliance on other forms of revenue support.

Q244 Barry Gardiner: Now, given that you have said that you think it is the right thing to do and the right direction to be going in, can you outline for us what effect you think doing that would have on the competitiveness and the productive capacity of farmers in this country? If it is a negative effect, how do we then counterbalance that?

Professor Swinbank: A lot of points in that question, so tell me if I have missed any of them out. Competitiveness is one of those very tricky issues to nail down precisely what you mean and I would in a sense differentiate between intrinsic competitiveness—how able is the sector to organise its resources and market its product—and an artificial competitiveness. Many of the European Union’s trading partners would say that the Single Farm Payment and other elements in the CAP gave European farmers an artificial competitiveness. So to that extent, you are removing their ability to remain in business.

² Oxford Farming Conference, Wednesday 5 January 2011

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But the longer term issue is the structural performance of the European farming economy. I go back to a comment that Joan Moss made about the market being a very good discipline as far as bringing competitiveness to bear upon a sector. There are lots of problems with markets, of course, in the way they operate, but intrinsically there is this pressure to lower costs and to produce products that the market really wants. If you have a Single Farm Payment in place, that is lessening that pressure and furthermore, it is adding to the bureaucracy that the farm sector has to cope with and, to my mind, impeding technical progress, because if farmers are hanging on to the land, as Joan says, because it is a good asset, they are not allowing the land to be reused by more entrepreneurial and better-placed farmers. So it is a double-edged sword, but I think the long-term impact of the Single Farm Payment is to retard the competitiveness of European agriculture—the intrinsic competitiveness of European agriculture. That has been the problem with the Common Agricultural Policy ever since it started; we have been trying to stop this outflow of labour from the farm sector, which I am afraid is an inevitability of the way the economy grows.

Q245 Chair: In terms of decisions that previous Governments have taken for animal welfare reasons—if you think of the ban on sow stalls and tethers, we took a decision in the interest of animal welfare and then found that the consumer went and bought the cheaper imported meat—do you think the customer is prepared to pay more for a product that is better produced, meeting higher animal welfare conditions?

Professor Swinbank: You have put your finger on a very real problem there. As private citizens we say one thing and as consumers we tend to do something different. It is very difficult to get consumers to pay the extra for the animal welfare levels that our legislators believe that they want. It is very difficult as far as world trade is concerned to insist on animal welfare standards on products being brought into the country, which they do not themselves apply. The only sensible route forward is to try to negotiate international guidelines to allow better labelling of livestock products to enable consumers to make informed choices about which sort of products they want to buy. But if in the longer run, with the information, consumers say they do not want to pay higher prices for animal welfare products, it raises a question about that animal welfare legislation itself.

Q246 Chair: I have two turkey factories within my constituency that both closed probably because of cheap imports from Brazil, and we were not eating their turkeys as turkeys; we were eating them as frozen food.

Professor Swinbank: Processed products, yes.

Chair: How do you tackle that problem? Anecdotally, our producers will say, “Well of course the turkeys and chicken products produced in Brazil and some of these Mercosur countries are not meeting the same high standards”; they will say that they are. How do you tackle that particular problem?

Professor Swinbank: I admit it is a very difficult problem, but I think at the moment the only effective way to tackle it is to put pressure upon the supermarket chains to try to ensure that they source material to the same standards that they would have to source in Europe or the UK. I foresee all sorts of difficulties trying to impose those standards on imported products.

Q247 Chair: Is there a dilemma for the Commission and for the EU between direct payments for environmental schemes and for animal welfare schemes possibly under EU projects if then cross-compliance intervenes? We tend to have more than one inspector for each box that you have to tick for cross-compliance. Do you think that is resolvable?

Professor Swinbank: Cross-compliance is one issue, but the animal welfare standards in cross-compliance do not necessarily then impose those same standards on imported products. So all you are really doing is talking about products produced within the European Union. If you are giving specific production aids for animal welfare friendly activities within Europe, it is possible to devise WTO compatible arrangements, but it is extremely difficult, because if you were a producer in a third country producing to the same animal welfare standards as were being imposed in the EU and you were not getting those subsidies from the EU taxpayer, you could legitimately complain that it was an unfair playing field, that subsidies were being given that you were not entitled to. So it is not an easy area, I admit; there is a lot of negotiation necessary there.

Q248 George Eustice: I just wanted to press you on this. I take your point, but the evidence we heard earlier suggested that it is because you have that asymmetry—that we have higher regulatory standards here—that you need those direct payments. It may be that you could remove those direct payments if the world trade system recognised animal welfare as a legitimate dimension for negotiations. I know you say it is too difficult, and I’ve heard people say various things, but why can’t you just say that they must have set standards laid down and they must comply with certain standards and have that in their legal system at least? There would still be arguments about whether it is enforced, but you would at least be able to have a requirement that there are certain minimum standards that must be in their legal system.

Professor Swinbank: Well forgive me, but there seem to be two elements to that. One is the single payments scheme and whether or not it is a compensation for these higher standards, and I will come to that in a moment, if I may. The other is can you impose EU laws about animal welfare on imported products? I am no legal expert, but I think that is extremely difficult and that it would be extremely difficult to negotiate it.

Q249 Chair: Article 36 of the original treaty said that you could block any import on the basis that it did not meet public health requirements. Forgive me; I do not know what the current article is, but there is that possibility. Could you suggest any alternative measures? My understanding is that the way this is

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meant to happen in Brazil is that it is meant to be checked at the point of departure and I am not convinced that it is. What solutions would you envisage that could meet this problem?

Professor Swinbank: I am still trying to cope with two questions in one. As far as the WTO is concerned, there are provisions to allow you to block imports if there are public health or animal health issues at stake. The question is whether animal welfare is an animal health issue and it is debatable. I think the EU should perhaps try it out in the WTO and get a case against it and see whether or not a WTO committee is willing to—

Q250 George Eustice: I am not suggesting that animal welfare is the same as a food safety issue, but the principle is the same, isn't it? We insist on certain standards of food safety.

Professor Swinbank: Yes. But the WTO situation there is different, because the WTO has a specific agreement—the agreement on the application of sanitary and phytosanitary measures—which allows you to impose food safety standards if there is good scientific evidence to back up your actions, whereas the animal welfare issue is a more hazy concept in WTO law. It is not at all clear which way a dispute settlement panel would rule.

Q251 George Eustice: Do you think the WTO is fit for purpose in this area at the moment? It should not be beyond the wit of man.

Professor Swinbank: Yes, the WTO has its imperfections, but it is better than complete anarchy as far as world trade is concerned. So it has its problems, but it can only be improved through negotiation and through effective collaboration within the WTO system. I would like to see improvements to it. I would like to see the Doha round completed and I would like us to move on to some of these other non-trade concerns that we have, not just in agriculture but on climate change and all sorts of other issues. But do not throw the WTO away and say it is no good, because it is better than nothing.

Q252 Chair: A number of farm organisations and the Commissioner himself have said that it is a fair justification of the Single Farm Payment to say that it pays for these higher standards. Do you agree?

Professor Swinbank: Well, I would make two comments. One is that we are a high income, densely populated part of the world and there are all sorts of regulations imposed upon businesses operating within the European Union. In principle, I do not see any difference between imposing those sorts of regulations on the farm sector compared with other sectors. Having said that, as Joan Moss also pointed out, there is still quite a lot of protection in the agricultural sector and even if the Doha round is completed, most agricultural sectors will still have quite heavy levels of border protection. One raises the question: how much extra cost do those standards impose upon European farmers and is the price we are paying commensurate with the costs incurred? I do not know the answer to that and I do not think the Commission knows the answer to that, and if the lobby

organisations do, they are not willing to divulge what it costs.

Q253 Chair: I do not think anyone can criticise you for being so honest. Can I just get my head around the WTO and the Doha round? You are saying that because it is animal welfare standards and not, say, health and safety standards, the WTO at the moment cannot intervene, so we would have to get international agreement for them to extend it to include animal welfare provisions?

Professor Swinbank: What I am saying is the WTO provisions do not make explicit provision for animal welfare.

Chair: But it's a negotiation process. It has only been going on for 10 years.

Professor Swinbank: It has only been going on for 10 years, yes.

Q254 Chair: If you think that five years is a short time, it has only been going on for 10 years. It is a process of negotiation; what chances have we got of winning over the Brazilians?

Professor Swinbank: There are two ways forward, I think. One is to negotiate, but as you say, that could be a long time—

Chair: We are very patient.

Professor Swinbank:—and until the present negotiations are over, no new agenda items are going to be added to the present negotiations; until the present negotiations are over, we do not start on that. The other way is to say, "Well look, we believe that there are provisions within the original GATT—the General Agreement on Tariffs and Trade—which, if you interpret it in a particular way, would allow us to do these things that we want to do," and just do it and see if we get challenged. If we get challenged, there will be a dispute settlement process, and if we lose that, then we have something to think about. But in the meantime, you could, I think, press forward. I think a lot of the animal welfare lobby would argue that the EU has not been sufficiently courageous in doing what it wanted to do in these sorts of areas.

Chair: Maybe we are just being too nice.

Q255 George Eustice: On the issue of food security, I think in your evidence you were suggesting that you did not need the CAP to deliver food security, that this is a bit of a red herring argument that farmers are floating and it has been exaggerated, and actually it is not an issue and we will have enough food. Is that basically your view?

Professor Swinbank: Yes. Clearly I am painting a simple picture there. Food security is of course very important, both to us as individuals and to the world as we go forward. If there are going to be 9 billion of us by 2050 wanting better diets than we currently have, there is a very real issue about where all that food is going to come from. But I do not see that the level of self-sufficiency generated by the Common Agricultural Policy is a necessarily important criterion in our European food security. Our European food security is more dependent on our purchasing power internationally, a globally functioning marketing system and the like. If there is a world food shortage

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in the future, it is not us, unfortunately, who will go hungry; it is the poor and the destitute in many developing countries. Those are the people I feel we ought to be worrying about at the moment. What worries me is that the Commission seems to be suggesting that if we have a buoyant Common Agricultural Policy, that will aid food security. I think, as you said earlier, it is a bit of a red herring.

Q256 George Eustice: Some of the evidence that we have had says that in order to feed an expanding world population, the world is going to have to make use of the less favourable areas to produce food—so the highlands and upland areas—and they need support to be able to produce food there. If you are going to feed a larger population, you need to make use of that; that was the first point. The second is a slightly different point: are you saying there is no strategic interest in having a farming industry in this country? That seems to be what you are saying; that we just have free trade instead.

Professor Swinbank: I hope I was not saying that, but again, I hope I manage to answer all elements of the question, and I think I have lost the thread already. As far as Europe is concerned, yes, European agriculture is an important provider of food for us and for the world market. I do not think there is any suggestion that European agriculture is going to disappear. If world commodity prices are going to increase, that will give an added incentive to European farmers to produce more, even in the marginal areas, which do not add an awful lot to overall food supplies at the moment. So I do not see a collapse of European agriculture if we change the agricultural policy; I see European farmers continuing to contribute to world food supplies. But I think the effort that globally we should be putting into increasing overall world food supplies is focusing on those developing countries that are really rather poorly developed as far as agricultural production is concerned at the moment and pumping research and development into there. Is food security a strategic issue Government should be concerned about? Yes, it is. Do we need the present Common Agricultural Policy to help secure that? I am not sure. I think Government should be monitoring land use around Europe. There are very strict planning controls that mean we are not going to put houses over the best agricultural land, but whether we need an agricultural policy in place along the lines of the current agricultural policy I think is debatable.

Q257 George Eustice: I get a hint in some of what you said that you feel it might even be better if you just had national agricultural policies and there is no need for a Europe-wide Common Agricultural Policy.

Professor Swinbank: I am not sure one could conclude that from what I have said. I think there is a lot to be said for having a common market and, if you have free trade in agricultural products, there has to be a common set of rules regulating that trade. But if you believe, as I tend to side with, there is no need for income support across the generality of European agriculture, then that probably reduces the relative importance of the Common Agricultural Policy. As far as the greening of the Common Agricultural Policy

is concerned, there are some issues that are clearly of European interest that give rise to a European involvement—migratory birds, tidal estuaries and the like—but things that are purely national in scope could perhaps be devolved back to national Governments to fund and to regulate, provided they did not impact on the functioning of the common market.

Q258 Chair: In terms of keeping land in a fit state to grow food on, should that attract a direct payment and support in that form?

Professor Swinbank: If there was a real case to be argued that land was going to be used for some other purpose, you might have to think in terms of some marginal intervention, but I suspect that the payments would not have to be anywhere near as high as the current payments. We need to do a bit more thinking on that and one also would need to ask why is land going into other activities? Are we going to have golf courses springing up all across the country? Isn't that controlled by planning constraints? Is it forestry that is going to happen? Well maybe some more forestry is good for the environment. I do not know. I think just to assume that we need the single payment to keep land in agriculture is answering the question before we have done the analysis.

Q259 Chair: Would the danger not be, if we went back to national farm policies, that the French would be supporting their part-time car worker who has a couple of fields and that would not be very fair to our farmers?

Professor Swinbank: Yes. As I said in response to the earlier question, if we have a common market, then there need to be common rules on competition and anything that is likely to distort that common market needs to be regulated through Brussels.

Q260 Mrs Glendon: One argument that is used to justify the CAP is that it does allow farmers to compete against well-subsidised trading partners across the world. So how does the current level of income support in the EU compare internationally?

Professor Swinbank: It is certainly true to say that many countries around the world support their farm sectors and the Organisation for Economic Co-operation and Development has been monitoring support in OECD countries since the 1980s and publishes an annual estimate called the Producer Support Estimate. On that scale, the EU comes out at about the OECD average with a PSE in 2009 of 24%, which is just above the OECD average of 22%. This is an attempt to measure how much of the producer revenue can be attributed to support rather than market prices. The United States comes out at about 10%, so half the EU average, whereas if you go to countries like Norway at 66% or Switzerland at 63%, clearly there are other countries around the world that support the agricultural sector much more heavily. What Europe has done over the years is it has substantially reduced its support to the agricultural sector. Please do not misunderstand me; the EU has made major changes to its agricultural sector, to the overall level of support and to the structure of that

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support. The bulk of the support these days is in the form of this Single Farm Payment scheme, which although I have my arguments against, is a much more benign form of support than the old market price support that the Common Agricultural Policy was characterised by in the 1970s and 1980s.

Q261 Mrs Glindon: So if the basic income support element was reduced, could that be done without damaging the EU's trading position internationally?

Professor Swinbank: Well if you simply removed it overnight, it would have major implications as far as farm businesses are concerned. If you phased it out over a number of years, then I think the agricultural sector could learn to adapt to it. There would be a change in structure in the farm sector, and I think there would be some less production within the EU as a consequence; we would potentially import a bit more. But from my answers to earlier questions, you will surmise that I do not really see that as a particular problem in a global context. It actually feeds back into the point that the EU defends its single payment scheme as a non-trade distorting activity, but if it is the case that by removing the Single Farm Payment you would reduce the level of production, then that argument in the WTO begins to look a little weak.

Q262 Thomas Docherty: I probably should declare I am a member of the RSPB. One of the things that we have heard from previous witnesses, including the RSPB, is the issue of how we define a farmer.

Professor Swinbank: Yes.

Thomas Docherty: Obviously one of the options that the Commission may look at is restricting the definition of what an active farmer—I think that is the correct way of describing it, Chair—is and therefore restrict the payments. I suppose the question first of all is do we need a better definition of what a farmer and an active farmer is? Do you think there is a widespread problem about golf courses receiving money and absentee landlords receiving some money?

Professor Swinbank: Well just over two years ago, I guess I would have had to declare an interest as well, because I used to sit on the board of the university farm. Of course, the university farm is a recipient of the single payment. I am not quite sure what the EU is after over this active farmer business. It seemed to me when it first came out that the Commission was trying to exclude big organisations like universities or the RSPB or their like from receipt of the Single Farm Payment because that was not their main business. But from what I now understand, that is not what they are saying. What they seem to be saying now is that farmers have to be engaged in some sort of farming activity to receive the Single Farm Payment. How you determine that I really do not know.

Q263 Thomas Docherty: Would you like to hazard a guess?

Professor Swinbank: Well presumably you have to show that there is something sold off the farm that could be identified as an agricultural product. I really do not know. But that then immediately takes you back to the WTO, because that seems to be in direct contradiction to the statement that these are decoupled

payments. There is also the question of how you define a farmer. To go back to the beginning of the discussion, the Treaty of Rome does not talk about farmers; it talks about the agricultural community. Now what is the agricultural community? Who are these guys that the Common Agricultural Policy is supposed to be there to represent? Wage labourers in the agricultural sector do not seem to do necessarily well out of it. So I see all sorts of problems in trying to define first of all what a farmer is—and that is part of the difficulty of knowing what farm incomes are and whether there is a farm income problem—and then trying to devise rules that say some guys who are almost farmers but not quite farmers do not get it, but some guys who are just within the category do get it. Very problematic. Back to this competitiveness issue, it just adds to the bureaucracy as far as the sector is concerned and causes tenancy and other agreements to be drawn up with the rules in mind as much as with good agricultural practice in mind.

Q264 Thomas Docherty: Just very briefly, because I am conscious of the time, if I was to give you that definition but suggest that you could add, "To keep in good agricultural condition," would that still be something you would be comfortable with?

Professor Swinbank: Yes.

Q265 Thomas Docherty: Right, okay. One option might be that you could restrict the basic element of the direct income support payment to those farmers that are actively producing, however then have a non-producing landlord—and again, the RSPB might be a good example of that—who would receive the greening element, which I expect is a bit complicated. Do you think that could be a sensible approach? If it was sensible, what are the practical limitations or challenges to implementing it?

Professor Swinbank: I think it adds to the complexity. Presumably then you would be making two claims on one piece of land, one for the basic income support and one for the greening element. In principle, I am in favour of the CAP having a green element, but I am strongly of the view that you must try to ensure that payments are linked to targets and delivery. This talk about greening Pillar 1 is a bit woolly. It implies that everyone with their Pillar 1 payments just gets two parts; a basic part and a green part. I am not particularly happy about that. I do not think it necessarily represents good value for taxpayers' money.

Q266 George Eustice: One of the things that the Commission have proposed is that you would have an upper cap on the size of the direct farm payment, so they get about €300,000. What is your view on that? Is that going to encourage or discourage competitiveness in farming?

Professor Swinbank: Well one can see the political attraction of having a cap if this is an income support payment, because €300,000 sounds quite a lot of money. But if it is not an income support payment, if it is for the delivery of some other activity, why is there a cap? Why is that necessary? Is a cap problematic? Well perhaps for most farmers it is not

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problematic, but there are some claimants in the United Kingdom already who presumably would rethink their farming strategy and the structure of their businesses if a cap of €300,000 was brought in. And again, it just adds to the complexity of the system. Anyone hovering around that level is going to be thinking in terms of whether or not they need to do something slightly differently in terms of their farming activities.

Q267 George Eustice: So you think they might restructure their holdings?

Professor Swinbank: Yes. If you are currently claiming €1 million then you have a strong financial incentive to restructure your business. If you are currently claiming €301,000, then perhaps the incentive is not there; at €301,000 you continue as before.

Q268 George Eustice: When we pushed the Commissioner on this, he took the view that there are much bigger issues that would affect farm structure and this is not something that would motivate them. But you think that for the very large ones it would?

Professor Swinbank: With very large ones I think it would, yes.

Q269 Thomas Docherty: Do we have many landlords or farmers who are getting €1 million?

Professor Swinbank: Well that is perhaps something you should ask Defra when they come along, but I think I produced some figures in my report that suggest that there are quite a lot of farmers getting more than €500,000, for example. But I picked €1 million out of the air, to be frank.

Q270 Chair: Public goods is another of these definitions that I do not quite understand, to be perfectly honest. I think in your document you talk about rural public goods.

Professor Swinbank: Yes. The basic idea here is that there are things that society values, such as landscape, biodiversity and the rest, that society does not directly pay for through the market. If we want to buy milk, we pay for the milk, and the farmer is incentivised to produce milk to the standards that we specify.

Chair: Not at the moment.

Professor Swinbank: Maybe milk was a bad example; I do apologise. But in terms of the environment, there is no direct incentive to produce what the rest of society wants. This tends to be bandied around and talked about as public goods. Collectively, if society wants these things, and businessmen and women are not willing or able to supply them, there is a need to intervene to ensure that they are provided. Now you can provide public goods either by insisting that the enterprises supply them—for example, in a city you could insist that householders provided a pavement in front of their houses for people to walk along—or you can use taxpayer funds to make provision for public goods.

Q271 Mrs Glendon: The Commissioner has opted for greening Pillar 1 rather than moving more money into Pillar 2, which has tended to be the direction of

travel in previous reforms. Do you agree that some greening of Pillar 1 is needed to legitimise the CAP and justify the budget? What balance of funding between the basic income support payment and the greening top-up would you recommend?

Professor Swinbank: I am not terribly sure that this debate about Pillar 1 and Pillar 2 is particularly useful, to be truthful. What I would say is that if you are going to have a greening of the Common Agricultural Policy, then you should be linking payments to targets and to delivery. Now whether that is in Pillar 1 or Pillar 2 or Pillar 43 is in a sense immaterial. So my view is that if Pillar 1 is income support or compensation for higher environmental standards or whatever, then Pillar 1 should be phased out over a 10 or 15-year period and money—maybe some of it; maybe all of it—targeted on more targeted environmental schemes. Whether it is in a revamped Pillar 1 or a Pillar 2 is not particularly important, but I think you should get away from the idea that you can get a lot more delivery of environmental goods simply by having more cross-compliance attached to those income payments that are currently in Pillar 1.

Q272 Chair: I think you mentioned the historical basis of payments and the Commissioner is committed to ending those. Do you think it is politically feasible for the Commissioner to aim to redistribute funds according to objective criteria as he is seeking to do?

Professor Swinbank: Well in England, of course, the Government took the decision to have regionalised payments, so in a sense that issue has already been dealt with here. But as Joan Moss pointed out, in other parts of the United Kingdom it does involve a transfer of funds between individuals. If you then aggregate up across the whole of the United Kingdom, there are even more transfers involved, and if you extend it to the European Union and say that some more equal level of payments is involved, that also involves further redistribution. So politically, it is an extremely touchy issue. Things you might be able to do within a Member State are not necessarily as easily done between Member States.

Q273 Chair: Looking at the one colleague here representing a Scottish seat, do you think the impact is more difficult when you have within one Member State three devolved Assemblies and one Parliament applying it differently?

Professor Swinbank: Well, if there has to be one system of single payments within the United Kingdom, that poses difficulties. If you are allowed to continue with four different systems, the political problem to a large extent disappears.

Q274 Chair: Do you think in its present form that the CAP acts as a barrier to trade liberalisation?

Professor Swinbank: Yes and no. The CAP has evolved enormously over the years, largely under WTO pressure, and the Fischler reforms and Mariann Fischer's Boel's health check reforms did put the EU in a very good position to accept quite drastic changes under the Doha round. So the Doha round in a sense has already delivered some of the policy changes that the international trading community would like. There

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are still, however, three issues at stake as far as the international traders are concerned. One is that although we do not really use export refunds at the moment, they are still on the statute books and many other trading countries would like to see them disappear altogether, but the EU has said that if there is a Doha conclusion they will go. The second is a suspicion that that huge chunk of money spent on the Single Farm Payment is actually impacting upon production—so impacting upon trade interests elsewhere in the world—and that is a cause of friction, although the impact is much less, I insist, than that of the old system of market price support. Thirdly, there are still some very high tariffs on most agricultural products coming into the EU and that is the area where the Doha round would have the most impact upon the existing agricultural policy and where the resistance, if there is resistance on the part of the EU to conclude a deal, is greatest and where I think the pressure from trading partners is greatest also.

Q275 Chair: Defra feels that trade liberalisation would help UK farmers by opening more markets. In view of what you said earlier, would you agree?

Professor Swinbank: Yes. It is back to this question about competitiveness and what competitiveness is. Trade liberalisation helps that intrinsic competitiveness through market liberalisation; it gingers up the market and enables producers to become more competitive, whereas the trade barriers give the European farmers an artificial advantage in the European market.

Chair: That is helpful.

Q276 Barry Gardiner: Are you a sports watcher at all?

Professor Swinbank: I'm afraid not, no.

Barry Gardiner: But you must have admired your fellow witness' very neat sidestep of the question that I asked earlier. You of course have now admitted to being in retirement and therefore not able to take the same sidestep, so I thought I would try my luck again. Would you care to give your opinion for the Committee about that relative balance between funding for income support and funding for environmental public goods, and how it should be allocated between 1 and 2? You said earlier on to us that you did not think that simply trying to force more into section 1 was going to work at all, so how should we be delivering this, in your view?

Professor Swinbank: I think there should be a phased reduction of income support and some, if not all, of that money should be diverted to the greening, the rural development side, of the Common Agricultural Policy. It should not happen overnight, there needs to be a transition period, and farmers and all of the entrepreneurs in the business need to be well aware of what is happening so they can adapt accordingly. So the answer to your question is 100% on what we currently call Pillar 2.

Barry Gardiner: Thank you.

Chair: Thank you very much indeed. We do apologise for the delayed start and for running over, but we are very grateful to you for being with us and we shall value your evidence, both of you.

Professor Swinbank: Thank you.

Chair: Thank you very much indeed.

Wednesday 26 January 2011

Members present:

Miss Anne McIntosh (Chair)

Tom Blenkinsop
Richard Drax
George Eustice
Barry Gardiner

Mrs Mary Glendon
Neil Parish
Dan Rogerson

Examination of Witness

Witness: **George Lyon MEP**, Rapporteur to the European Parliament report on the future of the Common Agricultural Policy after 2013, gave evidence.

Q277 Chair: Thank you very much for agreeing to be with us on this side of the channel. Just for the record, George, if you'd say who you are and describe yourself.

George Lyon: I'm George Lyon, and I'm the Liberal MEP for Scotland. I sit on the Agriculture Committee of the European Parliament, and I was appointed Rapporteur to write the first report from Parliament. I think also it would be useful if I put on the record that I have no financial interest in agriculture or agricultural activities at all, as of last November.

Q278 Chair: Excellent. I own half a share of two fields in the north of England—half a farm—so I have a farming interest. We had a very useful visit when we were over in Brussels, and one of the people we met was from the Cabinet of the Budget Commissioner. Do you think that spending on farming, going forward, is going to be the same across the European Union?

George Lyon: In terms of the budget debate, there are going to be three main drivers. One is the need to see the European budget in its totality either constrained or possibly even reduced. We have the letter from the five Prime Ministers that seems to indicate that at least flat rate seems to be where it might end up. We have the second driver, which is, of course, the need to find money for some of the other priorities that the European Union now has competence over, as a result of Lisbon. The third one is, of course, the big push by the new member states for more equal distribution. So there are serious budgetary issues. I don't think that we are likely to see any increase whatsoever in the Common Agricultural Policy budget. Indeed I think it's more than likely that it will start to decrease over time. The question is not "if"; it is a question of "when". It will be down to timing.

Q279 Chair: In the European Parliament you're in a very privileged position, for the first time, having co-decision this time. What do you think the priorities of the next stage of reform of the CAP should be?

George Lyon: I think we should look at the challenges first, because it's important to try and answer two fundamental questions: what is the CAP for going forward, and what is its relevance in the 21st century? That seems to be the starting point on this one. I think that the single biggest challenge we face going forward is global food security, which is linked to the growth in world population and the rising economic

wealth of developing countries. The FAO (Food and Agriculture Organization) is predicting somewhere between 70% and 100% growth in demand over the next 40 years, through to 2050. Now, in the past we've met similar demand—from post-war right through to today, we've doubled output. Unfortunately, the constraints this time around will rule out the good old solutions of the past, where you threw lots of energy at land with the help of new crop varieties and—lo and behold!—you produced. Plentiful land and plentiful water went hand in hand with that. That is not going to be possible this time around.

Unless we want to cut down the rest of the rainforest, I don't think there are going to be huge, extra tracts of land around coming into production. Water's already a serious issue in many, many countries; we use 70% of the world's water in food production. Energy is going to be a major constraint as well. On top of that we've got the need for agriculture to play a role in climate change, and we need to start seeing a move towards a more sustainable agriculture. The current model, which is based on cheap energy prices and cheap inputs, is not fit for the future, and it will not deliver the expected increase in production that we need. I think that's the fundamental challenge that the CAP has to face up to, and that Europe has to face up to. We have to look at how we incorporate sustainability, and the drive towards a new, more sustainable and more competitive agriculture should be at the heart of that reform. So I think that's the first point to make.

There are two other points that are still important. One is a fairer CAP—I have referred to the new member states wanting a fairer distribution of the moneys. There's also a need to ensure the farmers are in a better place to command a better market price, and that's about fairness in the food chain. I think the third issue that's still a very important issue is whether we want to see agriculture still continue across Europe. There are great fears in many member states—I come from Scotland, so I know a fair bit about this—that if we see support disappearing away, food production will move out of much of the less favoured areas of Europe, because it's uneconomic. I think local communities want to see local food production and therefore that is a priority we must still address in the future. Less favoured areas still have a very important role to play in the production of local food for local communities, as well as the many other functions and public goods that they provide as well.

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Q280 Chair: You expressed a view at the Oxford Farming Conference, where the Secretary of State expressed her view that we should end our reliance on direct payments. Do you think that's a good view to hold?

George Lyon: I don't see us being in a position to end direct payments at this time. I think we have to look at the global context when we start discussing this. Every developed country supports its agriculture. The US, a great free trade nation, pumps billions of dollars in every year through its food schemes for those who are less well off and the direct support it offers to its industry. It's also directed at a very aggressive export policy; it's looking to secure markets around the world. So I think, if we are going to be sensible about this, we need to negotiate reductions through the WTO agreement. In the meanwhile, in preparation for reducing the level of support in the future, which I think is likely because of the outcome of the budget discussions in CAP, I think we need to start looking at how you target the direct payments. It's interesting that both the Commission and the European Parliament have opened the door for the first time to the idea that you might actually start to target payments at specific objectives, rather than just a handout that has no objective at the moment other than supporting incomes on its own.

Q281 Chair: Could I just ask you, when you mention less favoured areas and public good, do you think those terms are sufficiently well understood, both in this country and across the European Union?

George Lyon: I think that less favoured areas and areas of natural disadvantage are well understood. I think that society, and the public in general, support the notion that we should keep food production in these areas, because they not only deliver food but they also deliver a lot of other public goods. It is a managed landscape; there is nothing that is natural about the landscape that we currently see. My grandfather, my great grandfather, and everyone else's who was involved in agriculture, shaped that landscape through their agricultural activities, whether it be with cattle, sheep, felling of woods, you name it. It is a managed landscape, always has been, and I don't think that people, or society, would wish to see that completely abandoned and walked away from. If you asked that question in the United States I suspect you would get a different answer to it. There would be a shrug of the shoulders and they'd say "Well, that's just the way it is. We don't really care." I'm not convinced that in Europe that's the case, or indeed in the UK.

Q282 Chair: Could you just be more specific when you said that you wanted to target specific projects? This is something we may expand on, but could you be more specific on what you mean?

George Lyon: Well if you look at the proposal the Parliament put forward, it suggested that you start to aim the direct payments. We suggested three different categories and there's actually a fourth one. There was a basic direct payment linked to cross-compliance. You had a second payment on top, which was linked to sustainability, to try and drive that whole change in

the type of food production systems we have. You had a third option on top of that, which was LFAs; bringing them into the direct support. Fourthly you had still the use, in extreme circumstances, of the coupled payments linked to the WTO agreements that you can't use any more than 3.5% of your total national ceiling to do that. In quite a number of countries—for example, Finland—they value that ability to do that in order to keep any kind of livestock industry in place there.

The Commissioner has gone further in his one and he's introduced something called the small farm scheme, which is an interesting development. It's something that needs to be explored a little further, because I think there are a series of questions that need to be answered as to what he actually means by the small farm scheme. As I understand it, it's about simplification and reducing the bureaucracy and cost of delivering the CAP. The figure that he quoted to us, in some of the private discussions I've had, is the 6 million, out of the 13 million EU farmers, who currently receive less than €2,000. As this Committee is no doubt well aware, in this country it can be close to €2,000 to deliver and administer one payment. So there does seem to be some merit in looking at that. I think the real question is whether it ends up actually supporting small farmers to stay small farmers all their life, and also how do you define that, member state to member state? Or do you define it as someone who's in receipt of a small amount of single farm payment, because there could be a huge organisation that only claims a very small amount. There are so many questions where I am unclear as to what he actually means by that.

But for the first time we are actually seeing a debate about how you have a stratified direct payment system. Given the UK Government's position for many years that has argued for targeting, albeit through a different route, I think it's a door that's opening up that I'd be surprised if they weren't keen to try and walk through.

Q283 George Eustice: For as long as I can remember, the term, "CAP", has been followed by the word, "reform". Do you think this current round is a reform to end all reforms, or is it just another incremental step along the way?

George Lyon: Well I've been involved in CAP reform since 1992, first as a lobbyist with the National Farmers Union, and now as a legislator. No, I think what you've got to recognise is the Common Agricultural Policy has changed in response to demands that it move to meet society's particular issues at the time. If you look at the history of the Common Agricultural Policy, 80% to 90% of the funding went to export restitutions and intervention purchases, and that was the system that they first came up with. Now, that system failed completely, it created surpluses, it blocked off the marketplace and farmers didn't respond to market signals. In 1992 Mr McSharry, the Commissioner, introduced the first of a series of reforms that moved us away from that system of supporting end price to one where we now have a pretty liberalised CAP, where the market by and large determines what people grow. The last significant

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reform was the decoupling of payments to make them non-trade distorting.

It's interesting to see we have moved from that position, where 80% to 90% of the budget was spent on what you would term as market distortions and measures that harmed the third world markets and developing country markets, to one today where we spent less than 1% on export restitutions last year, which I hope are phased out completely by 2013, and the market intervention measures, i.e. intervention buying, were below 10% of the total budget. So there's been a huge transformation, and during that time Rural Developments also started to play a significant role; it didn't exist before 1992.

So CAP has evolved over time. Is this reform going to end it? No, I don't think so. It's like one of these super tankers—it ain't going to come to an end. I think the question for us all is to try and reform it to face up to the challenges that we now face. In the document that was published this week by Defra, "The Future of Food and Farming: Challenges and Choices for Global Sustainability", some of the answers about where we need to go in the future are very pertinent. It should be taken into consideration in deciding where we go in the longer term with this policy.

Q284 George Eustice: One of the striking things, having studied this now for a while in this Committee, is how there are lots of competing interests, as always with these things. There is therefore the sense that you can end up with the lowest common denominator incremental change that everyone's happy with. If that wasn't the case and you didn't have that, what would an optimum farming policy look like, if there wasn't the historical situation that we've got and you started from scratch?

George Lyon: If you didn't have a historical one, first, you would have fair distribution between member states. I think, as I set out at the beginning, in the context of where we are today it seems to me that the fundamental challenge in farming policy is delivering sustainable agriculture that will meet the growing worldwide demand for food. You can argue that Europe should have no role to play in that; after all we've got full bellies, we're very wealthy and we'll always be able to purchase the food anyway. But I do think we have a leadership role, and given that there is not a lot of extra land lying around, Europe will have to play some sort of role in contributing to that demand. There is not a large amount of land that is going to come into production over the next 30 to 40 years, unless you're advocating cutting down the rainforest, and I don't think anyone here would do that.

So it seems to me that sustainability should be at the heart of any agricultural policy going forward. I think both sustainability and competitiveness as well, because that's the other part of the equation. There are some who will argue that sustainability and competitiveness are actually in conflict. I believe they're compatible with each other. A sustainable agricultural production system, I believe, will be a very economically competitive agricultural system as well.

Q285 Richard Drax: You've expressed broad support for the Commissioner's ideas, but you were critical of the lack of detail. What are likely to be the key areas of debate during the negotiations between Parliament and the Council?

George Lyon: I think the biggest and most difficult issue is the budget, and how you distribute it. As I have said, you've got the twin drivers: a likely smaller budget in the first place, and the second one, which is this issue of fairness. So how do you deliver both? In terms of the EU old 15 member states, which by and large, apart from the UK, have an above average number of euros per hectare, if you choose to look at it in that way, the bottom line is that any cut, and then any redistribution, will mean transferring money from their budget to someone else's. So, as you well know as a politician, that's one of the most difficult issues to sell back home. Therefore, I think the biggest debate will be around this whole issue of fairness.

I think the second one will be about this notion of greening the Common Agricultural Policy and, for the first time, introducing targeting as a concept. Already I can see the backlash in our Parliament from those who would love to see the status quo. They're thinking, "Now we seem to see a wee bit of light as to what the overall EU budget is like, and therefore maybe the pressure's not quite as great as we thought, and we can somehow slip back to defending the status quo." I think that's the other great area where there are going to be real arguments. I hope that the UK's actually in the vanguard of arguing that we need radical reform and that this is the way to do it. There's a door opening that hasn't been there before.

Q286 Neil Parish: Isn't there a danger that the Parliament will try and support the status quo?

George Lyon: Well given that the Parliament's first report actually managed to argue for reform and the opening up of this opportunity, I think we're in a strong position to argue for reform. What I'm saying to you is, there are no two doubts, and you'll know this from experience Neil—by the way, my colleagues send their good wishes to you—that the forces of conservatism are quite strong in the Parliament, and we have to be very careful that in the next report we produce we don't actually see an argument to go back and hold what they've got. I'm certainly doing everything possible to make sure that does not happen, but we shall see. It's going to be an interesting debate, which will reflect the debate in Council as well. There will be some who say, "Greening? Let's just do a little bit of light touch and stuff that doesn't really mean very much." I think, given the challenges that are set out in this document—those of us who know agriculture well understand these are the real challenges for the future—it seems to me that the starting point must be how we make a new agricultural model that's more sustainable and can deliver for the future.

Q287 Barry Gardiner: Mr Lyon, can I just try and tease something out? If you could help us to try and understand the position of the Parliament, as well as your own position, because the Parliament, as I understand it, has said that it's essential that the CAP

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is at least maintained at current levels. Now, in your preliminary remarks you said that over the longer term you saw the budget diminishing. Then, when asked about direct payments, you said they should not end “at this time”. There’s a St Augustine plea here—“Lord make me virtuous, but not yet.” What I’m trying to tease out is precisely what your own position on these two is; does it vary somewhat from the stated position of the Parliament? If you say “not yet”, then what are the criteria and the actions you wish the European Commission and national governments to take, to ensure that we can move through to the “Yes, now is the time” scenario.

George Lyon: To answer your first point, you’ve got to remember that the voted-through report contained quite a number of compromises. The compromise position that the Parliament eventually came to was a stand on budget at 2013 levels, which is actually a 4% cut from where we are today. It takes us down to 39.3%. My view was that that was an opening negotiating position, to be bluntly honest. I’d be very surprised if we could actually hold that over the period. I think, given the pressures and the depth of public spending cuts around Europe, I think it’s very, very difficult to argue that the Common Agricultural Policy should not take at least some of the strain in that debate as well. In some ways, that’s for Finance Ministers to decide.

Coming back to your last point about when it will end, first, I think for us ever to see a complete phase-out, you’ve got to talk about two different types of agriculture here. If you look at the Defra report, “Farm Viability in the European Union”, which analyses what would happen if you withdrew farm support, the five countries that are most affected are the UK, France, Germany, Finland and Sweden. What are the sectors that are most affected by it, where the most damage would be done? It’s the extensive livestock sector. It takes me back to my original point that we need to think seriously about targeting. Where are those producers and types of farms that are going to need support in the longer term, and where could we maybe see reductions take place which will not affect profitability? If you look at some of the farm income figures from around, for example, Scotland or Wales, you will see that the level of farm support far exceeds the actual income. I don’t see how in the longer term, or certainly in the medium term, we are going to be able to see these farms become sustainable without support.

That takes you back to the question of whether, if Europe were to phase out, we would need to see the rest of the world phasing out, too. I’m not sure it’s a sensible argument to say, “Well, we’re going to end then regardless of what the rest of them are doing.” I think we need to see a proper WTO discussion on that one. That’s the way you actually take that argument properly forward.

So, first, I think the Parliament’s view is an opening negotiating position at trying to hold at around 2013 levels. My view is that you’re going to need support, certainly at targeted areas, for the ongoing future, and I think there’s an opportunity for where you could start to target that support at those who maybe need it more than others.

Barry Gardiner: Thank you, that’s extremely helpful.

George Lyon: I hope that clarifies my point.

Q288 Barry Gardiner: No, indeed. In a sense, in answering the last part of my question you’ve answered the mirror image of it, but not the question itself. That was about what the actions are that you would wish our Governments to take in order to be able to say, “Yes, now’s the time when actually we can do away with it.”

George Lyon: I think that the most fundamental thing that we need to do, coming back to my original point, is to make sure that we drive the sustainability agenda and competitiveness agenda. These are the two that I hope will make farming more able to stand on its own two feet in the longer time. Clearly a more competitive agriculture does help you to be able to stand on your own without support, but you can’t do it while the rest of the world’s still piling support into their agricultural industries. So, as a question, it is similar to “How long is a piece of string?” I think the first thing is that governments around the world need to start entering into a serious discussion in the WTO.

Barry Gardiner: So it’s the WTO.

George Lyon: Yes, it has to be.

Q289 Chair: It’s taken 10 years and they’ve not got anywhere.

George Lyon: I think that shows just how difficult an issue it is to overcome. For Governments around the world—for the free market US, which believes that the market is everything—where is the stumbling block in the WTO? It has always been around agricultural policy. So I’m sorry, that’s the real world we live in, not some pretend parallel universe. There are serious vested interests by politicians in every one of those countries. First, they want to make sure they can protect their ability to feed their own people. Secondly they like cheap food policy, and by and large if you strip a lot of the support out, you’re going to see a rise in prices; I don’t think there are any two doubts about that. And thirdly that, if you actually see that rise in price, it’s going to create a lot of poverty and hunger in certain sections of society, which leads to political instability. Food and fuel are the two things that, where they’re in short supply and very expensive, have the recipe for real political instability in individual countries. That’s why agriculture’s always been a very difficult issue to try and resolve in the WTO, because there are politicians around the world in every developed country who think there are good reasons why we need to protect our capacity to feed ourselves.

Q290 Barry Gardiner: So, just to get it on the record, you support Monday’s Foresight report, “The Future of Food and Farming”, which states that the key elements are trade liberalisation and the abolition of agricultural subsidies.

George Lyon: Well, I think we’d certainly support the trade liberalisation, yes. Well, dare I say, you need one before you get the other.

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Q291 Barry Gardiner: Right, but are both of them ultimately necessary?

George Lyon: Ultimately, if you can get all countries to agree to reduce support barriers, yes I think you would get to that position. I'm not convinced enough in some of our disadvantaged areas, where you might actually be able to see them rely on the marketplace; I think that is just not going to happen. Society then has to take a view: do you want them there or do you want to abandon them? I think society's answer, certainly in Europe, would be that we do want them to be there, to not only deliver local food for local communities but also to deliver all the other public good that they do at the same time.

Q292 Barry Gardiner: That, perhaps, could be delivered in different ways.

George Lyon: Yes, it could be, but it would be a policy of some kind. Whether you would call it the Common Agricultural Policy or what, but right now that's the vehicle that we have at the moment, and it's one that we want to see continue to support those areas.

Q293 Neil Parish: You raised an interesting point on America, which I think always get away with murder on agriculture policy. They actually support their prices, whereas Europe has at least moved away from that position. The question that I want to ask you really, and you've talked a bit about it, is that many member states want the CAP to be greener but they also want the farmers to be more competitive. Do you think that sometimes the Commission, and all of us, perhaps look in two different directions? So what sort of tools would you like to see in a reformed CAP to increase our competitiveness?

George Lyon: The tools we need, I think, are a serious driver in the direct payments that actually takes us towards a more sustainable farming system where we use precision inputs, measure nutrients and do nutrient plans. All those things will actually allow you to reduce the inputs while still maintaining outputs. There's a whole series of them that you could list. Most importantly, they will play into the climate change agenda, which will help to reduce carbon emissions as well. If you examine them in some detail, they are a bottom line issue as well. They make farming more profitable and these individual businesses more profitable and, I would argue, more competitive. So I think that's one.

I think the second one is the use of the rural development for farm modernisation, for R and D and for trying to develop some of the new tools that are going to be needed to take us into a more sustainable farming system. So Rural Development has a very big role to play there. Also they need to add value as well. That's most importantly away from commodity, which is too often the first port of call for the farming industry. It would be useful to see us actually trying to develop greater added value, especially in those areas such as LFA where the local food for local communities is quite a strong driver in the marketplace.

Q294 Neil Parish: I agree exactly with what you say, but I don't see much evidence of that in the Commission or in any of the Commission's proposals.

George Lyon: I think that's the challenge. I think that's where the Commission's report and our own tended to differ. Our focus was very much on sustainability linked to competitiveness, not just a general greening that could end up making us very uncompetitive. That's one of the serious concerns I have about how you define what this greening is. The doors are open; in actual fact there's a role for governments and Parliament to try and start to find what you mean by that. My view is that it has to make sure it's about sustainability and competitiveness, and they're not in conflict as a concept.

Q295 Mrs Glendon: Following on from that—there was an argument that the single farm payment prevents the EU farming sector from becoming more globally competitive because income support enables unprofitable farmers to stay in business. Do you agree with that statement?

George Lyon: You could argue that most of the developed world is in the same boat. If every country is subsidising its farmers apart from the Cairns Group,⁶ then I'm not convinced it necessarily means that you're any more or less competitive. I think the things that really make us uncompetitive are access to some of the new technologies, access to some of the tools that other countries have, and you've also got to be very careful and think about the kind of restrictions, regulations and rules you put on, as to whether that makes you uncompetitive. There are no two doubts that if you want higher welfare standards and higher environmental standards, the market won't pay for that. So the public and society would, because in every test of public opinion, UK and European consumers do want to see higher welfare and higher environmental standards. Now, that comes with a price and therefore I think it's only right and proper that the agricultural policy should help make sure that that price is met, because it won't be met out of the marketplace.

Q296 Mrs Glendon: So do you think that potentially, if everything was equal, that there wouldn't be unprofitable farmers?

George Lyon: There'll always be unprofitable farmers, because it's all down to individual ability to manage. What I can say, despite the Common Agricultural Policy, we've probably seen the greatest shake out in the number of farming businesses in the last five to 10 years that I've seen in my lifetime. Where I used to farm, say 15 years ago, we had 40 dairy farms, and that's down to 13 now, and I think in three or four years it'll be down even less. So I don't think you can argue that's because they're inefficient. They are running, working seven days a week, 365 days a year, most on their own labour, no rented labour on the farm at all, and still they can't make a return from the marketplace.

It takes you back to one of the other issues about fairness, which I think is going to be part of this

⁶ Coalition of 19 agricultural exporting countries with a commitment to reforming agricultural trade.

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reform. It's about how on earth we make sure that the farming community can exert a better return from the marketplace. In some ways they're caught with these two gigantic forces, you get five or six major retailers as your buyers on the one hand, and you've got a couple of dozen large multinational suppliers on the other hand supplying all the inputs, and you're kind of crushed in the middle of all that. It's very hard to try and get the necessary clout to extract a better return from the marketplace, and I think that's fundamental to seeing the future profitability of farming continue.

Q297 George Eustice: Some of the evidence we've had from economists has questioned the argument of food security for direct payments, in particular it said that actually it's food on the supermarket shelves that counts more than a capacity to produce food as a nation. Therefore trade liberalisation was perhaps a better way to secure food security. Have you got a view on that?

George Lyon: I'm not sure I have a philosophical view on that. It comes back to the fundamental question of why all developed countries have a view that supporting agriculture is still a priority in the 21st century. I do think it comes back to this view that food is one of these key consumer goods that, if it's in shortage, or if there is a big rise in prices, political instability can fall on the back of that. There is this notion that we like to try and retain the ability to feed our own people from our own resources, maybe not in its entirety. I think if you moved to the position where you're utterly reliant on imports then that's a very dangerous position to be in, and some countries might end up in that position if the market was to determine completely and utterly where the farming took place.

Q298 George Eustice: The other angle on this is that separate studies have shown that you could reduce the direct payments quite significantly without having too much of a knock-on impact on production. I think there was the Scenar 2020 report. Have you got a view on that particular piece of work?

George Lyon: I think that's one of the reasons that I argue that targeting is the right way to go in this one, because there is no doubt that there are some who might be able to cope better without as much direct support. There are others, as I've argued, in the less favoured areas, the extensive livestock producers, who I don't think that's going to be possible for. So you have to think seriously about targeting the support, but also what the public goods or benefits are that you also want from that support. That's where I think the whole sustainability agenda fits into this, because the reality is that, when it comes to arguing to do away with the direct support, the UK and Sweden are out on the extreme on that one; you are not going to win that argument. I think the cleverer argument is to think that the door's now open to some sort of targeting, and this is the better approach to take at this particular time, especially with some of the challenges that I explained earlier on.

Q299 Barry Gardiner: Can I just again move to get clarity here? You are saying targeting within direct payments, perhaps to achieve a better use of resource. The Scenar report suggested that you could actually reduce direct payments by 30% without impacting what you call the philosophical aim of food security against, I think you said, rising demand globally. Philosophically I think we're all there, but looking at it, to achieve that 30% reduction that the report said was possible in direct payments, where would your targeting be and who would suffer? Which farmers would not be getting the direct payments?

George Lyon: The study here will actually tell you who might survive better than others. It's those who previously were in the unsupported crops; it's probably those who produce grain on some of the best land we've got in Europe. These are the ones who possibly could do with a little less, who could survive with less. So, it comes back to what your priorities are, and society has to decide that.

Q300 Barry Gardiner: I absolutely agree with you. You're our witness; what are your priorities? Where would you make those calls? Which sectors would you say no longer require that?

George Lyon: Well, as I say, my view is that traditionally unsupported sectors and those on the best land at least have options and choices, which those in the less favoured areas and upland areas do not. So I think that's self-explanatory.

Q301 Tom Blenkinsop: I think you've alluded to this already, but what's your definition of an active farmer?

George Lyon: That's a very good question, and one that I have to say is not easily answered. It's interesting that the Scottish Government had tried to do it through the use of the cross-compliance rules, where they were going to introduce an extra category of minimum stocking rate allied to inspections to see if there had been grazing of the land and activity on it. This fell foul of the EU auditors and had to be dumped about a month ago. I think the starting point is to look at article 28 of the health check regulations, which, as of January 2010, for the first time gave member states the power to take away single farm payments from those who had no agricultural business activity whatsoever, as a first step. I think that's the starting point for trying to build on something like this. The great worry in all this is always unintended consequences. I think article 28, which I take it you've had a look at, is the starting block for that. No member state has used it so far, and during the whole debate in Scotland, I was encouraging the Scottish Government to try and use it. So it might be worth your while taking evidence from them as to why they chose not to use that and use the alternative through cross-compliance rules, which unfortunately, as I understand, has fallen foul of the EU Auditors, who said it was illegal; basically, they would lose a court case.

Q302 Tom Blenkinsop: Are we in danger though, if there are certain products or projects that are to be targeted, that it could be prescriptive, and that farmers

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could not be following the market but could be following prescriptive measures?

George Lyon: I don't think so. No, I think you have to make it an opt-in system, so they would decide whether they want to buy into the sustainability agenda and do the things that are required—if they don't, they don't. It's as simple as that; it's a business decision. I very much prefer the carrot to the stick in all these things, so you put some value on it and people will decide if it is in their interest to do it or not. That's my view, and it always has been. Society then places a value on it, because it is a public good so therefore you have to put some value on it that says it is in the public interest to move in this direction, so either let's incentivise it or otherwise. Indeed, paragraph 6.2 of "The Future of Food and Farming: Challenges and Choices for Global Sustainability" states that that's one of the areas that we need to look at.

Q303 Tom Blenkinsop: If money is then being targeted to actively producing farms that produce agricultural products, as opposed to land owners who manage for environmental purposes, do you see an increased bureaucratic burden?

George Lyon: Well, for a start you can't target them at someone who's producing agriculture, because they're decoupled, so you can't do that. This comes back to how you define an active farmer, which is very difficult. I think the starting point is asking whether there is any agricultural activity whatsoever in the business. If there's not, then that gets rid of those who've sold up and who are basically putting it on to another farmer's land and taking the payment. This is more prevalent in Scotland, because we've got huge amounts of unused acres.

Q304 Tom Blenkinsop: Do you see a bureaucratic cost in having to follow that up though?

George Lyon: There's always a bureaucratic cost in some ways, in these measures. The key question is whether we can design something relatively simple that actually works. That, as I say, is most difficult. I think article 28 in the health check regulations is at least a starting point; it gets a finger in the door and starts to say, "Let's do that and see how that works." As I have said, it would be interesting for your Committee maybe to take evidence on why the Scottish Government rejected that view and rejected that course of action. Brian Pack actually alluded to it in his report, so it might be well worth asking him.

Q305 Chair: We asked the Scottish Government, and we've been offered Brian Pack, so we will ask him.

George Lyon: Is Brian Pack now a Minister?

Chair: No, no. Stranger things have happened.

Q306 Neil Parish: This is another thorny issue. I'm going to take you into something you said earlier on. You were talking about the payments to the good land, such as East Anglia and the Paris basin. If you look at the overall level of payments in the old 15 member states, that's really how they get their payments. They got it on the level of payments they were getting for arable aid in 2001. It's got to be redistributed in the

end because the 15 old member states may be wealthier, but they can't carry on getting the higher payments while the new member states get lower ones. So, if you have an area payment, because that's what, I think, all the new member states are on, what objections have you got to having a uniform area hectare payment, and what criteria would you put into that, if you didn't object to it?

George Lyon: You mean an area payment decided at European level?

Neil Parish: Not necessarily at a European level, but I think when you've got Latvia on €70 a hectare and Greece on €550, because of their dodgy tobacco, basically, something's got to be done. You see, I don't belong to the politically correct.

George Lyon: Well, there are two issues you highlight there. One is how you redistribute between the old and new member states, because as I say, there's going to be pain for the old member states in that and gain for the new member states. Interestingly, if you look at the graph of rural development, it's the reverse: old member states are not as high in terms of the amount of money they get per hectare, so that has to be taken into consideration as well. Some of the suggestions have been that you use GDP and cost and reduction figures as well in trying to do any redistribution. But that would only be an interim measure, because if you move to a more targeted direct payment system, the amount of LFA land moved into doing the sustainability or green stuff, allied to the basic direct area payment, would actually redistribute on its own. So there's a question of how do you get from where we are to there, given that member states will demand at least another seven years to change over to an area-based payment system. The only two countries that have done it out of the old Member states are England and Germany, and it was a pretty painful process here.

Q307 Chair: And farm incomes have gone down in England, proportionally.

George Lyon: Yes. So, that's a very difficult one, and I don't have an easy answer to that, but there has to be a movement. If you look at the Commissioner's paper, he's suggesting that you have some form of minimum payment or minimum allocation per hectare to each country. That doesn't answer the question of who gives up. At the end of the day, as you well know, Neil, this will be a political deal at some stage; absolutely a political deal. There is no mathematical formula that can tell you how this is going to come out, but what it will do is make sure that the graph which accompanies it—with Greece at one end and Latvia at the other—will level.

Q308 Neil Parish: Yes, but what you can't do is, when you get to 2013, you can't be paying a farmer for what he was producing back in 2001, in my view. Especially as you move towards 2020 you're talking of nearly 20 years later. So, you talk in the Parliament about a fair distribution of CAP payments. It's easier to make that statement than to carry it out. How do you see it? Do you see it being distributed over a certain period of time? I understand you can't do everything in five minutes, especially in Europe.

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George Lyon: On that one we got agreement about the fairer distribution; the hardest job is getting an end date. That's where the biggest fight took place, where there were seven European countries, older Member state countries, that were utterly against any end date whatsoever. But there has to be an end date and we have to move away from the historic system. It just does not stand up to scrutiny whatsoever. So that's absolutely essential. The reason why agricultural ministers in Member states are so worried about it is because of the redistributive effect inside their own countries, when you move from a historic to an area system.

You'll be speaking to Brian Pack later, who did a piece of work about how it would be implemented in Scotland. He did a series of public meetings, about 20 or so, and the figures he quoted to me were that he found about 13,000 losers in totality out of every meeting, and only found three people who admit to benefitting from the redistribution. Given it's a zero sum gain just shows you how politically difficult it's going to be. That's why there is intense pressure from the old Member states to try and grant a longer timeframe to phase it in.

Indeed, if you look at the decoupling, France has only recently finished decoupling this year. The beef payments have just been decoupled; their arable payments were only decoupled last year as well. It's quite interesting to see the French model. They took money from the arable people, when they decoupled, and put it back up into the grassland and livestock areas, much to the arable lobby's disgust in France. They used that opportunity to redistribute money to where they thought priorities should be, and it was to the grass-based livestock industry.

Q309 Neil Parish: Having taken you down that route, would you support that idea?

George Lyon: I think that there will be demand for that to happen, yes. I think Member states will want the flexibility to be able to have different rates in different regions. If you take Germany, they've got different rates in every Länder. Here in England you've got three different payment bands, as I understand. I don't know it closely, but you've got: lowland, upland and rural—

Q310 Neil Parish: Moorland line, seriously disadvantaged and non-seriously disadvantaged.

George Lyon: I think agricultural ministers will demand that type of flexibility to deal with some of the issues that arise out of the redistribution in their countries. It's only logical.

Neil Parish: Okay, I'll leave it at that.

Q311 Chair: I think you said it wasn't possible to target payments?

George Lyon: Sorry?

Chair: Can I just play back to you what Commissioner Cioloş said in response to Dan Rogerson's question by video link? The question was: "Just to confirm, you would expect some agricultural goods to be produced for someone to be defined as an active farmer?" The Commissioner replied: "Yes. If not, we cannot talk about agriculture or the farmer."

Are you consistent with what the Commissioner's saying to us there?

George Lyon: The Commissioner has spoken about active farmers being very important and the need to make sure that the monies go to them. The point I was trying to make is that that's easy to say, but in terms of regulations the real question is how do you do it. He hasn't answered that question, in my view. I haven't seen what the Commissioner said, but what I'm saying to you is that there is an existing regulation that attempts to start doing that, and it's called article 28 of the health check regulations. I think that's at least a starting point. Someone who is trying to claim but has no agricultural business activity in his financial returns: then he's out, simple as that. The advantage is that you're then able to put it into your national reserve and give it to a young farmer or someone who's more deserving.

Q312 Chair: Can I phrase it in a different way?

George Lyon: You can try.

Chair: Do you think tenant farmers in this country are discriminated against?

George Lyon: No, because the current payments are entitlements and they go to whoever registered for the entitlements. So they go to the tenant farmers; it doesn't go to the landowners.

Q313 Neil Parish: It's slightly different in Scotland from in England.

George Lyon: Maybe it's a different system, but certainly the entitlements belonged to the tenant because I was a tenant farmer. If that's not the case down South then forgive me, I don't know the system as well. In Germany they go to the farmer there; the entitlements belong to the actual farmer, not the landowner. That's the way it should be: it should be those who are producing.

Q314 Chair: I think there is an issue in England that perhaps doesn't pertain—

George Lyon: That's something that I don't know in any great detail I'm afraid.

Q315 Chair: We're hoping that the CAP will become simpler. Do you think that the way the Commissioner has framed the various stages of reform, it actually might be becoming more complex?

George Lyon: If you take his communication at face value it's a little bit like a Christmas tree: there's a small present in it for everyone. The reality is that it's drawn so widely to make sure that he got it through the inter-service consultation and that, in the first instance, there would be a welcome by agricultural ministers. There is something in there for everyone. The real question is how we boil that down to hard reality. What are the legislative proposals, what do you mean by greening, what do you mean by a lot of the other bits and pieces, such as the active farmer stuff, that are in there? Also, what do you mean by this toolkit, which is an interesting one, because the other big debate that is going to be part of this reform, and we see in the Parliament, is the whole argument about further liberalisation versus reregulation of the marketplace. I have to say, in my report, I lost that

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argument every time. If you look at the report, it's quite strong on the need to reregulate the marketplace. I didn't put that in, but it was forced in by my EPP (European People's Party) and Socialist colleagues, who are very hot on that and they voted that stuff through. So, that is going to be another big debate.

The phasing out of milk quotas is seen by some as a very negative move, and there are real worries about how businesses will survive in the future. I am opposed to any re-regulation. I'd like to continue to see us liberalising the policy. I do think there is a role for intervention as an emergency safety net, but it shouldn't be in conjunction with the use of export restitutions; it should be buying and selling back on to the market at the appropriate time, and the Commission take profit on it, as they are doing with the milk powder and grain that they had in store from last year. So that's the kind of safety net that should be there.

Maybe you could devise some new tools about crop insurance, but it should be about trying to make sure that farmers do it themselves, rather than the state doing it. I wouldn't underestimate just how powerful is this whole agenda of, "Well, we need to reregulate because there's lots of price volatility now." I'm not convinced that higher prices every now and again is not actually a good thing after 20 years of consistently low prices, which made it very difficult to make a return on farming.

Q316 Chair: The European Parliament resolution referred to outcome agreements. How would they work in practice?

George Lyon: Well, outcome agreements are about making sure that you get farmers to sign up to some targets. When I was Deputy Finance Minister in the Scottish Government, we looked at that to try and build a relationship with local government and get away from the idea of telling them exactly what they should do. What I was trying to say about the use of outcome agreements was that we should set the targets, agree it through agri-environmental schemes or whatever types of schemes you put in place, and then let the farmer get on and deliver it. If he doesn't meet the targets then he loses the support. I think that's a much preferable way to a whole lot of rules and regulations because that makes it seem like an imposition to farmers, rather than something that's actually worth doing because there's a financial return on it. It leaves them the freedom to design the way that they do it rather than the state telling you how to do it.

I have to say the Commission's quite nervous about this, and for reasons of audit. Clearly they're worried about auditors' reports, especially in Member states where the process is not quite as robust as it is in others. I don't think that those that have robust audit trails in place should be held back by the fact that others can't deliver to that same standard. So we'll continue to push for it.

Q317 George Eustice: You talked a lot earlier about the importance of putting the environment at the heart of the CAP. I think I'm right that in the resolution the European Parliament passed there was a suggestion

that the vast bulk of land should be under an agri-environment scheme. Could you just confirm whether you envisage that being through some kind of greening of pillar one, or are you saying they should be under pillar two?

George Lyon: No, if you looked at the design model we designed, we intentionally kept the whole sustainability and climate change agenda separate into the direct payments, because we believed it was compatible with building a more competitive agriculture. It's pan-European; it's a global issue, so therefore you can do it at a European level. I believe that the biodiversity agenda, and the protection of the environment, should be done through agri-environmental schemes, and what we're trying to say is that the EU should at least have an ambition to have as much land as possible covered by these type of schemes.

Q318 George Eustice: So that would come out of pillar two agri-environment?

George Lyon: That would come out of pillar two, yes.

Q319 George Eustice: Would you be able to find the money in the current budget to do that?

George Lyon: Well, if we can do the UK with one of the smallest pots of rural development money of any country in Europe, I don't know why the rest of them can't do it. As you well know, we have £17 per hectare against an average of £54 per hectare for the old member states and I think it's over £110 for the new member states. So, if we can manage to achieve quite high inclusion rates of agri-environmental schemes here in England, and in Scotland there's quite a high rate as well, then I don't see why on earth these other Member states can't do it. It's political will that's needed to make sure it actually happens.

Q320 George Eustice: The European Commission has talked a lot about greening pillar one, having additional requirements. The European Parliament seems to favour a similar but slightly different system, with a top up payment targeting carbon, or farmers' ability to reduce carbon. Why do you think the approach that you're taking is better than that which the European Commission is taking?

George Lyon: I think I'm just concerned that you get a blurring of objectives. I mean sustainability, which I think is probably the single biggest issue that we confront as a society for the future, because of its importance and its pan-European nature—therefore, that's where it belongs—and if you're going to green the pillar, that's the right model to use. It also plays into building a more efficient and competitive agriculture, because environmental efficiency and economic efficiency are two sides of the same coin. So that's why I have concerns about the Commission's proposals just now, which are not very clear at all, and we need to bottom that out. In fact, some of the comments I've already made on it have raised the question of what this does for European farmers' competitiveness. The last thing we want is to end up making this uncompetitive.

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Q321 George Eustice: So it's a sort of solution to the green-taping criticism that comes from some farmers?
George Lyon: Yes.

Q322 Neil Parish: Another nice one for you, George, is the capping of payments. What position will the European Parliament take on the Commissioner's proposal to cap payments for larger farmers?

George Lyon: I'm not convinced, at the moment, they're going to support them. I think for two fundamental reasons. One is a practical one: any of the capping measures or measures that attempted to try and prescribe or prevent businesses from claiming the range of support were always circumvented by laws and accountants in the past. I think one of the ways to solve this is about the targeting of direct payments, where you're actually getting something for society in return, and obviously you're starting to target those farmers who most need it. So I think that's a cleverer way of trying to solve some of the Prince Charles issues, or Duke of Westminster issues. I don't believe that, in practical terms, you can design a system that will prevent what has happened in the past reoccurring; whether it was milk farmers trying to claim the suckler cow premiums, there was always a way and a device found by a lawyer and an accountant to get around it. I don't understand how you stop that, I really don't, so that's why I'm not necessarily convinced about it.

Q323 Neil Parish: No, but I agree with you, especially if payments are land based, it's about how you run that agriculture and production, and that's why you should get a payment. How are you going to turn around public opinion? Because a lot does go on, as you quite rightly say, about the Duke of Westminster, the Queen and Prince Charles claiming all these payments. How do you propose turning around that negative publicity?

George Lyon: By targeting the payments at particular public goods, such as sustainability and saying that in return for getting that, that's what they've got to deliver. So you actually answer the question of what it delivers for society. So you take it away from the idea that it's all about income support. I think you can

reduce that argument down to a relatively small amount of the payment and increase the public goods and the top-ups to those areas that most need it. So in some ways you answer that question by being able to say that it's not only about direct support and income support, because—while other countries may believe that's what it's about—I think that's not sustainable in the longer term.

Q324 Neil Parish: Do you think the Parliament is finely balanced on the issue?

George Lyon: Yes.

Q325 Neil Parish: So I expect some things don't change.

George Lyon: Well, the forces of conservatism, as you well know, are quite powerful.

Q326 Chair: Could I just ask one thing finally? You've mentioned a lot about targeting. The Commission statement says very clearly that one of the ambitions is to maintain a fair standard of living and an income stream for farmers. Are you saying that most of the support should be based on farm income? Particularly looking at livestock farmers, which obviously, representing quite an upland area, would be of interest to me. How much of it, in your view, should be spent on maintaining a farm income and how much should be spent on sustainability or the greening issues?

George Lyon: Well I would take the view that the sustainability agenda should be at least a third of the payment. Then you would top slice some more for the LFA, which is about income support as well. Then you've got the basic direct support with the cross-compliance, which is about delivering the base level public goods that everyone expects: higher welfare standards and higher environmental standards that go hand in hand with that.

Chair: Thank you very much indeed for being with us. I hope we can keep the conversation and the dialogue going but we're very grateful for you being here in person this afternoon. We're going to have a pause while screens appear so we can continue to take evidence from Mr Pack through video-link. We stand adjourned for 15 minutes.

Examination of Witness

Witness: **Brian Pack OBE**, Chair of the Inquiry into Future Support for Agriculture in Scotland, gave evidence.

[This evidence was taken by video conference]

Chair: As you probably know, Brian, we're meeting in public here and, obviously, the evidence you're giving us will be on the record. We're most grateful to you for joining us. Just for the record, would you like to say who you are and your official title?

Brian Pack: Brian Pack, Chairman of the inquiry into Future Support for Agriculture in Scotland.

Q327 Chair: Excellent. Just as a lead-off, Brian, how closely involved have you been with Defra in the negotiating process and how closely involved do you

think the Scottish Government have been with the negotiating process?

Brian Pack: Well, clearly, I haven't been involved in the negotiating process. I've been involved in collecting evidence, which Defra has been helpful in. I had two separate meetings with them to actually gather evidence. As part of that process, I was in Europe twice also, and then analysing records and the state of the industry in Scotland. So, that's been the involvement with Defra, so it's discussing with them

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the current scheme and what the issues for Scotland are.

Q328 Chair: In your inquiry, Brian, you say that you're unashamedly pro-farming. Would you say that the Commission proposals are equally pro-farming?

Brian Pack: I would say yes, definitely. I got a lot of comfort when the Commission document came out in November that they recognised that food production was the primary purpose of agriculture, and that's a view that I very much share.

Q329 Chair: And in terms of the Commissioner speaking of legitimising the CAP in order to defend the budget that is spent on the CAP, do you agree with the Commission that that's necessary to do so?

Brian Pack: I missed the first bit of your question.

Q330 Chair: Do you think that the Commission needs to legitimise the Common Agricultural Policy to justify the amount it's spending on the CAP?

Brian Pack: Yes. I have to say I got to the same conclusion as the inquiry progressed that I think, clearly, there's a need to support agriculture in its role as food production, but equally society needs more in return from agriculture, and I think that we have a win-win situation because there are things that agriculture can deliver for wider society, but agriculture itself needs support to be viable. Therefore, if you can move for more outcomes from that support, then you can actually have a win-win. I think my concern is that, particularly in Scotland, agriculture is not viable without public support, and that's demonstrated by our income figures, where, in most years, agricultural support is greater than the total income from farming, so the industry needs the support but, in return, society needs agriculture to deliver more. I think, in common with the Commission, the challenge has been: how do you look for more outcomes from direct payments? That was the challenge I found. That's where the top-up fund—it's in the report—fits in, which, in some way, corresponds with the Commission's greening of direct payments.

Q331 Mrs Glendon: Could I ask: which of the Commission's three options do you think is the most appropriate and politically achievable?

Brian Pack: I think the most appropriate is the second option. I think the first option doesn't take us anywhere, and the third option, I think, would be a disaster for Europe and particularly Scotland. So, I think option two is the one where the energy has to go, because that takes us forward, whilst, at the same time, ensuring that we maintain agricultural production.

Q332 George Eustice: Defra has said that the single farm payment makes farms less competitive, and Caroline Spelman has recently stated this again at the Oxford Farming Conference. Do you agree with that? That, actually, in the long term, while you continue to make these farm payments, you're not going to get improvements in competitiveness while that support remains?

Brian Pack: I believe we have to be very careful with the word "competitive", because we can mean such a wide range. What do we actually mean? Do we mean competitive on the world stage? If you're in that environment, then natural advantage plays an enormous role. With our situation, particularly in Scotland, with 85% of Scotland being Less Favoured Area, it's impossible to believe that that could be competitive with some of the really productive parts of the world, which also have other advantages.

In terms of our own market, then clearly there's competition within Europe, and that's why a Common Agricultural Policy is so important, so that we're actually competing on a level playing field. And obviously, coming back to Britain, there's clear competition between farmers in Britain, but once again we have to bear in mind the particularly disadvantaged areas that, in a strict sense, will never actually be competitive food producers with the best in the world. So, if we actually believe that unfettered competition is the solution, I believe that Europe will have a major issue in food security in the coming decades.

Q333 George Eustice: You're obviously a clear supporter of maintaining direct payments—that was clear from your report as well—but what do you think would be a sensible thing to replace the single farm payment, if anything? Because obviously there's this problem that the only thing we base that on is the historical reference point of the subsidies those farms used to receive. Should we replace that with something different; a different set of criteria?

Brian Pack: I think that the current situation, particularly in Scotland, becomes less defensible by the day, because we're now working out 10 years back for a dynamic industry that has moved a long way in that 10 years. So, I think the historic base payment from a 10-years-ago reference period is not defensible and, therefore, we have to look at what else we can do, and that was obviously part of the work I did, to try to recommend a future system.

What became very clear is a simple area-based payment does not work for the poorer areas of Scotland. When you move into the less favoured areas in particular, they're rough grazing. Some 65% of Scotland is rough grazing. When you actually think you might convert that to an area-based payment, you have enormous variations in the production from that land, so a simple area-based payment would, I believe, be unproductive in terms of what outcome it could achieve. So, I looked at Scotland and divided it into two areas: one with the non-LFAs, which is comparable with the majority of England, where choice is available to producers, where the market should drive the outcome, and area payments fits this. And equally to your situation in England, area payments would be right for that area. But I felt the area payments should also have a slightly more outcome-focused element to them, and that is what I call the top-up fund, which would actually be designed to produce a more sustainable agriculture. I think, moving forward, it's not just production, but it's sustainable production we need to achieve if we are to have a future in terms of food security, and also for Scottish agriculture. So, that would be the non-LFA.

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In terms of the LFA, I saw support being divided into three parts, which, in some way, were very similar to what the Commission are suggesting in their second option. The first is a very low basic payment, which would be an area payment; the second element of it would actually be coupled support, with a calf and a lamb scheme, to ensure that we don't get abandoned land, which is already starting in Scotland. We've lost large numbers of suckler cows and ewes, and that's led to parts of the West Highlands in particular being abandoned, which is clearly not what anybody would want. And the third element—quite a substantial element—is a top-up fund based on standard labour requirements. Standard labour requirements, I believe, are a much better guide to what these businesses can contribute to a more sustainable agriculture. Area, because of the wide range of land capability and production in the range, would not be a good guide to what a business could contribute, but I believe standard labour requirements would be.

Q334 George Eustice: Just picking up on that, with hindsight do you think it was a mistake to fully decouple subsidies from production?

Brian Pack: I do. I think it went too far. Because we introduced a historic-based payment, then we almost protected the industry, but since that time we've seen quite a change. I believe that, particularly for Scotland and parts of England, I would guess, ruminants are very important. The only way we can convert 65% of our landmass into food is via ruminants, and I think we're all aware of the difficulties of running profitable suckler cows in particular. Ewes have changed in the last couple of years, but we had a massive reduction in ewe numbers in Scotland, due to the lack of profitability. I think one of my, I guess, concerns is that, if you have totally decoupled payments, and suckler cows actually need support to be there, then they will disappear, and I think that would be quite wrong for Scotland in particular, and right across Europe. The same pattern is being repeated in various areas of Europe, so I think it will be really important to find an ability to have a level of coupled payments in the future.

Q335 Neil Parish: Your inquiry set out a future system of support for Scotland in particular, and how confident are you that Scotland's voice will be heard among the 27 Member states? Because you have to take in your regional objectives, and you've been talking about coupled payments: are you confident you can carry on enough coupled payments for the sheep and suckler cow sector?

Brian Pack: Well, I would like to hope, in particular, that the UK identifies the issues for some of the devolved regions of the UK, where it's, I would suggest, much more important. I'm clearly no expert on the English situation and wouldn't try to portray to be, but I understand the different pressures in the different areas. But I felt that, since I first went to Brussels back in the autumn of 2009, to spring of 2010, and now the production of the Commission's report, I would say coupled payments are receiving a much more favourable treatment, and I think there's a

realisation across Europe that coupled payments will be important.

Q336 Neil Parish: One of the arguments against coupled payments is that, if you've got coupled payments in one Member state and not another, you distort the market. What is your view on that?

Brian Pack: I think that, as long as the opportunity is there for a Member state to use coupled payments, if they see that as important to their industry and their economy, then that to me must be the basis for a decision. In our situation the suggestion is that we have coupled payments with our LFA. As outlined before, our LFA production could never be competitive with some of the better areas, and particularly the length of our winter. So, our proposal is that we need coupled payments to balance the playing field.

Q337 Neil Parish: Can I ask you: at the moment, what percentage of your payments in total is made to suckler cow producers and sheep producers? What percentage of your overall CAP payments is actually coupled, then?

Brian Pack: Just over 4% of the Scottish ceiling is coupled payments. It's very small at the moment.

Q338 Neil Parish: And you'd be looking to try to increase that, would you?

Brian Pack: Indeed. I think, to be effective, there needs to be more than that. The proposal in the report is more than double; about treble the existing payments. So, under the current rules, but of course we've all the new regulation to come, we would require Europe to either up the bar or we would be dependent on the UK ceiling to allow Scotland to have their level of coupled payments where the report believes it's necessary.

Q339 Neil Parish: While I agree with you that some coupled payments—I have a West Country constituency, so Exmoor, Dartmoor and Bodmin moor would probably help with some direct coupled payments—I think one of the arguments about coupling it completely is that, sometimes, in the previous policies, we had too much production and over-stocking.

Brian Pack: Yes. Clearly, it's a danger, and I think, mentally, we are all attuned to the fact that that's exactly what happened previously, where we had very high levels of suckler cow premiums in Scotland, and very high ewe payments, and neither actually had to be productive, which gave us the first problem. But my view is that you would not keep a suckler cow for €140 a year—about the proposed payment per calf; you wouldn't keep an extra cow because you got €140. We must remember, when we distorted the numbers, the payments were well over €400 a cow, so I think it's all about the amount of money, and we must never get back to the fact that an animal is kept for the subsidy.

I was at pains to point out in the report: the important bit about coupled payments is to help the enterprise to be profitable, but you must still have the drive within the enterprise to be as profitable as possible,

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and actually produce the animal. The recommendation is it's only paid for the calf or the lamb, so an abandoned cow or abandoned ewe would not collect money, and I think that is vital. Also, it's a fixed pot of money, so the number of calves born gets divided into the pot, rather than, if we do see an increase, then the budget just keeps going up, which is where we were before, and I think that that was quite wrong.

Q340 George Eustice: I wanted to pick up on another area of your report, which related to paying more to more active farmers, which has had some criticism from some of the environmental groups, who say that you're in danger of rewarding old-style, more intensive agriculture. Do you think there's a tension there between what you suggested and what the Commission say, which is that subsidies and direct payments should be more about income support rather than encouraging intensive agriculture?

Brian Pack: When I say that we should encourage active agriculture, the area of Scotland that will produce the most food is obviously a non-LFA, and the recommendation there is for an area payment, so I see no reason why that would lead to more intensive agriculture. Where I see much more a link to activity is in our LFAs, where we have massive challenges, but again I've suggested that we need a minimum level of activity, but the minimum level recommended is 0.12 livestock units per hectare, which equates to about one ewe per hectare. If you're only at half the 0.12 per hectare, then it actually halves the area rather than the situation being that you fall out, so I don't see that as being an incentive for more intensive agriculture.

And I also believe that approved environmental schemes must qualify for the payments. We must ensure that we don't destroy the habitats and better areas—non-productive areas—that were generated for environmental reasons, and I believe they must still receive payment. I'm sure that there's nothing in the recommendations I made that would actually generate a much more intensive agriculture.

Q341 George Eustice: Okay. And you said that these more active farmers face the greatest challenges in delivering sustainable growth. Could you explain what you mean? Are you saying that because they're in less favoured areas and, therefore, they have lower incomes? Is that the point you were making?

Brian Pack: Sorry, could I hear that again?

George Eustice: I think you said that more active farmers face the greatest challenges in delivering sustainable growth. Why do you think that they face a greater challenge than other farmers?

Brian Pack: I think they're clearly the ones who use more inputs and, therefore, immediately the whole water and energy challenge is there. The climate-change challenge is also there, because I was at pains, I guess, in the report to define what I meant by more sustainable agriculture, so, if you'll forgive me, I'll read this particular bit, and that is: "It's an agricultural sector that is innovative and competitive, and has food production as its primary purpose, but also delivers a range of other benefits, which help to meet the global challenges of food security, climate change, water,

energy supply and biodiversity." So, to me, businesses producing the most food face the larger challenges in meeting the global challenges, and they need to do that. If they move from where they are down the path of being more sustainable, then they deliver much more to society and, therefore, the additional payments are justified.

Q342 George Eustice: I think, in your report, you say that the direct payments are almost a form of compensation for the fact that we've got higher standards of animal welfare and higher food-production standards in Europe. Some would say that the correct way to compensate for that is through trade tariffs, which already exist against those third-world countries that have lower standards. What would you say to those critics?

Brian Pack: I think, in the interests of wider society, it's right that Europe has these high standards but, as I suggest, they incur higher operating costs for our producers, who need compensation for that. If we shut ourselves off from supplies of food in the world, I think that could be a very short-term policy. I think we're all well aware and concerned about food security, feeding our own folk over the next decade or two, and I think it would be very risky to shut ourselves off from sources of food.

Q343 Dan Rogerson: Having heard what you've said about the balances of where the money should go and what that should incentivise, both you and the Commission have said that you think there should be money shifted towards the provision of public goods, particularly environmental protection. Where do you agree with what the Commission has had to say, and where do you disagree with what they've said?

Brian Pack: Well, I think, in principle clearly we agree. I think it's how you actually achieve direct payments that deliver more public benefits. The Commissioner has suggested greener, non-contractual and annual environmental actions. I query—how this will work. I'm really interested in this—when they will take that work forward and how they actually believe that it will deliver outcomes. My largest challenge in trying to come up with recommendations was that, clearly, it needed to be more outcome-focused. The direct payment had to be more outcome-focused, and I think that is what the Commission are saying, but then how do you make it more outcome-focused, because you've also got the challenge that they wish to simplify the scheme?

I've admitted in my report that I've compromised the simplification angle to actually ensure we deliver outcomes, and I believe that's what we've got, and at the moment I think the Commission have not actually addressed that. It's work in progress, and they're going to tell us in future. We could look also at the work of the European Parliament and their report, and they suggest that an element of the direct payment could be paid for climate change, and for mitigating carbon emissions, but again they're totally devoid of any detail of how that might work. And I spent a lot of energy—one of the committee was a particular expert on the carbon area, and we find it difficult at the moment to actually recommend how that can be

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achieved. But what's happened in Scotland is that a group is being established to see how the top-up fund could actually be delivered in a manageable, minimally bureaucratic way.

I think, while I'm on that particular subject, it will be really important that Europe changes its attitude to auditing, to actually have a Common Agricultural Policy that's meaningful. The way it's designed at the moment, I would say, is very unhelpful to actually delivering outcomes. We have the crazy situation where farmers who do nothing run much less risk of their payment than those who are busy. And equally, for Member states, and I think England have the scars, the way they actually audit and disallow money, I believe, is particularly unhelpful to actually folk trying to deliver an outcome. So, if a Member state is bent on actually using the money sensibly, the worry is that Europe's auditing policy will make that a dangerous road to go, and I think we need to see that solved this time round.

Q344 Dan Rogerson: Thank you. The Commission has proposed some measures, coming back to this issue of public good and environmental-protection issues. They've talked about crop rotation and set-aside; you've been less specific in what you've had to say. Would you like to say anything about that? Is that something you're still considering?

Brian Pack: Well, I think, where the report is, it's much more ambitious than where the Commission has put it. In the three examples given, I struggle at the moment to see how that will deliver a more sustainable industry. I'd be fascinated to see the detail but, at the moment, I don't see that, if we introduced that in Scotland, we would actually achieve this move to a more sustainable industry. I would repeat again: I think that the big opportunity for all is that we can actually use the reformed CAP to move our industry to being more sustainable.

Q345 Dan Rogerson: Thank you for that. In our previous evidence session with George Lyon MEP, we were talking about this balance between sustainability and competitiveness, and he was saying that he thinks that the two can be tied together and there aren't such contradictory pulls there. How much of your proposed top-up would go for measures to enhance competitiveness, and how much would be targeted at sustainability and enhancing sustainability?

Brian Pack: At the moment, that's not spelled out. The report's position was that they recommended that an expert group be formed to look at how it could actually work. So, I think it's very much work in progress. It's a principle established, but I would agree with George; I don't think competitiveness and sustainability are antagonistic, but I think the future definition of being competitive will be being sustainable also.

Q346 Neil Parish: The Commission has suggested that payments be made to active farmers only, meaning only farmers that produce agricultural goods. Would you agree with excluding land being managed solely for environmental purposes?

Brian Pack: No, I think land that's actively managed for environmental purposes should qualify. I think there's a concern that everybody has about this whole question of activity. I think the Commission has been very clear that only those conducting active farming should receive payments, but it could be the farmer or the business that they're referring to rather than the land. I think, under the health check regulations, under article 28, they introduced the opportunity to exclude businesses from receiving single farm payment if their main activity was not agriculture. I think that would be a particularly unhelpful situation to go to. It would obviously create, firstly, a lot of work for lawyers where businesses are restructured.

It would give us major problems, for instance, if you think of our crofting situation, then a crofter with a substantial off-farm income is a very important person to what's achieved in that area. There are lots of other situations. A number of our farmers have invested in wind generators. You could almost argue that, where that farm business has a substantial wind generator, its primary purpose is not agriculture, and that would clearly be silly. So, I think where we must concentrate: the land must be actively managed, and I think, if that's for environmental purposes, as long as it's approved, then it should receive payment.

Q347 Neil Parish: Yes, because it could be argued on Scottish hillsides where there are no sheep; where they've come off and it's not being farmed. Do you actually believe that they should still be able to carry on claiming a payment on such land?

Brian Pack: No, clearly, and that's where the minimum stocking rate would come in. As a crofter, I have a minimum stocking rate, and it's a very low figure that's recommended, at 0.12. Some of Scotland can only achieve 0.04, but in that case it would get a part of the payment, because you'd take up part of the area to get the payment. But I think, where land has no active human intervention, then it should not receive a payment. We have a situation in Scotland where our utilisable agricultural area that was identified as 6 million hectares. Currently, we have 4.36 million hectares of entitlement, so it suggests there were at least 1.6 million hectares unproductive in the original reference period. Our work suggests that the figure that should receive the money is about 4.6 million hectares, and I think that's quite important right across the board. If we divide by 4.6 million rather than 6 million, we have more chance of having a meaningful figure. And I think just paying for land that sits there, with no human intervention, is quite wrong.

Q348 Richard Drax: Mr Pack, how does the Commission deal with increasing price volatility in the future, and is more market regulation the answer?

Brian Pack: I think it's one of the enormous challenges that our agricultural industry faces, and society in general. We've seen now two grain-price spikes and what that means. I think there's no effective market support or control now in Europe and, in many ways, that's correct, because we don't want to go back to the situation of producing stock just to store it, but I do believe that we certainly need an effective safety-net pricing system, so that, if we

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have catastrophically low prices, it's a way of supporting the industry. So, I think effective safety-net intervention would do that.

I think we also need to look more widely at market-risk instruments, where folk can maybe hedge or take a forward position and try to minimise their risk, but I also believe that part of the reason for the direct payments is to provide financial cushion to a business against those. Since we have no effective market support, then the business needs a financial cushion, and I think, under normal ups and downs of the market, then that cushion should enable the businesses to continue, but where we have a real catastrophic collapse, we need a special mechanism. Europe is suggesting that we maybe develop a WTO-acceptable income support mechanism, almost a disaster income for situations in which income is a disaster, and I think I agree with that. But I do think there's scope to look more at products with a mechanism for managing risk we can develop. It's not particularly widespread in agriculture and, as you move across Europe, there are clearly quite massive challenges to introduce them in smaller businesses—and in our own situation—there are many, many businesses you could not expect to get involved in these complex instruments, so we need to find a way of actually helping. And again, I think it's drawn attention to the issue of producer organisations, and the need to provide a way of giving them more power in the market, so that we have more balance in the supply chain.

Chair: Can we keep the answers just a little bit shorter, Mr Pack, I'm sorry, just to get them on the record? Just slightly shorter answers, if you could.

Brian Pack: Okay.

Chair: Do you want to just conclude that answer, Mr Pack? I didn't mean to cut you off?

Brian Pack: No. I think there is a challenge, as you rightly suggest. I could likely go on for the next two hours on the matter.

Q349 Chair: Well, we have the benefit of your views. Could I just revert to an answer you gave to Mr Eustice? You said it's important that we compete on a level playing field. Do you think we'll ever be in a position to compete on a level playing field across Europe?

Brian Pack: Well, I think it is a massive challenge. I think, clearly, there are issues about pillar one, and particularly the new member states, and I might add in that Scotland has the fourth lowest payment per hectare on pillar one direct payments. We would like to believe that there will be some more equity across the UK, but clearly there has to be equity achieved across Europe. The difficulty is defining what that word "equity" means, because various considerations will be needed to actually pitch the level of payments.

Until the equity issue is addressed, then there won't be a level playing field, and I think my great fear is that, if we rely more on pillar two, which is co-financed, then there'll be even less equity across Europe, because—and we've seen that already—new member states cannot afford their share of the finance; therefore, they can't draw down the European money. And I think making pillar two dominant would ensure that we'd have a very uncommon market.

Q350 Chair: You have touched on flexibility and equity between the regions, and in particular between Scotland and England. Do you believe that the Commission is proposing sufficient flexibility at the moment?

Brian Pack: Well, at the moment, what we've got would suggest that there could be enough flexibility. I think that would be a very important part of the negotiations. He's very sensitive to different territories and very different needs, and wanting to see that they can all function and deliver local food, so I'd like to think that the sentiment's there, and it will be quite interesting to see how it translates into more detailed regulation.

Q351 Neil Parish: There are two ways of talking about having a level playing field, and I don't blame Scotland for the system that they brought in, but England brought a system in where, certainly, the livestock sector lost out significantly, the sheep and the intensive beef sector, because of the spreading of the payments, so isn't there a danger, if you have too much flexibility, even in the UK, that you don't even have a level playing field across the UK?

Brian Pack: Well, I think you've identified my major concern: if Scotland ended up with that outcome, it would be disastrous, not just for agriculture but for the Scottish economy. Whatever needs to be done needs to be done to ensure that's not the outcome in Scotland. And I'd like to think that, with the benefit of hindsight and the knowledge you've now gained, this will give you an opportunity in England to correct some of that balance, and that would then allow us, I think, all to move forward.

Q352 Chair: Mr Pack, I think that's a very good note on which to end. On behalf of all my colleagues here, can I thank you very much indeed for being with us this afternoon through the video-link, and I hope we can continue to explore the dialogue between us in the context of this report. Thank you very much and God bless.

Brian Pack: Thank you very much indeed.

Chair: Thank you very much indeed, Mr Pack.

Tuesday 1 February 2011

Members present:

Miss Anne McIntosh (Chair)

Tom Blenkinsop
Thomas Docherty
Richard Drax
George Eustice

Neil Parish
Dan Rogerson
Amber Rudd

Examination of Witnesses

Witnesses: **John Bridge**, Chairman, Agricultural and Horticultural Development Board (AHDB), **Tim Bennett**, Sector Chair, DairyCo, Agricultural and Horticultural Development Board, and **Jonathan Tipples**, Sector Chair, HGCA (Cereals and Oilseeds), Agricultural and Horticultural Development Board, gave evidence.

Q353 Chair: Good morning, gentlemen, and welcome. It is a particular pleasure to welcome you to the Committee for this session as part of our inquiry on Common Agricultural Policy reform. Mr Bridge, can I invite you to introduce yourself and your colleagues for the record?

John Bridge: Certainly, Madam Chair. My name is John Bridge. I am Chairman of the Agriculture and Horticulture Development Board, which is an NDPB (non departmental public body) within Defra. To my left is Jonathan Tipples, who is the Chairman of our Cereals and Oilseeds sector. To my right is Tim Bennett, who is Chairman of the Dairy sector. The six sectors we have all have a chairman who sits on our main board, so they are sitting on the AHDB Board as well as representing their sectors.

Q354 Chair: I know you are all particularly well qualified. We have obviously invited you with your brief to focus on the science and the research that you do. With that background, do you think there is one particular option of those before the Commission that lends itself to a solution that would be good for Britain?

John Bridge: I think we have all had a great deal of time to study the evidence that has been presented to this Committee from a very wide range of people. As far as AHDB is concerned, we need to be able to be satisfied, through the evidence that we secure through our research and knowledge transfer work, that there is a system for the future that will provide the stability in the farming sector as well as allow us to achieve our objective of getting a more efficient and productive sector for the future. Therefore, we simply would like to see a solution that would deliver that very strong platform that we need to support the levy payers who we provide services to.

Q355 Chair: Thank you. Are you at all concerned, particularly with the larger units that we have in our British farms, that some of the terms that the Commission is using, in terms of public goods, income forgone and less favoured areas, may discriminate against British farming?

John Bridge: Obviously the size of farms across Europe varies enormously, as the evidence has shown. As far as we are concerned, one of the pieces of evidence that we do have—and it is referred to in our written evidence—is that larger farms by and large

tend to be more sustainable farms; they tend to introduce new production methods and they tend to be more productive. As a result of that, they usually have an opportunity to make those farms more sustainable from an environmental point of view and they normally have per hectare a lower emission of GHGs (greenhouse gases). So I think the conclusion we would draw from the evidence that we have to date is that large farm units can be a major contributor to the solutions that we are all seeking.

Tim Bennett: I think there is an agenda that goes above CAP reform at the moment. If you look at all the evidence from around the world, we have to be able to produce considerably more food while using less of the planet's resources. So I think being able to do that and being able to do it competitively is almost an agenda that should run through the next CAP reform, because that is quite a challenge. In British agriculture—certainly from the dairy sector, if I may say so—we feel we are really well placed to respond to that challenge and we would not want the CAP reform changes preventing the British dairy industry responding to that challenge. So it is about competitiveness.

Q356 Amber Rudd: Could you take us through any modelling you have done to help Defra decide how best to position itself regarding CAP reform?

John Bridge: As far as we are concerned, we are normally looking at evidence drawn from sampling and evidence drawn from basic research that tells us the environment in which farmers operate at the present time. Just to re-emphasise the point that my colleague Tim Bennett has made, we see that we need to deliver services into our levy payers that allow them as individual farm units to understand what the information is and therefore become more efficient and more productive over time. That is our major purpose; it is our mission and it is established very, very clearly within our corporate plan. It is well understood by Defra. Defra attend our board meetings as observers. We meet them on a regular basis; we have very recently been invited to have a workshop with them on future strategy within Defra and we have a whole series of less formal ways of maintaining very close contact. They fully understand the role that AHDB plays within the agricultural sector and are very supportive of it.

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Q357 Neil Parish: Carry on talking about the competitiveness of British agriculture. Did the previous reforms of the CAP actually help British agriculture to be competitive or do they hinder it? The New Zealand dairy farmers manage without subsidy—why shouldn't we?

John Bridge: In my introductory remarks, I should have said that I have sitting to the left and right of me people who have roughly 70 years' farming experience between them. So if I may could I defer to them to respond?

Neil Parish: Yes, I was targeting Mr Bennett there.

Tim Bennett: If I may respond to that, to come back to this competitiveness argument, it is a common agricultural policy and sometimes there has been a tendency of reforms to move away from that common aspect. If you are in a single market and you develop over time wildly differing aspects of that common subsidy system, then it can possibly work against you in terms of competitiveness. As I say, we are relatively well placed if you look at the demand for food in the world, and I think the most important thing from an evidence-based point of view—and from an AHDB levy payer point of view at the moment—is that this reform should not get in the way of British agriculture responding to those signals from food production for the next 30 years.

Q358 Neil Parish: The aspects of the reforms coming out of the Commission really are talking quite a bit about smaller farms and labour requirements. Now that for me rings alarm bells, because they do not mean smaller farms in a UK context. So what is your view of that aspect of the CAP reform?

Tim Bennett: Well, I think defining small farms is always interesting, because a small farmer in one Member State is a relatively large farmer in another Member State. I will go back to my original answer: if you have a Common Agricultural Policy that can end up discriminating against the ability of the most efficient to emerge, then that creates difficulties for those very efficient farmers.

Jonathan Tipples: But if I may, I think there is almost a philosophical question to be answered first and that is: what is it that you wish the CAP to do? There are those within Europe that will wish it to be there to keep people on the land to preserve a type of rural idyll, as they will see, and there are those that will see it as a means of addressing the sort of problems that John Beddington has been highlighting of global food security. They are two entirely different aims, and until the policymakers have decided which way they want to go in the future, I think we are not in a position to judge what the possible effects might be, because they will go in absolutely different directions.

Q359 Neil Parish: Is CAP reform taking it in that direction or is it taking it in the opposite direction? That is what I rather fear.

Jonathan Tipples: I don't know yet.

Q360 Neil Parish: Okay, but certainly the proposals from the Commission to me are slowing up reform rather than speeding it up. Would that be your analysis or not?

Jonathan Tipples: I think we would certainly wish to see a simpler CAP. The more complicated it is, the less competitive you are likely to be in the world market.

Q361 George Eustice: We have had a lot of conflicting evidence about the impact of direct payments and in particular what the impact would be on different farms in different Member States if you were to reduce those. Have you got a view on what that might do to the viability of UK farms?

John Bridge: I will start with a slightly general response to that and perhaps ask my colleagues to look at it in some detail. Obviously, direct payments are important in the context of farming in the UK at the present time; there is a substantial subsidy sitting next to the net value of farm output. If, in the process of trying to make farms more efficient and more productive over time, there is need for less subsidy, then that seems to me to be a very laudable objective. But you can't do it overnight, because there will be serious exposure if something were to happen very immediately. So the transitional arrangements that would need to be put in place would need to ensure that, if we as an agricultural sector in the UK are set on a particular path, we should be able to achieve that.

Jonathan Tipples: As an observation more than evidence, if all direct subsidies to support production agriculture were to be removed, it would seriously hamper the policymakers' ability to have any effect on the environment, because in order to claim the single farm payment one has to comply with cross-compliance. If the single farm payment disappears, the requirement to comply with cross-compliance would disappear along with it and it seems unlikely to me that that is a route that will be fully gone down.

Q362 George Eustice: Some would say the alternative is that if you put more into Pillar 2 and more emphasis on environmental schemes, you would not need as much in Pillar 1 and would not need these direct payments.

Jonathan Tipples: The only compulsory part of the environmental schemes is cross-compliance and that is only compulsory if you are in receipt of the single farm payment. If you cease to be in receipt of it because it is no longer there, then you are left with a lot of voluntary environmental schemes.

Tim Bennett: When the Pillar 1 and Pillar 2 concept was developed in the CAP many years ago, we were in a world where people thought that food would be there, we would never have to worry about food security and that we would be a nation that could import as much as we wished because we are wealthy enough to compete with everyone else for that precious food supply. In a sense the world has now moved on, in that the real challenge is, as I have mentioned before, how we produce enough food in a sustainable way. I am not talking about the policy, but the evidence base suggests that talking about whether we do the environment or whether we produce food is an old-fashioned agenda. The new agenda is how we merge those two and manage to reduce our impact

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on the planet and respond to the need to produce food not just for the UK but for the world.

Q363 George Eustice: In terms of farming competitiveness in the long term, I think the term you used was it is a “laudable” aim to reduce direct payments. Of course we are now in this slightly odd situation where the only reference point for the single farm payment is historic activity on a farm from a decade or more ago. What would be a realistic timescale if you were to say it is a laudable aim and over time, done in a transitional way, it would improve competitiveness? What would be the timescale?

John Bridge: This is a question we were discussing between the three of us before we came in and it is an extremely difficult question to answer in any unambiguous way, because to a certain extent, the body being what we are, we would react to a policy decision. All we would say is that the period certainly cannot be immediate, for the very simple reasons that my colleague has pointed out. How long it would take to move to a position where you had so much robustness within your own agricultural sector that this would be less and less of an issue I really can’t say at the present time.

Tim Bennett: Milk quotas is an example where the Commission have decided to abolish a key plank of the Common Agricultural Policy and they gave many, many years of wind-down to that so industries—not just farmers but also the processing industry—could adapt to that. So it is very clear signals and definite timelines. If you start talking about winding down subsidies, you have to give very clear signals, because the industry and the supply chain have to have considerable adaptation to be able to cope with it. In other words, you would not want a sudden shock, because we have a very sophisticated food supply system.

Q364 George Eustice: I just want to push you on this point. Are you saying that it is a laudable aim that cannot really be done while there is cross-compliance—while you are having expectations on our farming industry for the environment? Or are you saying that you could still have that cross-compliance?

Jonathan Tipples: You can do anything you like.

George Eustice: But to still have a viable industry.

Jonathan Tipples: Yes, I am purely making the point that if the Government or the Commission want some level of control over the environmental standards on farms, the only compulsory control they have is through cross-compliance, which is dependent on the farmer receiving a subsidy.

Q365 George Eustice: And you are saying that is—yes.

Jonathan Tipples: If you removed that, all you would be left with are what is in Pillar 2, which are voluntary schemes.

Q366 George Eustice: And by doing that cross-compliance it adds costs to production and therefore it is illegitimate?

Jonathan Tipples: Indeed it does.

Q367 George Eustice: So while that remains you say that there should still be direct payments.

Jonathan Tipples: Well, there are payments for in receipt of public goods, which are delivered through cross-compliance.

Q368 Dan Rogerson: Just to sum up the discussion we have just been having, taking into account the current structure of the farming industry—as you talked about briefly—and that level of environmental regulation, do you think it is possible for British farming to be competitive without Common Agricultural Policy subsidy?

John Bridge: I think the broad response to that question must be yes, for the very simple reason that if you set yourself an objective to have a much more competitive and productive sector, you must be able to say at some point we should be able to be subsidy free. It is an argument that would apply in many other sectors of the economy, so I do not see why agriculture should be exempt from it. All we are saying is that we need to have the evidence, from our point of view, to proceed in the right direction and we need to have the support of others to buy into what I think is a very important debate about the role of food in the UK economy. That includes not just ourselves; it includes the supply chain, it includes consumers and obviously it includes Government.

But I think everyone does recognise that food is moving up the political agenda, food is important and food is possibly in a slightly more precarious position than it was, say, five or 10 years ago when it was just assumed that it was relatively easy to produce food. We are in a much more challenging environment and I think as far as AHDB is concerned, we need to ensure that levy payers particularly are given the tools to improve their businesses and to make them more sustainable.

As I say, making your farm more sustainable and more productive usually has the benefit of reducing your greenhouse gas emissions and increasing your environmental opportunities. So really there is a win-win situation in there, but it does take time to achieve it. I think all parties have to sign up to the fact that in the long term, if that is the solution you want, then we have to push very hard to get sensible timescales.

Jonathan Tipples: I think policymakers would need to take care that there is still some protection in the system to allow people to continue producing when prices fall away. In 2007, cereal prices peaked at a very high level and there could have been an attraction at that point to say, “If we took direct payments away from arable farmers, then they could probably survive at these prices.” That was probably true for that one year. The following year, because across the world we produced the biggest crop of grain the world has ever seen, prices collapsed back to about £95 per tonne. At that level, it is unlikely that anybody would bother growing cereals, because, as you will be aware, you can be in receipt of the single farm payment without actually producing anything—you just have to manage the land. So the option would have been to grow nothing, in which case the world would starve. This is not just the UK price—I am talking global prices; the cereal market is a global market. We know

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that when prices go up, the world will produce big crops of grain. We demonstrated it in 2007 and I bet we will demonstrate it again this year. So if you take away all level of support—if you take away the safety net—the outcome could be catastrophic.

Tim Bennett: It is interesting, because in terms of CAP reform, people major on the aspects of the direct subsidy, but there are still aspects of intervention and safety net that operate. I guess consumers and the public would think back and remember the butter mountains and skimmed milk powder mountains, but perversely the system now works very much as a safety net and actually can reduce the volatility as commodity prices trade.

I will give you an example in the dairy industry, in that in the past there used to be, if you go back to the 1970s and 1980s, mountains of powder that were then sold at distressed prices. In the last couple of commodity price spikes and falls, the Commission have bought skimmed milk powder at safety net prices and have managed the market volatility and have then sold the skimmed milk powder at more than they paid for it. So in a sense, that is a good deal for the taxpayer and the consumer as well, because it takes out some of the volatility to some extent and they can turn a margin on selling the product on the rising market. So it is important to recognise that intervention operated completely differently from how it would have done 20 years ago.

Q369 Neil Parish: You cannot always guarantee that in intervention you can buy it cheap and sell it dear, so if you are going to spend the money from the CAP, my view is that you can only spend it once. So from your perspective, do you actually want to see that money go directly to farmers in the form of the single farm payment or do you want more measures to manage the market? That would be reversing a lot of the way the reform has gone.

Jonathan Tipples: As individual farmers, Tim and I would have a view on that, but as AHDB we should not have a view on that, because we should not want anything; we are purely here to react to what we get, which is what we will do. So I can't really answer your question there. All I would say is that as far as cereals are concerned, the intervention system has effectively ceased. I have seen nothing in the current proposals that suggests bringing it back, although I have heard some MEPs talking quite fondly about the old intervention days. But I certainly have no indication at all that there is any move by the Commission to reintroduce market intervention in that way.

Q370 Neil Parish: The dairy sector was slightly different.

Tim Bennett: Yes, but I was not advocating intervention; I was just trying to point out that the tools that exist within the CAP are perhaps used in a slightly different way in the world that we are entering, where you have commodity prices tending to be tracking up with volatility rather than tracking down as we faced for 30 years up until about five years ago. I will be careful on this because it is obviously not for me to put a personal opinion here,

but in general, farmers will respond to the marketplace and produce the right product if they are not paid to produce. So going back to the days of, "You will have a subsidy for producing something," will get in the way of the way British agriculture has developed. I think that is as far as I can go on policy.

Q371 Richard Drax: We hear a lot about removing subsidies from farmers or not giving them so much or whatever it may be. Do you not think, when people say, "Will they ever go?" the answer to that is probably not, in the sense that politically, subsidies allow farmers to produce food at a relatively cheap price? As I understand it from some research that my office has done, if the wheat price had been allowed to go to the free market you would now be looking at about £700 a tonne. Our costs have increased and the price stays low and even when you are getting wheat prices of £180 a tonne, which to the public seems a lot of money, it is in effect not a lot of money. So to remove the subsidies altogether probably is a totally unrealistic option. I just wondered what your view on that is.

John Bridge: Again, I suppose we have to be careful as to where we start the argument. As far as we are concerned, what we are pushing very hard for along with many others is to try to achieve that higher level of capacity within the UK agricultural sector, where a number of things come together in terms of efficiencies and productivity, but also, as I say, in terms of environmental sustainability and greenhouse gases—to achieve all of that, but with a very, very clear recognition that we will, as we move into the future from today, be operating in a much more volatile set of markets as far as prices are concerned, whether it be at a global, European or even at a UK level. So even if you become very effective and very efficient, it is highly likely that there are going to be circumstances where you would want to intervene in the market to smooth out some of that volatility, because you knew that if you did smooth it out, you would bring the model that you are trying to develop forward to its next stage. So I can see, on a personal level if no other level, that there would be a strong prima facie case for trying to retain some capacity, however defined, to intervene in the market from time to time if that then served the bigger cause, to have a much more efficient and productive agricultural sector.

Jonathan Tipples: The evidence is historically that governments like to have some control over their supply of food, for fairly obvious reasons. As a case in point, over the last 10 days the amount of grains that have been bought by North African countries has been quite extraordinary. Political instability is not a good thing and that is why a government will always want to have some control over its food supply and therefore its farming. The obvious way it can do that is to have a level of subsidy where it can then point the subsidies in different directions to achieve different results. That is what history tells us.

Q372 Dan Rogerson: Just following up on that point about how the commodity markets worked, you have already talked about the difference between dairy and

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the lead-in times and the ability for cereals perhaps to respond more quickly to what is happening. Does the policy need to be sophisticated enough to cope with that—that where it is looking for more competition on the global market, it has to reflect the differences of the sectors within agriculture?

Jonathan Tipples: Well one of the things that we certainly do and, we think, do very well is we provide a lot of market information. In fact, we do quite a lot of the statistical work for Defra. So we do a lot of horizon scanning. We will be trying to forecast what is going to happen in the following harvest; we will be trawling in information from around the world. We do that all the time and place that in the public domain; that is available on our website and we are all doing it through our market information departments. So we would hope not to be surprised by something, but we can always be overtaken by an event such as the Russian drought this year, which none of us spotted until quite late in the summer.

John Bridge: Almost as a point of detail, you used the phrase “across all sectors” and we have obviously looked at the cereal price and it is a very clear example of what we are talking about. However, an increase in cereal prices will start to impact on the livestock sector in terms of feed stocks and so on. So very, very quickly, you can see that spikes in one sector may in the long term need to be controlled over a much wider range of sectors.

Tim Bennett: Cereals are widely traded and based on very large export volumes, but in the dairy industry—and this is why the statistics are important to inform us of how people can react—the majority of milk that is produced around the world is consumed in the country in which it is produced. So about 5% or 7% of the world’s total output is tradable. About one-third of that is from New Zealand and that is only slightly bigger in milk production than we are in this country. So it gives you an example that when you have only that small amount tradable, one half a percent either way and you get extreme volatility. So that is why anything that can manage that volatility, right through to consumer level, is relatively important. You are bound to get spikes when you are trading such small volumes. One other statistic to throw in, having just come back from the World Dairy Congress, is that dairy consumption is growing at about 3% a year, obviously driven by Asia, and so you can immediately see the challenges in terms of being able to produce enough dairy product in the next decade, let alone the next 30 years.

Chair: We are coming on to price volatility in a moment.

Q373 Dan Rogerson: Just to finish off my original line of questioning, having said that you think it is possible for greater competitiveness to be achieved, what tools do you think would allow that in a reformed Common Agricultural Policy?

John Bridge: As far as we are concerned, we need to ensure as AHDB—and I am being a little bit pedantic here—that we understand the sorts of problems and issues that individual farm units are trying to resolve. We need to direct our research and development expenditure and the money we spend on knowledge

transfer and market intelligence, and then package that very effectively so that we are providing individual farms with an ability to react very positively to what is being done. So if you looked at it exclusively from AHDB’s point of view, we have out there levy payers who in their turn account for something like 75% of British agriculture. So we do have an ability through the programmes that we deliver—quite a significant leverage on the sector. So if we can do our job very, very effectively and we get more productive farm units, then I think some of the bigger issues that we have just been discussing here become that much more manageable.

Q374 Amber Rudd: Precision farming enables farmers to use inputs like fertilizers more efficiently. What is preventing farmers from doing this already and what could we try to include in the CAP reform to encourage them to do so more?

Jonathan Tipples: What is being done about it? Within the cereal sector—and I think we are at the forefront of this—we have done quite a big piece of work. We ran a campaign called Be PRECISE; we ran a whole two-day research and development conference on precision farming. It is at quite early stages of development. We have about three different systems out there that seem to struggle to talk to each other and that is certainly not helping. I think we are at the very early stages. There are certainly some people in your constituency that I know that are involved in it. There are certainly quite a lot of people on Romney Marsh; the whole of the Romney Marsh is now covered by a satellite network, which enables tractors to pick up and position themselves exactly where they are. So there are some quite exciting developments going on. There is quite a high cost at the moment. That will come down as they become more available and as some second-hand stuff comes on the market it will enable some smaller operators to get into it. But we have done quite a lot and I would be very pleased to make that work available to you if you would be interested.

Q375 Amber Rudd: Yes, we would be. Thank you. But what about other, in a way, more traditional forms of precision farming like crop rotation? Do you think they are being used sufficiently?

Jonathan Tipples: I think farmers who have farmed on their farm for a long time have always been precision farming, because they know exactly where the wet hole is, where the tough bit of ground is; they know exactly where things work well and where they do not. So I think they can manage their own farms very precisely. Where precision farming comes into its own is as we see farmers expanding and taking on extra land and we see companies like some of the big farming companies taking over farms that they are not at all familiar with, they can pick up the signals from the growing crop and through various sensors really very quickly, without having the local knowledge. So I would be more than happy to make as much information as you would like available to you.

Q376 Chair: I just want to say the word legume. What is wrong with good old-fashioned crop rotation

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involving sugar beet? Now, for example, that they have closed the York sugar beet factory, what is in it for the farmers to produce it? It is low-tech and it is fairly cost effective.

Jonathan Tipples: As far as I am aware, all farmers use crop rotations. You would run into enormous disease and pest issues if you did not. I do not wish to be insulting, Madam Chair, but my grandfather used to remind me that a decent arable rotation lasts longer than any Government.

Chair: That wouldn't be difficult.

Jonathan Tipples: I do not know of anybody that does not use crop rotations. There are some people growing continuous wheat, but that is pretty limited. So crop rotations are very much part of arable production and are likely to become increasingly so as the chemistry to control some problem weeds becomes less and less available. It is likely that cultural techniques will become more important still.

Q377 Chair: If that is the case, why have the Commission not included it in their greening proposals? Would you argue that they should?

Jonathan Tipples: I can't possibly tell you. I don't know why they haven't.

Chair: Legume is a French word, after all.

Jonathan Tipples: Yes. I don't know.

Chair: Okay, we will take note and we will pursue that. Thank you very much indeed.

Q378 Tom Blenkinsop: Back to research and knowledge transfer, the Royal Society recommended that at least £2 billion should be invested over the next 10 years in agricultural research, yet little detail is given by the Commission that refers to this apart from knowledge transfer under Pillar 2. Should more of the CAP funding go to research and knowledge transfer?

John Bridge: I think you could respond on two levels here. First of all, you need to recognise that there is a very changing R and D and KT (Research and Development and Knowledge Transfer) environment within the UK itself. For instance, AHDB over the last four or five years has become a much more significant contributor to R and D and KT, but that is purely a relative situation, because there are others who are contributing less, for a variety of reasons, including both the public sector and industry. So I think there is a very big challenge for the UK as a whole—and the Royal Society report pointed this out—that we need to have an agenda that a lot of people can agree to and that therefore will lead to more collaborative research and far more people getting involved in trying to tackle some of the very critical issues that we face. I do know that there have been various responses to the other level of your question, which was should CAP money be put into R and D. I have heard people say yes and people say no. I think it would be wrong for us to offer you a firm opinion on that issue. All I would say is that science and technology is a very, very important part of the answer to the questions that we are trying to solve. It is not the whole answer by any stretch of the imagination, but it is a very important starting point, and I think we do have to recognise in this country that if we want to achieve stability and growth in our food sector, then

we are going to have to apply science very, very cleverly and very effectively.

Q379 Neil Parish: Before I ask my question, there is science and technology out there called biotechnology and there are blight-resistant potatoes coming through the supply chain and there are crops that will use less nitrogen and less pesticides. Is Europe and Britain holding itself back by not using these technologies? Because that is very much science.

John Bridge: We have, both in our main AHDB board meetings and within the margins of some of those board meetings over the last year or two, discussed precisely the issue that you pose. On this particular issue, we have produced a statement—a policy statement—as far as AHDB is concerned. Some people reading it may see it as being slightly bland, but inevitably it is trying to steer a course through a very difficult environment. All I would say—and I guess this is almost from a personal point of view—is that it seems to me that if you want to prove that science can help you, then you have to prove the science. What that means is that, for instance, within the UK and Europe as a whole, field trials of various genome strains need to be tested, otherwise how on earth can you go out to the public and say, “This is something which is safe and will do all of the things you expect it to”? So to an extent, if you compare the European position with the rest of the world, both in terms of consumer acceptability and, of course, in terms of direct output, particularly of soya beans, Europe is well behind in those issues. Now, Europeans generally may take the view that that is a very comfortable position to be in. My instinct is that if we are going to grow more food on less land with less critical inputs, then we are going to need technologies to help us and my instinct is GM should be one of those technologies, but not the only one.

Q380 Neil Parish: I will not press you further; it is very controversial. The Commission refers to the need to address imbalances of power along the supply chain to ensure better return for farmers. What is the UK position? Have farmers got enough power in the supply chain or not?

John Bridge: I could give you, for starters, a more general response to that and then perhaps my colleagues could chip in in terms of the detail. I came into this job as Chairman of AHDB as an outsider, someone who had not had experience in the sector, and I think those who appointed me thought that that was probably a sensible position to be in. I have to say I agree with them, because it does allow you to bring different skills and different thoughts to the industry.

One thing that puzzled me at a very early stage was, what is this industry? Of course, the bit that we were focusing on and still do focus on is the first bit of what in fact is a very, very complicated and very substantial food chain. So if you then add in—and these are obviously facts you are all very familiar with—the fact that food processing is the largest manufacturing sector in the UK, if you then add in the very sophisticated and complicated distribution systems that we have and also look at the retail sector

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as a whole and all the industries associated with it, then you are talking about extremely large numbers. I do think we have to concentrate our minds on that much bigger picture, because we are just the starter point. If we get the starter point wrong, then quite a lot of things could be very good in the food chain and they will not work. But what we do observe, I think, from sector to sector is that the responses within the food chain are different and that I think needs to be rectified. Responses may be good or they may be bad; either way, they create uncertainty if you are not careful and we need to be sure that there are appropriate messages being passed up and down the food chain so that the whole works a lot better than the constituent parts. To me, as a personal observation, it looks like constituent parts; it does not look like the whole. But there are experiences.

Tim Bennett: Picking up on the dairy supply chain, which is subject to some work in the Commission at the moment and the high-level group, can I turn it around from using the word power in the supply chain? I think it is important to have more transparent supply chains and what we have been working on from AHDB in terms of all our market information is to make sure that we have very good statistics. We have tried to do pieces of work on where margin is low within the chain, which is sometimes controversial, but that is our job; we are independent in the way we put the evidence out. If I can make the comment, I think there is some good practice there in the dairy supply chain. It needs to be more transparent; lack of transparency is damaging confidence. The fact that the market response this year does not seem to have followed the rest of Europe is damaging confidence and I guess if that supply chain was more transparent and debated a little better, then we might get away from some of the short-term views. I think what we have to get in the dairy industry is an understanding of how the chain works now so we can have a long-term strategy to develop the British dairy industry, which frankly has some huge opportunities once it sorts its supply chain out in the short term.

Q381 Neil Parish: Talking about transparency, will the Groceries Code Adjudicator help with this transparency or will he or she have enough teeth? What is your view on this matter?

John Bridge: I think it is Government policy, isn't it, so I am not making a comment on that.

Q382 Neil Parish: Can I press you further on the policy?

Chair: I think they are here to discuss the science and the research, so if you do not want to express a view—

Tim Bennett: No, that is a political—

Q383 Chair: No, you were very clear at the outset. I am sure we will have other opportunities to discuss that. Can I just come back to some comments you made earlier about price volatility? I am particularly mindful of the comments you made about political instability, but what are the best tools? How can a government best manage price volatility? Is market management an effective tool?

Jonathan Tipples: Well, if I can take it from a grains perspective, price volatility has worried governments across the world recently and there have been some moves to try to control the activities of some of the fund managers. There was a feeling that the funds were causing prices to spike to very much higher levels than they would otherwise have done through natural forces. The IMF carried out a survey and did quite a lot of work on this and failed to find any evidence at all. The US and the UK regulators have tried to do the same and I understand that the EU was due to publish a report last Wednesday into the activity of fund managers and the effect on grain prices and that report was pulled for some reason; I know not what. None of them have managed to find any real linkage between fund activity and prices and so it would appear from the evidence that we have that that is not a route to pursue to control volatility. The other method that governments could use to control volatility would be intervening in the market—and we talked about intervention a little while ago—and holding buffer stocks. But quite how big those buffer stocks would need to be in the size of the world grain market is unclear. But when one thinks that the public got fairly unsettled by having grain mountains of 2, 3 or 4 million tonnes, and in order to have an effective buffer against the sort of slump in world wheat supply we have seen this year through Russia not being in the market, you would probably need buffer stocks of a magnitude of five times that, I think the public would not find that particularly acceptable. They are probably the only two ways that I can think of that you can otherwise intervene in the market.

Tim Bennett: I made a comment that a small amount of market management within the CAP can be beneficial, looking at the evidence of the last five years. You can also do something within your own supply chain to take out that volatility. You can have longer term contractual arrangements for the product you are selling, which make sure that everyone gets a margin in the chain. To some extent—sorry to quote the dairy industry again, but we have some contractual arrangements with retailers through to farmers—that longer term arrangement takes out the extreme volatility. What it cannot take out, of course, is the volatility of the inputs to those farmers. So you can only mitigate it with long-term value-added contractual arrangements; you cannot take away completely from the volatility in the inputs—for cereals going into dairy farmer rations, for example.

Q384 Chair: Would the Commission proposal for an EU-wide insurance scheme work in this country? The futures market that the Commission is proposing seems terribly complicated, particularly for small farmers. Do you have a view on either of those?

Jonathan Tipples: I have seen it work in the States and it certainly works there.

Chair: Which aspect?

Jonathan Tipples: Sorry, the insurance side of it. It certainly works there, but only with a pretty massive injection of cash from USDA (United States Department of Agriculture); it is very heavily

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subsidised. It certainly works and I can see no reason why it wouldn't work in Europe.

Q385 Chair: You mentioned prices collapsing. When food prices go up, does it increase profitability on farms? What is the best way of coping with a scenario where food prices might collapse?

John Bridge: We do have some evidence on that, but I guess a lot of it is anecdotal.

Q386 Chair: Not science-driven?

John Bridge: It would very much depend upon the transparency within the food supply chain, because if there are dominant suppliers in one part of the chain and less dominant farmers, then you are not necessarily going to get that trickle-down effect, so it very much depends on the relationships between the producers and the suppliers and the consumers. It does vary from sector to sector; there is anecdotal information where it can work and sometimes it does not work.

Tim Bennett: If you have a supply chain that is built around value-added products, you cannot respond instantly to the commodity surge. For example, you cannot suddenly switch your liquid milk and cheese production—sorry to use dairy again—and export it into commodities, because effectively you are part of that supply chain into consumers. So you can respond to a certain extent to that commodity surge, but you also have to look at the long term viability of supplying your own consumer what you want. If you just purely responded to the commodity surge, it would no doubt be more profitable in the short term for farmers. That is why the supply chain really has to work in a better way so that farmers are better placed to continue to supply consumers with the everyday product, rather than just automatically responding to commodity surges.

Q387 Richard Drax: Commissioner Ciolos argued that a payment ceiling would not lead to anti-competitive behaviour, because the benefits to the farmer of increasing the size of his farm would outweigh the loss of subsidy. Is this a valid argument?

Jonathan Tipples: This is the question of capping.

Richard Drax: It is, yes.

Jonathan Tipples: And it has come up at every CAP reform Bill I can remember.

Richard Drax: He is suggesting €300,000, I think, isn't he? That is a figure out of the blue.

Jonathan Tipples: Yes. It comes back to the statement that I made earlier on; this is a question of philosophy, of what the CAP is. If you believe that it is there to promote a rural way of life, then there is a perfectly coherent argument for capping the payment. If you believe it is about supporting agriculture, then there isn't. There cannot be; it makes no logical sense. Why on earth would you wish to hamper the effectiveness of ever bigger farms? If you are interested in competitiveness, why would you want to cap the payment? I understand that people feel it is obscene that somebody should be getting an enormous amount of money, but if you are farming an enormous amount of land, what is the reason for doing it? I suspect that if the other proposal comes through that says that

payment shall only go to the active farmer and not the owner of the land, then that will actually cure some of what are seen to be excesses.

Q388 Richard Drax: We have talked about that in this Committee, and I think I am right in saying their view is they do not want to change what an active farmer is; it is quite complicated, is it not?

Jonathan Tipples: Yes.

Q389 Richard Drax: So you do not think that big farmers would restructure, for example, to get more money? He is arguing he does not think they would—that farmers farm for more than just earning more and more public money.

Jonathan Tipples: I think we argued earlier on for simplification and I think it could lead to very much more complicated farming arrangements to get round it. I think it would just be counterproductive.

Q390 Chair: Reverting to the profitability question we touched on, Defra have said that rising food prices mean more profits for farmers. Would that always be the case?

John Bridge: Again, on an a priori basis, I am not too sure that that would apply as a consistent argument across all sectors. I could see it being true in some areas rather than others, but I can't see why it should be consistently so. Equally, it would very much depend on the price increases being sustained over a period of time to allow some sort of sensible distribution to occur. We have heard already in terms of major commodity prices that those spikes in prices can occur over very short periods of time and therefore they have very little lasting effect on the supply chain. It seems to me that sitting in the middle of all of this is probably a slightly different argument, although it is obviously very much related to the question that is being asked. That is: do we need, in the future, a very clear set of understandings between suppliers of raw materials into the food chain as to the value of those products and the need to ensure that there is an appropriate flow of income back into those farm units so that, not just next year and the year after but five and 10 years on, you have some sort of guarantee of supply?

Now, there are very good examples where major retailers and food processors are already getting involved in long-term contracts—we have mentioned that very briefly—and it seems to me that that must be one of the paths that needs to be trodden, because the more you get some sort of long-term commitment through long-term contracts with farmers, the more chance you have of getting a build-up of capacity on the farm, because there is a big incentive for the individual farmer to do more if they know that they have some sort of guarantee of their product being sold to whomsoever over a five-year period, as opposed to literally over days.

Q391 Chair: Finally, would you say that joining an agri-environmental scheme affects the profitability of a farm?

Jonathan Tipples: I can comment on my own farm from my point of view. I am in an entry level scheme

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and a higher level stewardship. It certainly pays for what it delivers. With grain prices where they are today, I would probably be better farming it rather than having it in the environmental scheme, but certainly up to now it has paid. On your question of farmers' profitability, it really is a very sectoral thing. If you are producing strawberries, the strawberry arrives in the supermarket on a very short chain and it is in exactly the state in which it left the farm. If you are producing grains, they never arrive in the shop as they leave the farm; there is a whole process to go through. So they are very, very different chains.

Chair: That is very helpful.

Tim Bennett: You have to remember that food prices are often rising because the cost of producing that food very often has gone up more quickly than the price of food has risen, so actually it has reduced profitability. There is quite a lot of evidence of that in the last year.

Chair: We are most grateful. We thank you very much for being with us and I am sure we can continue the dialogue. Thank you very much indeed.

Examination of Witnesses

Witnesses: **Andrew Opie**, Director of Food and Sustainability Policy, British Retail Consortium, and **Andrew Kuyk CBE**, Director of Sustainability and Competitiveness, Food and Drink Federation, gave evidence.

Q392 Chair: I welcome you both. Mr Kuyk, may I ask you to introduce yourself and your colleague for the record please?

Andrew Kuyk: Well, colleague is perhaps a polite description; we are from different organisations.

Chair: I am sorry. You introduce yourself and Mr Opie will introduce himself.

Andrew Kuyk: My name is Andrew Kuyk. I am Director of Sustainability and Competitiveness at the Food and Drink Federation, which is the trade association representing the UK food and drink manufacturing sector, which, as one of your previous witnesses said, is the largest manufacturing sector in the UK.

Andrew Opie: Andrew Opie. I am Food and Sustainable Policy Director at the British Retail Consortium, which is the trade association for retailers. Within our membership we have all of the major food retailers, accounting for probably just over 90% of grocery sales in the UK.

Q393 Chair: Thank you. Just at the outset, recognising that food manufacturing—food processing—is the largest manufacturing sector in the country, do you think the farmers currently get a good deal or a raw deal? I address that to Mr Kuyk.

Andrew Kuyk: Well I am not sure I would be able to answer it in quite the terms in which you put it, Madam Chair. We are the major purchaser of the output of UK farming and if we were not a successful, profitable, competitive business, there would not be a market for UK farmers. So I think it is a complementary relationship. I think if we look at the Government's aim for the future, which is to increase sustainable output from UK agriculture, again it follows that it would be in the public interest that there is a manufacturing sector that is able to take that increased output. If we look to the wider challenges of food security, I think that must be a win-win scenario that we increase the productive potential of UK agriculture and we have a resilient, competitive UK manufacturing base to be the primary customer for that. So I think that is a situation where both farmers and manufacturers can profit, so I would not

want to answer the question quite in the terms that you put.

Q394 Chair: Mr Opie, there does seem to be a clear and pronounced difference between farm gate prices and the prices on the shelf. Do you think that can be rectified of itself or do you think there is a role for the Grocery Code Adjudicator?

Andrew Opie: Well, there is a difference because there are lots of elements that go on from the farm gate before it reaches supermarket shelves and I am sure Mr Kuyk would be—

Q395 Chair: Not necessarily with strawberries.

Andrew Opie: Well, there still would be processing, distribution, the storage in the stores, the management of the stores themselves and the employees within the stores. There are lots of costs in running a retail store, whether it is a food retailer or a furniture retailer, so those costs would have to be paid. So it is not a simple case of taking it straight off the farm gate and putting it on the shelf; there are lots of costs in between. But having said that, if you look at the record of UK retailers and their support for UK farmers, it is quite clear that they are pragmatists, taking Mr Kuyk's and previous speakers' points about food security. We know that they want to have reliable, good quality produce, primarily sourced from the UK, on their shelves. So being the pragmatic businessmen that they are, they know that they have to pay the right price to keep farmers in business.

Q396 Chair: If you look at the gross value-added sourced from Defra's Food Statistics Pocketbook in 2008, if you add together the 9% of agriculture and fishery, the 27% of food and drink manufacturing and the 27% of food and drink retailing, surely you must be as big, if not a larger sector than, say, the equivalent in France. How is it the agri-food industry in France seems to have more clout with its government?

Andrew Kuyk: I am not sure I am in a position to comment on those comparative figures. I would be slightly surprised if we were larger than France, given what I know about the size of agriculture in France.

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The question of political clout with government is a matter of the political system as well as a matter of the relative size or economic importance of particular sectors. So again, in a political system where you have a larger agricultural population, the way that constituencies are organised and so on, that may well give a different measure of political importance to a particular sector. So I am not sure that that is necessarily a valid comparison.

Q397 Thomas Docherty: Mr Kuyk, if I understand correctly, your written evidence slightly contradicts what you said a few moments ago, in so far as in your written evidence, you said, “Supporting inefficient or unproductive sectors will not help the EU to remain competitive or meet future food security needs. It may also harm UK interests.” Without drawing you too much down the road of one particular sector, if I take, for example, beef, where quite a lot of it is farmed on land that without subsidy would not necessarily be viable—and, for example, Scotch beef has a certain premium cachet to it which we know customers like—if there wasn’t the subsidy, surely that type of product wouldn’t be available or would be available at a much greater cost to the consumer on Mr Opie’s shelves.

Andrew Kuyk: I am not sure I would disagree with that. I think you are perhaps putting a slightly different interpretation on what we said in the evidence. There, we were talking in terms of the EU as a whole and I have the section in front of me: “The EU is a very diverse area of agricultural production.” What I go on to refer to in there is the principle of comparative advantage. If we are looking in terms of future food security and we are looking at the impacts over time of climate change, back to what was said in the earlier evidence session about the need to produce more from less and with less impact, it follows that we should be exploiting comparative advantage—doing the things that particular areas do best so that you make the most efficient use of those factors of production. It is in that context that I say that supporting inefficient or unproductive sectors will not help the EU to remain competitive or meet future food security needs.

I think that goes to the heart of some of the debate around Common Agricultural Policy reform. We have heard, and I do not disagree with the idea, that it should be a common policy, but the idea that there is a universal right to produce all types of produce in all parts of the EU seems to me very questionable, for precisely the reasons that I have stated in terms of the need to increase resource efficiency to exploit comparative advantage. So it is in that context I think that there are particular types of production where, in particular areas—say beef on hills—if you are to use that land productively, grazing it to produce meat may actually be the most resource-efficient use of that land and so that in that sense is perfectly legitimate. To take a hypothetical example, it wouldn’t make sense to have a scheme to boost citrus production in the UK; we are not adapted for that. We are very well adapted for wheats, for grasses, for some types of meat production and so on. So that is what we were seeking to say in the evidence about not supporting inefficient or unproductive sectors. It was not specifically in the UK context; it was in that much broader context of

the need to exploit comparative advantage, the need to take account of resource pressures as a result of the effects of climate change and back to this mantra of producing more from less and impacting less.

Q398 Thomas Docherty: And just finally, would you accept that without some form of subsidy, large but not all parts of the United Kingdom—in all four nations, I should add—would struggle to be viable? I think there are parts of Yorkshire, Madam Chair—the uplands, for example—

Chair: Indeed.

Thomas Docherty:—that very much depend... So you would accept that the subsidy is important?

Andrew Kuyk: Well I think it depends a bit what you mean by subsidy. Previous rounds of CAP reform have introduced decoupling, single payments and again, as we heard in the earlier session, cross-compliance. I think the view that we have tried to reflect in our written evidence to your Committee is that—again, looking through the lens of food security—what we need to do is maintain and enhance the productive potential of the EU and that means using public funds for things like soil quality, water, biodiversity and various farming practices that support that, including crop rotation. We think that those are the things that should be supported.

Interestingly, the Commission’s paper itself actually says—back to the earlier discussion about what the philosophy is, what the Common Agricultural Policy is for—“The primary role of agriculture is to supply food.” I think from the point of view of the food manufacturing sector, we would regard the supply of food as the primary public good that the Common Agricultural Policy should be delivering. We would see some of the environmental things that go with that as a means to an end; unless you have healthy soils, unless you have healthy biodiversity, unless you have good water—unless you have all those things you are not going to be able to be productive and supply future food needs. Food is not a discretionary activity. The Foresight Report lays out very clearly that the world will need to double food production by 2050. The European Union has to play its part in that and it needs a policy that is adapted to that outcome. So I wouldn’t use the term subsidy in quite that way. If supporting some of those factors that I have described enables, in a decoupled way, certain types of production to continue, then that I think is perfectly legitimate. So I would not regard it as subsidising a particular output.

Back to comparative advantage, it may well be that there are some things that are done in the UK or indeed elsewhere at the moment that over time will be less competitive, because comparative advantage has to operate on a global scale as well and if there are people in other countries who can produce that more competitively, fulfilling these criteria of more from less with less impact, then in an open international trading system they should be allowed to do that. That comes back to the earlier point. If that then has socio-economic consequences—regional employment and so on—you need a mechanism to deal with those consequences in their own right, not through a policy that should really be about

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sustainable food production. I am sorry if that is rather a long-winded answer, but I hope that sets out the approach that we were describing.

Q399 Richard Drax: What factors influence your decision whether to source from the UK, EU or globally? As far as the EU is concerned, do you think the produce from there is of particularly high quality and good standard?

Andrew Kuyk: Well, I think as a general point—Andrew may like to comment on this from the retail perspective as well—decisions on sourcing are primarily commercial matters for individual companies. We as a trade association don't have a view on that and indeed, competition law would not be very friendly to us having discussions around those sorts of issues in a trade association. So I think those are primarily commercial matters for our member companies. They will take into account a number of things: quality, continuity of supply, price, year-round availability, traceability and increasingly, I think, sustainability; people will be looking at what resources are used in those various types of production. So I think it will be a combination of those factors.

Businesses are in business to meet the customer's needs. If there is strong consumer pull—and I think we are seeing many more examples of that, where customers in the UK are attaching importance to provenance, are asking for things that are of UK origin or more local—then obviously as businesses we would seek to do that. So I think it is not possible to give a general answer to that. Some companies with particular requirements from their customers will source in particular ways; others that are perhaps in less differentiated markets will take a view based on these general criteria about quality, availability, price and so on.

Looking ahead—and given some of the points made in the earlier session—I think if we are to tackle some of these issues of food security and sustainable increase in UK agriculture, there is a need for the food chain to work together in a more collaborative way and to have more discussion about how we can jointly meet those objectives. That is something I think as a trade association we can and do legitimately support.

Q400 Richard Drax: And what about the quality and standards from the EU? What is your view on that?

Andrew Kuyk: I think there is good and bad in all markets. As I said earlier, I think UK food and drink manufacturers buy roughly two-thirds of the output of UK farmers. Most of the rest of what we source comes from the EU, but some also comes from international markets. So it is a question of what meets the basic commercial criteria and what meets consumers' needs.

Andrew Opie: I totally agree in terms of the role of consumers, but the great thing for British farmers is there is a lot of support for both the quality of the produce that is produced here and an element of British support through things like Assured Food Standards, which all the major retailers support. So there is a strong brand in itself, plus we have a very capable agricultural industry, which gives retailers that continuity of supply and the quality that they know

their consumers will demand. As I said in my evidence, there is a very strong support for UK sourcing from retailers, because that is the pragmatic thing to do. For example our liquid milk market: you would not go outside the UK; it just would not make sense to do that. We produce that in this country. There are lots of debates about how strong the UK element is in consumer choice. It is clearly one of the elements, but it does have to be balanced with price, quality and even durability, for example, in the stores. But we feel we have a very strong sourcing record on UK and we would expect to see other parts of the food sector being as strong in their support as we are and I would include Government procurement in that.

Q401 George Eustice: You talked about other factors that influence buying and I want to build on this theme. In particular, Mr Opie, I think the British Retail Consortium in their evidence were quite upbeat or bullish about the prospect of the expanding market for ethically produced food or food produced to higher standards of environmentalism. Defra have flagged this up as the future and one way that farmers could develop and reduce their dependence on direct payments. Do you think, though, that this trend can be sustained if you have food security issues and rising food prices? Can that trend of an increasing market in this area be sustained?

Andrew Opie: I think there are a couple of factors there. First of all, there are clearly some issues that consumers do relate to quite closely and are prepared to pay more for. A good example would be free range production, which held up really well; even in the recession we saw a growth in sales. When it comes to some of the environmental factors, there are already some higher tier products on the shelves, as you are probably aware, from organic through to things like LEAF and various other products.

I think what it will be is two factors. First of all, consumers seeing that there is some value in that, because of course consumers buy on value, not on price, of which this would be one of the components that would be within their choice. But secondly, increasingly what we are finding is retailers working with suppliers, primarily in the dairy industry at the moment but increasingly in other sectors, to look at the whole environmental management through the chain, because sustainability for us and our consumers is definitely going to increase. That will almost be a standard of production.

Within that, there are some benefits for farmers, because of course some of those areas are around efficiencies, which actually may mean they produce not only better food but cheaper better food at the same time. So I think there are some real win-wins. I think we are lucky with the UK production; we have a great farming industry in this country that has always been shown to be quite responsive to the market and can work with the market. So that was why we felt that puts UK farmers in a very strong position going forward in terms of sourcing into the UK market.

Q402 George Eustice: The farmers' groups themselves are actually quite sceptical about their

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ability to get a monetary value from these higher standards of production. They said that people always say that they want these things and they want good animal welfare, but when push comes to shove, when they go into the supermarket, they will buy cheaper options.

Andrew Opie: It is not always seen as necessarily an added value, so there is not always an added value product like we saw with the growth of organics, but the basic cost of getting entry into the market may be through this. Again, if we talk about standards—we talked about Assured Food Standards earlier, for example; the Red Tractor—retailers have always been very careful to make sure when they source from outside the UK, for example, they apply similar standards to those types of products that would compete against those within that UK market. So it may well be it is the cost of doing business as much as we have pressures on us in terms of what is expected from us to deliver that when we do business. But that will be the entry into the market.

Q403 George Eustice: Just probing this point of whether it can continue to grow in the future, are you aware of any economic modelling done by you or any of your members to see whether this is going to be a growing market?

Andrew Opie: No, but we see the sales data themselves—so the retailers, and people like the Institute of Grocery Distribution, do quite regular surveys with consumers to see what their thoughts are in the future in terms of what will influence their decisions in terms of consumer behaviour. They do pick up this issue, but it has to be something that gives the consumer recognisable value. Simply producing something that we think might be the best thing might not actually get an added value, because consumers might not see the value in it themselves. That is the key thing. Consumers have to recognise and think that there is some value in it for them and therefore be prepared to part with their money.

Q404 George Eustice: I know it will differ from product to product, but is there any kind of ballpark estimate you can give us as to the amount of sales that are currently organic and how it has grown in, say, the last decade?

Andrew Opie: Organic is still a fairly small part of the UK market, but we actually look at the core market for people now and what that is delivering. So if you look at the standard ranges and what they are delivering, increasingly they are turning their attention to how we can cut carbon emissions and water consumption through the chain and how we can manage our waste through the chain and that is collectively from farmers, through processors to retailers. These are all added benefits that consumers are getting, not necessarily always at an added cost, because often they are an efficiency within the chain itself, but it means that the value and the quality of that product is increasing year on year without necessarily being in what you might see as a sub-brand.

Q405 George Eustice: Just to push on it, you said it was a small part of the market. Are we saying 10%? Less?

Andrew Opie: No, it is less than that. I don't have the figure to hand, but we could send you a figure.

Q406 George Eustice: If this is going to be a growing trend, is there any policy response that Government or the EU could have to put farmers in a better position to exploit it?

Andrew Opie: We have obviously had some discussions on this around issues about how farmers adapt to the future challenges, sustainability being a good one of those. I heard earlier people were talking about knowledge transfer, for example, and research and development. How do we manage with this? How do we produce more food more sustainably? That to us would seem a really good place for the Government to play its role in terms of research and knowledge. There are some areas where retailers are working directly with their groups of farmers to try to look at things like feed regimes and waste management, but what we also need is the Government maybe to hold that centrally, so that all farmers could participate in that.

Q407 Thomas Docherty: I used to work for one of the Big Four on their new stores project. Let us be clear on this: the reason why the Big Four are going down that particular angle of waste water and so on is two-fold. No. 1 was it was driving down their costs and secondly, particularly for Tesco—because I used to work for one of their rivals—the joke was whenever they had a controversial store, they would roll out the eco store, because it was a way of trying to get planning permission. This is not the Big Four suddenly discovering a new sense of community ownership; it is a) cost and b) a PR gimmick for them.

Andrew Opie: I certainly would disagree that it is a PR gimmick, but there is an element of cost in there. I made the point earlier that there are cost reductions for all in the supply chain in this, from farmers through processors to retailers. But retailers have made it clear—through things like our own Better Retailing Climate that we publish every year and through retailers' own CR reports, which are independently audited—the role that they are playing in sustainability. They recognise that as major sellers of food in this country they have a major responsibility and they want to step up to that responsibility.

Q408 Thomas Docherty: Perhaps the argument was too strong. It is being driven by the consumer, but also local authorities and getting planning permission. Particularly Tesco—their eco store only ever comes out when their stores are getting into trouble with the local authorities.

Andrew Opie: We would say it would be a good thing if consumers were driving that kind of agenda, because it would drive a more sustainable food supply chain from the retailer right through to the farmer at the other end, so that would be a positive. Things that do raise the profile of how our food is produced and whether we can produce it more sustainably seem to

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me like positive things that all retailers and food producers should be engaged in. So we would welcome more discussion around this. The Government has had it in its sights in various food policies that have been developed over the last few years, and we are certainly playing our part in that. I do not see it as something that is a bit of fluff or something; this is just the way to do business responsibly going forward and all responsible food producers will be engaging in this.

Andrew Kuyk: Can I just add from the point of view of my sector, we at FDF have something called our Five-fold Environmental Ambition, which has been running for three years now, which is trying to reduce carbon, water, waste packaging and so on, very much for the sorts of reasons that Andrew has been describing. Just before Christmas we launched a review of that ambition where we are explicit in wanting to extend those behaviours across the supply chain. It is back to this thing around food security that greater resource efficiency is going to be essential across the whole food supply chain. We, along with BRC and indeed with the National Farmers Union, have been in discussion with Defra over several months, both under the previous administration and more latterly about how we can collaborate more across the food chain to deliver these sorts of wider benefits, because unless we do that, we are not going to meet these future challenges. I agree that there are some cost savings for companies themselves, but that is a very good incentive for them to drive up performance, because good environmental practice makes good business sense for all the reasons that it makes good food security sense; if it is more efficient, it goes back to producing more from less with less impact. So I think we are very much on a shared journey in respect of that drive to improve sustainable food production.

Q409 Neil Parish: The Foresight *'The Future of Food and Farming'* study that came out last week highlighted the future challenges of food supply. Are you concerned about the future availability of raw materials? You talk, Mr Kuyk, about the need for Europe to produce its share of food in the world. Could it be argued that linking the single farm payment more to land and less to food production actually reduces the amount of food that Europe produces?

Andrew Kuyk: Not necessarily. I think it depends how it is done. I think the way I would personally see this is not so much a straight choice between Pillar 1 and Pillar 2, but I think we almost need a Pillar one and a half; we need something that is a little way in between. If those payments are directed to preserving and enhancing productive potential, then it will contribute, because it will make land more productive and again, back to the comparative advantage, if it helps produce a move into things that Europe is better at producing, then Europe can play its full part in meeting these global challenges. So I would not necessarily say that direct payments would inhibit that; I think direct payments, properly targeted, whether you call it some kind of cross-compliance attached to Pillar 1, whether in my terminology you

call it a Pillar one and a half. But I think there is a way of doing that that would not inhibit Europe becoming more competitive and actually increasing output sustainably in a way that would help meet the global challenge. I think that is the real challenge for this reform of the Common Agricultural Policy: to take a longer term and broader and more radical view and say that this is the time to start that.

Clearly there are going to be transitional issues, clearly it cannot all be done in one move and, as I have already hinted, there may have to be some accompanying measures in terms of some of the socio-economic consequences in certain parts of Europe. So it will take time. I think, as I have already suggested, the language in the Commission's paper is actually quite promising on that. I think where it disappoints is, having set that scene and having said that the primary purpose of agriculture is to produce food and having set out the background to food security, the options it then sets out for trying to deliver against that agenda are actually rather disappointing. So I think there is scope for a greater level of ambition on the part of the Commission to see if they can produce more of a step change rather than the three options, which are either a status quo or a greening of Pillar 1. I think something slightly more radical than simply a greening of Pillar 1 is called for.

Q410 Neil Parish: Are you concerned about the question of the availability of raw material?

Andrew Kuyk: Yes. Again, as food manufacturers—and I am repeating what one of your previous witnesses said about crop rotations being longer than the cycle of governments—a large commercial food manufacturer is looking to know whether they are going to have a business in 10, 15 or 20 years' time, and so they are looking not just at current market conditions but what is going to be available as a raw material and indeed, in terms of future investment, whether to invest in new equipment in an existing factory in the UK, whether to put money into new technologies, innovation and so on, or whether to relocate a manufacturing site to somewhere where raw material supplies may be more abundant. So certainly the bigger manufacturers will be looking very keenly at things on that sort of timescale in the interests of their own businesses.

Andrew Opie: Certainly we share the concern in terms of the global issues around food production in particular. One example would be animal feed. Lots of soy is produced outside the EU and then needs to be imported into the EU to keep our livestock production—particularly pigs and poultry—in business. That is a concern for us and it is a concern we have raised with Government a number of times previously. But also the impact of global trade is very important to us in terms of its impact on commodity prices. We heard previous speakers talking about maybe the fact that some countries now are less willing to trade. We also understand that some countries now are securing more food supplies for themselves and less is available on the global market for trading, which again will have a knock-on effect on commodity prices. Commodity prices will then

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have a knock-on effect primarily in areas like livestock feed, for example, which will then affect our meat and dairy industry as well as those that directly go into processing for bread and various other issues.

Chair: We will come on to price volatility in a moment.

Q411 Amber Rudd: I think we share your concern about global food supply and prices, but looking at the UK, the UK used to have a policy of not minding too much about local food security because we could always buy it from somewhere else. Do you think that situation has changed and that the government ought to reconsider that position?

Andrew Opie: I cannot really speak on behalf of the government, but for food retailers food security is a big issue, because gaps on the shelves are the worst thing you can possibly have. It is not the done thing and it just wouldn't work. So having secure, robust, auditable food systems is crucial to food retailers. I think that is why we have seen, as well as the work with farmers in terms of these issues around sustainability that we have talked about, the closer work with groups of farmers to ensure that retailers have a secure supply of various commodities—we have already seen it with liquid milk at the moment and we increasingly see it in some of the red meat sectors as well. It is a factor that is driving food retailers' business. So that issue around food security, but also maintaining the quality that consumers demand in the UK, is a really important factor to us.

Q412 Amber Rudd: And so from a retail point of view, naturally you would like to see EU farmers encouraged to focus on food production?

Andrew Opie: Well, the right kind of food production is what we would expect to see—the food production that gives consumers what they want in terms of all the other issues around animal welfare, environment and sustainability.

Q413 Chair: On the fluctuations and price volatility, in the FDF written evidence a clear opposition was expressed to more market management through quotas. In the NFU Scotland written evidence, they talk about the situation possibly deteriorating if there was to be a World Trade Organization deal resulting in reduced import tariffs and therefore increased import penetration. May I ask both of you, in your view, is market management at government level an appropriate way of reducing the negative effects of price volatility on the food supply chain?

Andrew Kuyk: "Probably not" is how I would start that. Going back to the previous session, I think one needs to look at what factors are causing that volatility. I think there were some quite valid points made there. Food manufacturers try to hedge their risks in the way that prudent business would, through forward buying and so on, and I think there is some confusion in concerns around using commodity futures markets. Undoubtedly, there are some people who do use them as a means of financial speculation, but unlike some other futures markets, agricultural commodities are real things that people want real delivery of to make real goods from. Most food

manufacturers engage in forward buying of commodities because they want physical delivery of that commodity; they want to be able to lock into a price. So I think having those sorts of instruments available is an important part of normal business.

Where you have fluctuations as a result of extreme weather conditions or other forms of disruption to supply, the classic CAP intervention buying could be one way of dealing with that, but again, there was a rehearsal of those arguments in the previous session. You can't always guarantee that there will be the shortage that will enable you to sell that back at a profit or even at break even. Again, the point was made by one of the previous witnesses that if you are looking at some of the recent fluctuations in supply, if you were to create buffer stocks, they would have to be pretty large in order to deal with that. So I think it is quite a complicated set of arguments, but that is why I couched my initial response in terms of "probably not". There may be scope for some measures at the margin to try to deal with that, but I think wholesale intervention, either in the general sense of the word intervention or in the narrow CAP sense of the word intervention, is probably not a wise solution and may well be very costly and could actually compound some of the volatilities. But one of the reasons that there are these volatilities is because we are not making the most of productive potential, here or elsewhere. As all the pressures on demand increase from population growth, changes in diet and all these other factors, we are going to have to produce more sustainably, so that is part of the answer as well.

Q414 Chair: Thank you. Do you have a view, Mr Opie?

Andrew Opie: Not on market intervention, being free-marketeters ourselves, but we do believe in global trade and we think that is where the problem is. If you look at wheat stocks, for example, they are not that much different from what they were three or four years ago, but different countries around the world now have more control on those wheat stocks and are not as prepared to trade as, for example, someone like the US would have always historically been. If you look at some of the kneejerk reactions that have been taken in recent years by countries like Argentina, for example, in terms of exports, all of those things do have an impact on global trade. So we would be supporters of the maintenance of free trade around the world to even out some of these volatility issues.

Q415 Chair: Just to pursue you, Mr Kuyk, what would you propose? Do you think there should be longer term contracts—five-year contracts?

Andrew Kuyk: To return to one of my earlier answers, I think that is a matter of commercial choice for individual companies. But if they saw that as another way of hedging some of those risks, then that seems to me a perfectly good idea. I would echo also what Andrew said about an open international trading system. In my earlier, probably non-answer, I was not trying to argue against that. I think an open international trading system is the primary means of trying to deal with this, but some of the things we

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have seen recently are resulting in price spikes and shortages despite the existence of an open international trading system. So there are issues there that do need to be looked at quite carefully.

Q416 Chair: Can I just put two measures to you—the continued imposition of quotas and a greater use of futures markets? How would you both view those?

Andrew Kuyk: I think our stance on quotas is, again, rather similar to what has just been said about trade liberalisation. We do not believe that quotas are a very good instrument for managing output and there are examples at the moment where prices of some commodities—sugar, for example—are at very high levels. The existence still of a quota regime inhibits farmers' ability to respond to that in the short term. As I say, I think futures markets play a very important role for companies wanting actual physical delivery of commodities and that is the primary purpose of those markets, so if there were to be any nuancing of that, it needs to be done in a way that does not undermine that primary purpose—the use of those markets in order to provide that sort of forward buying facility.

Andrew Opie: I concur with what Andrew said. The only thing I would add from our point of view is that, looking at the UK market, it is not always easy to get farmers in the UK to enter into forward contracts for sales, for example, because some farmers do like the market, and actually, seeing volatility in the prices may encourage them not to go into forward sales, thinking that they might miss something in the future. Retailers would love more certainty in terms of the price they are going to pay in the future; it evens out some of the volatility, but it isn't always easy to engage with the agricultural sector in terms of contracts.

Q417 Neil Parish: If we go back to 1994, the retailer was only making a very small amount of profit on milk, the processor was getting 22p and the farm gate prices were 18p. Now we are seeing the retailer getting significantly higher prices than that. Is it inevitable that farmers get a low return, and are they getting their proper value out of the food chain?

Andrew Opie: I am going to start my answer by saying those figures are slightly speculative, because they are not actually based on clear data and I would—

Chair: I think they are based on clear data; it is taken from the NFU website.

Neil Parish: I do accept that—

Andrew Opie: Yes, they are based on data, but they are not based on actual relationships between retailers and their suppliers, which was going to be my supplementary point. Actually, if you look at the league table of milk prices that are paid in the UK at the moment—and I have printed out the most recent one from the MDC Datum website,⁷ the industry website—it shows the top 10 prices are all paid by retailers. Retailers have led the way in responding to the problems that farmers have had with rising feed costs, for example, by upping the price that they have

paid over the last six months. So all I am saying is that those figures come with a bit of a caveat.

Having said that, retailers' profits remain pretty stable; if you were to look over the last 20 to 30 years, retailers' profit margin is always around 3.5% to 4% overall in the equation. Interestingly, some of the recent price promotions on milk, which retailers have in some ways been criticised for, have been paid for by the retailers themselves, not the farmers, because their price is published and is clear. So there are some changes in there.

The other issue with dairy in our opinion is, if you break it down, approximately 50% goes into liquid milk and 50% goes into processed products. Retailers have a big share of the liquid milk market, but even then, it is well under 50% of the milk that is actually produced in the UK. Therefore, they cannot influence the whole of the market or the margins that farmers would be receiving. The other thing that is clear from all the dairy industry data is there is an enormous difference between the more efficient dairy farmers, even in the UK, and the least efficient dairy farmers in the UK.

Q418 Chair: But that is size, presumably.

Andrew Opie: Not just size. You can have some very productive small dairy farms.

Q419 Neil Parish: I accept that I do not want a price that is going to prop up every inefficient dairy farmer, but I think there is an argument that the retailers are taking significantly more in the way of profit. If you were being paid 18p back in 1994 for milk as a dairy farmer and you are now being paid between 22p and 26p, there has been an enormous increase in costs in that time and yet because the retailer is taking significantly more, the price of milk to the consumer has gone up. So part of my question—and you may not want to answer this—is will a Food Adjudicator be able to actually look at this process to see who is making the profit there and whether the retailers are necessarily taking out too much profit from the chain?

Andrew Opie: We don't believe they are taking out too much profit and that is quite clear in the profit margins, the published figures that come out every year—every quarter for their sales but every year in terms of profits. But I think the other thing for farmers is to think about whether the price they are being paid is a sustainable price for them to stay in business, regardless of what anybody else in the chain might be taking—and we don't believe we are taking a large proportion of the profit. So is that price—which is published, at which farmers enter into a contract through the dairy with the retailer, because most of them have this dedicated chain—sufficient for that farmer to have enough profit to be able to invest in his business for long-term development? We believe it is and obviously those farmers who are going into those contracts also believe it is.

Now, you can look around in terms of the price that different farmers are paid and the price on the shelves; there are lots of different issues. But I think the important thing for farmers to think about is, "Am I getting the right price from the people that I am supplying to keep me in business?" We believe the

⁷ www.mdcdatum.org.uk

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retailers have led the way in showing that that is possible. There are large parts of the food sector—the Government included—who do not enter into these types of agreements like retailers. Retailers have done that because we need food security and we want liquid milk going forward. We are prepared to pay the right price for it and we will show that in terms of the prices that we pay. But that won't help all dairy farmers and that is the problem. You have a large rump of dairy farmers who are still basically sourcing into the usual market—which may go for processing, may go in skimmed milk or may go for liquid in hospitality and catering—who are not fortunate enough to be in those types of deals. They are the ones who have the problem, really, going forward. We have a lot of sympathy for those dairy farmers, but retailers can only help those that they need to supply them.

Q420 Neil Parish: And as far as the Food Adjudicator is concerned?

Andrew Opie: First of all it is interesting because Friday is the first anniversary of the GSCOP (Groceries Supply Code of Practice)—the code of practice, which retailers did not oppose, have administered and have introduced to their business.

Q421 Neil Parish: Is this a voluntary code now?

Andrew Opie: No, it is a statutory code now and it applies to the 10 largest retailers. It was expanded; anyone with £1 billion turnover or above is now covered by it, so it takes it down to a lot of smaller retailers. There are lots of contractual issues in there that answer the questions that were raised by the Competition Commission on things like retrospective payments, how the contracts themselves are worked out and the right to independent arbitration if you cannot get satisfaction from your retailer. All of those things are in place and we would say, before rushing into a next stage with an Adjudicator, we should see how that is working. We are starting to get some evidence from that now. It is administered by the Office of Fair Trading and we will get a report from them later this year.

It probably would not help dairy farmers, because the GSCOP and the Adjudicator only affect those who have a direct relationship with a supermarket. Our main suppliers are actually very large multinational food companies: the ones that you will be very aware of, who have large brands themselves and are operating well outside the UK. Those are our main suppliers. We have very few direct farming suppliers—maybe some fruit and veg suppliers and these sorts of people. So our suppliers in terms of dairy are actually the dairies themselves—the processors and the dairy companies; they are not the farmers. We short-circuit it through a special contract through dairies to try to help farmers, but actually the contract is between the processors, the manufacturers and the retailers. So the Adjudicator's role would not extend into that area.

Q422 Chair: How do you feel that the Commission measures to give farmers more bargaining power, such as increasing transparency or standard contracts, would affect your industry?

Andrew Opie: I had a look at the high level group and we are obviously following that work at the moment. We don't believe the issue that was raised in the dairy would have a huge issue for us. We feel the UK is quite a progressive market. UK retailers haven't waited for these sorts of issues; they have gone out and secured their own dairy supplies, they are paying them the best prices in the market and they are happy to publish that so people can see it. So we did not see anything greatly different in here that would necessarily help the dairy farmers that are supplying our members with liquid milk.

Q423 Chair: On Mr Parish's line of thought, the NFU figures show that farm incomes have fallen by 8% and retailers' income has increased by 4,000%. If measures were taken to increase farm gate prices for farmers, what would be the impact on food prices for shoppers?

Andrew Opie: There would be an impact but of course it is right to say that the commodity price itself, or even the farm gate price, is not the only price that is applicable. So things like oil prices, the exchange rate with the euro and employment rates for retailers who employ people will influence our food prices. All these factors would have an impact.

Thomas Docherty: The cost of fuel.

Andrew Opie: The cost of fuel, absolutely. Oil is crucial to these sorts of things. But ultimately, retailers can only insulate consumers from so much. So our own inflation figures, which we publish every year, show at the moment food inflation running at about 4%, which is actually historically quite high; we have seen periods of deflation. Now, we can only insulate consumers against so much, and while consumers are going through extremely tough times as they are at the moment—and with the very competitive business that we luckily have in this country, UK retailers can help consumers—the last thing any retailer wants to do is pass any additional cost on to consumers.

Q424 Chair: Just out of interest, are you able to say how much milk that you sell in your outlets, through your membership, is actually produced in this country and how much produced in the EU and outside the EU?

Andrew Opie: Liquid milk, or—?

Chair: Well, the totality of the market.

Andrew Opie: Well, liquid milk, none. It is all produced within the UK.

Q425 Chair: Powdered milk?

Andrew Opie: I would have to check things out, because then you are into things like cheese, yoghurt and dairy desserts, so the further down the track you go, of course, the further you get away from UK producers. But one thing I would say—and we did put it in our evidence—is we are the only sector that is committed to the new country of origin agreement, which we agreed with the Minister before Christmas. We have made it clear that we will put country of origin on all dairy products, where relevant; we will not make claims about UK that would mislead consumers at all.

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Q426 Chair: Is that just for milk, or is it all the dairy products?

Andrew Opie: That covers milk, dairy products and also meat products. We are the only sector that is committed to this at the moment, so we are being absolutely transparent with consumers and we will tell them where their food is coming from. We are quite happy to do that, because if you look at the cheese counters, the dairy counters and the meat counters, retailers know they have a strong record to say in terms of country of origin. But we are the only food sector that is doing that at the moment.

Q427 Thomas Docherty: On the issue of labelling of country of origin, are you committed to ending the practice whereby, for example, cows are reared in Devon and then sent to Scotland for a month and slaughtered, to get the Scottish beef brand?

Andrew Opie: Well, the country of origin is UK, in this respect. So this is about—

Thomas Docherty: I know that, yes. But further to that, are your members committed to ending the practice of shipping animals around the UK to get brands?

Andrew Opie: I am not aware of that practice, but I can—

Chair: I do not know that we want to go there, because actually my farmers would not necessarily like that. So we will not put that question.

Q428 Tom Blenkinsop: Mr Kuyk, your evidence expressed that, “It is disappointing that the Communication sees increased trade liberalisation as a potential threat rather than an opportunity.” An opportunity for whom—farmers or processors and retailers?

Andrew Kuyk: Both, I think. It follows from what I said earlier that if we move away from a situation where inefficient and uncompetitive production is being supported, you need some form of trade protection as a buffer to that. If you increase trade liberalisation, and where Europe can exploit a comparative advantage, that then opens up markets elsewhere outside the EU. So I think it is an opportunity. It is also an opportunity for increasing food supply—back to the point about affordability. So for all the reasons that we discussed earlier—and back to the need to use market forces to help iron out some of the volatilities and so on—we do believe that an open international trading system is the way to do that. Provided that Europe is revising its Common Agricultural Policy so that it puts emphasis on resource efficiency and comparative advantage, then I think Europe has nothing to fear from increased trade liberalisation and potentially a lot to gain in terms of export potential. The problem with European agriculture in the past is that when there were overt coupled subsidies that built up large surpluses within Europe that were then exported with the aid of export subsidies, that gave Europe a bad name and Europe was seen as inherently uncompetitive. That was an artefact of that phase of the Common Agricultural Policy. In a reformed Common Agricultural Policy, I see no reason why trade liberalisation should not be an opportunity rather than a threat.

Q429 Tom Blenkinsop: I get the Ricardian economics of it. Is there not a huge assumption that there are other global traders and players out there who, at the moment especially, are not willing to be as liberal in world trade? I am thinking of the Russian Federation in relation to wheat and—

Andrew Kuyk: Well I think there certainly are. It is probably invidious to name names, but there are a number of countries who are themselves agricultural suppliers who still have relatively high tariffs against agricultural imports. That indeed is why we as FDF have consistently been pushing hard for a successful conclusion to the Doha Round. We believe that that remains a priority. It is something that has had slightly less political emphasis over the last couple of years, but we see that as something that needs to be pushed alongside reform of the CAP.

Q430 Tom Blenkinsop: I take that, but even in the last six months, would you not say that global trade has actually become more protectionist?

Andrew Kuyk: I think we have seen some export bans and things like that. Again, as a Federation, I think we are slightly worried by the proliferation of smaller, regional trade agreements, because there is a risk that those could lead to greater protectionism. If they are genuinely open, why not globalise them? Why not put them in a WTO context and make them part of the Doha round? If they are being fragmented and segmented off, it is because somebody sees some advantage to doing that and that is probably a protectionist advantage. So inherently we are still strong supporters of a successful conclusion to Doha.

Q431 Neil Parish: It is a good argument, of course, if you are going to suddenly have Russia say, “No trade in wheat,” to make sure that we do actually keep a reasonable amount of production ourselves. Because if it carried on across the world—if as soon as there was a problem everybody said, “Right, we are not going to export”—this argument that you can get your food anywhere in the world and your security of food supply—does that worry you?

Andrew Kuyk: What, the practice of—

Neil Parish: Yes, because basically if Argentina does not have enough beef it will stop exporting beef, and if Russia does not have enough wheat for its own people it stops it.

Andrew Kuyk: Absolutely, yes. That does worry us.

Q432 George Eustice: I want to push you on this point about free trade. We talked earlier about organic food, which you then get a market premium for. But in the pig industry, for example, a one-sided new law came in and forced certain welfare standards here, then on the other side they were exposed to competition from countries that did not have those same standards. So it is an asymmetric thing, because you have regulation on one side and then you are telling these farmers that the only way they can try to pay for that is to—and quite a few people have said that maybe we should look at reforming the World Trade Organisation so that issues like animal welfare and impacts on the environment can be factors taken into account. We all know that protectionism is a dirty

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word and that that is why people are reluctant to do that, but the original GATT agreement did include provision for that. Do you think that would be a positive step forward?

Andrew Opie: I am not going to comment on the WTO, but I think there is an opportunity for retailers in this case, but brand owners; if they are serious about the product they are giving to their consumers, then they will apply equivalent standards around the world. In fresh pork, for example, retailers a long time ago had already put specifications that were akin to those in the UK. The UK Government, as you are well aware, went before the rest of Europe—2012 in terms of the ban. So I think there is an opportunity there if you are working with the consumers to do that, which overcomes some of the issues about trying to get it into the WTO. I am not an expert on the WTO, but I would imagine that might be quite difficult to achieve. But I think, as responsible food sellers, you don't have to wait for those sorts of issues.

Q433 George Eustice: Are you saying that all the Dutch and Danish bacon is produced to exactly the same standards?

Andrew Opie: There are some very, very minor issues around—I forget what it is, but it is either tail docking or teeth trimming or something like that. But those issues around the stalls and tethers, which was the main welfare concern, the specification that the major supermarkets were using some time ago was that they would not take bacon from those production systems because they felt it was unacceptable and also it would impair the UK pig producers at the same time. It was unfair on them and wasn't giving the consumers what they wanted.

Andrew Kuyk: Could I just comment on the WTO question with regard to the environmental thing? Again, back to the food security debate, which I know I have spoken about rather a lot, but that is because it is rather important. I think there are a lot of, in the jargon, externalities of agriculture and food production that are not internalised and I think the WTO probably does need to start looking at that. But one thing at a time; let us get the Doha Round concluded first. But I think that is probably going to be the next major international trade issue—to make sure that there is a genuine level playing field where

countries that are trying very hard to improve sustainability and through environmental regulation to try to prevent some further damage, cannot then lose out to countries that have not enacted similar legislation. I think that is an area that the WTO should look at, and I think we would support that in the longer term.

Q434 George Eustice: You mentioned the problem of bilateral and regional deals outside of the WTO. If the WTO could be reformed in such a way that it was fit for purpose, it would actually make it much easier, wouldn't it, to progress this?

Andrew Kuyk: We are getting into slightly different territory here. I am not sure that the WTO itself is not fit for purpose; I think what is lacking is the political will to use the mechanisms that are there. I think this proliferation of interim deals is a way of trying to move things forward in the absence of a multilateral deal. So I think the WTO has worked well for a number of years. I think this particular round has got bogged down in a number of ways and needs new political impetus. I don't think it follows that the mechanism is at fault; I think what is lacking is the political will to get the negotiations brought to a successful conclusion.

Madam Chair, just very briefly, there were a couple of questions that were aimed at the BRC rather than at us where I just wanted to get on record the FDF position. On country of origin, we did also work alongside BRC with Defra to get these principles and as a Federation, we do support them and we agree strongly that consumers should not be misled about the origin of food products. The other thing, which again was not specifically addressed to me, but on the code of practice and the Adjudicator, I think Andrew said that the BRC did not oppose the code of practice. We actively supported it and we do believe that there should be an early introduction of the Adjudicator. We think that that would help supply-chain relationships. Thank you, Madam Chair.

Chair: That is very helpful. Thank you both for being so patient and so full in your replies and for being with us this morning. We are very grateful. Thank you very much indeed and I am sure we will continue the dialogue on this and other issues as well.

Tuesday 8 February 2011

Members present:

Miss Anne McIntosh (Chair)

Richard Drax
George Eustice
Mrs Mary Glendon

Neil Parish
Amber Rudd

Examination of Witnesses

Witnesses: **Rt Hon James Paice MP**, Minister of State for Agriculture and Food, Department for Environment, Food and Rural Affairs (Defra), and **Martin Nesbit**, EU and International Agriculture, Defra, gave evidence.

Q435 Chair: Good morning and welcome. Minister, would you like to introduce yourself and your colleague for the record, please? Could everyone turn their mobile phones off? £5 penalty, rising to £15 on the second offence.

James Paice: I am Jim Paice, the Minister of State for Agriculture and Food, and on my right is Martin Nesbit from the Defra team which heads up our European affairs issues.

Q436 Chair: Excellent. Thank you very much for being with us. We have, obviously, before us your UK response to the Commission Communication. When is the Department intending to release a formal position paper on the CAP?

James Paice: We do not have any intention at the moment of so doing. As you say, Madam Chairman, we have responded to the Commission's proposals and the next issue will arise at the March Agricultural Council, when the first set of preliminary conclusions will be made by the Council.

Q437 Chair: In terms of negotiations, this is the first occasion on which the European Parliament will have the power of co-decision. Does that colour your view as to how you think the negotiations and the process will proceed?

James Paice: I am afraid I did not bring my crystal ball with me, Madam Chairman. I don't think any one of us can answer that. Clearly, as a consequence of the Lisbon Treaty it is going to be a much more drawn-out process, and it is the first time it has been done with 27 Member States, so those are two extra factors. If it is done by the end of 2012, I think we should have done very well. People are hoping we can do it by that point, which gives us to 2013 for Member States to work out the details, but I can't be held to that.

Q438 Chair: Thank you. Just in terms of the direction of travel of the UK Government, in your response, paragraphs 24 to 25, you talk about the future allocation for both Pillars. My understanding is that, currently, Pillar 1 is providing payments for direct support and I think you are saying here that there should be an increasing focus on actions on Pillar 2—

James Paice: Correct.

Chair:—which provide the public goods that the market cannot deliver. Obviously, that would be a move away from direct support, so would it not have implications for more matched funding on the part of

the Department and has that been allocated in future spend?

James Paice: It certainly could have an impact on co-financing. Matched funding is not quite the right term because they are not all at 50:50, so it is not exactly a match. At the moment, in the current RDPE—and of course we cannot foresee what the future one might be—there are a range of different levels of co-financing, from 9:1 at one end to, I think, 40:60 at the other. There is a whole range; by matched funding, most people think 50:50.

You are absolutely right that there will be a shift if we were to succeed in our objectives, from Pillar 1 to Pillar 2, and that would have an implication for matched funding, but we have recognised the implications of that. It is why we have made in the response—and I know it is in the response you have had from the Treasury—the reference to much better value for money from Pillar 2 expenditure because we believe that is the transparent system of payment for public goods and more important in the long term than continuing to maintain direct payments at their current level.

Chair: My understanding is that we have not had a response from the Treasury, so perhaps we should pursue that separately.

James Paice: Okay.

Q439 Chair: Am I correct that we currently have a lower allocation, just 1.3%, as opposed to other Member States? So it would require a redistribution, which I think is just confirming—

James Paice: Yes, we are talking about two slightly different issues here. Firstly, within the whole CAP across the 27 Member States, we believe there should be a shift of resources from Pillar 1 to Pillar 2. Secondly, as you rightly say, we believe the UK should receive a much fairer distribution of the totality of Pillar 2 payments. As you say, it is extremely low at the moment; it is one of our principal objectives to get a better deal. Indeed, it was apparently on the table in the 2005 round, but it was lost as part of the then negotiations. The Commission, we know, are sympathetic to our position.

Q440 Chair: The Commission's mission, since the CAP was created, has been to secure a standard of living and a guaranteed income for farmers. Does it worry you that by focusing perhaps more on Pillar 2 than Pillar 1 that we will not be delivering a fair standard of living for farmers in the future?

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James Paice: This is probably one of the key areas about perception and vision for the future of the CAP. We take the view that the CAP is predominantly an economic policy these days and we should be using it to help the farming industry become more competitive and, therefore, more profitable, seen against the dramatic global changes expected over the next 40 years, during which we expect commodity prices to rise considerably. We think that is the right background to be trying to drive the industry towards a greater income from the marketplace and less dependence on direct payment.

There are others within the European community, though, who still see it very much as a social policy—as a means of supporting small farmers. Some of the Eastern European new Member States have very large populations of very small farmers with only a couple of acres or so. That is a major issue that we are trying to address. The British Government's view is that that sort of income support role is not the role of the CAP in the 21st century.

Q441 Chair: Figures published last week showed that farm income was down in just about every sector, with the notable exception of cereals. My understanding is that if they had not been in receipt of direct farm payments, many of those cereal growers would have also been in negative income. This is just a personal opinion, but if you remove the direct payments, then that one sector that is currently doing well—also because the world prices are very high—would also find it hard to make a return.

James Paice: That is entirely correct. I would entirely agree with you, which is why we are not proposing to end direct payments tomorrow. What we are saying is that we have this CAP round to run us to 2020. We think that over that period of time all the projections for the global market indicate that there will be greater opportunity to earn from the marketplace, and we think should be using this opportunity to move in that direction.

Q442 Chair: Who are our natural allies in the negotiating process in terms of other Member States?

James Paice: We have a number of natural allies: the Scandinavian countries, predominantly, Sweden, Denmark; and The Netherlands; a couple of the new Member States like Latvia and the Czech Republic; and, very similarly, Germany. They have one or two slightly different issues, but that group of us all have very similar overall objectives and I should add that both the Secretary of State and I are spending a lot of time trying to build on those relationships, and develop new relationships. We are able to do that because we are taking a very different approach from our predecessors to negotiations—a constructive, at-the-table approach—and we have dropped the rather daft proposition that Single Farm Payments should end tomorrow, which was never going to get us any credibility.

Q443 Neil Parish: Good morning, Minister. I welcome your negotiating because I think it is essential. On the CAP negotiation, you negotiate as the UK as a whole, so what steps are you taking to

reach a common position with the Devolved Administrations?

James Paice: Thank you, Mr Parish. Although a lot of recent publicity about the devolved Administrations' separate letter to the Commissioner has focused on the size of the budget—and perhaps you may wish to come back on that—actually once you move away from the totality of money to how it is spent in the structure of the CAP, there is a great deal more synergy between us and the devolveds. We all want the same thing and I feel very strongly that the Secretary of State and I will be negotiating for the UK as a whole, not just for England.

Q444 Neil Parish: I think as well the delivery of the Single Farm Payment is slightly different, in that one is done more historically and one more regionally, but I think that is probably more for us as UK plc. One of the issues on which I imagine you do not necessarily see eye to eye is coupled payments?

James Paice: You are absolutely right. We take the view that England, as you know, decoupled all payments immediately in 2005, and we are moving through a transition away from the basis of historic payments altogether. Scotland, it is quite true to say, still believe that there should be some element of coupled payments, particularly headage payments for cattle and possibly sheep. We do not believe that is the right way forward; we want to see total decoupling across Europe. We believe that if we are moving, as the 2005 reforms did, towards a much more market-oriented system and farmers depending on the market for their income, then directly coupled payments, which are a subsidy on production, should disappear. So you are perfectly correct. That is an issue where there is some difference between us. Depending on the outcome of the overall reforms, it may or may not be to the discretion of Scotland whether they continue with it.

Q445 Neil Parish: Playing devil's advocate, how does Scotland and the Scottish Administration believe or think that their views might be taken into consideration when you are making negotiations in the Council of Ministers?

James Paice: We have close contact with the Ministers in all the devolved Administrations, not just Scotland. I was on a telephone conference with all of them last night. We have plenty of contact. The tradition is that, before any Council meeting, all of the devolveds meet with me or the Secretary of State, whoever is attending that Council meeting, to go through the position that the UK Minister will adopt. It is perfectly true to say we are never going to agree on everything, not least because at the moment, as you are probably aware, the other three Ministers come from parties that would rather not be part of the UK, which does slightly complicate issues.

Q446 Neil Parish: Yes, absolutely. Final point: when it comes to doing negotiations, will it be a mixture of the Secretary of State and yourself doing the negotiations with the Council of Ministers? How will it work?

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James Paice: Well, the Secretary of State obviously leads and I suspect, although we have not made any ultimate decisions, as the pressure of the negotiations heat up she will be doing more and more of it. She has the advantage that she is multi-lingual, which I'm afraid I am not.

Q447 Chair: Apart from French, which other languages does she speak?

James Paice: German.

Q448 Amber Rudd: Good morning. The Commission outlined various objectives for the CAP, including food production, territorial balance, protection of the natural environment and a fair income for farmers. How would you prioritise these different objectives?

James Paice: I think I would probably put the income for farmers at the top very close to the issue of protection of the natural environment, but when I say income for farmers, I must stress I am not talking about a subsidy. That comes back to the earlier question from the Chair, because we believe that the CAP should be targeted at enabling farmers to get as much if not all of their general income from the marketplace together with the targeted payments that would come under Pillar 2 for payment for public benefits. Obviously, that would vary dramatically depending on what an individual farmer was providing as public benefits. Income is important, otherwise the industry will collapse, but we do believe the bulk of the income should be coming from the market and that the policy should be aimed at enabling farmers to do that.

Q449 Amber Rudd: So that will presumably lead to higher food prices?

James Paice: That is not necessarily the case. You only have to look at the point that the Chair raised a few minutes ago: grain prices, which are largely operating on the world market, are now at an all-time high and totally unsupported by any form of subsidy. It is highly questionable whether getting rid of Single Farm Payment would necessarily lead to higher food prices. Economists, and I am not one, will tell you that actually that support could work either way, but as I say, the current grain situation is completely without any form of subsidy.

Q450 George Eustice: You talked earlier about the difficulties of having 27 Member States all with conflicting interests. Do you think, when we get there in 2012, that we are going to end up with an optimum agricultural policy for Europe or is it just another step on the way?

James Paice: If you mean, Mr Eustice, do I think that there won't need to be a round in 2020, the answer is no. I think that is very wishful thinking. No, this will be another stepping stone towards whatever will be and there will obviously be disagreements about what the optimum policy should be anyway. One of the points I would make is that I have always believed, long before being a member of the Government, that direct payment support, market support for farmers, will end eventually. It is a view I have had for 20 or

more years and I still believe it is an inevitability. We are not going to see it happen in this financial perspective, but I think it will happen and I think the challenge is to help the farming industry face up to that day whenever it comes.

Q451 George Eustice: When that day does come, will that remove the need for a Common Agricultural Policy on a pan-European level?

James Paice: It would not remove the need for payment for public benefits. As to whether that needs to be done as a common policy across Europe, I suspect there would still need to be a common framework to ensure that there was not some form of unfair competitiveness issues between Member States, and obviously the formulas about co-financing or whatever would still need to be thrashed out. It would be a much more minimalist approach though.

Q452 George Eustice: I suppose the point I am making is that the thing that has come across most strongly to me, having looked at the CAP and spoken to lots of people, is there is this problem of the lowest common denominator—that you move forward very slowly. It almost feels that there is a danger that it just stifles policy innovation. If you look at any other policy area, like education, the Government looks at what happens in other countries, learns from successful ideas in other countries and builds a policy that it thinks is right. It does not seem to happen as much in agriculture because everything is about the art of the possible in the negotiations between 27 countries.

James Paice: I think I'd largely agree with you. Negotiating anything between 27 countries is extremely difficult. At a Council meeting, if we do what is known as a table round, so that every Member State may have their say, even if we are limited to four minutes—work it out for yourself—it takes two hours. The opportunity for real debate and discussion in formal Council is very limited. Much more, I am sure, is going to happen in ranges of bilaterals and small group meetings and meetings with the presidency of the day to try to thrash out solutions. But I also agree with you that there has been, and probably will continue to be, an element of the best available compromise between some very polarised views about the format of the CAP. No Member State is going to be satisfied with every aspect of what comes out of this. Of that I can be certain.

Q453 George Eustice: Is the end game then—not in this round, clearly, but long term in the next 10/20 years—that you might have a common framework where there might be agreed parameters and limits to which countries can support their farmers for instance, but that there would be elements of it that are repatriated to national Governments so that they can pursue an agenda that suits their own circumstances?

James Paice: If you look at the structure we have today, Pillar 2, which is for payment for public goods, has a very considerable amount of national discretion about what those payments are for but the amounts are constrained. We talked about co-financing earlier, and we are actually proposing more discretion. We

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want to see Pillar 2 to become payments for more multifunctional activities and that is the way that we would see the longer term. Obviously, there will be a different Government and certainly a different Minister negotiating in 2020, but I would foresee that we will be continuing to look at a multifunctional Pillar 2 with laid down contributions from Europe and an element of co-financing from the Member State, but with a lot of national discretion about how it is applied.

Martin Nesbit: If I could just add that in Pillar 2 you get a lot of that Member State innovation and then learning from each other that you were describing in your initial question. That is the area of the CAP where you get that sort of experimentation and development of new policy and ideas.

Q454 Chair: Could I just ask: should the EU be seeking to end market support unilaterally or should we be seeking to end subsidies multilaterally by ending global subsidies?

James Paice: The Government feels it is both. We want to see the Doha round come to a conclusion. Already on the table for that—I'm aware the whole thing has been in suspense for some time—was the proposition to end all export subsidies from Europe, which we think is right. That has major impacts on the developing world and we think it should stop. There is also the proposition in principle to phase out import tariffs and controls. That is a longer-term issue and they are all forms of market support, but yes, Doha is about moving away from all forms of market support. We would want to see all countries that are members of the WTO addressing that and taking it forward, but I do not think it should stop us beginning to plan to move in that direction as well.

Q455 Richard Drax: Minister, good morning. Just before I ask this question, may I follow up another quickly? Is it your view that the CAP aim should be that all farmers should make a profit?

James Paice: No Government can guarantee, whether we talk about the British Government or the Commission or the European Council, that every farmer should make a profit any more than any other business should do so. Our job must be to create the economic environment in which a successful business can make a profit.

Q456 Richard Drax: Okay, and on that point you have said many a time that you hope to release farmers from the burden of red tape and give more responsibility to them.

James Paice: Correct.

Richard Drax: By moving the money to the multifunctional Pillar 2, to quote you, that is going to take money from direct payments, which will affect profitability, and put money into an area that needs policing, which means more interference with the farmers, does it not?

James Paice: I hesitate to use your word policing, because although Pillar 2 is payment for public goods, so it is perfectly transparent—the taxpayer can see what it is they are getting for their money—we are also, alongside this, as you know, working on the

whole concept of deregulation and changing the whole culture about how we implement and enforce regulation. I have appointed Richard Macdonald to head the taskforce; we are expecting his report in May and I am really confident that that will lead to a substantial shift away from a huge amount of interference by process to simply judging whether farmers are delivering the outcomes. I accept the principle behind your point, but I think there are ways of ensuring that the burden of it is much less than it has certainly been so far.

Q457 Richard Drax: Now on to my question, if I may: what are Defra's aims for this round of CAP reform and how does that tie in with the Commission's three options, if indeed it does?

James Paice: You have seen, as the Chairman said at the beginning, our response to the Commission's communication. Overall, we believe that the communication is insufficiently ambitious. We are concerned about a number of the proposals. Firstly, we are very wary of the idea of complicating Pillar 1. Although certainly we want to see a very green CAP, we are not convinced that greening Pillar 1 payments, as they propose, is the best way forward. We certainly do not support the idea of capping; we certainly do not support the idea of extra payments or high payments for small farmers. There are some good bits in it, but overall our view is that it is not sufficiently ambitious in terms of driving up productivity and competitiveness, which is where we think the emphasis should be, as we have made clear in our response. The direct answer to your question is that it is somewhere between their options two and three—closer to three, but three implies doing it all tomorrow, which, as I've already said, we accept is not realistic.

Q458 Richard Drax: Will there be a clash, do you think, with the cries for food production: "More food, more food; a billion mouths to feed in x years time"? How are we going to produce all this food and put more emphasis on the greening element? I am talking really back to Pillar 2 here. How are the two going to sit comfortably beside each other?

James Paice: The Secretary of State has used the phrase "sustainable intensification", and I think that sums it up. We certainly are going to need to produce a lot more food. I want to see a halt to the decline in British production, and I believe we can do that alongside very successful environmental care. There are a lot of farming businesses around the country, some I have been fortunate to visit, who have developed farming systems that are profitable and highly productive, and yet are also very green—environmentally friendly to biodiversity. So it can be done. Actually, it has to be done. I do not think there is any doubt. Your question also begs the question of how we move on, which is about research, developing new technology and, indeed, spreading that technology out into the farming industry. One of the things that we would like to see from the CAP is the opportunity to use more of the Pillar 2 money in that regard.

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Q459 Chair: If I could just return to comments I made earlier about the Single Farm Payments and the viability of farms, Defra's own study into farm viability in the European Union found that about half the currently profitable farms in the UK would go out of business without the Single Farm Payment. If you want to reduce reliance on the Single Farm Payment, which you said you do, how can you ensure that the farms that are unprofitable without the Single Farm Payment stay in business, particularly in the uplands?

James Paice: I have to emphasise, Madam Chairman, we are not proposing to end the Single Farm Payment today. We readily accept, and I could not be more aware of the fact, that for a lot of farmers today the Single Farm Payment is an essential part of their income. Of course it is, but if you look at the Foresight Report published a fortnight ago by the Government's chief scientist, Sir John Beddington, which involved 50 different reports produced by experts all over the world—the World Bank, the Food and Agriculture Organisation and many others—it projects very significant price rises over the coming years because of population change, prosperity and climate change.

If you are operating against a background of rising prices, then it seems to me self-evident that that is the opportunity for farmers to get a greater share of their income from the sale of whatever it is that they are producing. Therefore, their reliance on the Single Farm Payment becomes less. Let me just use the current example and offer a hypothetical scenario: if wheat prices stay around £200—and they may well fall back dramatically—any decent grain farmer is going to make a reasonable profit without the Single Farm Payment. If that were to be the situation for years to come, I do not think it would be very reasonable for any grain farmer to argue that they should still have a subsidy, a direct payment, if they are selling grain at that price. We do not know what that market is going to do; it might collapse back to less than £100 within months. It could do—that is the volatility that we now face—but overall, we are seeing lots of projections of rising prices.

Q460 Chair: Given the background, if you look at sheep prices, dairy prices and cattle prices, all those products that give farmers an income in the uplands at the moment are down. The cost of fuel and the cost of feed are up, so I completely accept you are talking about a transitional period towards the removal of direct payments, but you have to explain to us as a Committee what practical measures you are going to introduce to ensure that there will still be farmers in these upland areas and other areas where the returns at the moment are so low.

James Paice: The proposals from the Commission—and it is one of the things we do not fully understand yet because it has not been explained—specifically refer to what we would call our uplands, I've forgotten the precise term they use, but it relates to the areas that have suffered from disadvantage. The proposition is that there should be measures in both Pillar 1 and Pillar 2 to provide that support. We do not know precisely what they mean by that; it sounds a bit complicated, but we agree that there should be

measures within it, preferably in Pillar 2, to support those farmers in the uplands and in the hills.

It comes back to our earlier point about Scotland. I think about 85% of their farmland is in disadvantaged areas. We entirely support the need for recognition of that. We think it should be predominantly through the provision of environmental benefits, but as I said earlier, we also want to help them become more competitive and innovative and, overall, to maintain their income. The final point I would make is that in the current situation, the coalition Government is committed to publishing an uplands policy document, which we are proposing to do. I know you are doing a separate report on it. We are proposing to do that fairly shortly now, when I hope we will be able to demonstrate how we want to see our uplands communities, particularly the farming communities, survive.

Q461 Chair: I know Mr Parish wants to come in, and I don't want to focus too much on the uplands, but where they are all tenant farmers it is not always in their gift to negotiate these schemes, and you and I have discussed that. Are you just talking about reducing the reliance on direct payments for lowland productive farms, or are you saying that in the transition phase it is across the piece?

James Paice: In terms of the Single Farm Payment, it is across the piece, but we think in terms of the uplands there are alternative ways, more transparent ways, of providing extra assistance to those areas.

Q462 Chair: What sort of timescale are you looking at when you talk about transition towards removal or phasing out of direct payments? What is the timescale? The next round again of CAP reform?

James Paice: I cannot foresee what the following round will be, but we have made it clear in our response to the Commission that we believe that during this seven-year period, from the beginning of 2014 to 2020, we should be moving in that direction. In an ideal world, yes, we would like to see them end soon after that, but I have my doubts that that will be a realistic achievement. We do think we should be setting out in that direction.

Q463 Mrs Glindon: Cross-compliance is a different aspect, perhaps, of the use of the single payment, which you obviously cannot phase out now. Do you think this allows the Government to have greater control over the environmental protection—the animal welfare standards that the farmers now have to come into cross-compliance with—than it would if the farmers were totally unsupported?

James Paice: It is perfectly true the public does get something from cross-compliance; on animal welfare, the return is very little because it is all based on legislation. Frankly, cross-compliance, as far as animal welfare is concerned, basically says you just have to comply with the law on animal welfare. So there has been a feeling in the farming industry for a long time that it is a double whammy because if you breach a legal obligation, such as animal welfare—there are others—you are not only prosecuted under that legislation—the Animal Welfare Act, for

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example—but you also lose your Single Farm Payment, so you are penalised twice. That is a slightly separate issue, but it demonstrates that the law on animal welfare is there anyway, whether you are receiving the Single Farm Payment.

There are other aspects of cross-compliance outside the animal welfare arena, such as the obligation to keep your land in good agricultural and environmental condition, where it is arguable that there is a small public benefit from it. But I think most farmers would argue, and I do not want to put words in their mouths, that that is only what a good farmer ought to be doing anyway. So I think the issues of cross-compliance are relatively minimal. Don't forget that at the present time the Single Farm Payment is optional. If a farmer does not want to carry out cross-compliance obligations and not claim the Single Farm Payment, they are not obliged to do so.

Q464 Mrs Glendon: Your personal view is it would not be too much of an issue; that there is not so much of a direct relation between having the single payment and adhering to the various welfare and environmental obligations.

James Paice: Where there are clear legislative obligations, such as on animal welfare, such as on issues to do with pollution, then frankly cross-compliance is of no real added value. However, in terms of looking after the land, for example, there is some added value. I would suggest it is not very great and I would prefer overall to see that achieved through Pillar 2, public benefits payments, in the long run. If the question behind your formal question is, "If we lose the Single Farm Payment and we lose cross-compliance, have we lost control of what farmers are doing?", I think the answer is no because I would rather do it through Pillar 2.

Q465 Neil Parish: Farmers in this country, and across Europe, are asked to produce to higher welfare standards than those in much of the world, so there is an argument that there is a need for Single Farm Payment to deliver that. It is also a fact that countries such as India have hiked huge tariffs on products coming into India, and the Americans support their agriculture. What is your view as to what Europe should do in order to maintain EU farmers' competitiveness in the world market? Do you think they do need the Single Farm Payment? How would you target it?

James Paice: I certainly think they need the Single Farm Payment at present. I do not think anybody should be under any illusion about that, but one of our criticisms of the Commission's communication is that it is inadequately ambitious about making the industry more competitive. That might mean, in some countries, mergers of farms; it might mean more co-operative working in some areas; it might mean investment in more modern buildings or equipment, or whatever. It is not for governments to determine that sort of detail. We think the policy should be directed at actually encouraging, enabling and promoting competitiveness rather than the—I hesitate to use the word—slightly more relaxed view of,

"Well, we have a guaranteed income through the Single Farm Payment."

Q466 Neil Parish: The argument of decoupling is right, but because the original Single Farm Payment originates from coupled payments from production, at the moment most of the higher Single Farm Payments are going to the most productive land. I cannot really see in the Commission's proposals any sort of redistribution of that payment. You made the point that if the cereal prices remain high, then the cereal farmers will not necessarily need that subsidy. The problem with it being a decoupled payment is they will get that payment irrespective of whatever the price of grain is, and yet the livestock sector will be hugely disadvantaged on the other side.

James Paice: As things stand in the present CAP and as proposed by the Commission, that is how it would be.

Q467 Neil Parish: Would you be putting forward some ideas about how you can actually support those areas that are more difficult and have a greater environmental need for production?

James Paice: The difficulty you have if you start to distinguish between commodities in that way as opposed to concentrating on specific issues like the uplands, where we know there is an inbuilt disadvantage, is that the policy then has to be very flexible. You will know yourself, Mr Parish, as a farmer, that three years ago wheat was about £70 a tonne and livestock farmers were able to make a significant margin. The pig industry, the poultry industry and the intensive beef sector were all able to make significant margins because the wheat price was so low. Arable farmers, at that stage, needed the Single Farm Payment. There is a serious risk that if you try to say, "Well, these need it and these don't," that, by the time the wheels of Europe have turned and done that, the boot is on the other foot.

Q468 Neil Parish: Yes, I do not disagree with you there, Minister, but because of the historic basis of the actual level of payment, you still have the highest payments going to the most fertile land, and that will carry on. That could be allowed from 2000 to 2013, but surely that should not be allowed to carry on from 2013 to 2020 and beyond. Surely there has to be a levelling of the payment across the types of land as well as across the country.

James Paice: I entirely follow your reasoning; it does imply reverting to the idea of the payment as some kind of income support. I would argue that actually the marketplace and economics will sort out a lot of that, because if you are on poorer land you will need more of it and the market structures will appreciate that. I do not know whether Martin wants to add anything to this idea that you would vary the payment depending on the type of land.

Martin Nesbit: One thing to note is that the Commission are talking at the moment in terms of a shift away from a purely historic basis within Member States for allocation of payments and towards a much more area-based system, which is of course the move that we have already been through in England. That

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will create potentially quite significant transitional problems for a number of other Member States, perhaps less in terms of problems within England, and potentially some difficulties in other areas of the UK. But the Commission are already thinking in terms of moving away from a system of allocation of direct payment receipts that is based on a pattern of subsidy receipts, which, by the time we are at 2013, will be 10 years old.

Neil Parish: That's right, and by the time we get to 2020, it will be 20 years old.

Q469 Amber Rudd: Minister, you referred to the Foresight *Future of Food and Farming* Report earlier. It not only suggests that food prices are going to be higher in the future but also that there is going to be more volatility. Do you think that we will get pressure from other Member States for this type of market management of food that we are trying to move away from as a result of that volatility?

James Paice: The answer is yes. There are some Member States that see the issue of addressing volatility as one of their primary objectives in the reform of the CAP. The Commission refer to "risk-management tools" in their communication without really giving us much more information on that. We think it is well worth considering. We do not believe that it is a justification for maintaining high levels of direct Single Farm Payment, but we do fully appreciate that risk-management is important. As I say, it is very unclear what the Commission mean by it yet, but we are certainly not against the proposition of it being one of the tools that we should consider. Do not forget of course that there are a number of measures that many farmers already use; futures markets, selling forward and all those things, and contracts with their customers are relatively commonplace anyway, so these are all forms of risk-management, but if the Commission come forward with other proposals, we will look at them constructively.

Q470 Amber Rudd: But what about exports subsidies and quotas?

James Paice: We believe export subsidies should stop. We believe they are seriously damaging, particularly to the developing world. In the longer term, we believe that import measures should also be eliminated, but over time, at a speed our industry—the European industry—can accommodate. Some of them are almost irrelevant now; there are controls on sugar, but they are becoming irrelevant because the world price of sugar is so high. Yet if you look at beef, where we still have a fairly significant tariff on imports, there is no doubt that if that was abolished overnight, our beef producers would be left—

Amber Rudd: Collapsed, yes.

James Paice:—devastated. But looking longer term, we think these things all have to be looked at.

Amber Rudd: Okay, thank you.

Q471 Neil Parish: Given that previous attempts to transfer more of the budget into Pillar 2 have failed, under what conditions would you accept the greening

of Pillar 1 as an alternative to transferring more of the budget into Pillar 2?

James Paice: I am not sure that it is an issue of "under what conditions" because we cannot be that specific. Our concerns about the greening of Pillar 1 are firstly that we do not understand the Commission's logic for doing that and also having greening measures in Pillar 2. It sounds over-complicated. Secondly, we are far from persuaded that this would create any added value for taxpayers' money. If it is simply a means of paying farmers for some green activities that they are already doing, then frankly there is no justification from the public expenditure point of view for doing it. Thirdly, of course anything beyond a single, flat-rate payment is more complicated, both for the farmer and the Member State who has to apply it, and goodness knows we have enough experience of those problems. I suppose the final point is this, and it is fairly fundamental: the Commissioner's declared objective is to, I think his word is, legitimise the Single Farm Payment, which I take to mean he wants to enshrine it forever and a day. He thinks, by what I can only see at the moment appears to be a bit of tokenism, that by greening it a bit he is achieving that. We would rather see the Single Farm Payment eventually disappear, as I have described, and the greening be done through Pillar 2 for all those benefits. But it's not issue of whether or not we want the CAP to be green; we do. It is just finding the best mechanism.

Q472 Neil Parish: One of my old chestnuts, as you know, is that if you need suckler cows on a particular type of grassland, isn't there an argument that perhaps that environmentally beneficial production could be actually paid for via Pillar 1 rather than Pillar 2? Because it is production but it is environmentally beneficial, and I think you could argue it as such.

James Paice: But a lot of Pillar 2 payments, particularly under the Higher Level Stewardship, already require grazing of certain types of grassland. Because the HLS has a wide range of options, it can stipulate the type of stock, it can pay you an extra sum if you use native British breeds. I think we have already that process in place, at least in this country. I do not think it is necessarily—

Neil Parish: It will just give you greater funds, that's all.

James Paice: Well, that takes us back to the earlier question about the balance of funds between Pillars 1 and 2. We want to see a much bigger balance in Pillar 2.

Q473 Chair: May I just come back to the competitiveness aspect?

James Paice: By all means.

Chair: I used to represent, in my original constituency, two turkey producers, and they have both gone; they would probably argue that was because of unfair substandard imports from countries that you can imagine, notably Brazil and other such countries. Do you believe that there is action that we can take to stop this—some form of subsidy to allow EU farmers to compete globally?

James Paice: Well, no Government could guarantee that any producer can compete. All the Government

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can ever do—and do not forget, the turkey industry, to use your example, is completely outside the CAP; there is no support or—

Chair: They had pigs there as well.

James Paice: Well the pig industry is largely outside as well; there is a little bit of support coming in imminently. The Commission have announced this. They will introduce private storage aid for pig meat, but turkey and poultry is outside completely. Clearly there are issues to do with standards of production. There is no lawful way in which we can prevent the import of any foodstuff that is produced to standards that we could not use in this country; it would be illegal. On welfare standards I should say; you can prevent such imports on human and plant health issues, but not on animal welfare grounds. But I would say, and not everybody might appreciate this, that all the evidence is that the standard—you talked about poultry production in Brazil—is extremely high. The supermarkets, or their middle-men, who are the main people who bring in that sort of poultry regularly inspect their supply chains and, frankly—not that I have done it myself—I am advised that they are state of the art systems.

Q474 Chair: It is just that the evidence we took from Dr Moss, Professor Swinbank and indeed Peter Kendall of the NFU was that a lot of this production, albeit outside the EU, is being heavily subsidised by those local producers in non-EU countries. So if they are receiving subsidies, or if they have lower environmental and animal welfare standards than we would normally accept in this country, would you and the Department agree that some form of subsidy is needed to allow our farmers to compete?

James Paice: I am sorry; I misunderstood your question. You are talking about if they are subsidised by their own Governments. Clearly, that does put a different complexion on it. I cannot sit here and say we would introduce a subsidy where one does not exist. No, I do not think that is a realistic proposition. Particularly in today's world, it would be going backwards. But it brings us back to our desire to see the Doha Round concluded, because that is the way to ensure that no other countries are providing direct production subsidies in the way that you describe.

Q475 George Eustice: I want to come back to the issue of the WTO. If the long-term aim is to remove direct payments from farmers, we had a lot of evidence that said that payment is almost a recognition of the fact that we have generally higher welfare and environmental standards. Is it time to actually revisit the WTO and how it works alongside reducing those direct payments? For instance, one of the academics told us that the old GATT Agreement that predated the WTO, and is technically still in force I think, did allow countries to prevent imports that came from other countries that had lower welfare standards—it was slightly different from the current WTO rules—and actually if you push the point, you might be pushing at an open door.

James Paice: Certainly we would like to see the WTO Doha Round—it will not be this round because it is in train—addressing the issue of animal welfare, yes.

But we know that there would be considerable resistance to it from some countries who would see it as a means of preventing them from entering our markets, undercutting, being more competitive, whatever phrase you wish to use. So whether we'd actually get agreement is another issue. But no, the Government is certainly, in principle, supportive of animal welfare standards and all standards of food production. If you want fair trade across the world—open, fair and free trade—there has to be some set of rules about what constitutes how those goods are produced. We already have it in things like child labour, for example.

Q476 George Eustice: Quite, but do you think that considerations about fair trade should trump the environment and animal welfare in an issue like this?

James Paice: Well if you do not have trade, firstly you are seriously jeopardising the country's ability to generate wealth and profit, because trade itself generates wealth. That is not just a selfish issue about the UK, but it is also about the developing world. Many countries in the developing world will be operating to standards that we would not allow in this country, but it is their way of developing trade and developing their wealth. So hopefully they can, as we have, over time improve their standards. If you say to them, "We are not importing your chickens or your turkeys"—or whatever it may be—"because your standards are not high enough," and they have not got the income to invest by which to raise their standards, you are effectively preventing them from progressing.

Q477 George Eustice: I understand that point, but you said earlier for instance that standards in Brazil on some poultry farms are actually very, very high. The RSPCA say the same about chicken production, for instance, in Thailand—they are native to that country—and actually, if you had more extensive farming systems in under-developed countries, they would not necessarily be barred on animal welfare grounds. The type of production that would be barred is highly intensive systems. So it is not something that is aimed at stopping the developing countries continuing to develop, it is just about getting fairness in world trade.

James Paice: If I am following you correctly, there is nothing to stop a developing country going for free-range turkeys or anything like that, which might require a lot less investment. I cannot speak for the RSPCA as to whether they would be classified as freedom foods if they are in a different country, but there is certainly no reason why any of our big retailers or food chains could not contract with a producer in some other country to produce lower intensity, lower input production. We already import a lot of organic produce from overseas, from countries that might be considered developing countries.

George Eustice: Okay. Just to be clear: long term you would like to see animal welfare as a consideration in WTO negotiations?

James Paice: I have to be clear because it is your Committee. The Government itself has not got a policy on it. Personally, the answer is yes.

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Q478 Amber Rudd: Just to continue on that point of animal welfare. Looking at the Foresight Report again, it does suggest that there might be a conflict in the public's view of animal welfare and the need for food production. It cites for example some of the more intensive farming methods that some people might question in terms of animal welfare, and yet it also puts on the other side the need to produce food or people will starve. There are some quite shocking statistics about the food supply in 2007 and 2008 causing another 100 million people, I think they said, to go into hunger or starvation, which is a long way from the Millennium Development Goals. Do you have any view on how we are going to try to reconcile those two very conflicting issues?

James Paice: You are absolutely right. There are a number of very important issues there. From the consumers' point of view, they are entitled to be properly informed about what it is they are buying, and then the consumer should make their choice, which is why this Government has made great efforts to improve the standards of food labelling. I will not go into all the detail now, but we think it is hugely important. Then the consumer is in a better position to judge value for money, whether price is their sole guiding factor and they do not care where it has come from—which in reality is actually what the majority of consumers do consider—or whether it is the more discerning consumer who wants to choose organic or free-range or one of the higher standards. That is a matter for the consumer.

When you start thinking about the global situation and, as you rightly say, the spikes, and we are in one now—well, we do not know whether it is a spike or whether it is a permanent arrangement; we are at the top now—then the most effective thing that we could do is to increase transparency in terms of world stocks. One of the major reasons for food spikes is the fact that we do not actually know where a lot of the food in the world is, and if we did, it would be much easier for the markets to assess where the fair price ought to be. One of the reasons some people think that the price of wheat is so high at the moment is it is chasing very little wheat.

Amber Rudd: Right.

James Paice: But we do not know, because we do not actually know. So transparency in world stocks is something that we really need to be driving forward, so that the whole world can see more clearly what we have available. I think that would lead to a decrease in volatility—it would not eliminate it because of other factors such as climate, the seasons and everything.

Q479 Amber Rudd: Some of our witnesses used the pressure of food security as a reason to justify European subsidies. Do you think that is a reasonable justification?

James Paice: No. I feel very strongly about food security, but the argument I have been trying to make is that food security is only an issue now because of concerns that changes in the supply and demand balance—that demand could exceed supply—will drive up the prices, which is why I would contend that in the longer term there will be less, if not no need, for taxpayer support.

Q480 Amber Rudd: We had a quote from the European Parliament that “Europe cannot rely on other countries in case of political instability or disease outbreaks.” Does that give further reason to concentrate production in Europe, rather than looking at the global situation, because of political instability?

James Paice: I think it is very important that we retain the capacity to produce food. Whether you are actually doing it at the moment, frankly, will be led by the market, and we know that increasing amounts of crop are, for example, going into road transport fuel. We know that there are alternative biomass plants being produced around the world. We know that some sugar beet is now going into transport fuel as well. But all that could reverse if the market was there just for food, so the capacity to produce is what is more important. Secondly, all the projections on climate change indicate that actually, northern Europe will be increasingly the bread basket of the world, to use a rather hackneyed cliché, because we will be least affected. Indeed, some of our colder areas, in Scandinavia and Scotland for example, will become more farmable.

That is hugely important, but do not forget that overall Europe is self-sufficient. It is massively over-sufficient in some commodities. We export a lot of food out of Europe, quite rightly so. If the barriers came up all round Europe for whatever reason—it is difficult to imagine one—Europe won't starve.

Amber Rudd: No. But you would agree that is in the EU's strategic interest to increase capacity?

James Paice: I agree. Yes it is.

Q481 Chair: May I just revert to something you said, Minister, about the labelling of foods and refer, in particular, to my hobby-horse about animal welfare. One of our academic witnesses said that the EU should actually go further and should try and impose import restrictions on animal welfare grounds. In the old days it used to be called Article 36 of the original Treaty of Rome, which shows how out of date I am. Could we stop these imports on the grounds of public health if they were thought to be a threat?

James Paice: Yes.

Chair: Do you think it is worth a try? Have we not been sufficiently courageous in trying to ban these imports?

James Paice: We still can stop imports on the grounds of public health, as I said a few minutes ago. There is no evidence that low standards of welfare are automatically a problem for public health.

Q482 Neil Parish: Yes. I do not think it is recognised by the WTO, is it? That is the problem. If we could get welfare recognised by the WTO, it would be a lot easier.

James Paice: Yes. If we could get welfare recognised, we would, but as it stands—

Neil Parish: As it stands, no you are right.

James Paice:—if somebody does not treat their chickens or their pigs very well, it does not mean it is a risk to my health if I eat the meat.

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Q483 Chair: But it is just unfortunate that we have banned sow stalls and tethers, both in this country and the EU.

James Paice: We did, but that was nothing to—

Neil Parish: But we did it in advance.

Chair: And other non-EU countries have not.

Neil Parish: Or EU.

Chair: It is a matter of interest.

James Paice: You are right. We banned them some years ago; the legislation came in 1992 if I remember rightly. I am not sure if it is this year or next year that they will be banned throughout Europe, and most of our pig meat does come from within Europe, so we have had this very long 20-year period of being competitively disadvantaged in that regard. But again, that is purely to do with pig welfare as opposed to public health.

Chair: Okay. Well we will see what happens in Doha or the next round.

Q484 Richard Drax: Minister, what support are you receiving from other Member States or the European Parliament on this question of the CAP budget?

James Paice: On the budget?

Richard Drax: Should it be reduced? What support are you getting on that?

James Paice: As I said earlier, we are quite close to the Stockholm Group. Different countries have slightly different views, but even the Commission's first communication on the financial perspective is referring to the continued decline in the CAP as a share of the European budget. Certainly it is a view shared by most, if not all, of the rest of that Stockholm Group, so the answer is we have a reasonable amount of support.

The reality of course is that it will not be decided by Agriculture Ministers. The fact is that the heads of Governments and Finance ministers will decide together on the overall EU budget, and if history is anything to go by—and I think it is absolutely sure—they will also decide on the totality of the CAP budget. So Agriculture Ministers will be faced with “a budget”, and our job will be to create the structure of how to use it, not to actually effect it, because it will be set by others.

Q485 Richard Drax: If there is a reduction on this budget, how will this affect Defra's ability to reach its targets on agri-environmental schemes?

James Paice: We would argue very strongly that the bulk of the reduction, if not all the reduction, should fall on Pillar 1, as I tried to explain.

Richard Drax: Right.

James Paice: Not on Pillar 2.

Richard Drax: Thank you.

James Paice: Which is the reverse of what happened in 2005, when Prime Minister Blair went to the Berlin Summit promising to slash payments to farmers and he ended up losing some of Britain's Pillar 2 money. It was a real backfire.

Q486 Chair: In your evidence, Minister, there is criticism of the Commission for their lack of clarity on measures to increase competitiveness.

James Paice: Yes.

Chair: What new or reformed policy tools are you calling for to enhance the competitiveness of UK agriculture?

James Paice: I think I tried to explain that earlier, Madam Chairman. We want to see Pillar 2 enhanced in terms of total share of the overall resources, and for the UK to have a better share of it, but then instead of this current three—some would argue four—separate axes of different categories of expenditure, we do not really see there needs to be any. There should just be one single fund available for much more multi-functional investment so that farmers could come to the Government with a proposition, for example, that would be environmentally friendly, would be green, may aid biodiversity and may be involved perhaps with generating renewable energy. Maybe it would involve some investment to improve the productivity of a farmer's pig unit or whatever. I can see all sorts of synergies between different aspects of farming that would make the business more competitive and more profitable. We want to see greater flexibility in how we use the resources, because we feel very strongly that this is where the Government can really make a difference in helping the industry face what is frankly inevitable, which is a decline.

Forget for a moment if you wish my long-term prognosis of an end of the Single Farm Payment and indeed the Government's view that that should happen. It is blatantly obvious it is going to reduce, because there is going to be greater pressure on the budget from the new Member States, and it is odds-on that whatever happens post-2013, even if this Government does not get any of its objectives—and I think we will—the Single Farm Payment for British farmers will probably go down significantly. So we have to try to help the industry face that day.

Q487 Chair: You said quite a lot about transferring money to Pillar 2. Just to be clear, does Defra want to see more money for environmental benefits or more for competitiveness under Pillar 2, because the two aims appear to be competing for the same pot of money within Pillar 2?

James Paice: They are not necessarily because sometimes to be more competitive actually involves more sustainable use of resources; the two are not necessarily in direct competition. But certainly that is why I say we believe there should be one pot of money from which individual Member States can set their priorities, and our two priorities will be the environment and competitiveness. But as I have said, we also believe there should be a bigger pot of money for that taken by a combination of transfer from Pillar 1 at a European level, and a better share of overall Pillar 2 resources for the UK.

Chair: But as we discussed earlier, that will help co-financing.

James Paice: Yes indeed.

Q488 George Eustice: I just want to pick up on that as well; I know we discussed the greening earlier. A lot of the farmers have said it will undermine their competitiveness globally if you have too much greening in Pillar 1 and too many other requirements

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for greening in Pillar 2. Is that something you would recognise?

James Paice: I certainly recognise that it is what a lot of farmers say and I certainly recognise that you could go too far, but I do not think I would want to accept that it is a principle that should stop us wanting to see both more sustainable intensification, to use that phrase again, but also more care for our environment. We know that there are a lot of natural resources that are becoming more and more limited, and yet at the same time they could aid us to be more productive. Let me give you a couple of examples. Precision farming techniques in arable production are really getting going. A lot of progressive farmers are using them; you place the fertiliser right next to the crop, and it is the same with different forms of applying pesticides. They score on all grounds. You use a lot less fertiliser, so it is conserving resources. You use less pesticide so it is greener; there is less risk, if you like, to the environment. It is also more profitable; because you are using fewer inputs, the farmer is more competitive. So these things are not necessarily in some sort of direct conflict.

Q489 George Eustice: Yes, okay. I know the European Parliament made a separate set of proposals that were similar to the Commission's, but they specifically talked about having top-up payments to encourage lower carbon use in climate change. It proposed broader environmental benefits. Have you a view on that?

James Paice: We certainly believe that climate change and all things related to it should be considered within the CAP, but again, within the Pillar 2 framework rather than as a complicating factor in Pillar 1. The report you refer to I presume is the Lyon Report produced by George Lyon MEP, who of course is a Scot and so unsurprisingly his views are close to that which the Scottish Government are proposing as well. There are many aspects of George Lyon's report with which this Government would agree, but we do not believe that Pillar 1 should be over-complicated by adding lots of top-ups to it.

Q490 George Eustice: Right. You would accept some top-ups? If there were to be an element of greening of the Pillar 1 direct payments, where should the balance lie between income support and—

James Paice: Well you say I would accept some top-ups; no, we would rather not.

George Eustice: Right.

James Paice: In an ideal world we do not believe there should be top-ups to Pillar 1. We think it should be a flat-rate payment moved away from historical to an area-based payment, and that all public benefits, of which greening is key, should be dealt with through Pillar 2. But as for the Commission's proposal for a green top-up to Pillar 1, at the moment we do not know what it really means, and we have said we are looking for clarification of it. So no, in an ideal world we do not want top-ups, but we are not against it as long as it is simple and there is genuine added value for the taxpayer.

George Eustice: Yes, okay, thanks.

Q491 Neil Parish: The Pack Report found that headage payments were a more sensible way of targeting support in Less Favoured Areas than a per-hectare basis. Do you agree that within strict limits there is a role for coupled payments and targeting support in a particular kind of agriculture, specifically where that agriculture production can provide other public benefits? So it could be argued that a very limited amount of the budget spent, say, for argument's sake, on suckler cows in the uplands and Less Favoured Areas could offer a benefit not only for production of grassland but also probably from a tourism point of view—to make sure that those areas are scenic for those going to visit them.

James Paice: I entirely agree that livestock are an essential part of the uplands. The uplands are in their present landscape format because of livestock farming over hundreds if not thousands of years. The Government entirely supports the need for livestock on our hills. I have met with Brian Pack a couple of times to discuss various aspects of his proposals, but I do not think you have to go as far as actual headage payments in the way he is proposing. If you actually look at our current HLS scheme, which we touched on just now, and the Uplands Entry Level Stewardship scheme for that matter, there are grazing obligations within it.

Now we are, as a separate issue, looking at whether there are ways we should refine some of those grazing arrangements. But if you were to say Mr Upland Farmer is receiving a stewardship payment for public benefits, predominantly to do with the environment, that includes, in my view, maintaining that grazed landscape that has given it its character. That means you have to lay down some sort of criteria about the amount of stock that the farm carries, and it may be we do not have that quite right yet. I am the first to accept that. Maybe it needs to be more flexible. That is a way of guaranteeing you have the stock on the hill, but it would be classified as a decoupled payment. I think you can—I hesitate to use the phrase “have your cake and eat it”, but I think you can achieve the same aim, which is to keep the stock on the hills, with an environmental measure rather than a direct production support like a headage payment.

Q492 Neil Parish: Right, and so you are actually looking at the Higher Level Entry scheme to see if you can add part of that to it?

James Paice: We are reviewing all stewardship schemes to see whether they need to be altered in some way.

Neil Parish: You have the payments in Scotland for suckler cows.

James Paice: Yes you have.

Neil Parish: What is the difference between Scotland and the north of England, in some ways?

James Paice: As you know, back in 2005/06, after the last big reform of the CAP, it was a devolved issue, and countries—Scotland, England, Wales and Northern Ireland—could choose their own approaches.

Q493 Neil Parish: You mentioned George Lyon MEP and his position we know is closer to the

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Scottish position perhaps, but he described the position that Defra was taking as “unwinnable” in a European context. I have the argument here that the UK alliance may have around 75 votes in the Council and the Franco-Spanish alliance may have 87 votes, and then you have Poland and others that I suspect will row in more towards the Franco-Spanish perspective than they do ours. What is your view on the negotiations within the Council?

James Paice: Well Mr Parish, you are as experienced on the European front as I am in forming alliances with other Member States, and, as I said earlier, both the Secretary of State and I are actively involved in trying to form alliances with other Member States. I think it is terribly early days to start working out likely voting decisions in probably 18 months, if not longer, which is why we are working together with other countries to try to put together packages that we can agree to. As I said earlier, I do not believe it is going to come down to one group getting everything they want and another group getting nothing they want. It will be some sort of mass compromise, and as you rightly imply, there is the European Parliament aspect to it as well, where you not only have national groups but you have political party groups as well. I am not prepared at this moment to work out whereabouts they are all going to sit.

Neil Parish: Yes, because the trouble with Parliament is, and I have direct experience of that—

James Paice: Indeed.

Neil Parish:—is you have a huge vested interest in agriculture across the European Union, so they will take their country’s position, which you would expect them to do. Can I say that I very much welcome what you and the Secretary of State are doing in involving yourself early in the process, because one of the criticisms I had of the last Government was they did not involve themselves enough through talking to the other Member States. It is no good going there the last day and throwing your rattles out of the pram and saying we do not agree with all this, because the other Member States have spent perhaps years negotiating it. So I wish you well. I think it will be interesting how the votes stack up in the end.

James Paice: You will not be surprised that I agree with you. Thank you.

Q494 Mrs Glendon: In your response to the Commission’s public consultation, you called for “an objectively designed future allocation key for both Pillars.” Can you explain how this would work?

James Paice: If we take Pillar 1, which is the direct payment, it started on a historical basis, based on what farmers were doing in the reference years 2001 to 2003. But England and Germany—and I stress England not the UK—both chose to use the seven-year period of that programme to gradually shift from that historic reference to an area-based payment. Scotland, Wales, and Northern Ireland have stuck with the historical one, as have most other Member States. So we have the issue that we believe it should be distributed on an area-based payment.

The second angle of the Single Farm Payment is the level of it, and there is a massive variation. I am afraid I cannot quote off the top of my head the precise

figures, but the variation between the area payment that it would be for the highest country, which is Greece, and the lowest one, which I believe is Latvia—it is one of the Baltic states—is something like 10:1. It is almost like a tenfold variation. That is clearly unfair. The eastern new Member States all argue they want the same rate as the rest of Europe. I do not reasonably think that is achievable, but certainly we would support a move towards a closer approximation of levels of payment between the new Member States and the old Member States. So that is on Single Farm Payment, and it has to be done, we believe, on an area basis.

In terms of Pillar 2, it is a formula-based process, which is based, if I recall rightly, on spending on environmental measures back in the 1990s I think; it is not even as recent as 2001. Clearly that is historical and you cannot justify funding something in the middle of the 2010 to 2020 decade on something that was done 20 years earlier. Again, we believe there are fairer ways, and maybe an area-based system would be the best way for doing that. But there are other options that the Commission are looking at.

I would just add one other complicating point by way of information, if it is informative, which is that of course you then have to look at the totality of what any individual Member State gets. Some Member States are judging it that they want a fair share of Pillar 1, without accepting that that may have a knock-on consequence to what they get with Pillar 2. Are you actually looking at the totality of CAP receipts that a country gets, or are you looking at what it gets in each Pillar? The two may not be the same.

Q495 Mrs Glendon: So, a flat-rate per se is not feasible, but working towards the most equitable and most objective means possible?

James Paice: Yes. We are supportive. We are in a fortunate position in the UK that we are roughly in the middle, so to a degree what happens in this regard is going to have little impact on our farmers. But we certainly support the principle of narrowing considerably the tenfold gap that I referred to. The Germans have put forward one option and the Commission I think are working on another; there are various options as to how you can do that. But certainly we support the need for moving those payments closer together.

Q496 Mrs Glendon: The British Retail Consortium felt that UK farmers would be well placed to compete in markets for high quality and ethically sound products. What estimate have you made of the trends and volume of these markets in the future, and is it possible for most British farmers to move into high-end or niche products?

James Paice: I have not done any assessments or estimates in absolute terms of the prospects for the future. I agree with the overall theory that there is plenty of opportunity for UK farmers. Whether every UK farmer could move, or even English in my context, into niche products, I have serious doubts. There are some products where it is very difficult to generate a niche: grain and sugar beet—major crops—

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are obvious examples, and potatoes to a large extent, although some producers have managed to develop niche markets for some potatoes. So I am not sure it is possible, particularly for very large-scale producers, nor am I sure it is actually wise for the Government to be taking a view on it, because at the end of the day, a farmer is a businessman. He has to make his own judgment on what the right course of action for his business is.

Q497 Mrs Glendon: So it is not necessarily a key route to competitiveness?

James Paice: It is horses and courses. For some farmers, it is. There are farmers, relatively small dairy farmers, who have launched into ice creams or flavoured milks or something like that, who are doing very nicely out of it. Some have even gone back to the days of having their own milk round. These are all forms of niche markets and they are doing very nicely out of it. But whether a farmer with one of our bigger herds—1,000, 1,500 cows—would find it quite so easy, I am not so sure, and it is the same with the grain farmer. It is possible to supply all your grain if it is relatively small into, I don't know, an organic biscuit manufacturer, and have a niche market if you like. But if you are producing, as some farmers are doing, thousands of tonnes of grain, many thousands of tonnes of grain, there are fewer niche markets available.

Q498 Amber Rudd: Minister, one of the ways to increase yield and competitiveness amongst farmers is to build on new technology, new discoveries and new research. Do you think that the CAP payments should be directed more towards research in order to try to deliver what we have been discussing earlier, which is better, more competitive, high levels of food production?

James Paice: We certainly think that that should be one of the options for use of Pillar 2 money, yes. Very much so.

Q499 Neil Parish: Can I take you into places you probably do not want to go: biotechnology. Do you think that Europe in the long run is going to have to embrace much more of it, and are we engaging with science enough?

James Paice: As you rightly say Mr Parish, it is a controversial area. The Government's view is clearly that we have to be led by scientific advance. We take the view that, if you are referring to GM—although you are actually right to use the wider term of biotechnology, the controversial issue is GM—no GM product should be released, and we would not agree to it being released, unless it has been properly scientifically validated as safe for humans and safe for the environment. Once you overcome those hurdles, then obviously the issues of ensuring that there are proper crop segregation rules and rules regarding liability and things like that come into play. You have to judge each GM development on its merits, and you cannot take a blanket decision.

So we are cautiously optimistic. We take the view that you cannot just turn your back on science; biotechnology has a role to play in our future food supplies. It is not the panacea, it is not going to solve all our problems, but it has a role to play.

Neil Parish: A blight-resistant potato could be hugely beneficial in terms of not having to spray a potato as many times, and all those things. Provided it was fit for human consumption and people were prepared to eat it, it could have a huge economic benefit.

James Paice: Potentially I agree, but you have to prove that it is, as I say, safe for humans and the environment, and the only way you are sometimes going to do that is with a proper trial and some—

Neil Parish: And we are prepared to allow that are we?

Q500 Chair: I think we have been there and we had all sorts of problems. If I could wrap up, the last paragraph of your response dwelt on potential gains from greater rationalisation and efficiencies in delivery of some or all of the Structural and Cohesion Funds. We look forward obviously to the publication of the Macdonald Task Force. How much of an issue—you mentioned the level of the budget—do you think the reform of Structural and Cohesion Funds will be in actually reaching an agreement in this round of the CAP?

James Paice: Structural and Cohesion Funds are outside the CAP directly of course, so they are not my direct responsibility. I am not really sure I am in a position to give you a very substantive answer, Madam Chairman. Clearly they are very relevant in terms of particularly the newer Member States, the former eastern bloc countries, but in terms of precise information, I am afraid I will have to write to you on the subject because it is outside my remit.

Chair: No, that is fair enough.

Q501 Chair: We did take some evidence on the budget aspects when we were over in Brussels. The National Farmers' Union and the Tenant Farmers Association say that direct payments are essential income support to help them manage volatility and be able to invest in their business. Do you agree?

James Paice: Agree with it at the present time? Yes. But I do not believe that it should be a long-term, permanent arrangement.

Q502 Chair: Just finally, to be absolutely clear, do you agree with the Commission that there should be a greening of the CAP, be it either through Pillar 1 or Pillar 2?

James Paice: Categorically yes. I thought I had made that clear. We want to see the CAP have a very significant green element to it. But we are not yet persuaded that putting it into Pillar 1 necessarily adds value.

Chair: Minister, you have been incredibly patient and generous with your time. Thank you both, Mr Nesbit and Jim, for being with us, and for your contribution to our inquiry. Thank you very much indeed.

Written evidence

Written evidence submitted by The Royal Society for the Protection of Birds (RSPB)

1. The RSPB welcomes the opportunity to respond to the EFRA committee's enquiry into the European Commission's proposals for CAP reform after 2013.

EXECUTIVE SUMMARY

2. The current CAP reform round offers a clear opportunity to realign the policy with societal expectations and respond to a suite of environmental challenges.

3. The CAP must build on previous positive reforms to tackle challenges of sustainable land management, long term food-security and farm business competitiveness by evolving into a policy underpinned by a "public money for public goods" approach.

4. The European Commission proposals for reform contain some positive elements but still fail to present a clear vision for the future of the CAP.

OVERARCHING COMMENTS

5. The RSPB has a long history of involvement in CAP reform. We have been instrumental in the development of agri-environmental schemes, and Environmental Stewardship in particular, and making the case for a transfer of funds, and policy emphasis, from Pillar 1 to Pillar 2.

6. In run up to the current reform period, we have joined forces with a range of environmental and farming stakeholders to call for a shift to sustainable land management¹, set out principles for a new policy² and make specific proposals for the CAP after 2013³.

7. Recent CAP reforms have contained some positive elements, particularly the creation of a second pillar, decoupling of subsidies from production and cross compliance.

8. Many of these changes signalled a shift away from outdated support mechanisms, with decoupling in particular introduced as a transitional process. The destination urgently needs to be spelled out. Without a clear route map, farmers are poorly equipped to make the necessary business adjustments and are less likely to "buy-in" to the reform process.

9. Whilst there is room for simplifying all elements of the policy, both to reduce bureaucratic burden for landowners and to improve the policy's efficiency, there must be no erosion of principles which improve the accountability of the policy for citizens.

10. To meet future challenges, we propose that the CAP needs to help underpin global food security, enable farmers to run profitable and market-focussed business, propel a rapid transition towards more sustainable land management and reward the provision of environmental public goods where these are underprovided.

11. Direct payments are a wasteful and inefficient way of doing this—indeed, a recent study⁴ suggests the Single Payment Scheme is impeding moves in this direction. The SPS does not encourage farmers to take a long term view, it is not linked to public goods nor is it securing sustainable land management—and studies suggest it has little impact on food production. Therefore what is it for?

12. We want to see a phasing out of the current SPS system. This would provide an opportunity to temporarily target a proportion of CAP support toward measures which boost the competitiveness of farming in a non-environmentally damaging way eg improving farming's return from the food chain through added value products, savings through resource efficiency etc; along with the ongoing support to farming for environmental public goods.

13. Improved resources for Rural Development and a re-focussing of support towards environmental and climate change objectives, if implemented soundly, would go a significant way to addressing issues of resource degradation and biodiversity loss in Europe. A retargeting of support towards environmental objectives would also need to address the pressing issue of High Nature Value farming, which is in rapid decline in much of the EU, and the Natura 2000 network of protected sites, many of which depend of sensitive farming methods.

14. Well designed and funded environmental support schemes must form a key component of the CAP after 2013 and the success of agri-environment schemes in the UK needs to be built on in the future CAP. The vast majority of land in England is now in an agri-environment scheme, and by committing to provide public goods

¹ Beyond the Pillars: Wildlife and Countryside Link's policy perspective on the future of the CAP (2008)

² Proposals for the future CAP: a joint position from the European Landowners' Organization and BirdLife International (2009)

³ Proposal for a new EU Common Agricultural Policy (2010) BirdLife International, European Environmental Bureau, European Forum on Nature Conservation and Pastoralism, International Federation of Organic Agriculture Movements- EU Group and WWF—World Wide Fund for Nature.

⁴ Report for the European Parliament's Committee on Agriculture and Rural Development (2010) The Single Payment Scheme after 2013: New approach-New targets. IP/B/AGRI/IC/2009_038

in this way farmers can guarantee a basic level of income over five years, providing a degree of security against volatility without becoming dependent on income support.

THE COMMISSION OPTIONS FOR REFORM

15. At present, none of the options presented by the Commission provide a vision for the future of farming and land management in Europe or a clear set of reform objectives for the CAP.

16. Option 1 suggests little more than a further “Health Check” of the CAP and as such would fail to respond to societal expectations for reform or to address the suite of challenges facing the farming sector. The UK government should strive to ensure this limited reform option is rejected during forthcoming negotiations.

17. Option 2 contains some positive steps towards greening of the CAP, particularly the new and compulsory greening payment under Pillar 1, which is conditional on some potentially beneficial management approaches such as crop rotation and fallow land. However, despite some environmental improvements, the majority of payments and support structures proposed under Option 2 have dubious rationale. Four of the five direct payments proposed have no environmental dimension beyond cross compliance and the payments proposed for small farmers, marginal areas and coupled support could be implemented across the EU in ways which negatively impact the environment and UK competitiveness.

18. We believe that the Commission’s Option 3 for reform, which is explained in more detail in the Commission’s impact assessment document⁵, has considerable, but as yet untapped, potential to provide a clear, justifiable and sustainable vision for CAP reform. This could be achieved through a transitional phase out of the SPS systems with improved support for EU farming competitiveness and a “public money for public goods” approach underpinning all payments.

19. The current reform period offers a golden opportunity to reorient the CAP and clarify its objectives. If this is not grasped, not only will the opportunity to realign the policy with societal expectations be missed, the likely €200 billion in CAP payments to 2020 could also be wasted.

THE BALANCE BETWEEN PRODUCTIVITY, COMPETITIVENESS AND SUSTAINABILITY

20. At a recent address to the European Parliament⁶, Agriculture Commissioner Ciolos made it clear that the concept of agricultural competitiveness must be updated to end the “false conflict” with sustainability. Clear economic signals must be given to farmers to fully integrate the environment into their activities. These words are a positive indication that genuine greening of the CAP is being considered by the Commission as part of the Lisbon agenda.

21. Any CAP reform scenario that is not explicitly linked to environmental public good delivery and improved sustainability would not only represent a missed opportunity to tackle environmental degradation across the EU but could also threaten UK competitiveness by allowing Member States to target support at domestic sectors or re-couple support within their borders. This would run counter to the common aspect of the CAP, erode the level playing field for farmers, and could even produce negative consequences if intensive sectors are targeted for support.

22. Globally, EU agriculture needs to focus on competitive advantage in high value and added value products. The UK, as part of the EU, should further develop this competitive advantage, part of which is the appeal of products from systems with higher environmental standards eg organic, LEAF marque and Conservation Grade. The delivery of environmental public goods must be seen as a key part of UK agricultural competitiveness and not a burden or incidental by-product.

THE MOVE AWAY FROM THE HISTORIC TARGETING OF PAYMENTS

23. The distribution of the considerable CAP budget must be viewed objectively. We must move beyond the view of many Member States that “who gets what” is the most important issue. Instead, it is the issue of “who gets what for what” that the next CAP must address.

24. There is a clear case for policy intervention, through the CAP, to secure environmental delivery due to the market failure to reward many environmental public goods. The CAP must target support at the systems of farming which deliver high levels of environmental benefit (such as High Nature Value farming) and facilitate the uptake of more sustainable farming practices (including agri-environment schemes).

25. A 2009 report⁷ produced for the Land Use Policy Group estimated that £1–3 billion would be required each year to meet publicly defined environmental objectives through agri-environment schemes in the UK. This is considerably less than the current Pillar 2 allocation for the UK but comparable to the CAP allocation as a whole.

⁵ European Commission The reform of the CAP towards 2020: Consultation document for impact assessment

⁶ Réformer la Politique Agricole Commune, c’est faire un choix de Société. Discours à la Commission de l’Agriculture et du Développement rural du Parlement Européen Bruxelles, le 18 novembre 2010

⁷ CAO et al (2009) Estimating the Scale of Future Environmental Land Management Requirements for the UK. Report to the Land Use Policy Group. ADAS UK Ltd and Scottish Agricultural College.

THE ROLE AND VALUE OF CAP PAYMENTS IN ADDRESSING FUTURE FOOD SUPPLY CHALLENGES

26. The 2009 “Scenar 2020” study⁸ identified that in the absence of direct payments, food production in the EU would actually increase. There is no explicit food production link (perhaps unsurprising given the decoupling of payments as part of the 2003 CAP reforms) and therefore any argument that direct payments contribute to EU and global food security by underpinning farming is incorrect.

27. Food security is a critical issue but at core rests upon the long-term productive capability of EU farming through protection and enhancement of natural resources—a sentiment shared by a recent Institute for European Environmental Policy study⁹. This justifies a shift away from untargeted direct payments in the CAP to payments in return for environmental public good delivery.

28. A recent LUPG report¹⁰ highlights the “added-value” of a common EU policy to tackle environment issues and justifies reforming the CAP along such lines.

TIME-SCALE FOR REFORM

29. The RSPB is calling for fundamental CAP reform but we recognise there must be a sensible transition period for farmers. Unfortunately, the Commission document fails to articulate a transitional period as there is no clear picture of what the CAP will ultimately evolve into.

30. Farmers and land managers must have a clear direction of travel in order to make the necessary business adjustments and ensure sufficient “buy-in”.

31. There is an urgent need for more clarity and ambition from the Commission and for Defra to launch a renewed vision for CAP reform to energise the debate.

December 2010

Written evidence submitted by the Campaign to Protect Rural England (CPRE)

EXECUTIVE SUMMARY

CPRE would like to raise the following key points in relation to the inquiry:

- Competitiveness—CPRE strongly believes that our farming industry is an immensely valuable national asset, which makes strategic, technical, environmental and societal contributions to our wellbeing that go far beyond short term calculations of its economic contribution to national prosperity from food and commodity production.
- Food security and environmental sustainability—There is a particular challenge to ensure the Common Agricultural Policy (CAP) and rural development funding supports the maintenance of Europe’s cultural landscapes, both farmed and natural, which are subject to a range of agricultural and non-agricultural land use pressures.
- The European Commission’s proposed options—CPRE believes we need a reformed CAP that maintains, enhances and restores the character of our rural landscapes, wildlife habitats and cultural heritage, with a range of related public benefits clearly stated as objectives. The attendant public benefits of competent and responsible agriculture would be accommodated through the creation of a new and properly funded European Sustainable Land Management Policy. The aim of this would be to deliver a range of environmental public goods by supporting environmentally sustainable farming; encouraging and rewarding existing agricultural, horticultural and forestry practices that deliver environmental public goods as well as those that are currently under-valued and under-rewarded, including the protection of soil and water resources.

Competitiveness

1. CPRE recognises the need for the UK’s farming sector to be profitable. The reasons why some sectors are or are not profitable are highly complex and depend not just on changes to production methods or the effects of payments from the CAP but also on how the supply chain operates from the farm gate to the shop till.

2. In production terms, the focus of solutions to improving competitiveness has tended to be on restructuring and technological innovation, so it is unsurprising that the CAP seeks to facilitate these outcomes. This approach leads, however, to an assumption that the future of the industry lies in technologically assisted intensification and consolidation of production. Recent history suggests this could have negative consequences for our agricultural landscapes and habitats.

⁸ Nowicki et al (2009) Scenar 2020-II—Update of Analysis of Prospects in the Scenar 2020 Study—Contract No. 30–CE-0200286/00–21. European Commission, Directorate-General Agriculture and Rural Development, Brussels.

⁹ Cooper, T, Hart, K, and Baldock, D. (2009) The provision of public goods through agriculture in the European Union. Report prepared for DG Agriculture and Rural Development. Institute for European Environmental Policy, London

¹⁰ Tamsin Cooper, Håkon By and Matt Rayment (2010) Developing a More Comprehensive Rationale for EU Funding for the Environment. Paper prepared by IEEP for the Land Use Policy Group

3. New technological advances and innovation could undoubtedly lead to beneficial environmental outcomes, for example by reducing greenhouse gas emissions. However, CPRE believes the agricultural sector could equally benefit from competing in terms of food quality and environmentally sustainable production which could maintain and enhance landscape character and biodiversity. The problem is that the market does not provide or adequately reward the delivery of these public goods, so policy interventions in the form of agri-environment payments are required. This creates a situation where production and profit appear to be in conflict with the provision of environmental public goods. The next incarnation of the CAP should enable economic competitiveness and sustainability to work together to deliver complementary outcomes.

Food security

4. CPRE believes the issue of food security is often over-simplified and characterised solely as a need to increase the quantity of food produced to prevent a growing global population from starving. This is often portrayed as both a moral imperative and an economic opportunity for European farmers. This approach fails to give sufficient weight to a number of associated issues beyond providing adequate quantities of food, including diet and nutrition, food quality and safety and long term environmental sustainability.

5. The EU needs to consider to what extent food security should become part of future land management policies and, most importantly, how to ensure there is an appropriate balance between priorities for environmental protection and security of food supplies. The food price roller-coaster of recent years, and the scale of market opportunity presented to European farmers, should not be allowed to obscure the public benefits that arise from environmentally sustainable farming practices. Agri-environment schemes can help to reduce the impacts of volatile commodity markets on farmers by providing additional, guaranteed income streams over set periods of time.

Environment

6. CPRE is a signatory to Wildlife and Countryside Link's (Link) policy document, *Beyond the Pillars*¹¹. This calls for major reform of the CAP to evolve it into a European Sustainable Land Management Policy (ESLMP). This would reward farmers for providing a wide range of environmental public goods, including managing landscape and historic environment features and habitats. It would move away from the two pillar structure of the current CAP, effectively creating a more comprehensive Pillar II with a greatly increased level of funding. This increase would, we believe, be justified by the need to provide high quality environmental public goods, on a large scale, to the citizens of Europe.

7. One example of this is the fact that most of the landscapes, public access and habitats that we value require management which is intimately associated with the productive use of land. CPRE's joint research¹² with the National Farmers Union illustrates this point very clearly. We estimated that landscape management activity was worth around £412 million per year, beyond that directly stimulated or required through agri-environment schemes.

The European Commission's proposed options

8. CPRE has cautiously welcomed the European Commission's recently published communication. In simple terms the three options it sets out are for a status quo, a greening of Pillar I or a new policy predominantly focused on environmental outcomes. We were disappointed, however, that the role of agri-environment schemes was omitted from all of the options.

9. We welcome the inclusion of Option 3 which proposes a radical reform of the CAP, re-orientating it towards environmental outcomes along the lines of Link's proposal for a ESLMP. It appears, however, that this would be a policy with a much reduced level of funding for land management overall, and Link has stated clearly that the policy it is calling for would need to be adequately funded to ensure the delivery of a wide range of environmental public goods. There remains a need to conduct a comprehensive assessment of both the cost to farmers of managing our countryside and its wildlife, and the value of these public goods, environmentally, socially and economically.

10. CPRE also recognises that there is a need for additional, focused support to those farmers who are vital to maintaining particularly important habitats and landscapes. In this respect some aspects of the proposals set in out in Option 2 warrant further consideration and debate.

11. We also welcome the proposal in Option 2 (which we presume would also be included in Option 3) to introduce measures to encourage the storage of carbon in soils. This presents an opportunity to look at soil sustainability issues in a much wider context and to improve the state of many degraded soils in the UK and across Europe. It also chimes well with recommendations made by the recent Commission for Rural Communities inquiry into the future of the uplands¹³. This identified new opportunities to reward upland

¹¹ *Beyond the Pillars: Wildlife and Countryside Link's policy perspective on the future of the CAP* (2008)

¹² *Living Landscapes: hidden costs of managing the countryside* (2006)

¹³ *High ground, high potential—a future for England's upland communities*—(July 2010)

farmers for providing ecosystem services that are currently under-valued, including managing carbon rich peat soils.

December 2010

Written evidence submitted by the Tenant Farmers Association

INTRODUCTION

The Tenant Farmers Association welcomes the opportunity of providing written evidence to the Select Committee as part of its Inquiry into the impact of Common Agricultural Policy reform on UK agriculture. The TFA believes that this Inquiry is very timely given the publication by the European Commission of its Communication on the CAP towards 2020 published on the 18 November 2010. Earlier in the year the TFA set out its views on the Common Agricultural Policy as part of its 2020 Vision for Agriculture. It is pleasing that there is a great degree of resonance between the Commission's Communication and the issues set out in the TFA 2020 Vision report. We attach, as an annex to this evidence, the relevant sections of our 2020 Vision document for the benefit of the Select Committee. However, in our main evidence below we seek to answer the questions posed by the Select Committee in its announcement for the Inquiry.

1. How will the Commission's proposals affect the ability of UK agriculture to be competitive in a global market?

1.1 This is a complex and multifaceted question. However, from the TFA's perspective there are three key issues to consider. Firstly, there is the competitiveness of domestic agriculture within its supply chain, secondly, the competitiveness of domestic agriculture globally and thirdly the ability for agriculture to deal with volatility both in input and output markets. These issues are explored in more detail below.

1.2 The European Commission's Communication on CAP reform recognises the relatively weak position of agricultural producers in the supply chain. The Commission recognises that agricultural producers have very little power within the supply chain to negotiate input or output prices given the concentration that exists in input supply markets, processing and retailing. The Commission then correctly identifies this as a strong justification for maintaining direct support to agricultural producers through Pillar 1. There is also a recognition that there may need to be some form of regulatory intervention in supply chains to ensure that producers are not unfairly treated in their relationships with processors and retailers. We recognise that the UK Government is also considering introducing a grocery supply chain code of practice adjudicator. The TFA believes that the introduction of such a function is long overdue and whilst it will not in itself solve all the supply chain problems, it will be of significant benefit.

1.3 Turning to the competitiveness of domestic agriculture globally, again the Commission document recognises that domestic producers are not always compensated for the extra costs involved in producing food to high animal welfare and environmental standards. This is due to the competition experienced by domestic producers from third country exports produced to lower standards but at a cheaper price. Once again, the Commission rightly identifies that direct support through Pillar 1 must continue in order to ensure that producers are properly recompensed for the cost of producing to higher standards since the market is unable to deliver a fair return.

1.4 Finally, agricultural producers are subject to a very high degree of volatility in both input and output markets. Given that production decisions need to be made far in advance of harvest or slaughter this volatility can lead to a boom/bust situation. The TFA is aware of many domestic producers attempting to manage this volatility through use of futures contracts and unfortunately there are many who in so doing have been disadvantaged either because they have locked into a price which turns out to be much lower than the market price at harvest or they experience yield or quality issues at the point of supply which forces them to fulfil their contracts by purchasing the product on the spot market.

1.5 Therefore, the TFA welcomes the Commission's intention to look at a "risk management toolkit" to consider how volatility can be better managed. Clearly we await the detail of what will be proposed but we envisage it including some form of insurance facility.

1.6 In summary then it is the TFA's view that in order for domestic agriculture to remain competitive globally, it continues to need direct support under Pillar 1. Removal of this support will inevitably lead to a major reduction in domestic production. We are, however, concerned that the Commission is considering how Pillar 1 could be made "greener". The TFA believes that with the extent of cross compliance conditions imposed on farmers within the UK context that there is no scope for further greening of Pillar 1. Experience has shown elsewhere that if too much conditionality or complexity is added into a scheme then uptake suffers. Uplands ELS in England and Glastir in Wales are cases in point.

2. Do the proposals ensure fair competition for British agricultural products within the European Union?

2.1 The TFA had been concerned prior to the publication of the Commission's Communication that we would see a greater extent of renationalisation of aspects of the CAP. The TFA believes that such renationalisation would not be in the best interests of UK agricultural producers. We have seen already from

the last reform of the CAP in 2003 that there have been differential levels of modulation, differential levels of decoupling and different priorities between Member States using Pillar 2. The TFA recognises that there will need to be some flexibility for individual Member States to manage the CAP according to national interests but the TFA believes that the competitive position of UK agriculture within the context of a European agricultural policy can only be assured where there are strong central rules which apply to all Member States.

2.2 However, a more significant concern for the TFA is the extent to which support accrues to owners of land as opposed to active farmers. A central plank of the Common Agricultural Policy (CAP) over its 50 year history has been to ensure a fair standard of living for “persons engaged in agriculture”. This it did quite successfully until probably the mid-1980s when a raft of measures were introduced to restrict levels of support and to direct attention towards what we, in today’s parlance, would call “public goods”. Since that time the performance of the CAP in delivering a fair standard of living for farmers has been more variable. A major contributing factor has been the extent to which the benefit of support has accrued to landowners rather than active farmers.

2.3 Therefore, it is pleasing to see the emphasis being given in the European Commission Communication to ensuring that support is better targeted to “active farmers only”. The TFA welcomes the intention to tighten these rules at an EU level and we would define the active farmer as the person in day to day management control of the land and who is taking the entrepreneurial or business risk from farming it.

2.4 It is a concern for tenants that CAP payments have become increasingly capitalised into land values through rent and more recently through use of short term tenancy agreements which have allowed landowners to acquire the direct benefit of the Single Payment Scheme (SPS). These issues must be addressed and, as a basic rule, landlords must be prevented from using clauses in tenancy agreements which are coming to an end to claim ownership of SPS entitlements whilst paying little or no compensation in comparison to their value to the tenants concerned. In addition, landlords should be prevented from accessing the SPS by passing on scheme conditions through contracts of tenancy having only ensured that they have the necessary land at their disposal on the required day. The TFA believes that this is contrary to both the spirit and the principles of the CAP and its legitimate emphasis on “active farmers”.

2.5 We also need to address those situations where landowners actively farm in hand only a small proportion of their land holding and rent the remainder out. Under current rules these landlords are able to acquire and control SPS entitlements in quantities which far exceed the area of land they are actively farming. They are then able to capitalise on SPS entitlements through contractual clauses in tenancy agreements which require tenants to pass the benefit of any SPS claims to the landlord.

2.6 The development of agri-environment and rural development schemes under the CAP’s second Pillar is also providing an unfair opportunity for landowners to enter those schemes even where the land is being farmed by a tenant. This has been possible through the concept of “management control” which, to a greater extent than the SPS, has allowed landlord’s to participate by actively permitting them to pass scheme conditions to their tenants through clauses in tenancy agreements. As with SPS, only active farmers should be able to participate in such schemes.

3. Will the proposals achieve the correct balance between productivity and sustainability?

3.1 In the discussion about provision of public goods, the TFA has always been concerned that food security is not recognised as a legitimate component of the basket of public goods. As we see the world population increasing, a fundamental part of sustainability must be to ensure that there is sufficient food in terms of both quantity and quality to feed that increased population. The TFA does not believe that we can leave this to the market alone and that measures do need to be put in place which have food security as its central objective. There is a real danger that in developing the concept of ‘eco-system services’ we overegg the pudding with environmental measures without properly balancing the needs of food security.

3.2 It is imperative that we find the right balance between food and environmental security. In that respect we are pleased to see the emphasis given to food security in the European Commission’s Communication.

4. Do the proposals place the UK in a good position to help meet future food supply challenges?

4.1 Inevitably the extent to which the reforms will leave the UK in a good position to contribute to food security will depend on the detail of the proposals. We are not expecting legislative proposals until 2011 with a view to having a reform in place by 01 January 2014. We are encouraged that the Commission document makes the right noises with regard to food security issues. It is also important to bear in mind that it is not just about quantity of food but quality.

4.2 There are a number of areas which we believe need some specific help including uplands, management of volatility, infrastructural and investment needs (particularly where required for meeting wider environmental concerns), protection from unfair competition from cheaper imports of poor quality food, improving the farming ladder and ensuring more flexible rules on EU state aids.

5. *Will the proposals redress the imbalance in support to different sectors created by the historic basis of payment?*

5.1 We do not share the premise of the question that the historic system led to an imbalance in support. What has caused an imbalance in support is the manner in which the different UK authorities have implemented the Single Payment Scheme. In particular, we have been concerned that in England 40,000 new applicants were created by the decision to implement the SPS through a dynamic hybrid model. This increased cost of processing to the Rural Payments Agency and created a whole new category of individuals entitled to support who, in our view, should not have had that access.

5.2 There are also the landlord/tenant concerns that we have referred to above which have created imbalances and need to be corrected in the next reform.

6. *What aspects of the proposals should be made a common policy and which are best left to Member States?*

6.1 The TFA has no further comments to add to those already given in respect of the second question.

7. *Can the proposals be implemented simply and cost effectively within a short timescale?*

7.1 It is certainly the case that the process of reform will be made more complex by the inclusion, on this occasion, of the European Parliament. Previously, although the European Parliament had to be consulted, the Council of Ministers and Commission did not have to take into consideration any of the proposals it made. Now, with the Lisbon Treaty in place, there is full co-decision with the European Parliament and therefore this could lead to a protracted negotiation on this reform. It is hoped that the various institutions are able to come to an early arrangement as to how the negotiation process is to be conducted to avoid unnecessary delays.

7.2 Clearly, all institutions will have an eye to how the reform will be implemented across a European Union of now 27 Member States and possibly rising to as many as 35 over the course of the next reform period.

3 December 2010

Annex

SECTION 7 OF THE TFA'S 2020 VISION FOR AGRICULTURE FROM THE PERSPECTIVE OF THE TENANTED SECTOR OF AGRICULTURE

2020 VISION FOR THE COMMON AGRICULTURAL POLICY

By 2020 the Common Agricultural Policy should retain a focus for ensuring that it is supporting the livelihoods of working farmers whilst providing a framework for food and environmental security.

7.1 The TFA believes that the fundamental justification for any agricultural policy which supports primary producers should be to correct apparent market failures. In this respect the TFA does not believe that the debate on agricultural policy can be starkly defined on the basis of CAP or no CAP. The issues are far more complex than that. The TFA believes, with all its failings, that the CAP is essentially attempting to address market failures. The question ought to be how the CAP should change to adequately address those failures rather than taking the line that the CAP should be abolished because of its inefficiencies.

7.2 The TFA believes that there are five principal areas of market failure that any agricultural policy should seek to address:

- As economies grow and individuals become more prosperous, they will tend to spend a diminishing proportion of their disposable income on food. This means that those who are responsible for producing food (ie farmers) will see a decreasing proportion of national income spent on the products which they make. This is why farmers as a group find it difficult to reap the benefits of economic growth enjoyed by others in society. As incomes rise consumers are also noted to trade up to consume more processed, pre prepared and restaurant food where the value added goes to parties beyond the farm gate.
- The structure of food marketing, particularly in the UK, has become such that producers face an unfair and wholly unbalanced platform upon which to do business with processors and retailers. For example, in the sugar sector there is one, single, monopoly processor in the UK which has, in the past, used its monopoly position to the disadvantage of sugar growers throughout the whole of England. In the milk sector, there are only a handful of processors and a handful of large retailers purchasing milk from those processors. Evidence produced by the Dairy Co¹⁴ shows that both processors and retailers have managed to maintain or increase their margins over recent years while producers have seen reductions in their margins. Across the whole range of agricultural products, producers face a very small number of large, retail outlets. This unbalanced structure leaves most producers in a very vulnerable position and even with the introduction of a food industry ombudsman these problems are likely to carry on for some time into the future.

¹⁴ Dairy Supply Chain Margins 2007, Dairy Co.

- The market cannot deal effectively with issues of long-term food security. The UK is already in a position of only being able to satisfy 70% of its temperate food needs from domestic sources. There has never been any indication provided by previous Governments as to when we should begin to get worried about the level of food security nationally. The TFA is concerned that the current structure of food marketing takes too much of a short-term approach to this issue and feels that there needs to be a more adequate expression of the Government policy towards food security in the long term.
- It is inherently difficult for the market to factor in increased animal welfare and environmental benefits into the pricing structure for food. UK farmers, as noted above, are facing a large degree of regulation in these areas and they are unable to pass the costs of this up the food chain. Many farmers are working hard to meet environmental and animal welfare standards and yet they have to compete for retail space with producers from elsewhere on the globe who often do not have to meet the same standards.
- Connected with the fourth point above, there is a general lack of awareness amongst consumers about the differences in quality of the products which they are purchasing when comparing UK sourced and internationally sourced products. Whilst they might see beef from Ireland, Brazil or Argentina as beef with a different label, it is the case that products from those countries are not perfect substitutes because they have been grown under different conditions and different regulations. More effort needs to be put into making sure that consumers are aware of these differences when purchasing their food.

7.3 The TFA offers the following seven principles for future reform of the CAP.

Direct payments through Pillar 1 must continue to form the principal basis of support through the CAP

Direct payments through Pillar 1 continue to be essential to ensure that farmers receive a fair standard of living. It is clear that the marketplace is unable to deliver sufficient profit to the farming community in order to provide for sufficient drawings and reinvestment. Whilst the introduction of a food industry ombudsman in the UK and potentially across the EU will assist, it cannot be seen as a “silver bullet”. Recent history has shown clearly that there is a built-in resistance to food price inflation to the extent that it is impossible to ever see a situation where prices in the market place will be sufficient to provide an adequate, sustainable return to primary producers.

The support available through Pillar 1 also recognizes the higher environmental and animal welfare standards to which food is produced within the EU in comparison to those countries outside the EU. These come at a cost to the farming industry. We cannot expect to have these standards maintained and at the same time withdraw the support available through Pillar 1. The extra costs faced by the domestic, farming industry are not recoverable from the market place and therefore must be recoverable through the public purse

Measures must be put in place to ensure that support payments do not become capitalised into land values

A major concern for the tenanted sector is the extent to which support payments available through Pillar 1 are becoming capitalised into land values through rent. It is also of concern that land owners, even where they have tenant farmers, are increasingly able to access funding through Pillar 1 by passing on scheme conditions through contracts of tenancy. We do not believe that this is in the spirit of the CAP nor is it in keeping with the principles of the CAP to provide support to working farmers.

The TFA believes that European rules should make it clear that support payments through Pillar one can only be paid to active farmers. Whilst these rules exist to some extent they are open to significant abuse particularly where large landowners actively farm a small proportion of their land holding in hand and rent the remainder out. In this way they are able to acquire and control entitlements over a larger area of land than they are actively farming. Support payments should not be available to individuals owning land which is being farmed by another individual either as a result of direct claims or through contractual clauses in tenancy agreements requiring tenants to forgo payments which are reserved and claimed by the landlord. Rules must also be put in place to prevent landlords from using clauses in tenancy agreements to claim ownership of single payment scheme (or equivalent) entitlements at the end of the tenant’s period of occupation.

Rates of modulation should be uniform across the European Union

The TFA is concerned that farmers in other Member States have a competitive advantage in comparison to farmers in the UK given that they face significantly lower levels of modulation. The TFA appreciates that this is as a result of the UK’s low budget share of funding for agri-environment/Pillar two schemes. However, it is unfair that there should be differing levels of modulation across the EU and they should be standardised at one rate so that there is no competitive distortion between Member States.

All Member States should be required to have the same level of decoupling

As with rates of modulation, it is unfair that some Member States of the European Union are allowed to continue to provide direct, production related support in certain sectors whereas in other Member States, like

the UK, the support has been decoupled. This provides an unfair competitive advantage for producers in those Member States continuing to provide coupled support and must be brought to an end at the next reform.

Domestic producers should be protected from imports from non-EU countries using lower environmental and animal welfare standards

It is wrong that domestic producers should be required to farm to high animal welfare and environmental standards when imports from other countries are allowed access to the domestic market even though they are produced with lower standards. It is of significant concern that domestic producers are priced out of the market by lower quality products and as a result we simply move to overseas the environmental and animal welfare practices which would not be tolerated at home. We must be allowed to protect our high standards through the use of trade restrictions to block products produced using lower standards.

The EU should argue for globally recognised standards for production of food on the basis of health, welfare and environment. These should be the standards by which every country should be required to produce and those standards need to be audited at national level. Where countries are unable to reach those globally agreed standards, other nations should have the ability to restrict trade from those nations. Once those international standards have been achieved, if the EU or national governments wish to apply higher standards domestically, then producers should have access to direct funding from the state to help them meet those higher standards.

Market management instruments should be introduced to assist the industry in managing volatility

A consequence of the move away from coupled support has been a major increase in the volatility of returns to primary producers. The TFA is concerned that the considerable increase in volatility is having a negative impact on our long term food security. Despite its many shortcomings, the Common Agricultural Policy of the past did at least provide a degree of domestic stability to producers which we are now seeing reverse as the market protection the CAP afforded is removed. Whilst the volatility that is now being experienced is leading to the development of ideas for new hedge funds and futures markets, the TFA does not believe that this is a stable framework within which primary producers and their landlords can be expected to invest. The TFA believes that policy solutions need to be developed to minimise the impact of volatility on long term decision making.

The TFA believes that the CAP should create a risk management system which provides an element of insurance against both commodity and input price shocks to smooth out the peaks and troughs in both. We believe that this could be delivered through Pillar 1.

Measures should be put in place to protect the access of tenant farmers into Pillar 2 schemes

The TFA has become increasingly concerned about the extent to which land owners have been able to access agri-environment schemes even where they have tenant farmers farming their land. The rules on “management control” allow land owners to pass on scheme conditions through contracts of tenancy whilst taking the full benefit of the scheme themselves. As with access to Pillar 1 funding, we do not believe that this is in the spirit of the schemes created nor in keeping with the principles of the CAP which are aimed at providing compensatory payments to working farmers for the income foregone in participating in Pillar 2 schemes. These issues must be addressed in any future CAP reform through further European rules to protect the position of tenant farmers. The EU must ensure through an adequate audit trail that the intended beneficiaries of its policies are actually benefiting as opposed to the benefit being siphoned off by others.

Written evidence submitted by Country Land and Business Association (CLA)

CLA GENERAL VIEW OF THE REFORM PROPOSALS

1. The CLA's 35,000 members in England and Wales are all directly or indirectly affected by the Common Agricultural Policy. We have been heavily involved in the debates over the last two years leading to the publication of this Communication. As the paper was only published on 18 November we have not been able to consult our members so these comments are provisional.

2. The CLA's public reaction to the document has been to say that is broadly on the right tracks. The paper suggests three rather sketchily explained options: (i) some adjustment and more equity; (ii) major overhaul of the policy and (iii) far reaching reform to move away from income support and market measures. It seems clear to us that the right option is the middle one and indeed this is the only one on which any ideas are explored by the Commission. The status quo in option 1 does not respond to the real reform pressures, and option 3, what has been describes as the “British/Swedish” vision of eliminating Pillar 1, has plainly commanded no general support despite being on offer for five years.

3. The main indication of the direction of Commission thinking is in the section entitled future instruments. The Commission is adamant that the CAP must retain the two pillar structure but we have suggested not being dogmatic about the character and purpose of the two pillars or talking about good and bad Pillars.

4. A key part of Commission thinking is that the new CAP must do more for public goods, and furthermore that this should be focussed in the next reform by an overhaul of Pillar 1. They are not proposing further shift of resources to Pillar 2. There is no suggestion of more modulation—compulsory or voluntary. This marks a significant change in direction to the strategy since 1999. Second the paper seems to be suggesting that the “targeting” in Pillar 1 should have two components. The first a general approach across the whole territory (perhaps akin to English entry level stewardship, or the Austrian base level of stewardship), and the other is support for farming in what we currently call the Less Favoured Areas.

5. These broad ideas were more or less exactly the approach suggested to the Commission in the CLA response in July through our European organisation. So we naturally applaud that this is the Commission’s suggested direction.

6. This said, the paper is very light on details and there are many very important points with which we have serious difficulty. These concern: payment ceilings, any narrowly defined concept of active farmers; the balance between the proposed new components of the single payment; the obsession with annual payments for multi-annual commitments in Pillar 1; the treatment of LFAs; the lack of detail about any redistribution of funds within and between the pillars and the fate of modulation, and the scope for distorting competition by remaining coupled payments. We also point out that our support for the broad direction of reform and commitments to providing more public eco-system services is conditional on the appropriate resources being available to cover the real costs of their delivery.

TURNING TO THE QUESTIONS POSED

Impact on UK’s agriculture’s capacity for being internationally competitive?

7. The main CAP measures helping competitiveness are in the current axis 1 of pillar 2, there are no new measures spelled out in the document. So the proposals are broadly neutral in this regard. It is of course of concern to farmers that if they are asked to provide non-market environmental or indeed ‘social’ services in addition to being competitive producers of food, fibre and energy, then they must be properly paid for such services or this could indeed impede their international competitiveness in agricultural products. But also see paragraph 10 below.

Do the proposals ensure fair competition within the single market?

8. They have to. This is imperative and it is the Commission’s job to ensure that fair competition in the Single Market is maintained. This is one reason why it is right to consider putting the broad-application, basic, stewardship programme into Pillar 1. This ensures it has common rules across the EU as proposed in the mandatory Greening component. But of course the more the CAP is involved in the complex business of paying for environmental co-products of agricultural production the more complex this task inevitably becomes. This is why it is vital that there are common programmes and standards applied within a **common** agricultural policy. Inevitably farmers in each country will always suspect that EU rules are being more rigorously applied in their own territory than in other Member States.

Will the proposals achieve the right balance between productivity and sustainability?

9. There is no structural reason to suggest these ideas will prevent this right balance being struck but there is plenty of scope for the negotiation process to push too far in one or other direction. The big underlying proposition in this reform is that the current balance in the CAP is insufficiently weighted in the direction of environment sustainability. However, we must remember that agricultural produce are highly tradable and many other big agricultural producing and exporting regions are seemingly not as concerned with the sustainability agenda as the EU. There is a very real danger that we could overload our producers, impeding their economic competitiveness and thus sustainability. Again it gets back to the appropriate resources for delivering the higher environmental services mandated. The resource question lies outside the CAP reform in the EU Budget debate. Our fear is that the UK will set extremely high ambitions and expect them to be delivered from an unreasonably low budget, which will merely export the unsustainable food production somewhere else.

Will the proposals redress the imbalance in support to different sectors created by historic supports?

10. The difficulty in answering this question is that there is no strong consensus about what the ideal balance of support should be. There will be disagreements about the distribution of supports as between the crop and livestock sectors; between the uplands and lowlands; between paying for environmental services and agricultural production. Also the proposals are encouraging further discussion about small versus large farms, and of course the “equity” of the distribution between member states and, by extension, between regions within member states. As a member organisation with members crossing all these divides it is very difficult to be definitive. There is no doubt that these distributional discussions will be at the heart of the discussions of this reform. There will inevitably be losers and gainers from the reforms; that is the nature of redistribution and so differences in view about whether imbalances have been redressed.

What aspects of the proposals should be common policy and which left to the Member States?

11. The CLA considers that all aspect of the new proposals in this document must be part of a common policy because repatriation of measures will lead to market distortions. Note that there is no contradiction between this statement and the present feature of Pillar 2 that the balance of measures adopted from menus of options are selected by regions and member states and adapted to their conditions. The CAP has long developed the capacity to create common frameworks within which local requirements can be fitted.

Can the proposals be implemented simply and cost-effectively within a short time scale?

12. They have to be. There is no choice in this. Note that what the CAP is seeking to do is not simple. It is perhaps misguided to elevate simplicity to be a top-level objective. The present Single Payment System at its heart was a simple replacement for a bewildering battery of commodity price supports. The core of new proposals is to better target these payments referring to sustainability. Sustainability is a subtle and complex mix of economic, environmental and social objectives. The environment itself contains some really complex interactions between biodiversity, landscape, heritage, water and soil protection and climate stabilisation. To expect this to be simple is to create false expectations. Regarding timeliness, it is vital that any new legislative proposals are agreed by the end of 2012 because we have learned from bitter experience that the Defra needs plenty of time for the administrative and IT preparations to implement changed regulations.

December 2010

Supplementary written evidence submitted by the Country Land and Business Association (CLA)

1. *Your evidence expresses concerns about payment ceilings. How would you change the negative public perception about landowners who receive very large CAP payouts?*

By explaining and demonstrating with examples how large land managers contribute enormously to UK, EU and global food security and how they also provide large scale environmental management. We can cite the miles of hedgerows, hectares of copses, ponds, field margins and corners devoted to biodiversity and so on for large farms and estates.

2. *Could you expand your statement that the existing EU regulations are sufficient to prevent non-agricultural land, eg golf courses, from receiving subsidies—do you mean as applied in the UK, or across all Member States? How does this sit with the EU Court of Auditors (2009) recommendation?*

We attach a note on Active Farmers we are in the course of preparing—that cites the EU regulation and the UK implementing rules which, in our view, very adequately prevent patently non-agricultural land being claimed for single payment. The UK rules based on the EU regulation could in principle be applied everywhere.

Our understanding is that one of the kinds of possible abuse could involve tenants who have stacked historical entitlements onto small areas they own. They may have given up their (usually) livestock business on the original rented land on which their historic claims were based, and may have effectively given up farming. This leaves the formerly grazed land devoid of support payments. The move away from historic entitlements will put a stop to this, so no change in definition of active farmer are necessary.

Another example of possible abuse of the system is from the millions of landowners who have had their land resituated to them in the land privatisation post- communism, but who are living in cities and not farming.

We suggest none of these sorts of cases are likely to apply in England where we are moving to regional payments. In England there has been reference to situations where the landowner makes the Single Payment Claim, yet he is not the owner of the animals grazing his land. This certainly can be the case where short term grazing licensees or people with commoners grazing rights are the keepers of the animals. But in such cases the graziers have the rights *solely* to graze. The roads, fences, drainage, water provision, hedge maintenance, heather burning and other grazing management, and all other environmental management can only be carried out by the active land manager, the owner. Therefore it is perfectly legitimate in principle that he can be the payment claimant. This is why it is important to have the full details of the rights and responsibilities of all parties before jumping to conclusions.

Another situation where some discussion might arise is where there is a contract farming arrangement in place. This is now extremely common in British arable farming. Here the tractor work, cultivations, planting and harvesting may be done by the contractor (who may well be a neighbouring farmer who owns or rents his own land), but the owner of the farm in question is the SPS claimant. This is perfectly sensible specialisation and division of labour involving each party deciding what aspect of his assets and management skills and interests to deploy in the business. The owner/claimant is actively involved in the management and risk taking in the farming business and he also will generally be ensuring all the farming infrastructure; roads, drains, fences and other needed plant and equipment are in place. He also will be taking care of the environmental land management. Note that the division of the public receipts will then be “shared”, as they should be in a market economy, as a result of market negotiations between the parties according to the contributions and risks borne by each. There is absolutely no need or utility in EU regulations getting involved in such arrangements.

3. *You referred to EU level research on the funding needed to support environmental schemes, could you supply the reference and/or report?*

The three main pieces of research we are aware of are detailed below.

- (i) An internal Defra project conducted in 2009–10, as part of their Pillar 2 planning, to think through what environmental services we want from UK agriculture, what sort of policy measures would be optimally deployed to deliver such services and the overall cost of delivery. To our knowledge this enlightened and innovative piece of research to which we gave prominent reference (with Defra blessing) in our paper “Public Goods from Private Land”, was never published but they may be able to tell you about it.
- (ii) A paper, *Estimating the scale of future environmental and land management for the UK*, conducted by ADAS and SAC for the Land Use Policy Group (LUPG) in December 2009 examines the costs of farmers providing the desired environmental services in the UK. The conclusions of this research were that the costs were approximately three times greater than the current UK expenditure on delivering public goods through environment schemes, ie about £1.98 billion compared to about £700 million on agri-environment.
- (iii) We have informally heard that there is a currently a DG Environment project which has similar objectives as the LUPG study but for the EU27. There are no results available from this study which we understand is still underway.

This sort of research is of course very difficult and has to be based on difficult assumptions. But nevertheless we strongly believe that rational decision making should indeed start from the goals society wants; estimates of what it might cost to deliver such goals and then decisions about budgets allocated to different tasks.

4. *Do you think the sort of compulsory environmental activities proposed by the Commission, such as crop rotation or set-aside, will deliver real and demonstrable environmental benefits?*

Across the EU27, certainly they would provide significant and worthwhile environmental benefits. We are in no doubt about this. There are farming systems in operation in a number of parts of the EU where these basic practices are not used so the mechanisms listed under the Mandatory Greening (MG) could improve environmental performance.

Our point is that some Member States—including the UK—especially England—already have well developed entry level stewardship schemes which already do most of these things and are thus already seeing their benefit. Indeed we would claim ELS goes well beyond what is proposed for mandatory greening, especially if the Campaign for the farmed Environment is then added. We would not want MG therefore to cause difficulties for precisely the countries (UK, Austria and Sweden for example) who are already doing the right thing to have the greatest difficulty. Our view is that this greening is best done in voluntary, multi-annual contractual arrangements and not as the Communications speaks, of mandatory, annual non-contractual arrangements. There is much to play for here to protect UK interests, but we don’t quarrel with the Commission’s aims.

5. *Your evidence refers to the role of the CAP in paying for the provision of public goods, specifically environmental, by land management. By extension, where do you draw the line between land managers that are not necessarily farming, and other activities that use land and may provide some public goods as well?*

We have tried to address this in our answer above on active farmers. In essence we should let the land manager decide what mix of food production and environmental services he will supply. The market determines the price of food and collectively through the processes of determining the CAP budget and payment rates for environmental public goods the “public” decides how much to incentivise the delivery of the public goods. This is fundamentally no different than the way we decide how much public health or educational services we are going to deliver, except here the environmental public goods are competing for land use and managerial time with food production.

Our point is that there will be some farmers who almost exclusively produce food (eg on the very best land or in protected crops) and at the other extreme there will be environmental land managers who almost exclusively provide environmental services (but just have some animals to provide the grazing to maintain grassland swards and the treading function—eg to keep bracken down). Most “farmers” lie between these extremes depending on their conditions and mix of land types. The policy and payments can in principle deal with this whole range. But we must not in a decoupled payment system try to dictate the mix to the person who knows best and who is taking the business risks, the land manager.

6. *Do you think that the “food security” (referring to quantity and quality) needs of European citizens are better served through increasing EU production, or enhancing trade networks?*

Both, there is no either/or here. European contribution to global food security demands we protect and develop our food production capacity (not our current production. The latter is decided by the commercial decisions of farmers based on current costs and returns). Our production capacity is based on keeping our agricultural land in good agricultural and environmental conditions (a very intelligent phrase in our view), and

keeping our farming infrastructure in good order, plus our knowledge and skills base and the flow of Research and Development. But open trade networks are also an intelligent global food security mechanism. Climate induced food shortages will generally not all happen everywhere in the world at the same time so the more developed is the infrastructure for trade (roads, ports, handling facilities, shipping, insurance) then the faster the global system can react to shortage wherever it occurs.

Of course anything which inhibits trade slows down this response and makes it harder for markets to ration out the available supplies. Note that whereas twenty years ago some of the biggest inhibitions to trade were pernicious import restrictions like variable import levies (long since abolished in the EU), and state trading systems, now the biggest source of trade instability is the use of export restrictions—and potentially land grabs which try to take trade outside conventional international trading systems.

7. What criteria could be used to allocate national ceilings, both for pillar 1 and pillar 2, more objectively between Member States?

Because the criteria have to be based on robust data which is available for all 27 Member States we think that the obvious criteria are based on agricultural area (utilised agricultural land), a proxy indicator of costs of living or wage levels like GDP per head, and perhaps if the policy goal is increasingly emphasising the public goods the environmentally designated areas or areas engaged in environment schemes. If greening is to apply more to Pillar 1 in future (it is already in there, and is of course the main part of axis 2 of Pillar 2), then there is little point in using different criteria for the two pillars. Indeed we urge a very pragmatic approach to these structures. They should serve policy goals not inhibit them.

January 2011

Further supplementary written evidence submitted by the Country Land and Business Association (CLA)

CLA NOTE ON THE ACTIVE FARMER

DOCUMENT IN PROCESS

1. The CLA is far from convinced that a new definition of active farmer is needed to specify eligibility to claim CAP payments under the Single Payment Scheme (SPS). The current SPS regulation 1782 (2003) has the following definitions in Article 2:

- (a) a “farmer” means a natural or legal person, or a group of natural or legal persons, whatever legal status is granted to the group and its members by national law, whose holding is situated within Community territory, as referred to in Article 299 of the Treaty, and who exercises an agricultural activity,
- (b) “holding” means all the production units managed by a farmer situated within the territory of the same Member State, and
- (c) “agricultural activity” means the production, rearing or growing of agricultural products including harvesting, milking, breeding animals and keeping animals for farming purposes, or maintaining the land in good agricultural and environmental condition as established under Article 5.

2. It is already the case that there are stringent rules on the definition of eligible agricultural land which are designed to prevent spurious claims on land that is patently neither providing agricultural produce nor environmental services. Thus airfields, golf courses, sports fields, and land devoted to non-agricultural activities (eg boot fairs, shows, car parking) for more than 28 days per annum are all already excluded in UK implementation of the regulation.¹⁵ If this is not the case throughout the EU, then it could, and should, be made part of the EU regulation. Also the utilisation of the land is already tightly monitored as all land parcels used to activate claims have to be specified, mapped, and a land use code offered. In England there are 37 such land use codes—ie it is already defined and controlled in great detail.

3. Any further narrowing of the definition of the activities of the applicant or of the land use will demand further questions on the application forms and further control and inspection procedures to determine *each individual case*. This is strongly to be resisted. The bureaucracy surrounding the Single Payment System is already excessive and this would add significantly to it. This would especially be so if the administration will have to investigate the details of the contractual obligations entered into by the claimant (contract and share farming agreements), or the “farming” share of business turnover, or earnings, or if farmers will have to provide time sheets for evidence on time devoted to various activities, or if it is to be insisted that claimants live on or close to their land, in order to determine the extent and nature of an applicant’s farming activities. This has the capacity to explode in complexity.

4. But in any case, *in principle*, a critical aspect of the SPS is the idea of decoupling support payments from agricultural production therefore it is currently *not* the case, and it should not in future be the case, that claimants are *obliged* to produce particular, or even any, agricultural outputs.

¹⁵ The 67 paragraphs of section C of the SPS handbook specifies exactly what is eligible land use in colossal detail.

5. We note that the Commission is proposing (*inter alia*) that the Single Payment be partitioned into a Basic Income Support and a Mandatory Greening Component. As the delivery of public goods is thus being explicitly incorporated into the SPS then perhaps the only change required in the definition of active farmer is to embrace the new language of provision of public environmental goods. The “or” in the definition in Article 2(c) is vital.

6. Like all other go-ahead innovative businesses, farming is increasingly outsourcing the provision of specialist services. Thus the farmer who deploys his land and other assets for a land-based business based on some mix of agricultural production and environmental public good provision may well outsource or (to use the verb more commonly used in farming) contract, for example, the agronomy, financial accounting, field operations, and even product marketing to a variety of service providers or contractors or cooperatives for such functions. He is no less the farming entrepreneur because he does not sit on a tractor or have dirty fingernails than we would consider and executive of Shell oil not to be an oil producer because he never operates wrenches on an oil rig. “Activity” must not be assumed to mean outdoor physical activity. Indeed as farmers follow the policy advice of decades they increasingly become entrepreneurs managing their resource deployment over a variety of farming and non-farming rural businesses and often working horizontally or vertically with other businesses in the food, tourism and rural recreation “chains”.

7. A critically important principle is that the share-out of all revenues to the business between the farmer and all those supplying services to the business MUST be left to negotiation between the parties involved. There is no suggestion that there should be state rules to decide the share out of revenues from products and services sold through the market, there is no reason why the revenues from the public purse, ie the Single Payment, or environmental payments, should be treated any differently.

8. However, if despite these arguments it is deemed there is still some political necessity to more explicitly define what is meant by an active farmer then it should be a self declaration process based around the following definition for the purposes of claiming CAP payments:

An active farmer is a person with management control of agricultural land appropriate to the purpose of the payment, who is taking business risks in managing it to produce agricultural products or environmental public goods.

9. It may then be necessary to add a definition and illustrative list of these public goods. This can be based on recent publications eg the study conducted for DG Agriculture on Public Goods from EU Agriculture or the RISE publication Public Goods from Private land.

10. When questioned about Active Farmers at the Oxford Farming Conference the Commissioner said it was necessary to ensure the CAP is legitimate and he referred to reports from the European Court of Auditors. We are seeking information on the true nature of the Auditors concerns. The Commissioner also hinted that any definition might work from a list of examples of clearly ineligible, ie inactive claimants. No such list has yet been seen. It may be no easier clarifying this concept negatively than positively.

11. To make this slightly more concrete for UK conditions, we should make it clear that with UK tenancy law, we would of course expect that in the case of 1986 Act (succession) tenancies the active farmer who has the necessary control and who will be the payment claimant can only be the tenant farmer. For any multi-year FBT, it would also normally be the case that the tenant is the only person in a position to have the land at his disposal for a SPS claim. In all other cases it could in principle be the land owner or another party to whom the land owner has devolved the appropriate authority who can make the SP claim.

2 February 2011

Written evidence submitted by the National Farmers' Union (NFU)

THE NFU

1. The NFU is the leading organisation representing the interests of 55,000 full time, professional farming members in England and Wales.

EXECUTIVE SUMMARY

2. The reform of the Common Agricultural Policy (CAP) is a significant issue for English and Welsh farmers especially since farmers derive a significant proportion of their income from CAP support. The single most pressing issue for the next reform of the CAP is to help get farming to a place where it can be substantially less reliant on public support at the same time as ensuring the farming activity is environmentally sustainable.

3. This requires a strategic approach to policy making that promotes a more competitive, market orientated agricultural sector at the same time as addressing underlying flaws in the operation of food supply chains that prevent farmers from achieving a fair share of added value. Measures to improve environmental performance and secure delivery of public goods will remain important as part of the CAP but should be delivered through the flexible, targeted instruments operated under the second pillar of the CAP.

4. The proposals, especially those in relation to direct payments, represent a tactical, rather than strategic move that could harm competitiveness, undermine simplification efforts, fail to achieve environmental benefits

and entrench direct support rather than helping farmers become more market orientated. As such they largely fail the key policy tests set out in the NFU's policy document on CAP reform.

How will the Commission's proposals affect the ability of UK agriculture to be competitive in a global market?

5. Whilst the Commission Communication stresses the importance of EU agriculture becoming more competitive, the measures that it outlines could undermine competitive farming in the UK. Direct support payments, which help EU farmers offset higher production costs, are maintained. However, the proposal to "green" a component of direct payments could result in less market focus. Furthermore, the proposal to cap payments and target more support towards small farmers would discriminate against the UK with its relatively large average farm size as well as discourage businesses from seeking to become more competitive through seeking economies of scale.

Do the proposals ensure fair competition for British agricultural products within the EU?

6. The proposals promote a common policy framework albeit one with a degree of national flexibility. Member states are bound to exercise some discretion in the design of "greening" measures. Furthermore, optional coupled supports could create distortions across the EU. Such schemes must be restricted and very tightly defined. The ambition to strengthen the position of farmers in the supply chain is laudable but it is important to ensure that measures are achievable in all member states and do not distort the single market.

Will the proposals achieve the correct balance between productivity and sustainability?

7. The NFU supports the direction of reform pursued by previous agriculture Commissioners which sought to encourage farmers to become more market orientated whilst sensibly enhancing support for public goods through the second pillar of the CAP. Some proposals, such as introducing knowledge transfer into rural development programmes, could be beneficial. However, we are concerned that these proposals would not achieve the targeted delivery of environmental benefits that are secured via agri-environment schemes (indeed the proposals could harm the attractiveness of such schemes). Moreover, in driving farmers into more environmental conditionality, the proposals could undermine agricultural productivity.

Do the proposals place the UK in a good position to help meet future food supply challenges?

8. The proposals ensure that farmers have a platform to continue to invest in production through the retention of direct payments and through the focus of rural development programmes on innovation and climate change. At the same time, the greening of direct payments may reduce the productivity of agriculture through, for example, forcing farmers to take land out of production for ecological set-aside. This would undermine the UK's ability to respond to future food supply challenges.

Will the proposals redress the imbalance in support to different sectors created by the historic basis of payments?

9. The creation of a basic income support payment that is more uniform within a region or member state should reduce differences in support between sectors. At the same time, the proposals indicate that member states may continue to deploy voluntary coupled payments which may counter-act the benefits that could come from full decoupling in terms of market orientation. Finally the key challenge for aid distribution in the next reform is to achieve a more equitable distribution across the EU. It is not evident from the Communication that the Commission has met this challenge.

What aspects of the proposals should be made a common policy and which is best left to Member States?

10. The NFU strongly supports the maintenance of a common EU agricultural policy and funding framework. We believe that the measures that are deployed under the first pillar of the CAP (direct support and market measures) should continue to be determined at EU level, whereas we see some scope for subsidiarity in respect of the second pillar. This can be deployed more flexibly in order to prioritise actions to given member states or regions. However a common framework for rural development programmes is necessary to ensure balanced programming.

Can the proposals be implemented simply and cost-effectively, within a short time-scale?

11. Some of the proposals, especially in respect of rural development programmes, offer some opportunity to simplify the operation of the CAP and improve deliverability of EU support. However there are significant problems caused by the proposals in respect of direct payments. Moving towards a tiered approach to payments, combined with additional but variable conditions for greening and the prospect of further GAEC and cross-compliance conditions, suggest that a policy implemented along the lines set out by the Commission would

cause significant additional bureaucracy and opportunity costs for farmers and be simply unworkable for many member states.

December 2010

Supplementary written evidence submitted by the National Farmers' Union (NFU)

Thank you for your letter dated 12 January seeking a response to some additional questions on behalf of the EFRA Committee. I'm very happy to submit the following responses.

1. What is your view on the CLA's position that the direction of travel of the CAP should be more towards the provision of public goods, particularly environmental?

The NFU believes that the CAP can, should and indeed already does play a role in securing the provision of public goods. In this respect, the NFU agrees with the CLA. However, we believe that it is important that the need to provide additional public goods must be clearly demonstrated and that their cost properly evaluated.

The CLA argues that a well-funded CAP is needed to address food and environmental security, indicating that the environment is being degraded and more resources are needed to address this. Yet in many respects the performance of the farmed environment is improving as a result of changes in farm management practices and to some extent previous CAP reforms.

We are not therefore convinced that a clear case has been made to prove that agriculture in the UK is systematically under-providing public goods and, therefore, that greater resources are required in respect of the CAP to secure the delivery of environmental public goods. On the other hand, it is clear that farm incomes are still heavily dependent on direct support, that exposure to market volatility is growing and that the CAP also has to ensure that farming can meet other major global challenges, not least of which adapting to climate change and increasing food production sustainably.

Unlike the CLA, we also argue that it is important to maintain a distinction between the two pillars of the CAP and their respective roles. By their nature, environmental public goods tend to be site specific (ie the type and quantum of good needed differs from location to location). It is for this reason that we believe measures deployed under the second pillar in particular agri-environment schemes represent the best means of ensuring the provision of public goods. We do not support the CLA's view that pillar one should increasingly deliver public goods. We believe this would lead to poor targeting of delivery, higher transaction (compliance) costs for farmers and member states, an increase in bureaucracy and potentially and undermining of the existing extent of take-up of agri-environment schemes under the second pillar.

It is important to recognise that a consequence of the CLA's position to some extent would be the continuation of a support system that ultimately benefits landowners since it matters less to a landowner whether land is farmed or managed for the environment, so long as public support is available to underpin the asset value of the land.

For the NFU, the ultimate aspiration is a farming industry that is less reliant on support and more focussed on the market. So we would like to see a reform that helps farmers become more competitive, helps them deal with volatility and addresses the evident problems in the food chain that prevent farmers from making profitable returns. Support will be needed to ensure that non-marketable public goods are rewarded but we would not argue that the CAP needs to move more in this direction.

2. Could you expand on measures that the new CAP could include to enhance knowledge transfer?

The current Rural Development Regulation contains a number of measures that we would wish to see continued after 2013, including several measures that are associated with farm advice (eg measure 114 and 115) and skills and training (measure 111). However, we believe that it would be appropriate to examine the scope for a broader measure that allows for rural development funding to be used to support knowledge transfer activities (i.e translating research findings into farming practice). Although it may be possible under the current suite of measures to find a route to support this activity, it is somewhat convoluted. Furthermore, it is our understanding that the current definition of "beneficiary" in respect of so-called Axis 1 measures such as those above, is possibly too narrow to allow certain third parties (such as the UK levy boards/AHDB) to access rural development funding to enable knowledge transfer activities to be successfully carried out.

3. Would strengthening the position of farmers in the supply chain lead to higher prices for consumers? And is there a risk that measures to improve the functioning of the supply chain, such as standard contracts, could make UK farming less competitive by insulating the farmers from the market, rather than more competitive?

We do not believe that these measures would lead to higher consumer prices since any measures to strengthen the position of farmers in the supply chain would not permit hard-line prohibitions under EU competition law such as price fixing or market partitioning. Most agricultural commodities generate low retail price elasticities given the extent of processing, distribution and other input costs that make up retail prices. What is more, it is

evident that there is significant value-added within the supply chain that is being retained at processor and especially retail level that could be distributed more equitably without affecting consumer prices if the position of farmers were strengthened. Assuming that the UK grocery market remains competitive, any strengthening of the position of farmers would lead to a modest redistribution of value-added within the chain rather than higher prices. Finally, an important point recognised by the Competition Commission in its review of the UK grocery market was that the excessive bargaining power and its abuse of major grocery chains could risk undermining consumer choice in the long-term by reducing levels of investment and innovation by farmers and food manufacturers alike.

We believe that benefits could come from measures such as standard contracts, not merely in giving farmers a degree of certainty and predictability, but also in a more innovative and competitive processing industry. The dairy sector provides a good example of this. Currently, British dairy contracts exploit the inherent weakness of raw milk production (the requirement to sell a perishable product) by obliging farmers to sell all their milk to one buyer, for a minimum period of typically twelve months with no assurance as to the price he/she will be paid. These conditions allow milk buyers to pass all the risk of weak negotiation to farmers. More balanced contracts that allowed farmers to sell to other buyers and, especially, stipulated price conditions, would oblige milk processors to seek out the best markets, invest more in added value and increase their own competitiveness as they would not be able to maintain their profitability by paying farmers low prices.

4. On the issue of capping of payments, your evidence refers to farmers splitting their holdings to avoid a payment cap. Is it not credible that the benefits arising from economies of scale would outweigh any potential losses due to capping of the SFP? What would the effect be on UK agricultural competitiveness versus other Member States of including salaried labour as a mitigating factor in setting the level of the ceiling?

It is impossible to answer this question as the situation would vary from business to business and depend on the value of individual entitlements to a business, the extent of borrowing based on asset values and the profitability of the enterprise. It would also depend on the precise nature of the proposal. For example, a straight cap on payments over, say €150,000 might encourage large businesses to divide whereas a sliding scale of reduction of payment levels starting over €500,000 may have less of an impact. It is worth bearing in mind that many large enterprises have sought borrowing to develop the business using single farm payment to some extent as equity. Loss of entitlement value could jeopardise the repayment of commercial loans and therefore such businesses would have an incentive to ensure the maintenance of SFP for cash flow purposes.

The UK has relatively high levels of labour productivity compared to many other EU member states. Therefore any attempt to include labour intensity within the determination of a payment cap would discriminate against the UK as well as requiring sophisticated accountancy work to demonstrate that a business qualified for higher payments owing to employed labour. This would cause immense strain on member states and inevitably lead to a significant delay in payments reaching large claimants. It would also work against one of the key Treaty objectives of the CAP, “to increase agricultural productivity..... by ensuring the optimum utilisation of the factors of production including labour”.

5. Do you understand the Commission’s proposals for greening of pillar 1 to refer to a mandatory increase in cross-compliance standards, or to a reward payment for carrying out activities with environmental benefits?

Given the lack of detail and large degree of interpretation taking place, at this present time it is unclear whether the Commission intends the greening component of future direct support payments to be an incentive or a mandatory requirement on farmers applying for SFP. The Commissioner, Dacian Cioloș has referred to the top-up as an “incentive” implying that whilst member states must apply greening measures as options, farmers themselves can decide to opt in, depending on their circumstances. However it is believed that this view is not supported by all Commission Directorates General.

The NFU opposes the greening of pillar one as we believe that it confuses the role of the two pillars, is ill-suited to delivering environmental benefits, could undermine farming competitiveness and harm participation in agri-environment schemes. We believe it is better to ensure that adequate resources are channelled into pillar two across all EU member states to fund targeted, bespoke schemes.

6. Do you think the sort of compulsory environmental activities proposed by the Commission, such as crop rotation or set-aside, will deliver real and demonstrable environmental benefits?

We have concerns about all of the four measures proposed as “green” top ups. Our concerns are illustrated in our response to the recent consultation for impact assessment and are highlighted as follows:

Permanent pasture—This may preserve an important carbon sink and promote biodiversity in arable areas. However the proposal risks reducing the flexibility of farmers to adapt to market conditions, would reduce the opportunity for rotational arable cropping to be introduced into pasture areas, impede the improvement of pasture quality and limit adaptation to climate change, which may favour greater cropping in some areas.

Crop rotation—The benefits of rotation are largely associated with enhancing soil fertility and protecting soil structure. This can be achieved by other means. Depending on the number of crops to be rotated, their frequency and type, this could undermine market signals, limit the competitive potential of specialist

enterprises, encourage the production of costly crops that are ill-suited to certain soils or farm types and/or lead to additional administrative burdens for farmers.

Cover crops—In some circumstances, cover-crops can play a role in reducing nitrate leaching to groundwater or run off to watercourses. But to sow cover crops over winter may require field operations to be undertaken on land at a time that is inappropriate, do damage to soil structure, reduce seed sources for farmland birds (over-wintered stubble) and increase greenhouse gas emissions.

Ecological set-aside—Compulsory set-aside was abolished as part of the CAP Health Check decisions in 2008. Evidence from studies conducted in the UK at the time indicated that whilst there had been incidental environmental benefits of set-aside in some instances, these were site-specific and depended on the extent of active management by farmers. There can be no assumption therefore that generalised measures will bring tangible environmental benefits. Thus in England, the industry led Campaign for the Farmed Environment, which seeks to maintain the environmental benefits of set-aside by promoting targeted and voluntary action suited to the environmental priorities and farming situations of local areas is seen as the preferred approach by stakeholders and government.

The impact assessment for the options considered by Defra in 2009 illustrates the possible monetary cost of measures to require farmers to maintain ecological set-aside. This indicated an annual cost to farmers of over £40m per annum in addition to additional administrative burdens on government. Current higher grain prices necessarily increase opportunity costs thereby increasing the extent of possible impact.

What is more, a mandatory set-aside requirement would undermine the goodwill which the Campaign for the Farmed Environment is based and act as a significant restraint on participation in agri-environment schemes which may be based in part on farmers voluntarily entering some of their land into multi-annual and contractual management agreements.

7. Your evidence was in favour of area-based payments—do you have concerns about the unfair treatment of sectors that use small areas of land, eg poultry and pigs?

Our evidence favours a move towards a more common approach to basing support payments after 2013. This inevitably means moving away from historic references and towards support that is area-based. Neither sector has a history of benefitting from direct support and speaking to most pig and poultry farmers, there is little desire to become so-called “supported sectors” in future. Under an area-based payment system, pig and poultry farmers are eligible to receive direct aid if land meets good agricultural and environmental conditions (GAEC). This is not possible under an historic system unless these producers acquire entitlements commercially.

I would be happy to answer any additional questions that you may have or elaborate on the points above.

Tom Hind

Head of Economics and International Affairs

28 January 2011

**Written evidence submitted by Dr Joan Moss (Principal Agricultural Economist,
Agri-Food & Biosciences Institute and Senior Lecturer, Queen’s University Belfast)**

I wish to state that the views expressed are solely my own.

BACKGROUND/GENERAL COMMENTS

The FAPRI-UK econometric modelling system captures the dynamic interrelationships among the variables affecting supply and demand in the main agricultural sectors of England, Scotland, Wales and Northern Ireland and is fully incorporated within the University of Missouri’s FAPRI EU model which, in turn, is linked to their world model. It thereby yields UK projections (*not forecasts*) that are consistent with equilibrium in the EU and the rest of the world. The modelling system is re-estimated and validated annually, in conjunction with industry experts, and then simulated under assumptions that current policies remain in place, specific macro economic projections hold and average weather conditions apply. This generates ten year Baseline projections of key variables for each country of the UK and the Baseline in turn provides a benchmark against which projections derived from policy scenarios can be compared and interpreted.

Such a complex mathematical modelling system generates copious results. The policy analysis must, however, be treated with caution. It does not forecast future prices and production levels but provides indications of the likely proportional changes in key variables such as producer prices resulting from specific changes in policy or combinations of new policy measures, when compared against the Baseline Benchmark.

Over the past 13 years, the FAPRI-UK Policy Analysis team at AFBI and Queen’s University Belfast have analysed successive CAP and trade policy proposals including: the impact of the rolling out of the previous CAP Health Check reform; the elimination of dairy quotas; various WTO Doha trade liberalisation scenarios; and the Treasury/Defra’s Vision for the CAP on UK agriculture (similar to the most radical current EU

Commission CAP reform proposal embodied in Option 3). The impacts of exchange rates, the EU market for liquid biofuels and greenhouse gas emissions have also been investigated.

The three CAP Reform Options provide “something for everyone” so until the final agreement is reached it is not possible to determine what form the new CAP reform measures will take. Option 3 includes phasing out of the Single Farm Payment (SFP), abolition of all market measures other than in exceptional circumstances and channelling of CAP funds into climate change and environmental initiatives. In my opinion, this option is unlikely to win sufficient EU support to be adopted, whereas significant elements of Option 2 may secure agreement. Option 1, which entails the most modest reform with more equitable SFP across the EU could, however, be the fallback option if agreement cannot be reached on Option 2 details such as method to determine EU-wide area-based payments, definition of active farmers, simplified market management tools and the greening of the Second Pillar measures.

In addition to the FAPRI-UK sectoral analysis, I have also been engaged over a number of years in farm-level micro analysis using representative farm programming models with colleagues in AFBI and University College Dublin and this work has also influenced my views on policy reform.

How will the Commission’s proposals affect the ability of UK agriculture to be competitive in a global market?

- Competitiveness of UK agriculture in a global market is determined by our absolute/relative comparative advantage. This in turn is influenced not just by the efficiency of agricultural systems of production, which is determined by the technology adopted, factor costs and management efficiencies, but also by exchange rates. A strengthening of Sterling can eliminate a previously competitive position at a stroke.
- UK labour and land costs are significantly higher than in many competitor countries, particularly out with the EU, and modern agricultural technologies, other than those associated with Genetically Modified Organisms, often require a scale of production that may incur local resistance (eg large scale dairy units) or is not commensurate with current farm structure.
- The “stickiness” of the land market (land owners may be rational retaining ownership even if they no longer wish to farm, as land has proved to be a better repository of a farming family’s wealth than alternatives) may impede the structural change that occurs in other sectors in response to competitive pressures.
- The level of production in a globally competitive UK agriculture would not necessarily even match current levels.

Do the proposals ensure fair competition for British agricultural products within the European Union?

- A major policy determinant of UK agriculture’s competitiveness within the EU will be the degree of renationalisation of support measures.
- Many Member States and latterly the EU Commission have expressed the desire to provide significant “income support” to their farmers on social/rural development grounds, especially smaller farmers or those in disadvantaged regions.
- The reintroduction of the term income support, a concept not articulated in the recent CAP reforms, highlights a reversal in the momentum which had been created since the McSharry reforms of the early 1980s.
- Any renationalisation that results in direct or indirect augmentation of the financial flows to farmers in other Member States not received by UK farmers will undermine the competitiveness of UK agriculture within the EU.
- The UK has already fully decoupled so will not be significantly affected by full decoupling, other than by a small positive price impact, compared to those Member States that still have to decouple.

Will the proposals achieve the correct balance between productivity and sustainability?

- Productivity and sustainability do not have to be considered in the context of a trade-off.
- While it is hoped that policy will not hamper the attainment of efficient utilisation of farm resources, as outlined in the following sections, the deployment of a farm’s resources cannot be considered efficient if it results in the long-run degradation of the land or local ecosystem.
- Likewise, if social sustainability eg in remote/upland areas, is a political objective then attaining what is essentially multiple objectives may result in production systems/levels of output that would not be regarded as efficient if considered solely with regard to physical output.
- The “Multi functional” European model is driving the current reforms.
- FAPRI-UK analysis of the removal of trade protection indicates a significant reduction in UK production in the dairy, beef and sheep meat sectors.
- Likewise, removal of the SFP would reduce UK production in the beef and sheep meat sectors.

- A reduction in the overall EU agricultural budget would also reduce SFPs and exert a negative impact on production.
- In my opinion any measures designed to enhance the “Greening” of the CAP will require careful environmental specification so that they are not open to the charge that they are disguised income support measures or populist initiatives.

Do the proposals place the UK in a good position to help meet future food supply challenges?

- Food supply challenges may arise due to a number of future international developments including global warming, as yet unforeseen international political scenarios and increasing global population. Securing the UK’s food supply is not synonymous with maximising the amount of food that could be physically produced from UK agricultural land in the short term. I believe that it is essential that agricultural production must be environmentally sustainable so that the long-term productive capacity of the UK agricultural sector is maintained.
- Micro farm level analysis indicates that depending on individual circumstances, it may not make best use of the resources at the disposal of a farmer to maximise farm production. Particularly on small farms where off-farm employment is necessary to secure an adequate farm family income, the farmer may be rational in allocating a significant proportion of his labour to off-farm employment or a diversified non-farm enterprise and adopting an extensive farm plan which generates a lower level of agricultural production than if he deployed all of his labour to the farm business.
- Future food supplies must also include imports from a sufficiently wide range of countries so that difficulties arising in one exporting country do not jeopardise UK access to imports.
- International commercial linkages in the food supply chain do not automatically result in the cheapest suppliers swamping local supplies as potential for animal health breakdown means local suppliers will always have to be available to meet local contractual commitments.
- The emphasis placed on innovation in the proposals favours the development of biofuels.
- Land use change may arise from potential conflict between attaining renewable energy targets and food supply. FAPRI-UK analysis of the liquid biofuel sector, however, indicated the existing Renewable Transport Fuel Obligation Order would be met mainly by importation of the majority of the liquid biofuel feedstock; consequently land use change is anticipated to be outside the EU.
- FAPRI-UK analysis of the most radical CAP reform measures indicated that, despite the UK having already decoupled direct payments, the policy proposal which had the most negative impact on UK production was in the beef and sheep sectors where phasing out the SFP, on top of further trade liberalisation, reduced projected production by over a quarter and almost a fifth respectively. The impact of such a reduction in production would be most keenly felt in the Less Favoured Areas.
- Analysis of the impact of market management tools, such as export subsidies and intervention buying, indicated that if they were removed when international prices were highly volatile, serious difficulties arose for the UK dairy sector. Northern Ireland was particularly vulnerable as a very high proportion of its milk production is converted to dairy commodities which are exported.

Will the proposals redress the imbalance in support to different sectors created by the historic basis of payments?

The FAPRI-UK modelling system is not methodologically suitable to analyse the introduction of area based payments. The research team has considered the arithmetic consequences of redistributing the SFP among existing farm types in the UK, taking account of the current allocation methods which pay significantly different amounts per Ha in England, Scotland, Wales and Northern Ireland and with only England currently transitioning to an area based system.

- The introduction of area based determination of SFP will generate significant new distributional issues in addition to the sectoral distribution, whatever the outcome of negotiations. The devil will be in the detail and issues to be addressed include: area based (flat rate) payments EU-wide which may be adjusted according to purchasing power and exchange rates; tiered according to upland/lowland; and eligibility criteria regarding definition of active or perhaps non-active farmers.
- The introduction of flat rate payments in the UK would lead to a large redistribution of payments in Scotland, Wales and Northern Ireland post 2013 but depending on scope for regional discretion, different rates could be introduced in each region to minimise redistribution.
- There is also the issue of significant areas of agricultural land, particularly in Scotland, not currently registered for SFP which may come into play.

- Where the SFP is determined on a historic basis, the main beneficiaries of former direct payments, the beef and sheep producers, have continued to receive the decoupled payments. Those livestock farmers in the uplands usually farm more extensively than lowland farmers, so while losing out if historic payments are eliminated, they may gain from the relatively larger areas farmed, depending on the tiering between LFA and lowland. The resulting impact on production is unclear as land quality is usually poorer on extensive farms, hence an increase in payments within these areas will not necessarily have an upward impact on production.
- As upland areas are often environmentally and socially vulnerable, sectoral rebalancing of support could impact on environmental and social sustainability.
- The dynamic hybrid model adopted in England will have phased out the historic element by the time the new CAP reforms are implemented. In the remainder of the UK, however, the move to area based payments would lead to significant redistribution of funding, irrespective of the levels of payment agreed at the EU level.
- It should be noted that SFP is not the only support given to the agricultural sector. Trade protection also provides support, albeit less visible, in varying degrees to the different sectors. If income support is reintroduced as a basis for part of the SFP, this could jeopardise its SFP Green Box status with the WTO.

What aspects of the proposals should be made a common policy, and which are best left to Member States?

- In my opinion, measures which impact on the functioning of the markets for agricultural commodities should remain common (renationalising them may run counter to Single Market and State Aid legislation).
- As Member States have widely differing views on eg importance of income support measures, UK producers could find themselves at significant market disadvantage *vis-à-vis* EU producers in receipt of additional national support included in direct payments.
- Measures for environmental protection to ensure sustainable management of natural resources are best determined at the Member State level as they are usually site-specific.
- Rural development measures need to be tailored to local circumstances hence require determination at Member State level, however, they could indirectly impact on the viability of UK farming businesses, particularly in the uplands, as they may influence availability of off-farm employment which could determine whether or not smaller farm business are sustainable.
- I believe CAP measures that address climate change should also remain common across the EU.

Can the proposals be implemented simply and cost-effectively, within a short time-scale?

- I do not feel qualified to comment on the administration of the implementation of policy changes other than to note that significant changes to policies implemented within a short time scale can create difficulties for farmers, particularly in the grazing livestock sectors with two to three year breeding cycles.
- Proposals introduced too quickly may not give farmers adequate time to decide on their best course of action regarding rational adjustments whether investments or disinvestments
- CAP reform measures have traditionally been phased in incrementally to provide the necessary adjustment time eg removal of the dairy quota.
- The SFP was introduced as a “transitional measure” to give farmers time to adjust to the phasing out of decoupled direct payments but being denominated in Euros and the strengthening of the Euro Sterling exchange rate up until this year, it has maintained its value despite modulation. Consequently, the SFP is as important a source of funding to the farming sector as when it was first introduced.
- Overly complicated cross compliance and agri-environmental criteria for SFP are also likely to be very bureaucratic and hence costly to administer.

Supplementary written evidence submitted by Dr Joan Moss



Impact of HM Treasury/Defra's Vision for the CAP on Agriculture in the UK

Joan Moss, Myles Patton, Lichun Zhang
& In Seck Kim

Julian Binfield & Patrick Westhoff

**Summary of results for
EFRA Select Committee Inquiry into CAP Reform,
19 January 2011.**



Baseline and Scenarios

- Baseline (November 2008)
 - Current policy, specific macroeconomic assumptions and average weather
- Scenarios
 - S1: Implementation of Health Check reforms
 - S2: S1 + Doha Round WTO reforms
 - S3: S2 + Full decoupling across the EU
 - S4: S3 + Further trade liberalisation
 - S5: S4 + Phasing out the Single Farm Payment with further trade liberalisation – *Vision for CAP*

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Scenario Definitions

- Scenario 1 – Full Implementation of Health Check reforms
 - Full decoupling of cereal direct payments, beef special premium and slaughter premium
 - Member States which used the options to retain the Suckler Cow Premium and/or Ewe Annual Premium retain these coupled
 - Implementation of progressive modulation across the EU
 - Phased increase of milk quotas, followed by abolition in 2015

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Scenario Definitions

- Scenario 2 - Doha Round WTO reforms
 - Implementation of Health Check reforms plus WTO reforms
 - Tariff reductions of 70 per cent for top-tier; 64 per cent for 2nd tier; and 57 per cent for 3rd tier
 - Beef, butter, cheese, poultry and pigmeat are designated sensitive products
 - two-thirds deviation in the tariff cut
 - but increased tariff rate quotas (TRQs) amounting to 4 per cent of domestic consumption
 - Export subsidies are eliminated

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Scenario Definitions

- Scenario 3 - Full decoupling across the EU
 - Remaining coupled payments are incorporated into the SFP
 - Suckler Cow Premium
 - Ewe Premium

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Scenario Definitions

- Scenario 4 - Further trade liberalisation
 - Further cuts in EU import tariffs to align EU tariffs with other sectors of the economy
 - Over quota tariffs reduced to 4%
 - 'Sensitive' status for designated products no longer applies

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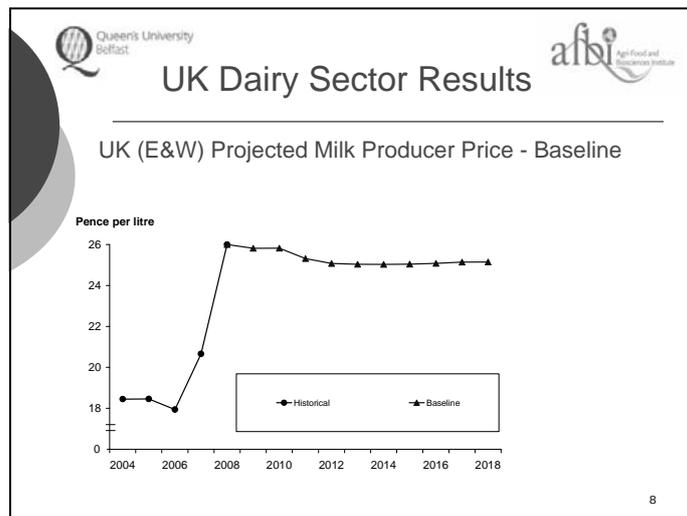
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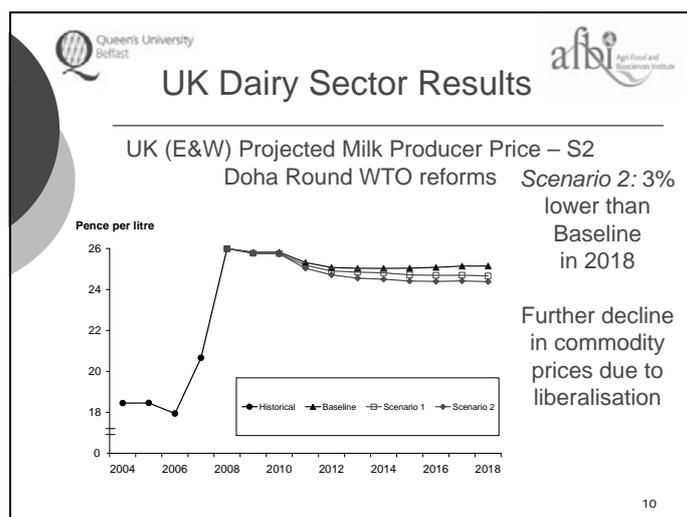
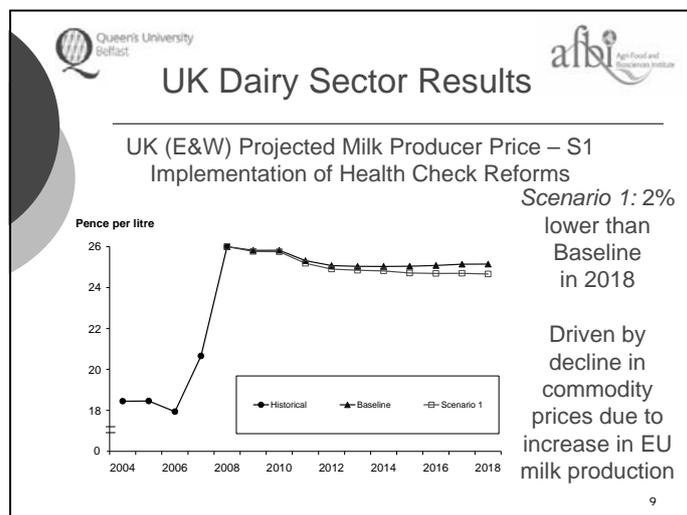
Scenario Definitions

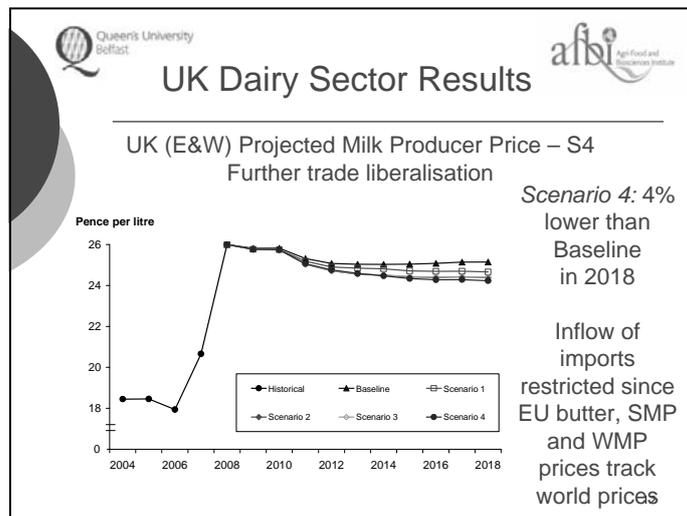
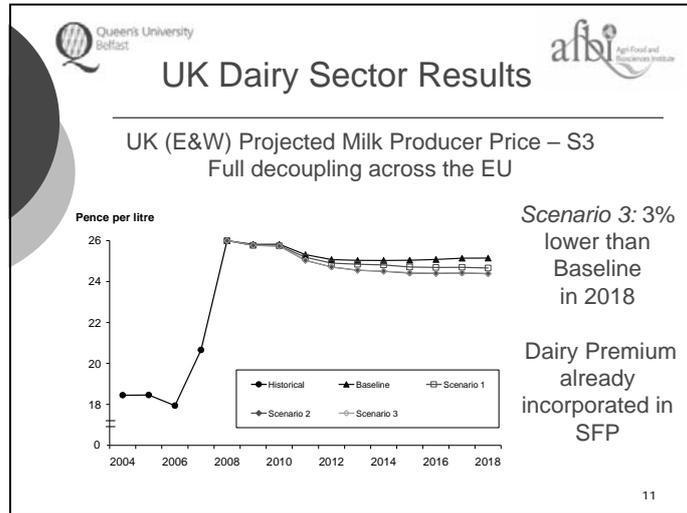
- Scenario 5 - Phasing out the Single Farm Payment with further trade liberalisation
 - SFP phased out
 - But equivalent funds for agri-environmental measures
 - Assumed that agri-environmental measures have 70 per cent compliance costs and the residual retained by farmers has a zero production stimulating impact

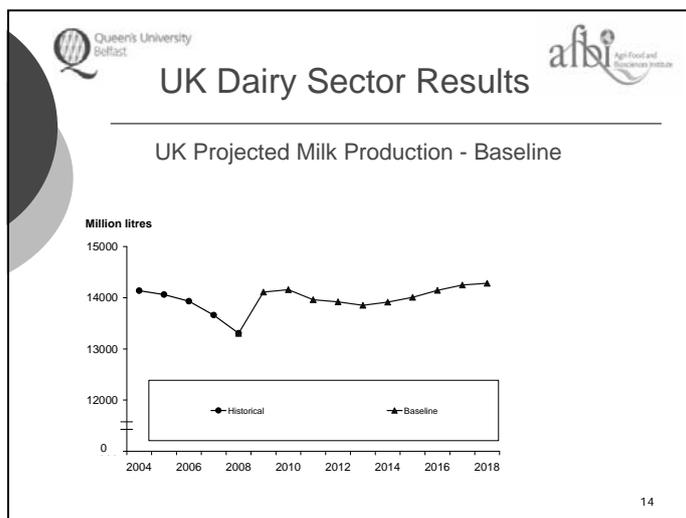
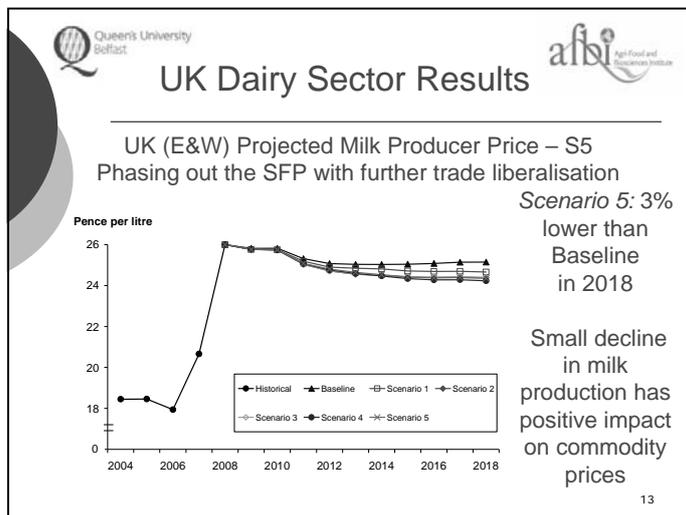
Note: projections of key variables must not be treated as forecasts!

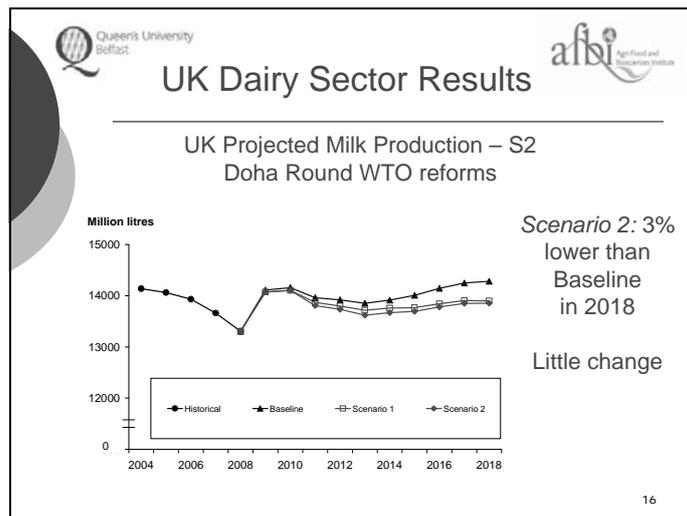
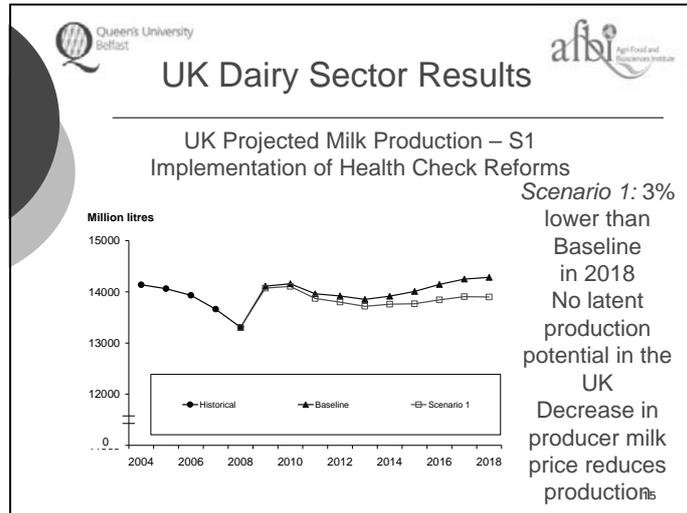
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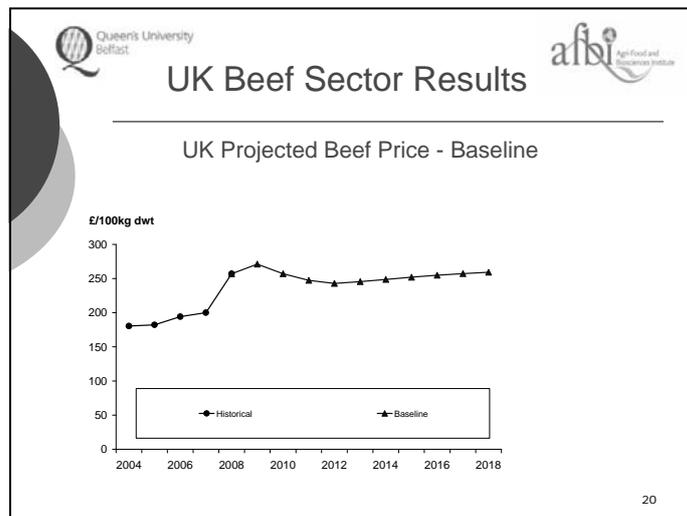
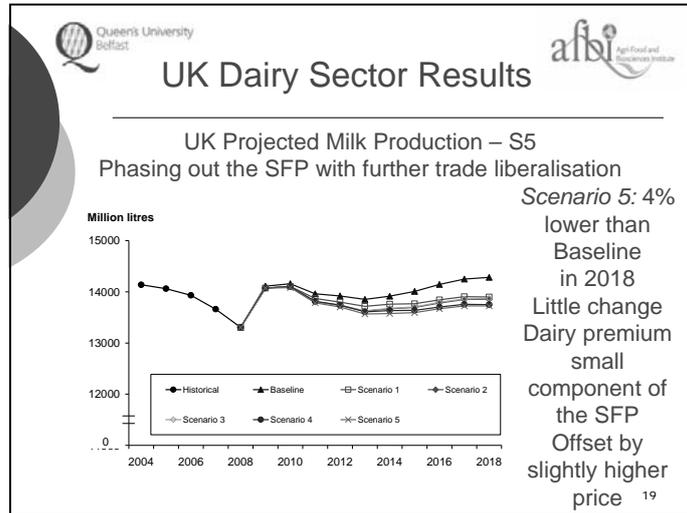


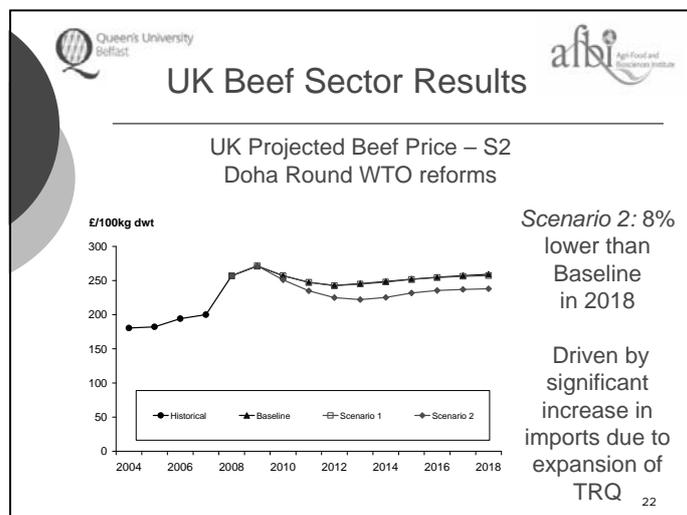
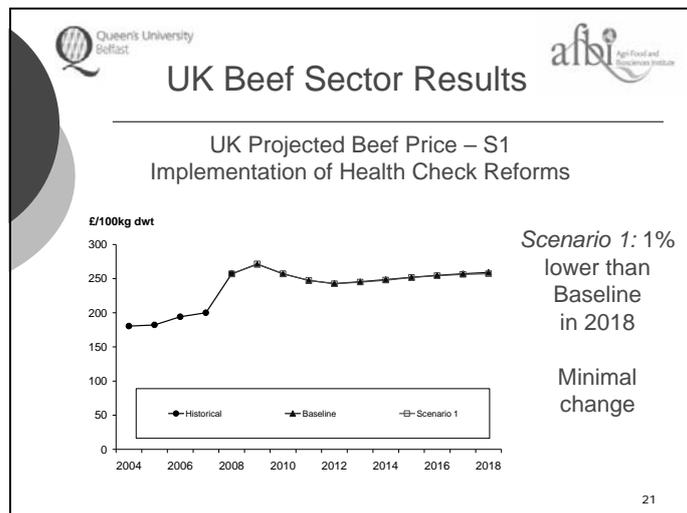


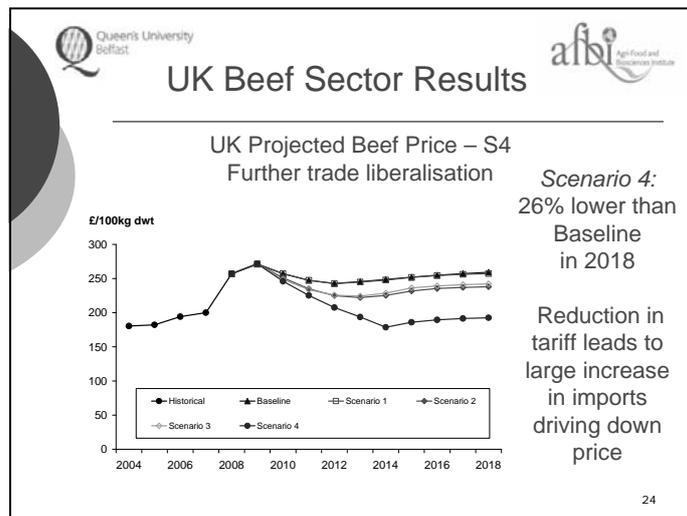
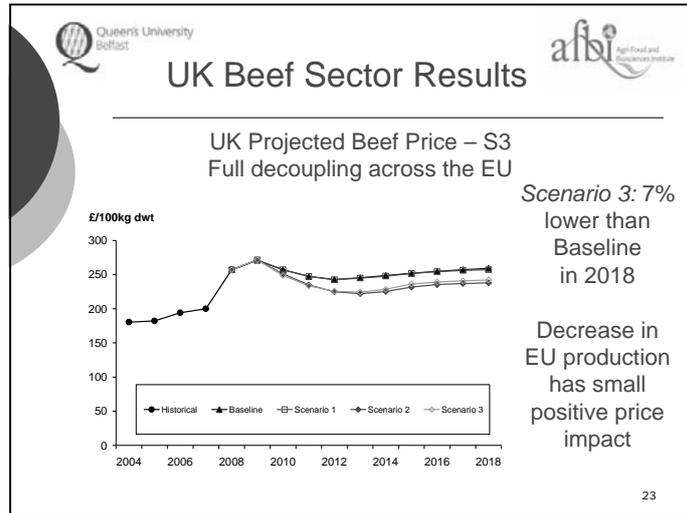


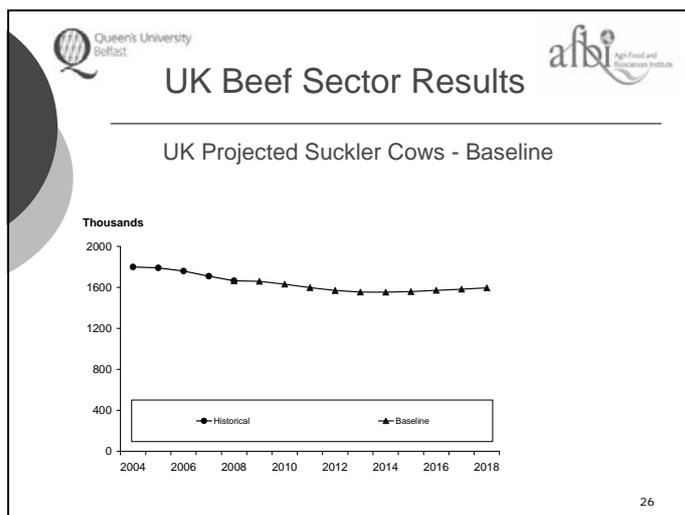
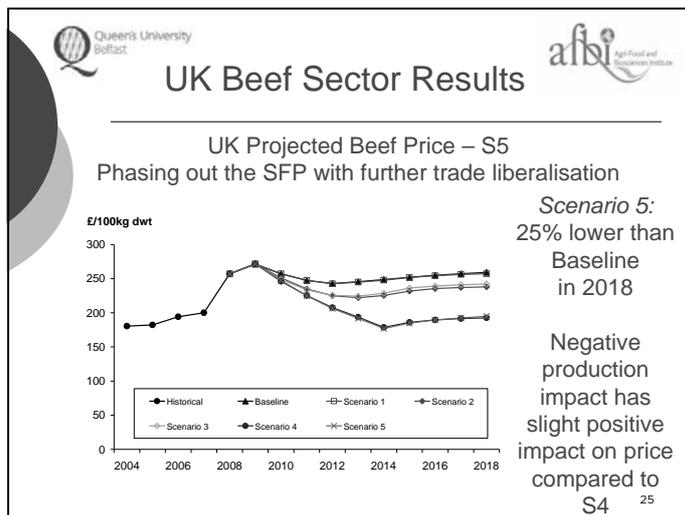


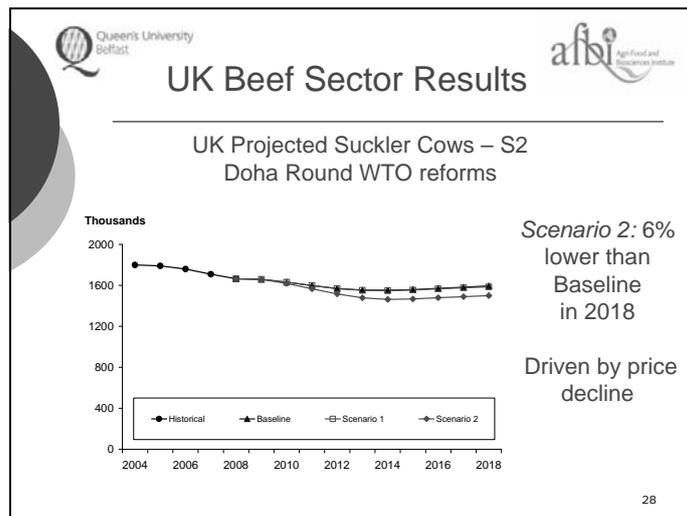
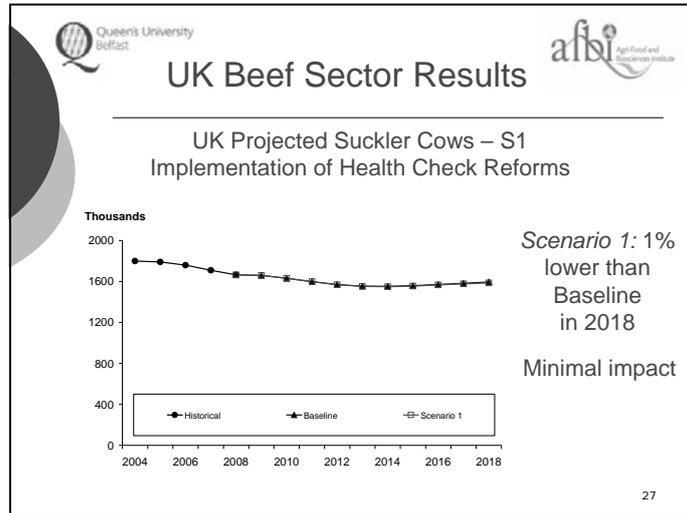


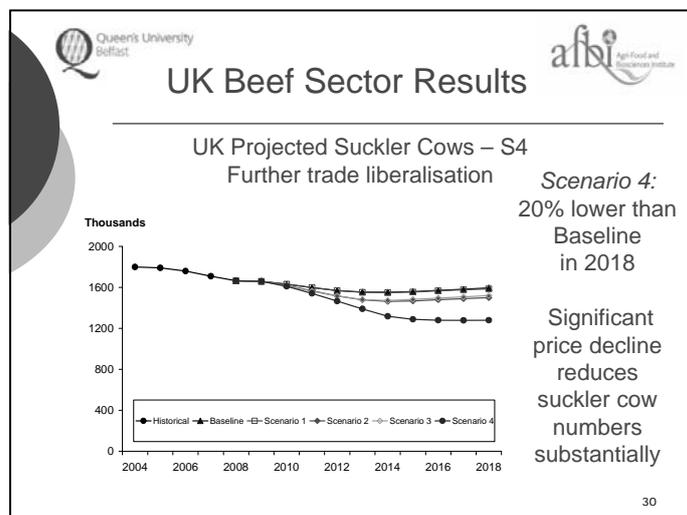
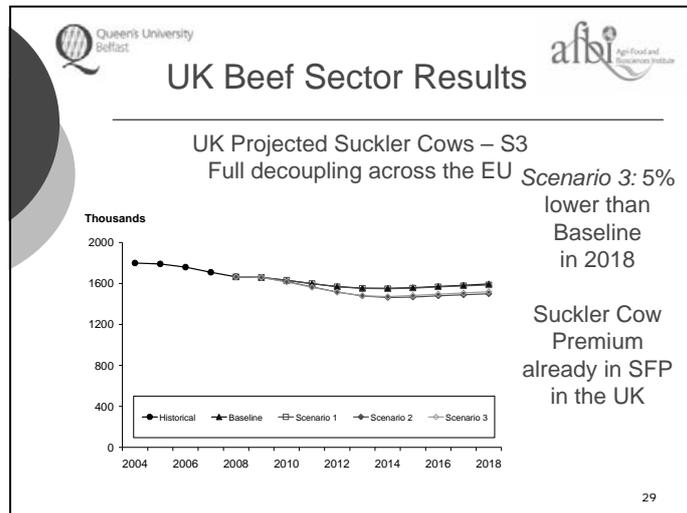


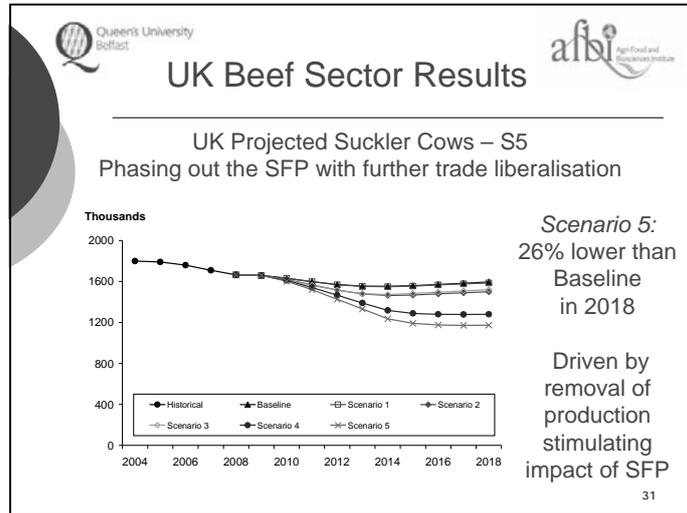


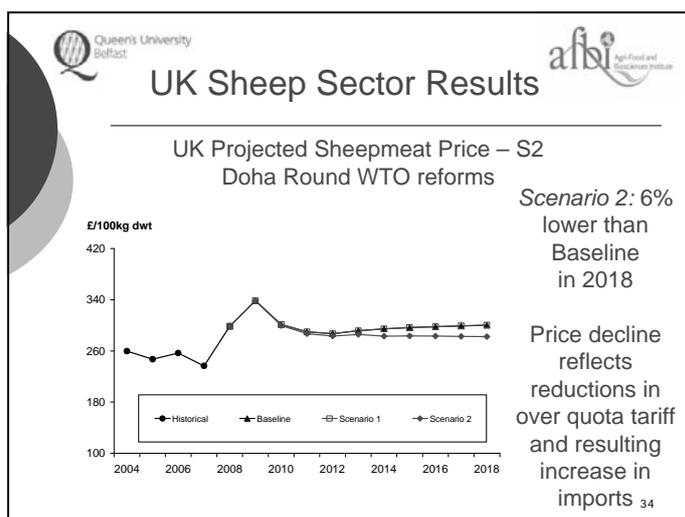
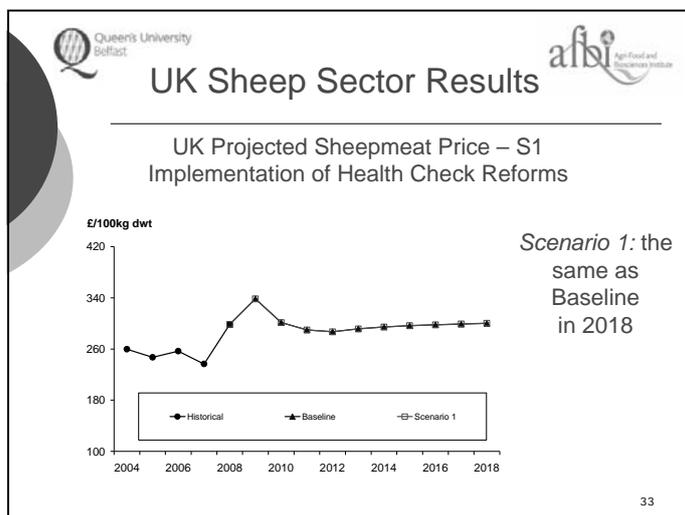


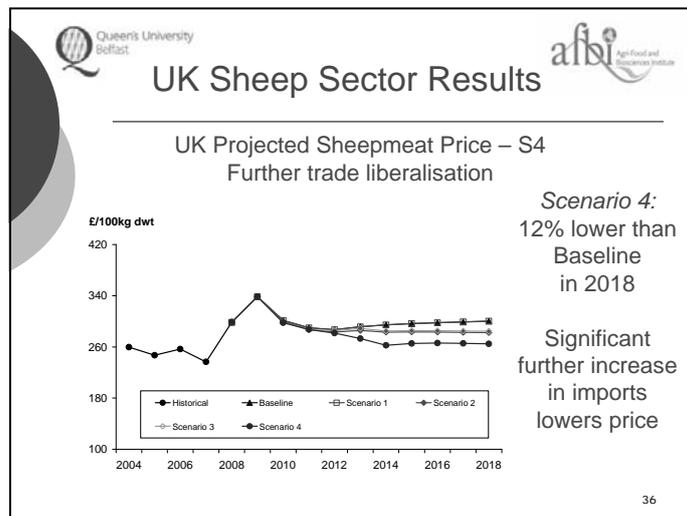
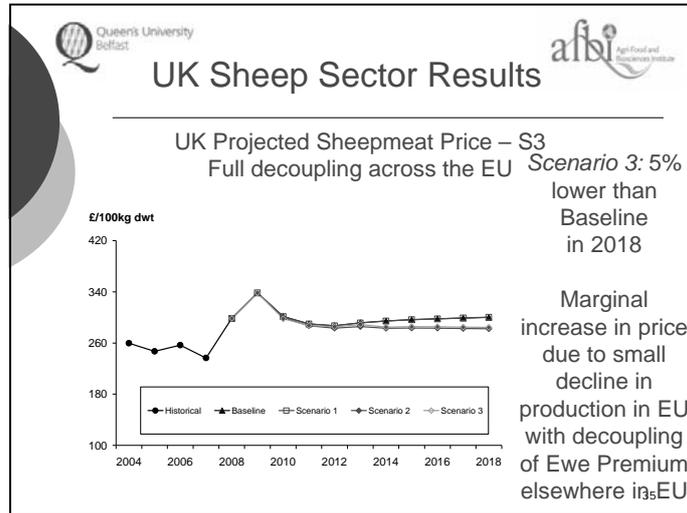


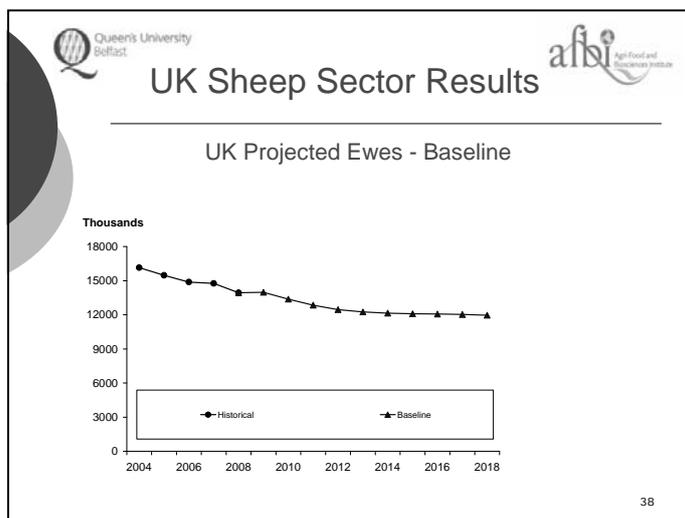
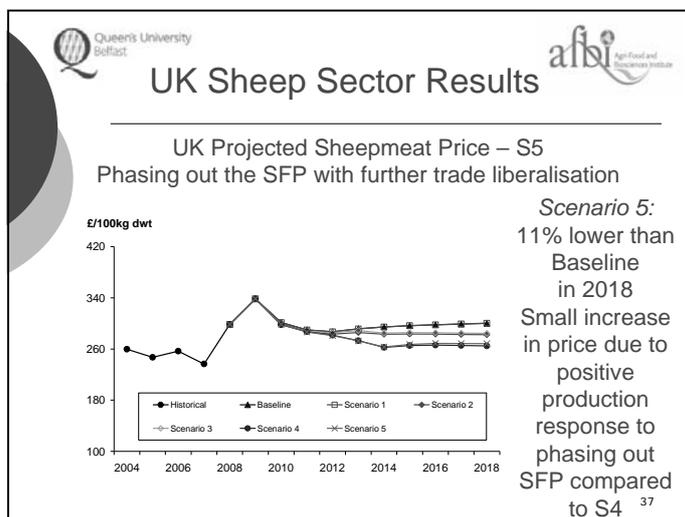


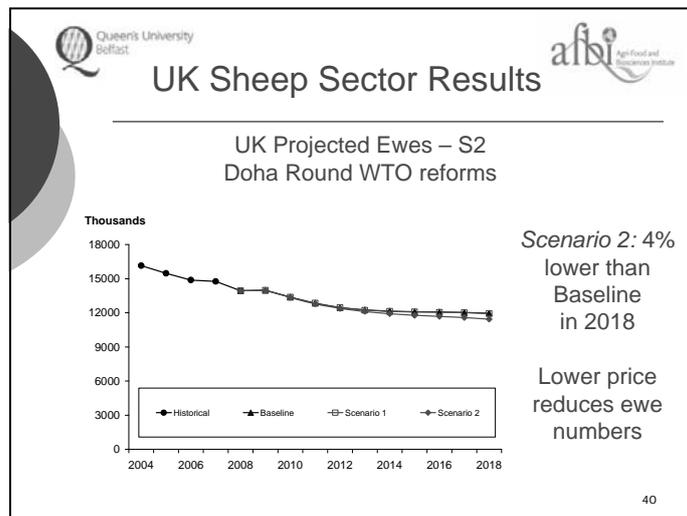
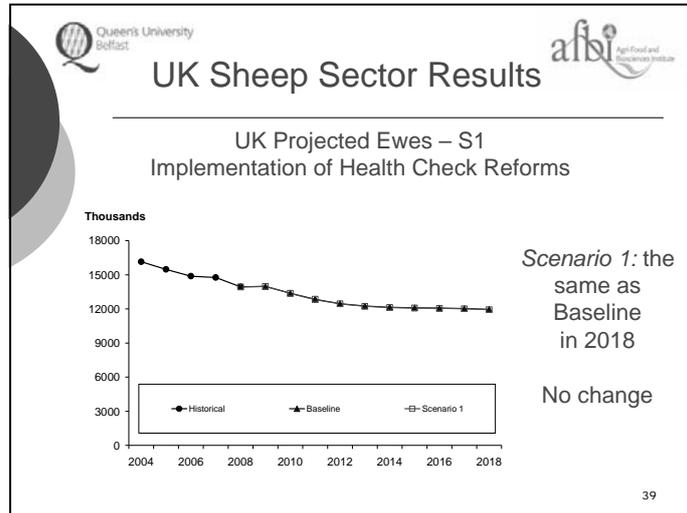


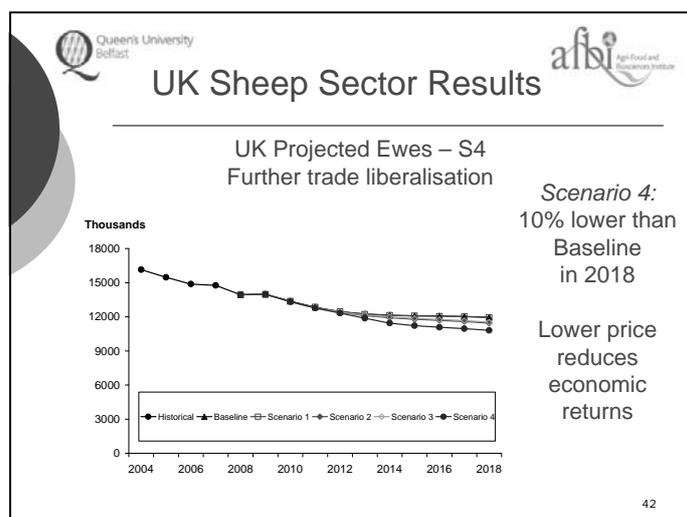
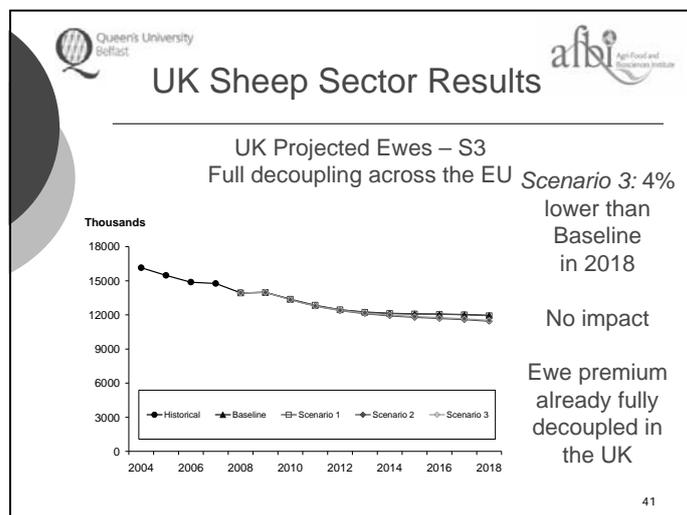


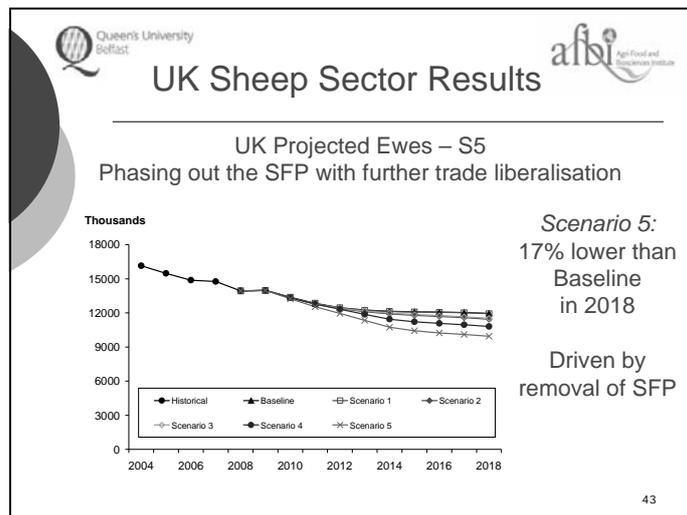












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- ## Crop Sector Results (1)
- Incorporation of the Arable Aid Payment in the SFP within remaining Member States (Scenario 1) has a negligible impact on UK crop sector
 - Reductions in import tariffs following Doha WTO reform (Scenario 2) have a marginal impact on the UK crop sector since EU crop prices closely track their world prices
 - Full decoupling across the EU has no discernible impact
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Crop Sector Results (2)

- Further trade liberalisation (Scenario 4) has a marginal impact on UK crop prices and production
- Phased elimination of the SFP (Scenario 5) has a negligible impact on UK crop prices and a small impact on production
- Scottish barley production declines due to lower projected livestock numbers

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Conclusions (1)

Projected impact of Vision reforms is mixed

Extensive further trade liberalisation (S4)

- Modest impact on the dairy sector
 - following abolition of milk quotas and elimination of export subsidies, EU dairy commodity prices closely linked to world prices
- Negligible impact on crop prices
 - EU prices track world prices
- Significant negative impact on beef and sheep sectors
 - large increase in imports following tariff reductions depresses prices

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Conclusions (2)

Phasing out the SFP with further trade liberalisation (S5)

- Negligible impact on the dairy sector
 - Small price increase offsets phasing out the dairy component of the SFP
- Crop prices not affected, but possible impacts on Scottish barley production due to decline in livestock numbers
- Further significant declines in livestock numbers and production in the beef and sheep sectors
- Significant structural change likely to occur

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References

The full report on 'The Analysis of the Impact of HM Treasury/Defra's Vision for the CAP on Agriculture in the United Kingdom' can be found at <http://www.defra.gov.uk/evidence/economics/foodfarm/reports/fapri/UKFAPRIWP16.pdf>

The FAPRI-UK Project methodology is outlined in: Moss J.E., Patton M., Binfield J., Zhang L. and Kim, In Seck. (2010). FAPRI-UK Modeling: Regional Responses to European Policy Initiatives, *Journal of Agricultural Trade and Development*, Vol. 6, Issue 1.

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Further supplementary written evidence submitted by Dr Joan Moss

What is the definition of a public good, and is food production a public good?

Public Good¹—the strict economic definition is a good whose consumption is non-excludable and non-rival. This means that the consumption of such a good by one individual does not reduce the amount of that good which can be consumed by any other individual (non-rival) and no-one can be excluded from the consumption of the good (non-excludable). Examples of public goods are law enforcement, defence and street lighting. Because of the nature of such goods, there is no market incentive to produce them as consumers cannot be charged (via the market) for their consumption. Consequently, public goods have traditionally been provided by public authorities/government.

In addition to producing food, farming also produces positive externalities such as landscape, habitats and environmental services that can be defined as public goods (and for which farmers are not paid via the market). It can be argued that as society values and benefits from these public goods, society should compensate farmers for their production. It should be noted that farmers may also produce negative externalities eg GHG emissions or water pollution and in these cases society incurs costs which are not passed on to the farmers.

I think a lot of confusion has arisen as the term public good has gained common usage. Some people appear to think it has to do with a good everyone consumes or a good that in some way is beneficial to everyone. This may have led to food being considered a public good. Food is definitely not a public good. There are efficient markets which supply food to consumers at market clearing prices and neither the non-rival or non-excludable criterion applies. Arguably, food security could be considered a public good; however, it is not created solely by domestic farmers.

February 2011

¹USEFUL REFERENCES

Krugman, P & Wells, R, *Economics*, Chapter 20, Public Goods and Common Resources, pp. 475–492, Worth Publishers, New York, 2006.

Cahill, Carmel, *The Multifunctionality of Agriculture: What Does it Mean?* Eurochoices, Spring, 2001.

(Carmel Cahill is a Senior Counsellor in OECD's Directorate for Trade and Agriculture and her article provides a very good discussion of joint production in agriculture, market failure and the production of public goods).

Further supplementary written evidence submitted by Dr Joan Moss

1. Based on your scenario modelling, will the effects of reducing the single farm payment would be more or less severe in the Devolved Administrations than in England?

Our scenario analysis identified the beef and sheep sectors as most severely affected by reductions in the Single Farm Payment (SFP). These sectors are relatively more important in all three Devolved Administrations consequently, the impact of reducing the SFP is greater in all the Devolved Administrations than in England. Furthermore, the impact of reducing the SFP on beef production varies according to the proportion of beef animals with dairy dams (if the dam is a suckler cow, the negative impact is greater). In England, over 60% of beef cattle are the progeny of the dairy herd, compared to 30% in Scotland. Northern Ireland is also severely affected by reductions in the SFP, not just because of the relatively greater importance of the beef sector, but also due to the lack of alternatives to beef production.

2. Could you explain your comment that restructuring the industry would not necessarily lead to an increase in production? This was in reference to your evidence that a more competitive UK agriculture would not have the same level of production as it does now

Even if there was an improvement in the competitiveness of the agricultural sector, arising from structural change, that does not guarantee an increased level of production. The level of production is ultimately determined by profitability, which in turn is determined by market conditions. The importance of the market is illustrated by the UK dairy sector, widely regarded as efficient within the EU, however, adverse market conditions have resulted in lower levels of UK milk production in recent years.

3. Are you able to give an estimate (quantitative if possible) of the effects of removing the SFP alone (without changing trade restrictions etc) on production of food or of the income of UK farms?

We did not analyse the removal of the SFP without the trade liberalising measures that the EU has already agreed to during the WTO Doha negotiations. Together with the four agricultural administrations, we were of the opinion that this level of trade liberalisation was most likely to be in place over the 10 year projection period.

4. *Do you understand the Commission's Communication to be proposing any change to trade barriers and regulations?*

I am not aware of any reference in the Commission's Communication to changes in European agricultural trade protection. The changes in trade protection which we included in our initial analysis consisted of the removal of export subsidies and reductions in import levies that the EU has already committed to under the WTO Doha Round of trade negotiations. While the Doha Round is still not resolved, we made the assumption that the trade agreement was likely to be agreed before the post 2013 CAP Reforms are enacted.

The "further" trade liberalisation scenario that we analysed and which would have had a very significant negative impact on EU, and consequently UK agriculture, was the abolition of agricultural trade protection. This was a key element of the HM Treasury/Defra Vision scenario. In our opinion, that level of reduction in EU agricultural trade protection would not be acceptable to the majority of EU Member States.

5. *Are you able to give a quantitative estimate of the effect (on production, farm incomes etc) of paying farmers through an agri-environment scheme rather than through the single farm payment?*

No, the devil will be in the detail, as the nature of the agri-environmental schemes (as yet to be decided) would determine their cost of implementation. These costs would reduce the total income farmers receive. The SFP, however, is a direct supplement to the income farmers earn from the market.

6. *The Commission has suggested using salaried labour as a modifying factor for the distribution of area-based payments in the future. Could you comment on how this might affect the UK's receipts in comparison to other Member States, and also how this might alter the distribution of funds within the UK, compared to a simple area-based flat rate?*

I'm afraid this is a question we cannot answer as our research models simulate agricultural production at the sectoral level in the four UK countries. In principle, however, if the proposed cap on the SFP was to be moderated according to the presence of salaried farm labour, this would reduce the impact of the SFP cap on larger farms in all Member States. We do not have data on the distribution of salaried farm labour across the EU, consequently, we cannot say how the UK would fare under this scenario compared to other Member States.

7. *Do you agree that capping the single farm payment could reduce farm competitiveness, eg by discouraging farmers from increasing their farm size to achieve economies of scale?*

The level at which it is envisaged capping could be imposed (€300,000 or even €200,000) would not impact on the vast majority of UK farmers. For those affected, legal measures could be taken to subdivide their farm business, thereby bringing each subdivided element under the relevant SFP cap. We would envisage that difficulties in increasing farm size resulting from eg stickiness in the land market and the cost of land, would be more likely to impede the attainment of economies of size and scale rather than the capping of the SFP.

2 March 2011

Written evidence submitted by Professor Alan Swinbank

SOME MISCONCEPTIONS ABOUT REQUIREMENTS FOR THE POST-2013 CAP

SUMMARY

This submission addresses a number of issues that arise from the European Commission's latest Communication on the form a reformed CAP should take after 2013. In particular it challenges the presumption that the post-2013 CAP should retain a universal "income support" such as the existing Single Payment Scheme (SPS). The SPS is flawed in that it does not target support on those in need, but instead raises asset (particular land) values; it encourages marginal farmers to remain in business, thus perpetuating the farm income "problem"; it is not designed to encourage, and reward, the provision of public goods; and it may be incompatible with the EU's longer-term commitments in the WTO. In short, it represents poor value for taxpayers' money and should be phased out.

Global Food Security, particularly in the context of a possible world population of nine billion by 2050, is one of the critical policy concerns that deserves global attention; but it is best addressed by increasing the earnings (or subsistence food production) of the world's poor and destitute, whilst ensuring that world food supplies grow to match the increase in overall demand. This is a formidable task, but substantial investment in agricultural R&D (particularly in developing countries), a greater willingness to embrace challenging new technologies, and a more open and liberal trade regime for agricultural products, are likely to be important ingredients in a successful policy mix. Most EU citizens are not food insecure, and although EU agriculture has an important part to play in producing global food supplies it is a fallacy to believe that the CAP has much influence on European food security.

INTRODUCTION

1. There have been fundamental changes to the common agricultural policy (CAP) over the last 20 years. A succession of courageous Commissioners for Agriculture—Ray MacSharry, Franz Fischler, Mariann Fischer Boel—recognised the need for reform and, often facing stiff opposition from the farm lobby, ensured that the CAP became a more rational policy framework in which entrepreneurial and adequately-resourced farm businesses could grow. The CAP now has fewer adverse consequences for the environment, Europe’s taxpayers and consumers, and the international trading community. That process of policy reform must continue. The environmental challenges the world faces—loss of biodiversity, global warming, a human population of nine billion by 2050, for example—are daunting; many of the EU’s trading partners believe that CAP subsidies still distort world trade; taxpayer costs remain high (although significantly reduced in real terms over the last 20 years); and policy mechanisms hinder the efficient restructuring of the industry. Unfortunately, on the evidence of the Commission’s latest thinking on CAP reform—*The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future*—the present Commissioner for Agriculture and Rural Development Dacian Cioloş (along with ministries for agriculture in a number of member states, and many members of the Committee on Agriculture and Rural Development in the European Parliament) has yet to recognise the need to follow the lead of his reforming predecessors.

2. This submission focuses on just three aspects of the many issues raised by the Commission’s Communication and recent debates about the future of the CAP: (i) justifications for the Single Payment Scheme (SPS), (ii) food security, and (iii) the compatibility of the EU’s SPS expenditures with its World Trade Organization (WTO) commitments.

WHAT IS THE SINGLE PAYMENT SCHEME (SPS) FOR?

3. Direct payments form the largest share of EU public expenditure on the CAP (see Table 1). At a time when governments across Europe are scrutinising their national budgets in the wake of the banking and Sovereign Debt crises, it is difficult to understand how the CAP might be excluded from this review. Thus a series of questions arise, for example: what is the Single Payment Scheme for, and is taxpayer money well spent?

Table 1

CAP EXPENDITURE IN THE COMMISSION’S ORIGINAL DRAFT BUDGET FOR 2011

| | <i>Payment Appropriations</i> | |
|---|-------------------------------|--------------------------|
| | <i>€ million</i> | <i>% of total budget</i> |
| SPS and SAPS (ex Chapter 05.03) | 35,726.0 | 27.5 |
| Other direct aids (remainder of Chapter 05.03) | 4,185.1 | 3.2 |
| “Interventions in Agricultural Markets” (05.02) | 3,491.8 | 2.7 |
| Rural Development (05.04) | 13,401.1 | 10.3 |
| Total Draft Budget | 130,136.0 | 100.0 |

SAPS: The Single Area Payment Scheme applied in most of the new Member States

Source: European Commission (2010a)

4. In 1992, when arable area payments (and enhanced headage payments for beef animals) were introduced into the CAP, their purpose was to *compensate* farm businesses for the implied revenue loss stemming from reductions in the level of market price support (Cunha and Swinbank, 2011: 77). It was these area and headage payments, in the main, that in the 2003 reform formed the core of the SPS; but now relabelled “an income support for farmers” (Article 1, Regulation 1782/2003). This concept of “income support” reappears in the Commission’s Communication (p 8), where it is stated: “The future of direct payments...could be based on the following principles”, including “Basic income support through the granting of a basic decoupled direct payment, providing a uniform level of obligatory support for all farmers in a Member State (or in a region).”

5. It is a curious anomaly, stemming back to the original Treaty of Rome in 1957, that agriculture is the only economic sector that qualifies for EU-funded “income support”; but also an indictment of the CAP’s failure to redress any real or perceived income gap. Whilst the income situation in the rural areas of the central and eastern European states that joined the EU in 2004 and 2007 warrants concern, it is difficult to accept without qualification the Commission’s claim (p. 5) that agricultural income is “significantly lower...than in the rest of the economy”. There are big farms, and small farms, in all Member States, and small farms are often run on a part-time basis, combined for example with other business activities. Comparing like with like is difficult, and generalisations about “farm income” can be misleading. One dimension of the diversity of circumstances in an individual Member State is the distribution of direct payments to farmers in the UK in 2008 (see Table 2).

6. Whilst multiple claims per farm business cannot be excluded, the data does suggest that over 30% of claimants received €2,000 or less, and it is unlikely that most of these were full-time farm businesses relying upon the SPS for income support. On the other hand, nearly 10% of claimants received €50,000 or more,

scooping more than 50% of the funds disbursed in the UK in 2008. Despite being called “income support”, the income (or wealth) of the recipient is *not* a criterion in determining payment: there is no targeting of support on low-income households. With the regionalised system of payments, support is instead linked to the area farmed (which is likely to be positively correlated with income). Mindful of such concerns, the Commission (p 8) has suggested that if basic income support through direct payments is to be maintained, then “an upper ceiling for direct payments received by large individual farms (‘capping’) should be considered to improve the distribution of payments between farmers”. Capping has been proposed before—for example, by Franz Fischler in 2002, at €300,000 (Cunha and Swinbank, 2011: 132)—and rejected, in part because of opposition from the UK. But a €300,000 cap on “income support” would probably be seen as quite generous by most taxpayers.

Table 2

DIRECT AIDS TO PRODUCERS IN THE UK, FINANCIAL YEAR 2008 (ALL DIRECT PAYMENTS UNDER REGULATION 1782/2003)

| <i>Payment band (€)</i> | <i>% of Recipients</i> | <i>% of Payments</i> |
|-------------------------|------------------------|----------------------|
| ≥ 0 and < 500 | 12.93 | 0.17 |
| ≥ 500 and < 1,250 | 11.54 | 0.51 |
| ≥ 1,250 and < 2,000 | 6.84 | 0.58 |
| ≥ 2,000 and < 5,000 | 14.33 | 2.53 |
| ≥ 5,000 and < 10,000 | 12.56 | 4.87 |
| ≥ 10,000 and < 20,000 | 14.12 | 10.94 |
| ≥ 20,000 and < 50,000 | 17.45 | 29.66 |
| ≥ 50,000 and < 100,000 | 6.88 | 25.15 |
| ≥ 100,000 and < 200,000 | 2.26 | 16.10 |
| ≥ 200,000 and < 300,000 | 0.37 | 4.76 |
| ≥ 300,000 and < 500,000 | 0.15 | 2.94 |
| ≥ 500,000 | 0.05 | 2.46 |

Excludes net repayments, and so totals do not round to 100%

Source European Commission, *Indicative Figures on the Distribution of Aid, by Size-Class of Aid, Received in the Context of Direct Aid Paid to the Producers According to Council Regulation (EC) No 1782/2003 (Financial Year 2008)*, at:

http://ec.europa.eu/agriculture/funding/directaid/distribution_en.htm

7. If there is still a farm income “problem” among the generality of European farmers, despite the CAP’s 40-year history, why is this? Throughout this period (and probably well into the future) productivity improvements have meant that an ever decreasing farm population has been capable of delivering the food and other agricultural raw materials that Europe’s population requires. As jobs are shed, and farms enlarged, farm families often experience severe adjustment problems, and marginal farms suffer low incomes. The “old” CAP of market price support, and the “new” CAP based on direct payments (such as the SPS), were both as incapable of arresting these major economic forces as King Canute was unable to stop the advancing tide. Support has meant that more farm families have been “encouraged” to remain in agriculture, hoping against hope their situation might improve, whilst the bulk of the benefits of farm support have gone to existing landowners. Tenant farmers are unlikely to be long-term beneficiaries; and new entrants certainly do not benefit if they have to pay inflated land prices or rents (as they will) to enter the subsidy treadmill.

To Offset the Cost of Regulation?

8. The SPS is sometimes justified as a reimbursement of the cost of regulation. Thus the Commission’s Communication (p 7) suggests that “European farmers face competition from the world market whilst also having to respect high standards relating to environmental, food safety, quality and animal welfare objectives requested by European citizens”. This comment is overly simplistic and ignores two important facts. First, in high-income economies, most industries are likely to have to respect stiff environmental standards: it is simply the cost of doing business there. But second, unlike most economic sectors which “face competition from the world market”, many agricultural products are protected by high tariff barriers which will remain significant even if the sweeping tariff reductions proposed in the Doha Round are implemented. To have both high tariff protection *and* direct payments to compensate for the cost of regulation seems overly generous.

9. Animal welfare standards can be problematic if citizens as consumers do not show the same concerns they express as voters, and international acceptance of appropriate labelling schemes would be helpful (Swinbank, 2006). But the suggestion that European farmers face import competition because of the lower *food safety* standards of imported products is a serious charge. Is it suggested that the food industries wilfully and illegally import unsafe food; and if it is not illegal to import unsafe food, why so?

Multifunctionality?

10. Multifunctionality—the notion that farming provides a range of desirable environmental and cultural public goods that are not rewarded by the market—is not a term used in the Commission’s Communication,

or other recent documents (probably because of sensitivities in the WTO). Multifunctional agriculture was however praised in the recent Franco-German declaration arguing for a “strong common Agricultural Policy beyond 2013”, and the concept still lurks in Commission thinking. Its Communication (p. 4), for example, states that “Decoupled payments provide today basic income support and support for basic public goods desired by European society”. Apart from Pillar 2 (Rural Development) measures, there are however no mechanisms in place to ensure that farm businesses deliver public goods (other than the cross compliance and Good Agricultural and Environmental Condition (GAEC) provision of the SPS regulation), or that the SPS payment to any particular farm reflects the cost of provision (a WTO requirement) or the value society places on the public good.

11. The Commission has however suggested that more might be asked of recipients, to enhance “the environmental performance of the CAP” for example “through a mandatory ‘greening’ component of direct payments by supporting environmental measures applicable across the whole of the EU territory”. But, as with existing provisions, there is no attempt to link payments to cost of provision, or benefit to society. It would be more efficient to pursue these objectives through targeted policy mechanisms in Pillar 2.

FOOD SECURITY

12. The Commission reports (p 2) that one of the concerns expressed in its consultations was the need to “preserve the food production potential on a sustainable basis throughout the EU, so as to guarantee long-term food security for European citizens and to contribute to growing world food demand....Europe’s capacity to deliver food security is an important long term choice for Europe which cannot be taken for granted”. Although not specifically endorsed, the reader is left with the impression that the Commission believes that a strong CAP, “structured around its two pillars”, is important for Europe’s food security. But what is “food security”, and can it be promoted by the CAP?

13. Aside from natural disasters, and the breakdown of distribution systems in times of war, civil strife, or financial collapse (for all of which governments need to plan, and make emergency provisions), a household’s food security rests upon its ability to purchase enough food. Thus most (but not necessarily all) of the EU’s citizens are “food secure”, because of their purchasing power, and regardless of the volume of food raw materials supplied by Europe’s farmers. If shortages occur, sadly it will be the poor and destitute in much poorer parts of the world who will go hungry. It would require a major increase in retail food prices (and hence much higher increases in farm-gate prices) to convince us to change our diet (eat less meat for example), waste less food, or feed fewer cats and dogs. The only effective way of improving the food security of the poor and destitute is to increase their earnings (or subsistence food production), whilst ensuring that world food supplies grow to match the increase in overall demand. Quite whether and how this can be done through to 2050 is uncertain, but substantial investment in agricultural R&D (particularly in developing countries), a greater willingness to embrace challenging new technologies, and a more open and liberal trade regime for agricultural products, are likely to be important ingredients in the policy mix. Despite the urgent need to combat global warming, promotion of first generation biofuels is probably not a good idea. Europe’s farmers do of course make an important contribution to world food supplies, but it is a delusion to believe that there is a magic level of “self sufficiency” that guarantees our food supplies. It is food in the supermarket that matters, rather than raw materials on farms, and the CAP as we know it plays little role in that.

WTO COMMITMENTS

14. An important factor underpinning the CAP reforms of the past two decades has been the pressures and constraints imposed by first the Uruguay Round of GATT (General Agreement on Tariffs and Trade) negotiations, second the new world trade regime with its revised Dispute Settlement procedures under the WTO, and third negotiations in the as yet unfinished Doha Round (Daughbjerg and Swinbank, 2009). The decoupling of support, first with the area and headage payments in 1992, and then with the creation of the SPS in 2003, has been central to this.

15. The EU has claimed that, as a result of the 2003 and subsequent reforms, the bulk of CAP support has been shifted from the so-called amber and blue boxes into the green box. Amber box support is trade distorting, and the amount of amber box support the EU can give its farm sector is limited by the Uruguay Round Agreement on Agriculture. Although this constraint is not binding for the moment, it will bind tightly once the new disciplines envisaged in a Doha Round agreement are applied (Josling and Swinbank, 2011). Green box measures are deemed to have little impact on production and trade, and consequently there are no expenditure constraints on green box support, although tightly defined criteria have to be met (outlined below). Little change is expected as a result of Doha. Blue box support is an in-between category, of partially decoupled payments, which housed the area and headage payments of the MacSharry reforms, and is currently subject to no expenditure limits. A Doha agreement would impose tight, and binding, constraints on blue box support. Thus, although the CAP might have some problems with the envisaged cuts in import tariffs, the Fischler and subsequent reforms appear to have made the CAP more-or-less compatible with the likely constraints on domestic support in a Doha agreement. This has allowed the EU to adopt a far more proactive stance in the Doha Round than was possible in the Uruguay Round.

16. The EU’s claim that expenditure on the SPS sits securely in the green box could, however, be challenged. If the WTO’s Dispute Settlement Body were to rule that the SPS is not a green box policy, then the payments

would revert to the amber or blue boxes. For the moment that would not be a problem, but with new amber and blue box constraints in place after a successful conclusion of the Doha Round such a conclusion would result in the EU being in breach of its domestic support commitments.

17. There are two ways in which the EU's classification might be challenged in a WTO dispute. First, it might be argued that the scheme does not meet the detailed criteria set out in Annex 2 to the Agreement on Agriculture: this was a problem the United States faced when Brazil challenged its subsidy schemes for Upland Cotton (Daugbjerg and Swinbank, 2009: 117–9). Second it might be argued that the SPS flouts the overarching criterion that green box measures should “meet the fundamental requirement that they have no, or at most minimal, trade-distorting effects or effects on production”.

18. The detailed, policy-specific, requirements for decoupled income support in Annex 2 include the requirements: (i) that “Eligibility for such payments shall be determined by clearly-defined criteria such as income, status as a producer or landowner, factor use or production level in a defined and fixed base period”; (ii) “The amount of such payments in any given year shall not be related to, or based on, the factors of production employed in any year after the base period”; and (iii) “No production shall be required in order to receive such payments”.

19. However the SPS is an annual scheme under which SPS entitlements are only activated by matching them with eligible agricultural land at the farmer's disposal. Thus it might be said that payments *are* based on “factors of production employed” in particular years after the base period, violating the green box criteria.

20. Furthermore the Commission is caught between the European Court of Auditors and the WTO. SPS recipients must be farmers, and as the Court of Auditors (2009: paragraph 5.47) has pointed out: “In order to be eligible for aid, farmers must carry out an agricultural activity. An agricultural activity is defined to mean the production, rearing or growing of agricultural products including harvesting, milking, breeding animals and keeping animals for farming purposes, or maintaining the land in good agricultural and environmental condition (GAEC).” However (paragraph 5.49) it “found *shortcomings concerning the Member States' definition of what is required to maintain land in GAEC such that certain beneficiaries are paid aid...without doing anything with the land concerned.*” The Commission, in response, pointed out that “national criteria should not create an obligation to produce which would not be compatible with the WTO requirements” (in Court of Auditors, 2009, paragraph 5.49); but in its recent Communication (p 9) it has suggested that “changes in the design of direct payments should go hand in hand with a better definition and targeting of support to *active farmers* only, responding to the criticism of the European Court of Auditors.” Quite how this can be done without further compromising the SPS's green box claims is unclear.

21. The Commission is well aware that it cannot say that direct payments (eg the SPS) result in a larger volume of agricultural output in Europe than would otherwise be the case, for it knows that any such statement would flatly contradict the EU's claim that, as genuine green box payments, they meet “the fundamental requirement that they have no, or at most minimal, trade-distorting effects or effects on production”. Its discussion of food security in its Communication, however, comes close to implying that direct payments do result in *more* EU food production. Furthermore, an earlier—leaked—draft of its Communication¹⁶ had said of reform option 3 (which was there labelled “abolished market and income support”; p 11) that: “Those requesting a more *radical* reform of the CAP advocate moving away from income support and most market measures, and focussing entirely on environmental and climate change objectives. This alternative could have the advantage that it would allow for a clear focus of the policy. However, this would lead to a significant reduction in production levels, farm income, and the number of farmers for the most vulnerable sectors and areas, as well as cause land abandonment in some areas....” As both versions of the Communication had earlier assured the reader that “to a large extent the market measures, which were the main instruments of the CAP in the past, today provide merely a safety net only used in cases of significant price declines” (p 4 of the official text, with similar wording on p 3 of the leaked text), it is difficult to avoid the conclusion that the Commission *does* believe that direct payments do have *some* impact on production.

CONCLUSIONS

22. Food Security, particularly the global food security of potentially 9 billion humans by 2050, is an important policy concern; but fiddling with the CAP is *not* an appropriate policy response to this formidable challenge and will do little to change the availability of foods in European supermarkets.

23. A major part of existing CAP expenditure is devoted to direct payments, particularly the Single Payment Scheme (SPS). There is little evidence to suggest that this taxpayers' money is well spent. It is not targeted “income support”; the bulk of the payments are received by larger farm businesses; and it results in inflated asset prices, and complex rental arrangements, discouraging structural adjustment. Whilst multifunctionality might well be a desired attribute of European agriculture, the SPS is an inappropriate policy instrument to cost-effectively deliver public goods. Moreover, the SPS might *not* be a green box measure within the WTO, and could be challenged in the future. Its antecedents were *compensation* payments for the 1992 reforms: 20 years later it is time to phase-out the SPS and focus on other, more pressing, priorities.

December 2010

¹⁶ Available, for example, at: <http://dl.dropbox.com/u/11261695/DraftDocumentCAP.pdf> (last accessed 30 November 2010).

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Supplementary written evidence submitted by Professor Alan Swinbank

RESPONSE TO THE COMMITTEE’S SUPPLEMENTARY QUESTIONS

Question 1. *Your evidence referred to the likely increase in global food prices in future. Is it inevitable that farmers’ profitability will increase as a result of these increases? Or is it likely that prices will rise in line with costs, or that any profits will accrue later down the supply chain?*

1.1 There are two sides to the equation. Analysts are concerned about rising costs (for fuel, agrochemicals, labour, etc), and potential future cost increases associated with global warming. Consequently, simply to stand still, commodity prices need to increase. Not all farmers will be equally affected: those heavily dependent on the inputs with the highest cost pressures will be squeezed; whereas those less dependent on these inputs may see their margins increase.

1.2 The more fundamental issue, however, would appear to be a concern that demand increases—more mouths to feed, changes in diet in China and India in particular, biofuels, etc—could outstrip the world’s capacity to produce more. This needs to be matched by an increase in supply, *which will only be forthcoming if an appropriate price signal is passed back to farmers, and they produce more*. If higher prices did not feed back to farmers, and no more was produced, then the price mechanism could only bring demand back into line with available supplies by pricing the poor out of the market.

1.3 Some of the benefit of higher prices will doubtless be captured by trading and processing companies along the food chain. Farm costs will increase: more machinery and agrochemicals will be bought, profit margins for supplying firms will strengthen, and landlords will seek to charge higher rents for new tenants. Long-standing and well established farm businesses stand to gain in this scenario; but many farmers will remain on the profitability margin, dependent upon on a continuation of high farm-gate prices to cover their costs and borrowings, and vulnerable to any future downturn in profitability. So I suspect the European Commission will find cause to lament about depressed farm incomes well into the future.

1.4 My concern is with the millions of consumers who are pushed into poverty as a result of an increase in food commodity prices. The World Bank has just reported that its “Estimates of those who fall into, and move out of, poverty as a result of price rises since June 2010 show there is a net increase in extreme poverty of about 44 million people in low- and middle-income countries”.¹⁷

Question 2. *The Jongneel et al. study (2007) looked at the effects of cross-compliance on trade balance. Would it be fair to conclude from this study that the “cost” of cross-compliance is less than the “compensation” from the single farm payment?*

2.1 I presume this refers to the report Compliance with mandatory standards in agriculture: A comparative approach of the EU vis-à-vis the United States, Canada and New Zealand published by the Agricultural Economics Research Institute (LEI) in The Hague.¹⁸ I was not familiar with the study, but I have now glanced at its conclusions.

¹⁷ *Food Price Watch*, February 2011: http://www.worldbank.org/foodcrisis/food_price_watch_report_feb2011.html, accessed 17 February 2011.

¹⁸ <http://edepot.wur.nl/42429>, accessed 17 February 2011.

2.2 The report focuses on the cost of statutory management requirement (SMRs), such as the Nitrates Directive, and the additional costs associated with the good agricultural and environmental condition (GAEC) provisions of cross compliance. The conclusions do not highlight any numbers, but it is reported that: “The (additional) costs of cross compliance associated with the GAECs is found to be rather low. A lot of farms (animal holdings) will probably face no costs at all, where others (arable farms) might face some costs, in particular costs associated with maintenance activities (soil cover, erosion control). These will be generally low, and often wholly or partly offset by additional returns” (p. 112).

2.3 It does report that “costs of compliance with the SMRs can be significant. In particular the costs associated with the Nitrate Directive and Animal Welfare requirements could have serious impacts”. It had earlier suggested, however, “The SMRs which are part of cross compliance are all pre-existing legislation, and costs associated with complying should be primarily attributed to this legislation and not to cross compliance. (Additional) costs are expected to be minimal unless measures need to be taken to comply with SMR standards that were previously (partly) ignored” (p. 112). I would agree with this, and thus I do think it is reasonable to conclude from this study that the “cost” of cross-compliance is less than the “compensation” from the single farm payment.

2.4 It might also be pointed out that farmers in nitrate sensitive areas do not receive an enhanced Single Payment because of the extra compliance costs they face.

2.5 Whilst farmers in the New World might not face similar SMRs, this reflects in part the New World’s lower population and farming intensities: “Lower regulation intensity however, does not necessarily imply a higher level of environmental degradation, biodiversity loss, or harm to animal welfare” (p. 113). A country’s comparative advantage can stem from a number of sources: more fertile soil, more reliable rainfall, lower labour costs, or a lower regulation intensity.

Question 3. *Would removing the single farm payment mean that food prices would need to go up to pay for the extra environmental and animal welfare standards imposed in the EU?*

3.1 This question might be rephrased as: *is the single farm payment decoupled?*; an issue also addressed in paragraph 5.5 below. If it is fully decoupled then the output of European agriculture should not be affected by its removal; but very few observers appear to believe that.

3.2 Consequently there might be some contraction in supply of products subject to tough environmental and animal welfare standards if the Single Payment Scheme was abolished. This would lead to some (small) increase in world market prices, and in EU prices where these are effectively linked to the world market. If that price linkage were absent—with import barriers effectively prohibiting imports for example—there would be a more marked (positive) impact on EU prices, helping producers recoup their costs. Furthermore, if the product is sufficiently differentiated in the eyes of consumers, *and* if this is a preferred product that consumers are willing to pay for, then again the market could deliver the revenues required by EU farmers.

Question 4. *Which Directorate-Generals in the EU Commission have responsibility for determining how open the EU agricultural market is to world trade? Do you understand the Commission’s Communication to be proposing any specific measures that would affect how open the EU market is to world trade (aside from the overall level of subsidy)?*

4.1 All the Commissioners, acting collectively as the College of Commissioners, are jointly responsible for trade policy, and each has the possibility of contributing to the debate. However it is the Commissioner for Trade, Karel De Gucht, and the Directorate-General for Trade over which he presides, that takes the lead and has prime responsibility. During earlier GATT/WTO trade negotiations, former Agriculture Commissioners Ray MacSharry and Franz Fischler took prime responsibility for the agriculture dossier, but that practice seems to have lapsed some years ago.

4.2 The Commission’s Communication, *The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future* (COM(2010)672), makes little mention of world trade, and what it does say is fairly neutral. On page 4 it notes that it is essential that the EU respects its commitments in international trade, and later on the same page it talks about the possible conclusion of the Doha Round and of bilateral and regional trade agreements under negotiation. On page 7 it notes that European farmers face competition from the world market, whilst “*having to respect high standards relating to environmental, food safety, quality and animal welfare objectives requested by European citizens*” (I presume that the use of the word *high*, rather than *higher*, was intentional). So the direct answer to the question is: *No, no specific proposals.*

4.3 By contrast, the Commission’s consultation document (*The Reform of the CAP Towards 2020: Consultation Document for Impact Assessment*) issued at about the same time, has a quite different feel (and appears to have been written by different people). In this document the European Commission, to my mind, adopts a more open and positive approach. In particular on page 8 it says: “*The EU will continue its efforts to seek the conclusion of an ambitious, balanced and comprehensive agreement in the Doha Development Round. As part of an overall package deal, the EU has indicated its readiness to accept a steep reduction in the ceiling on its trade-distorting subsidies, the elimination of its export subsidies and a significant reduction of its border protection. In parallel, the EU will actively pursue its agenda of bilateral or regional trade negotiations, which come as a complement to the multilateral ones. This means that the EU agricultural sector will be exposed to*

growing pressure and volatility of prices and income and, as a result, production is likely to adjust. At the same time, new trade agreements provide opportunities for EU agricultural exports. And EU role [sic] in world agriculture makes it an important actor in the global standard setting for sustainable agricultural production and consumption". The last sentence does suggest that the European Commission would like to negotiate new international standards, on animal welfare for example, but gives no hint that it would unilaterally seek to reduce trade access. Would the real European Commission identify itself please!

Question 5. *The economist, Josef Stiglitz, said recently that EU agricultural subsidies were responsible for underinvestment in agriculture in developing countries, and therefore for the current high food prices. With the modern structure of the CAP, is this still the case?*

5.1 Joseph Stiglitz, formerly chief economist at the World Bank, is an able, and politically astute, economist, whose opinions I respect. On the *Today* programme on Radio 4 on 19 January 2011, talking about the current spikes in food commodity prices, he did indeed suggest that one of the contributory factors had been underinvestment in agriculture in developing countries, and that one of the reasons for this had been the "high subsidies" to agriculture, particularly in the US and Europe.¹⁹ I would not disagree with his comments in the broadcast. Most of his interventions related to US farm policy.

5.2 The "old" CAP of market price support undoubtedly distorted world markets, leading to underinvestment in agriculture in many developing countries; but they too were capable of pursuing policies that discouraged investment in their domestic farm sectors! The EU policy for sugar was particularly grotesque and Byzantine. Efficient agricultural exporters competed against subsidised EU (and US, and other) production, which reduced their incentive to invest. Net food importers, in the short-term at least, benefited from depressed world market prices, but this discouraged investment in the agricultural sector with a longer-term impact. Because of the EU's high tariffs, preferential access to the EU's highly-priced market (for example for sugar and bananas) could be offered to preferred suppliers in the developing world (for example under the old Lomé Convention for the African, Caribbean and Pacific (ACP) states, and more recently under the *Everything but Arms* initiative for the least-developed countries). This, arguably, encouraged perverse investments in these sectors that could not be sustained in the longer term; and a number of such economies are now facing severe adjustment problems as a consequence of EU policy change.

5.3 But as your question rightly notes, the CAP of 2011 is rather different to that of 20 years ago. Can the same criticisms still be levelled at today's CAP?

5.4 Inflation and policy reform have reduced not only real but also nominal support prices. Consequently, given today's buoyant world market prices, export subsidies are no longer relevant; and it is likely that export subsidies will be prohibited in a post-Doha WTO trade regime.

5.5 The bulk of support has switched to the supposedly decoupled Single Payment Scheme. In theory, this (and other Green Box measures pursued by the EU under its Rural Development Programme) has minimal impact on production, and hence on the trading interests of other countries. Many developing countries, non-the-less, are extremely dubious about this claim, and say that they believe EU policy still distorts world trade. Short of abolition of all farm support in the EU, however, it is difficult to see how much more decoupled the policy could be.

5.6 The main element still protecting EU agriculture is the high tariffs that are applied, which in some instances are prohibitively high. These means that efficient exporters elsewhere have difficulty selling into the EU market; and that prices in the protected EU market are often well above those on world markets, thus stimulating EU production. Consequently the charge that the CAP still distorts world trade is still valid—though much less valid than it was—and this may well impact on investment decisions in developing countries. A successful conclusion to the Doha Round would do much to address, but not eliminate, this distortion.

5.7 European policy-makers should perhaps also consider the *shadow* that the CAP still casts over the world scene. Governments and investors in developing countries will be reluctant to invest in agricultural projects if they remain unsure about the effects of EU (and US, and other) farm policies, or fear that the EU may rescind its current commitment to decoupled support.

18 February 2011

¹⁹ http://news.bbc.co.uk/today/hi/today/newsid_9366000/9366168.stm, accessed 17 February 2011.

Written evidence submitted by George Lyon MEP

EUROPEAN PARLIAMENT—CAP REFORM 2013

The European Parliament voted through its first opinion on the reform of the CAP 2013 in July 2010 and since then the Commission have published their communication in November 2010.

Both reports identified the key challenges of a growing worldwide demand for food against a background of real production constraints in the future such as scarcity of land, water and energy making global food security a key issue for the future.

The European parliament report focussed heavily on the need to move away from the old model of agricultural production based on high inputs of cheap energy to a more sustainable model in response to the potential impacts of climate change.

The Parliament report also focussed heavily on a fairer distribution of the budget between Member States and fair trade in the food chain. It also recognised the importance of local food production continuing in those areas with substantial natural disadvantage and the need for fair trade with our highly subsidised trading partners such as the United States, Japan etc.

It also highlighted the dramatic change in the CAP over the last 25 years when in the past the majority of the budget was spent on export subsidies and intervention whereas today it spends less than 1% on export subsidies and hopefully they will be phased out completely by 2013. It also highlights the dramatic reduction in the CAP's share of the EU budget from over 80% in the past to around 40% today and declining.

The Parliament wants to see a radical reform of the direct payments by introducing the concept of a targeted payment recognising that future budgets will be reduced.

The model outlined in the Parliament report was firstly a basic area payment conditional on meeting X compliance measures including activity criteria, a top up payment linked to delivering climate change action and incentivise a more sustainable and competitive agriculture, and a third top up for the Less Favoured Areas. There would also be the option of limited coupling of payments within WTO rules as allowed under Article 68 in current CAP.

The Commissions favoured option is very similar with the addition of a small farm scheme aimed at the 6million EU farmers who receive less than 2000 Euros/year.

In Rural Development the three main priorities of the Parliament were firstly tackling biodiversity loss with a target to have the majority of EU land covered by Agri-Environment schemes, secondly modernisation, promoting innovation and encouraging green growth through small scale renewable's such as biogas, bio waste, hydro, creating jobs and alternative income sources.

The third Rural Development priority is to improve food quality and add value.

The Parliament is now drawing up its opinion on the Commission communication and it will be published in advance of the Commission's detailed legislative proposals due in July.

January 2011

Written evidence submitted by the Agriculture and Horticulture Development Board (AHDB)

The AHDB is the independent levy board with a pivotal role improving industry efficiency and competitiveness. We are funded by the agriculture and horticulture industries through statutory levies. We represent about 75% of total UK agricultural output. Our statutory functions encompass meat and livestock (cattle, sheep and pigs) in England; horticulture, milk and potatoes in Great Britain; cereals and oilseeds in the UK. AHDB's role is providing the industry and government with objective analysis on how forthcoming proposals might impact on farmers rather than comment on the policy.

EXECUTIVE SUMMARY

1. It has been well documented that the EU/world faces some significant challenges over the next few decades. As described by UK Chief Scientist Professor John Beddington this "perfect storm" of increasing population and climate change will lead to an increased need for energy, water and food. This will place significant demands on EU agriculture both to use increasing precious resources efficiently whilst producing food and other crops for a growing population, but also to mitigate any contribution it is making to Climate Change. Therefore if we wish to meet this challenge, as stated by many in the agricultural industry, we should seek to take this opportunity of CAP reform to design a CAP to assist the EU/UK agricultural sector become as competitive and sustainable (economically and environmentally) as possible, producing as much food as the market wants, in an efficient and environmentally sustainable way.

How will the Commission's proposals affect the ability of UK agriculture to be competitive in a global market?

2. A reformed CAP should ideally support all of the activities listed below. Some of the proposals may help if well designed, but without sufficient detail it is difficult to undertake a full assessment. However, it appears possible that some of the proposals could hamper the ability of the UK agricultural sector to be competitive in both the EU and global market eg providing additional support to farmers who have naturally less advantages due to factors such as climate, size etc.

3. Key to continued/increased competitiveness of UK agriculture are:

- (a) An incentive to be competitive—ie adequate, but not excessive, competitive pressure.
- (b) Investment: in R&D, in capital projects and in people and skills to improve productivity and sustainability.
- (c) Clear market signals and confidence in those signals to encourage adequate investment through the supply chain.
- (d) Compensation for additional costs (or public goods) imposed by regulation on UK farmers which are not imposed on farmers from other countries who are able to compete with UK farmers through trade.
- (e) No distortion of competition through subsidies for farm types that are naturally less efficient.
- (f) Facilitation of effective risk/volatility management.

Do the proposals ensure fair competition for British agricultural products within the EU?

4. It is crucial that a common market has common rules if it is to operate efficiently. If nation states have too much flexibility in implementation of the CAP, there is the potential for distortion of competition. Any support for “small farms”, for “specific regions” or for “specific natural constraints” should be designed in such a way as to not be able to distort competition, or limited in size.

5. However, proposals for rural development to have a more strategic approach, with quantified, outcome based EU targets, with flexibility in how to achieve those targets could be positive in supporting competitiveness, depending on the detail.

Will the proposals achieve the correct balance between productivity and sustainability?

6. To answer this question we have to define what the correct balance is. AHDB would propose that the correct balance should be determined by the market place in terms of food supply, and in terms of sustainability, various standard methodology indicators/outcomes should be identified depending on the policy aims. Much, if not all, the evidence we have is that in terms of Green House Gas (GHG) emissions farms that are more efficient, eg produce the most output from a given amount of input have both a lower GHG impact and lower costs ie are the most competitive. Therefore promoting competitive farms should often also improve sustainability.

7. However, there may be potential tradeoffs between reducing GHG emissions and biodiversity, eg taking high quality agricultural land out of production as set aside may create valuable wildlife habitat in that location, but if a greater amount of less productive land elsewhere has to be used to produce the same amount of food than would have otherwise been produced on the set aside land, this is likely to increase total GHG emissions. In addition, the UK is predicted to be less impacted on by climate change than many other countries meaning that our contribution to total food and crop production may potentially need to be greater in the future than at present. This means creating the right balance may be challenging.

8. It should be noted that on many areas of environmental science/sustainability there is still some way to go to understand the complex interactions in agriculture. Therefore it is possible that any “greening” of the CAP with prescriptive regulations may actually create perverse and unintended consequences. Again the detail of the proposals are key in this area.

Do the proposals place the UK in a good position to help meet future food supply challenges?

9. Generally speaking exposure to the market place will lead to the greatest efficiency in terms of food production. However, where there are externalities (or public goods) which are not currently priced/valued by the market or through regulation/taxation on a standard basis across the world, UK farmers need to be supported to compete on an equal footing if we are not to merely export food production to countries where welfare or environmental standards are lower. Therefore farmers must be fully compensated for any costs due to higher compliance standards brought in to “green” the CAP if we are to have a competitive food supply.

Will the proposals redress the imbalance in support to different sectors created by the historic basis of payments?

10. A more uniform basic income support payment could reduce differences across the EU. However, if there is significant flexibility for member states in many areas then this could counteract those differences being reduced.

What aspects of the proposals should be made a common policy and which is best left to Member States?

11. If the aim of CAP is to support the development of a competitive and sustainable EU agricultural industry it is important that food is produced in the EU where it can be done so most efficiently. For this to happen as much as possible should be common across the EU to avoid market distortions. There is probably some scope for the second pillar to be more discretionary, but the framework should be the same across the EU. If there are common EU strategic outcome based targets it may be that the most effective way of achieving those targets is best left to member states.

Can the proposals be implemented simply and cost-effectively, within a short time-scale?

12. The key for simple cost effective implementation in a short timescale is to have simple, consistent proposals. Until the detail of the schemes is available it is difficult to comment accurately, but it would appear greater complexity is potentially being proposed.

December 2010

Supplementary written evidence submitted by the Agriculture and Horticulture Development Board (AHDB)

Given that the UK farms tend to be larger than the EU average, how likely is it that any scheme to support “small farmers” will be of benefit to UK farmers?

1. Based on the concept that a small farmer is one who farms a small area, any scheme to support “small farmers” is likely to only benefit a minority of UK farmers. According to the Farm Structure Survey of 2007²⁰ (FSS 2007) in the UK only 39% of holdings (of more than one European Size Unit)²¹ were smaller than 20 hectares in size. This compares to 39% in Ireland, 40% in France, 52% in Germany, 69% in Austria, 78% in Spain, 92% in Bulgaria and 97% in Romania.

2. Based on the assumption that 20 hectares is the cut off point for designating a “small farmer”, less than 40% of UK farmers would stand to benefit under any such scheme. Additionally these holdings only account for 4% of the utilised agricultural area of the UK. Many of these small farmers are engaged in livestock farming with over 80% of the land being permanent pasture and meadows. Cereals or forage crops account for most of the very small amount of cropping in this category. So, while such a scheme has the potential to be beneficial to some farmers in the UK, the majority will see little or no benefit.

3. Many small farmers are actually part-time farmers either due to another job outside of the holding or semi-retirement. The FSS 2007 indicates that more than 75% of UK small farmers are considered part-time, with most of these putting in under half of their time to the agricultural business. The survey indicates that small farmers are also more likely to be over 65.

4. As such it is likely that any scheme that supports small farmers will be of little benefit to UK farm businesses as either they will be too large to qualify for the support or they are only engaged in farming on a part time basis. However, small farmers who are engaged in farming in a full time capacity may be able to benefit from such a scheme. In addition, it is possible that the definition of a “small farmer” could be set even lower than the assumed level of 20 hectares which would further reduce the benefit to UK farmers. Finally, the support for small farms may distort the market (depending on the approach used) which potentially could have adverse effects on maximising competitiveness/food production, and minimising Green House Gas emissions.

The Commission has recently published its “Milk Package” including proposals to improve the functioning of the supply chain. In your view, are the sorts of measures in the proposal sufficient to rectify the current imbalances and ensure a fairer return to farmers?

5. The proposals could help to improve market signals to producers which would help make the market work more efficiently. Whilst the use of written contracts between producer and processor is already common place in the UK, there is much debate in the industry about whether the structure of these contracts hinder the market from operating efficiently. The European Commission proposals could address this issue by ensuring certain common elements are included within contracts.

6. The key issues of pricing and notice periods within written contracts still remain as problems in the UK milk market. Firstly, only Tesco’s and one other additional contract we are aware of have a clear pricing structure with market indicators or other factors explicitly linked to setting the price. Secondly, those buying

²⁰ Data taken from the Farm Structure Survey in the United Kingdom and from the equivalent surveys for other member states is available from Eurostat (<http://epp.eurostat.ec.europa.eu>).

²¹ For each activity (“enterprise”) on a farm (for instance wheat, dairy cow or vineyard), a standard gross margin (SGM) is estimated, based on the area (or the number of heads) and a regional coefficient. The sum of such margins in a farm is its economic size, expressed in European Size Units (ESU) where one ESU is a 1200-euro standard gross margin. The ESU can be thought of as a measure of the economic size of a farm business based on the gross margin imputed from standard coefficients for each commodity on the farm. An ESU roughly corresponds to 1.3 hectares of cereals, one dairy cow or 25 ewes. In 2007, there were 183,000 enterprises of at least 1ESU recorded in the UK.

milk are able to change the price at short notice, or even retrospectively, without the option of a farmer ceasing supplies of milk to that buyer without a long notice period in most cases. Finally, many contracts do not specify the monthly volume of milk to be produced and this reduces the predictability of supply for processors.

7. The European Commission proposals will be of greatest benefit to the UK dairy industry if they instigate change in the areas outlined without dictating a one-size-fits-all approach. For example, all contracts must be set up with a core principle that price changes must be agreed, and if there is no agreement, farmers can leave within a reasonable period. However, the mechanisms for setting prices within contracts can be very different and should be left to the commercial world. For example, price setting on a milk-for-cheese contract could be very different to that within a liquid milk contract. Contracts could specify prices in different ways such as:

- xxppl for the next six months for a liquid contract possibly with the retailer agreeing an appropriate wholesale price for the same period.
- Price formula of AMPE (Actual Milk Price Equivalent)²² indefinitely for a commodity processor.
- Price formula of MCVE (Milk for Cheese Value Equivalent)²³ + 2ppl indefinitely for a cheese processor.

The exact details of contracts should vary depending on different circumstances and it should be left to commercial organisations to decide on these. However, key principles should be addressed by contracts, so price changes are agreed and producers are able to easily and relatively quickly move to another buyer if this isn't the case. This would aid clear market signals and an effective supply chain.

The CAP provides a basic income safety net to farmers. One argument for its retention is that it compensates farmers for the poor returns they receive for their products from processors and retailers. If direct income support were abolished, would you anticipate that any action would be taken by retailers and/or processors to secure their supplies?

8. Removal of the income safety net would increase the exposure of farmers to fluctuations in prices and production levels and this may incentivise processors and retailers to provide greater support to their suppliers in order to ensure that the flow of food and inputs they require continues. It is important to note that action along these lines is already occurring in many agricultural supply chains in the face of volatile commodity markets. In the feed compounding sector, for instance, it is common for compounders to enter into forward-buying contracts with producers that cover many months ahead of the current market. This has been crucial to them in recent months, allowing them to secure supplies at set prices when raw material (particularly cereal) values have been highly volatile.

9. Adapting to market volatility is most efficiently achieved using a whole supply chain approach. Hence, an increase in the exposure of farmers to risk requires not just action from processors (and others in the middle of the supply chain) but all those involved in the chain. For instance, if processors are to enter into forward contracts with farmers, they may well seek similar arrangements with end-users (eg supermarkets) in order to share the risk burden. However, for such arrangements between different agents in the supply chain to be successful, it is essential that all parties fully understand the risks that they and others face.

10. This has been seen to be very effective in the poultry feed supply chain, for instance, where cereal farmers, integrated poultry units and end-users have been successful in spreading the risks associated with volatile wheat prices across the whole chain. Given that feed wheat prices represent by far the largest part of the costs incurred by the chain, this has been crucial in ensuring the continued profitability of the relevant firms as feed wheat prices have risen over the last 12 months.

11. Other examples of supply chains beginning to work on this include the dairy market, where Tesco have undertaken to pay farmers supplying them with liquid milk a milk price that covers their cost of production. Many other supermarkets have dedicated suppliers, with a premium price which also aids security of supply. As the examples already exist it appears likely that if the need arose more supply chains would become integrated and work better together.

12. However, for those farmers not involved in more integrated supply chains (and the vast majority are not) and are in effect generally competing on the world market, they would probably be fully exposed to market volatility. Their profitability would depend on their competitiveness and how efficiently they used tools such as the futures markets (although these are not available in most sectors). In some production sectors it is clear that there is potential for efficiency to be improved and this lack of a safety net may stimulate improvements. However, it is likely that there might be significant other impacts, such as a drop in production, reduction in the number of farmers, abandonment of marginal land etc.

13. An additional factor which should be considered when deliberating this point is how effective CAP is at providing a safety net in that in many cases subsidy payments get partially or wholly transferred in to the supply chain or capitalised in land costs/rents depending on how the supply chain is working. The amount of the payment that gets lost to farmers depends on factors such as how "decoupled" farmers consider the payment

²² AMPE calculates the value of a litre of milk at the factory gate if it is turned in to butter and skimmed milk powder at the prevailing prices for those products and allows for the processors costs.

²³ MCVE calculates the value of a litre of milk at the factory gate if it is turned in to mild cheddar, whey powder and whey butter at the prevailing prices for those products and allows for the processors costs

(ie do they continue to produce food even though the market price is too low because the subsidy payment allows them to do so), whether the market price is driven by world demand/supply factors or more regional factors, demand for land in a local area, are input costs higher than they otherwise would be without CAP support to farmers etc.

The Commission has recently released new proposals regarding an “income stabilisation” tool to help manage price volatility. What are your views on its utility for UK farmers, impact on competitiveness and budgetary and WTO implications?

14. AHDB would need more details on how the proposed tool may work before being able to provide a full analysis of potential impacts. For instance, how will the scheme be funded—will it come from the rural development or direct payment budget? However, a few comments can be made based on the content that has been reported in the press and from the Commission.

15. Reports coming out of Europe to date indicate that the tool may be restricted to provide support only where losses of income above 30% of average income occur and will be limited to compensating for a maximum of 70% of the total income loss. This is important for two reasons. It is expected that restricting the scheme to these levels would meet WTO “green box” requirements. Secondly, it shows that income fluctuations are only to be smoothed on the downside and hence the term “income stabilisation tool” could be misleading—as that may imply a system that reduces income fluctuations in both directions, such as Contracts for Difference (CfDs).

16. It has also been suggested that the system will be voluntary since there is a varying appetite for such a tool within member states. Part of the reason for this is that it is seen to be complex from an administration point of view, with difficulties calculating the average income and current income loss for each producer in the member state. Only having the option available in some member states may affect competition within Europe, however restricting usage to situations where very large reductions in income occur should reduce the impact of this.

17. AHDB would need more detail in order to fully analyse the system and compare it to the other systems that exist elsewhere in the world such as in the USA which may be of interest. However, early indications suggest that it is likely that there will be limited appetite for the tool from the UK farming industry given the extra complexity it adds to the CAP, the costs of administering the scheme and the potential erosion to the value of farmer’s direct payments.

February 2011

Written evidence submitted by the British Retail Consortium (BRC)

1.0 INTRODUCTION

1.1 The British Retail Consortium (BRC) is the trade association of the retail sector and is the authoritative voice of the industry to policy makers and to the media. The BRC brings together the whole range of retailers across the UK, from independents to large multiples and department stores, selling a wide selection of products through centre of town, out of town, rural and online stores.

1.2 Our membership includes over 90% by turnover of the UK’s grocery retailers, including the all the major supermarkets. We are therefore at the forefront of discussions regarding the future of food policy, the way in which consumers buy and consume food and the way in which goods are sourced, packaged and sold in UK stores.

2.0 GENERAL VIEW ON CAP REFORM

2.1 Although the BRC does not have a detailed position on CAP reform we are actively involved in the food debate in the UK and continuing food security. We were involved in the Cabinet Office paper *Food Matters* in July 2008 and continue to work with Defra officials and stakeholders in the supply chain on the relevant points outlined in this report.

2.2 Our general view, considering the major structural changes in global food supplies, is that the reform of CAP is timely but needs to be handled carefully. The overall outlook for farmers is reasonably positive; the UK farming industry is recognised as being innovative and the need to farm sustainably, coupled with increased global demand for meat and dairy products should be beneficial factors in further developing our efficient and advanced farming sector.

2.3 Having said that we recognise that any reform must not prejudice our farming sector, and standards and subsidies must apply equally through Europe. There are also parts of farming for whom subsidies are more integral to their business and care needs to be taken in the transition away from subsidies to a more market focused sector.

2.4 We also believe changes should not ignore the investment in research and development necessary to help farmers meet the challenges of future food production. For example, if we are to increase production sustainably we need to ensure farmers have the acquire tools and knowledge to meet the challenge.

3.0 RETAILERS' SOURCING POLICIES

3.1 Retailers are pragmatists and want long term, sustainable and reliable supply chains that give consumers what they want. All these reasons make the UK the first choice for sourcing and this is demonstrated by the proportion of food that is sourced here, which is better than other parts of the food sector and even the Government's own procurement policy.

3.2 In terms of staples, all fresh milk, eggs and fresh chicken sold in major retailers are from the UK. The vast proportion of our pork, lamb and beef also comes from the UK as do indigenous vegetables when in season.

3.3 There will be times when retailers source from abroad due to seasonality, availability, and price. Even where we do source abroad, however, the vast majority of imports come from the EU.

3.4 There is no doubt that price is a key factor for consumers, particularly in the current economic climate, but that doesn't have a significant impact on retailers' sourcing policy. Firstly, many of the underlying price factors are global, both in terms of the costs to farmers such as feed prices or oil and the price that the food sector has to pay for commodities such as dairy products. Secondly, consumers buy on value not price and issues such as sourcing and quality are key factors. Thirdly, retailers need long term sustainable supply and chopping and changing suppliers is not a pragmatic approach, particularly with the pressures of maintaining food security.

3.5 Retailers recognise that some consumers want more information about the country of origin of their produce. Retailers have always endeavoured to do this and as a result were able to sign up to the country of origin principles developed with Defra at the end of 2010. The protocol sets out clearly how meat and dairy products should be labelled and has been welcomed by supplier groups. To date, only the major retail companies have committed to the protocol. A copy of these principles is attached as annex one to this evidence.

4.0 POSITION OF THE UK IN GLOBAL MARKETS AND NICHE SUPPLIES

4.1 The UK is a relatively small player in the global food market and this is reflected in the influence countries such as China and Russia have over commodity prices such as wheat. Commodities such as wheat, rice, sugar and some dairy products are globally traded and those prices dictate our prices in the UK. While retailers have been able to insulate consumers from some of the worst of the price rises, the BRC food inflation figure of 4% year on year is primarily due to global forces.

4.2 Global prices can be beneficial for UK farmers, although we recognise that increased volatility presents a new set of challenges. For example the large rise in demand for dairy and meat products at the end of the 2000s had a positive impact on the price UK farmers received, as have the recent price rises in cereals.

4.3 Although global prices will always underpin the UK market, it is true to say our market is one of the most sophisticated in the world which means there is an opportunity for home producers and continuing product development. For example, the rise in interest in provenance has provided good opportunities for small producers and processors in the UK.

4.4 Our view is there is likely to be continuing pressure on food prices through 2011 and there is likely to be more volatility in food prices beyond that.

4.5 Current food inflation figures do not account for all the increases which we are currently facing which have not worked their way through the chain to the consumer. On top of that future prices for key commodities such as cereals, soya and sugar are high and will need to be factored in. The retail sector has reacted through an unprecedented level of promotions to insulate consumers from the worst of the price increases however, there is further upward pressure.

4.6 In the near future, pressure on food prices will increase as populations increase and become more affluent, increasing the demand not only for food but for meat and dairy products. On top of this more erratic weather will have an impact on harvests, as we have seen recently in Russia and Australia. The combined effect of variable harvests, more livestock production, competition for land from non-food crops and increased population will present major challenges to sustainable food production to avoid further increases in food prices.

4.7 The UK food market is extremely sophisticated; we have well informed consumers who are always looking for new experiences. This means there is a real interest in niche products that offer something new and are perceived to be of a better quality. This is a huge advantage for UK producers who are technically able and adept at meeting changing demand, some of the factors key to changing trends in food, such as local sourcing and improved sustainability also offer opportunities.

5.0 FOOD SECURITY

5.1 Food security has always been a priority for retailers. As explained previously the need for consistent supply at the quality demanded by discerning consumers means ensuring food security is a fundamental requirement for food retailers.

5.2 We believe that whilst there are clearer pressures on food security in the future from the threats listed previously, the immediate pressures are in animal feed and world trade. A large proportion of animal feed is imported from outside the EU and the current controls on GM and the risk of cross-contamination are making it increasingly unattractive to countries exporting into the EU. This needs to be resolved quickly to avoid major problems for our livestock industry. Secondly, we need free trade to ensure food stocks are available to the market. We have seen in recent years an increase in the proportion of stocks held by countries such as China, combined with steps taken by countries to limit their exports, has meant less grain available to trade.

5.3 In the longer term, there are global issues which need to be resolved that have been detailed recently in the Foresight report to increase production sustainably. This will be a major challenge.

5.4 UK retailers recognise that closer links with groups of suppliers has many benefits, not least in food security. Much of this is achieved through long standing relationships but increasingly they are setting up dedicated supply chains. Dedicated supply chains ensure consistent supply and also allow the retailer to work closer with the suppliers to deliver advances on sustainability, animal welfare and the environment. A number of these are already operating in liquid milk and proving extremely successful, for the farmer who receives better returns for his milk, the retailer who has closer control of his supply chain and the consumer who receives quality milk produced to the standards important to them.

6.0 FUNCTIONING OF THE SUPPLY CHAIN

6.1 The BRC is following the current discussions in Europe closely, not least as they are following on from those in the UK, particularly the Competition Commission's inquiry into the groceries market.

6.2 It is worth restating that retailers do not usually have a contractual relationship with farmers. Farmers would normally supply a processor or manufacturer who would then supply the retailer.

6.3 In terms of its current work we feel it is important to recognise the steps already taken in the UK ahead of Europe. We already have a supplier code (GSCOP) that covers the 10 biggest retailers and sets minimum standards, enforceable if necessary through independent arbitration, for their dealings with their suppliers. We believe GSCOP has answered the questions that were raised by the Competition Commission and provides the correct balance between protecting the position of suppliers without compromising negotiations that benefit consumers.

6.4 We also feel the discussions in Europe have not appreciated the progressive approach UK retailers have taken in their dealings with suppliers, and in particular the dedicated supply chains. We have produced a paper that demonstrates this and have attached it to this paper as Annex Two.

27 January 2011

Supplementary written evidence submitted by the British Retail Consortium (BRC)

Thank you for your letter dated 15 February and please find my response to the questions raised in it.

1. Is it a problem for retailers if EU farmers go out of business

Before answering this in detail I would like to clarify that it is inevitable that some EU farmers will go out of business in the future as part of further consolidation in the sector. That in itself is not a problem if it improves efficiency, output and management of farms as was raised by other contributors to the inquiry. My response, therefore, assume the question is asking whether a major reduction in available food produced in the EU would pose a problem for retailers.

UK retailers source the majority of their food from this country with the bulk of imported food coming from EU countries. A reduction in available food from the EU would pose significant problems for retailers.

Firstly, retailers need secure, reliable supply chains where they can work closely with their suppliers to supply food produced to their customers' requirements. We are fortunate in this country to have a highly skilled, efficient farming sector who can meet the demands of the UK consumers. Production here and in the EU is easy to manage in terms of audits to control safety and quality.

Secondly there are sound financial reasons for sourcing food from the UK and EU. Our climate is well suited to the production of basic commodities which should be able to compete in terms of global pricing, particularly when transport costs are taken into account. Having secure supply chains also avoids the problems of competing to source commodities on the global markets which due to fluctuations in production and trade could lead to increased price volatility for consumers.

Thirdly, sourcing from the UK and EU has advantages in terms of the environmental impact of food production. This will be an increasingly important consideration for consumers and could be reflected in the price of food if it accounted for more of the external costs of environmental impact.

Finally, there is a continuing and growing interest in the origin of food amongst consumers. This is driving demand for more locally produced food. A trend that is likely to continue as awareness of sustainable food production increases.

For all these reasons it makes practical and commercial sense for retailers to source the vast majority of their food from the EU, with the bulk of it from the UK. Anything that forced a change in sourcing policy would affect food security and price.

2. If the income support provided by the CAP were to be removed, what steps would you anticipate retailers might take to ensure their security of supply?

Securing food supply is something retailers are always working on for all the pragmatic reasons listed above and a key part of that is working with UK farmers. The removal of income support will not in itself make any difference to that work.

The key issue for retailers is ensuring farmers receive an adequate price for their produce that allows them to reinvest in their business for a sustainable future. They work closely with their supply chains and have a good knowledge of farming costs and will factor that in to their decisions on price. Retailers will pay the necessary market price to secure food to meet their consumers' demand. We know, for example, that many consumers are interested in UK produce and the retailer will ensure they secure sufficient supply to meet that demand. The UK food retail sector is extremely competitive and all retailers know if they do not meet the expectations of demanding customers they will take their business to one of their competitors.

There are already agriculture sectors that operate without income support, such as fruit and vegetables, and retailers have worked with their producers to secure supply. Potatoes and soft fruit are good examples of how sectors have moved from an interventionist to a market based approach without damaging UK production. The market is key and buyers know if they want secure supply they have to pay the appropriate price. This will put farmers in a strong position in the future as global food production struggles to keep up with increases in population and demand for meat and dairy products.

A good example of how retailers are working with groups of farmers to ensure secure supplies in an uncertain and challenging market is their support for dedicated supply chains, the most prominent in dairy. Retailers working with processors have secured the volume of milk they need for their business with groups of UK farmers paying them a premium price to ensure their long term production. Retailers have taken this step to secure the necessary supply of UK milk for their customers. Of course this will not help all dairy farmers as retailers only require a portion of the milk produced in the UK. Other parts of the food sector, such as catering, manufacturing and government procurement appear less concerned in securing long term UK supplies but retailers are confident their investment is appropriate to meet their customers' needs.

1 March 2011

Written evidence submitted by the Food and Drink Federation (FDF)

The Food and Drink Federation (FDF) represents the UK's food and drink manufacturing industry, the largest manufacturing sector in the country, with a Gross Value Added of about £21.6 billion. The UK is also the world's eighth largest exporter of value-added food and non-alcoholic drink products, with nearly £10 billion of overseas sales.

At both a UK and EU level the sector operates in increasingly open and competitive international markets. To succeed, our industries must have access to adequate supplies of raw materials that are safe, of high quality and competitively priced. We are committed customers of UK farmers, purchasing around two-thirds of the country's agricultural output. But to supplement this supply base, we also import ingredients for further processing.

Although successive rounds of CAP reform are moving EU agriculture towards greater market orientation, further reform is needed to consolidate this progress. We also believe that more needs to be done to protect and enhance UK and EU productive potential to help meet the coming challenges of food security and climate change. This means doing more to safeguard natural resources, such as soil and water and to preserve biodiversity. In short, we need a sustainable food and farming policy, looking at the supply chain as a whole and based on resource efficiency and comparative advantage rather than historical patterns of production.

How will the Commission's proposals affect the ability of UK agriculture to be competitive in a global market?

1. The Commission has suggested three broad options to launch further debate on reform of the CAP, stopping short of offering significant detail as to how these options might be achieved. Given the lack of detail, it is difficult to accurately evaluate the potential impacts of this document.

2. FDF is pleased that the Commission has included the competitiveness of the food supply chain as a key objective for reform of the CAP. Ensuring viable food production, encouraging increased productivity and improving the functioning of the food supply chain will help improve the competitiveness of UK farming and food. But much will depend on the choice of options proposed.

3. In this context, it is disappointing that the Communication sees increased trade liberalisation as a potential threat rather than an opportunity. A more market-oriented CAP, more open to world trade would stimulate export performance and help boost competitiveness. This is essential for us to maintain investment and production within the UK, as companies make new regional or global investment decisions and as the EU enlarges.

Do the proposals ensure fair competition for British agricultural products within the European Union?

4. The EU is a very diverse area of agriculture production. The more that CAP tools and mechanisms are adapted to local circumstances, the greater the risks of market distortion and unfair competition. The principle of comparative advantage needs to be reflected in a system which also encourages resource efficiency. Supporting inefficient or unproductive sectors will not help the EU to remain competitive or meet future food security needs. It may also harm UK interests.

5. FDF would therefore like to see less emphasis on potentially market distorting national flexibilities such as those introduced under Article 68 of the CAP Health Check of 2008. Any such aid needs to be directed primarily towards environmental priorities.

Will the proposals achieve the correct balance between productivity and sustainability?

6. FDF is pleased to see that the proposals include an emphasis on productivity and sustainability, with two of their three main objectives for the future CAP being “viable food production” and “sustainable management of natural resources and climate action”. However, there is again a real lack of detail regarding measures to achieve this, particularly in the case of productivity.

7. More needs to be done to improve ecological resource efficiency. But this needs to be done in ways which avoid unintended consequences or hamper productivity. Any new measures also need to be simple to administer and monitor.

Do the proposals place the UK in a good position to help meet future food supply challenges?

8. Depending on the options chosen and the detailed mechanisms involved, the proposals have the potential to help the UK in meeting future food security challenges. But it would be preferable to have sustainable food production as a more explicit policy aim to mark a step change in the reform process and to ensure that market distorting measures continue to be phased out and that available resources are used to develop productive potential and preserve natural capital.

9. As an example of this, FDF welcomes the Commission’s continued commitment to the removal of dairy production quotas in 2015. The end of quotas and the forthcoming proposals from the High Level Expert Group on Milk should help to ensure improved market orientation in the dairy sector, enabling long term planning by dairy farmers and increased stability. UK food and drink manufacturers have faced significant shortages in supplies of dairy raw materials in recent years and improvements in the functioning of the dairy market would be welcomed.

Will the proposals redress the imbalance in support to different sectors created by the historic basis of payments?

10. The Commission favours greater equity in the distribution of direct payments between Member States rather than redressing imbalance in support to different sectors of production. FDF welcomes the abolition of historical CAP payments to move towards a fairer and more equitable system that rewards active farmers, however it is unclear which “objective” criteria the Commission will base payments on and exactly how this will impact different sectors and UK agriculture in general.

What aspects of the proposals should be made a common policy, and which are best left to Member States?

11. A strong EU common policy for farming and food is essential for guaranteeing equitable competition conditions within the EU. Maintaining a single market for agricultural products must remain the guiding principle for the future. It is important to ensure that national flexibilities and exemptions do not create distortion which would harm the single market or the supply of raw materials to the food industry.

Can the proposals be implemented simply and cost-effectively, within a short time-scale?

12. The options presented by the Commission are lacking in sufficient detail to adequately evaluate potential costs and difficulties of implementation. The proposed greening of pillar 1 is potentially burdensome and a complicated measure to enforce.

December 2010

THE UK FOOD AND DRINK MANUFACTURING INDUSTRY

The Food and Drink Federation (FDF) represents the food and drink manufacturing industry, the largest manufacturing sector in the UK, employing around 440,000 people. The industry has an annual turnover of over £72.8 billion accounting for 15% of the total manufacturing sector. Exports amount to almost £10 billion of which 79% goes to EU members. The Industry buys two-thirds of all UK's agricultural produce.

The following Associations are members of the Food and Drink Federation:

| | |
|--------|--|
| ABIM | Association of Bakery Ingredient Manufacturers |
| ACFM | Association of Cereal Food Manufacturers |
| BCA | British Coffee Association |
| BOBMA | British Oats and Barley Millers Association |
| BSIA | British Starch Industry Association |
| CIMA | Cereal Ingredient Manufacturers' Association |
| EMMA | European Malt Product Manufacturers' Association |
| FA | Food Association |
| FOB | Federation of Bakers |
| FPA | Food Processors' Association |
| GPA | General Products Association |
| MSA | Margarine and Spreads Association |
| SB | Sugar Bureau |
| SMA | Salt Manufacturers' Association |
| SNACMA | Snack, Nut and Crisp Manufacturers' Association |
| SPA | Soya Protein Association |
| SSA | Seasoning and Spice Association |
| UKAMBY | UK Association of Manufacturers of Bakers' Yeast |
| UKHIA | UK Herbal Infusions Association |
| UKTC | UK Tea Council |

Within FDF there are the following sectoral organisations:

| | |
|------|--|
| BCCC | Biscuit, Cake, Chocolate and Confectionery Group |
| FF | Frozen Food Group |
| MG | Meat Group |
| ORG | Organic Food and Drink Manufacturers' Group |
| SG | Seafood Group |
| VEG | Vegetarian and Meat Free Industry Group |
| YOG | Yoghurt and Chilled Dessert Group |

Supplementary written evidence submitted by the Food and Drink Federation (FDF)

Is it a problem for processors if EU farmers go out of business?

1. In absolute terms, the EU is responsible for around 15% of total global agricultural production—though the relative shares differ significantly according to the commodity concerned. The majority of this output is processed within EU Member States, normally close to source. Widespread farm business failures across the EU would therefore clearly have major implications for food processors, both in terms of the cost and availability of raw materials and the length and resilience of their supply chains. Much would depend on the pace of change and the ability of farmers elsewhere in the world to increase their production to rebalance the market. Given the EU's relative purchasing power, it ought theoretically to be possible to meet our requirements in volume terms, though there could be less choice. But this would be much more difficult if market conditions led to some potential suppliers imposing export bans to give priority to their own domestic consumption needs. There are examples of this happening at the moment, even without an extreme scenario of the EU no longer being a major producer in its own right.

2. It is also possible that such radical changes would lead to knock-on effects in the processing sector as well, with suppliers in third countries seeking to add value at source, rather than simply exporting raw materials. Apart from the (considerable) economic and employment losses this would involve within the EU, it would potentially pose additional risks to security of supply for consumers, as well as the possibility of further cost increases.

3. In the event that climate change leads to greater world-wide variability in harvests, there would also be potentially serious food security risks in not exploiting the productive potential of large areas of cultivable EU land in what are likely to be relatively more stable temperate conditions. Adding all these risks together, few EU processors would be sanguine about the prospects of EU farmers going out of business on any scale, even though there may currently be alternative sources of supply.

If the income support provided by the CAP were to be removed, what steps would you anticipate processors might take to ensure their security of supply?

4. The critical factor here would be the speed of change and the ability of farmers to adapt. Much would also depend on assumptions made about the price and availability of competing supplies from world markets—and the extent of any continuing tariff protection. Responses are also likely to vary considerably from business to business, depending on their product ranges and pricing strategies. Some might consider paying premia for more local sourcing and continuity of supply. Others might look to longer term contracts to guarantee supply from global commodity markets.

March 2011

Written evidence submitted by the Department for Environment Food and Rural Affairs (Defra)

INTRODUCTION

1. The Committee's inquiry into the impact of Common Agriculture Policy (CAP) reform on UK Agriculture is timely given the European Commission's publication of its Communication "The CAP towards 2020" on 18 November. The Government is still considering the implications of the Commission's proposals; some of the responses set out in this response are therefore provisional. The Communication itself is vague on a number of points; the precise nature of what the Commission is proposing may not become clear until it publishes legislative texts next year. Finally, this response presents the Government's thoughts and does not necessarily reflect the views of the Devolved Administrations, who will, however, continue to play an active role in the development of the UK's negotiating position.

REFORMING THE CAP

2. Reforms to the CAP and to other areas of the EU Budget are considered in tandem every seven years. Whilst previous reforms have helped to correct some of the more significant weaknesses of the CAP, more needs to be done in preparing Europe's farmers for the challenges to their competitiveness and sustainability which the coming decades will inevitably hold. CAP is the largest single element of the EU's budget, accounting for 43% of spending in the financial period 2007–13. Spending on the CAP will need to reduce very materially during the next Financial Perspective: the future CAP must be affordable, and EU spending on agriculture must deliver real value for money for EU citizens.

3. Defra wants to see agricultural policy encouraging farmers to improve their businesses to the point where they are viable and sustainable without subsidies. In future, farmers should be adequately rewarded for their provision of public goods, and should not receive permanent income subsidy.

4. The fundamentals of the global markets for agricultural produce are increasingly favourable to such an approach, with increased demand for the sort of high quality, sustainable and ethically sound produce European farmers are skilled at producing. Yet the CAP in its present form risks jeopardising efforts to open those new markets. The CAP is often cited as an obstacle to greater market orientation and the liberalisation of trade. The UK and the rest of Europe need to move towards more competitive, sustainable, market orientated farming by reducing barriers to trade and incentivising producers to take their own future in a competitive world market, and for providing public goods, addressing climate change and enhancing global food security.

THE COMMISSION'S COMMUNICATION

5. The Communication offers three options for CAP Reform which can be summarised as follows:

- (i) Enhanced status quo—incremental change, with greater equity for direct payments, risk management tools and streamlined market measures
- (ii) Restructuring pillars and embedding sustainable support—greening of Pillar 1, providing minimum level of income support with support for specific natural constraints, capped payments and small farm schemes, new risk management toolkit, some improvements to Pillar 2 (including allocation), with retention of the LFA payment in Pillar 2.
- (iii) Ambitious reform—removal of direct payments and market management tools. Payments for public goods only which are environment and climate change specific.

6. The bulk of the Communication focuses on option ii which seems to be the Commission's preference, but there is overall a lack of detail on how many of these proposals would or could be put into effect.

7. On Pillar 1, the proposals include: direct payments comprising of a basic income payment (subject to a simplified but not watered down cross compliance regime, and capped for large farms), a compulsory supplementary green payment (requiring simple, annual actions like ecological set-aside), an option for Member States to voluntarily offer limited payments coupled to production, promoting sustainable agricultural development in areas of specific natural constraint (Less Favoured Areas or LFAs), and an option for introducing a support scheme for small farmers. It specifies that direct support should target “active” farmers only. Other proposals include a new risk management toolkit and streamlining and simplifying market instruments only to be used as a safety net.

8. The Communication proposes maintaining Pillar 2 objectives of competitiveness, management of natural resources, balanced territorial development. It suggests strengthening the tools to implement rural development (including capacity building and support for LFAs) and points to the guiding themes of environment, climate change and innovation.

9. Defra welcomes the Commission’s emphasis on further market orientation of CAP, measures to enhance competitiveness, innovation, the sustainable management of natural resources and climate action. However we are concerned the Communication is overall a missed opportunity, with little convincing clarity on the policy tools necessary to encourage increased competitiveness of EU farming whilst maintaining and improving its sustainability. The EU agriculture sector’s economic future—in line with the Commission’s own EU 2020 economic strategy—depends on European farmers increasing their ability to provide goods the market wants, at the right prices, and in sustainable ways.

10. The Communication does not mention the size of the CAP Budget. It mentions the current fiscal and economic challenges but its proposals do not always appear to factor these in. As we face increasing constraints on public expenditure, we will need to ensure that EU spending on agriculture is reduced, and focuses on the right areas, delivering clear, visible and measurable outputs that offer real value for money for EU citizens and deliver societal benefits that the market place cannot provide.

11. Defra is also concerned that the proposals could make the CAP more complicated: we will want to ensure that they do not entail greater administrative burdens for producers and Member States’ delivery bodies, but instead deliver a real simplification. In July this year Jim Paice MP, the Minister for Agriculture and Food, set up a task force to look at ways to reduce the regulatory burden on farmers and food processors through a review of relevant regulations and their implementation; we will aim to use the emerging lessons from the Macdonald review to help ensure that the Commission’s proposals make a real contribution to a simpler and more manageable system. Our initial view is that the proposal that direct payments should in future consist not just of an area payment (which will be the case in England by 2012) but also up to two separate top-up payments for environmental performance and for being situated in a Less Favoured Area quite clearly runs counter to the simplification agenda and raises severe risks for implementation.

12. Overall, the Commission’s proposals fall short of proposing the transformational reforms which we believe are necessary to deliver a thriving, sustainable and internationally competitive EU farming sector, and fail to set out a clear vision for the future of CAP expenditure within a reformed EU budget.

13. The draft CAP legislative proposals are due in summer 2011 with negotiations starting shortly after. There is a public consultation on the Communication proposals running from 23 November 2010 to 25 January 2011 and we will encourage all UK stakeholders and interested parties to respond directly. It is important that we give the Commission good evidence of the effect that proposals would have to help inform our discussions moving forward.

14. The committee has asked a number of specific questions, answers to which are set out below.

How will the Commission’s proposals affect the ability of UK agriculture to be competitive in a global market?

15. There has been a long period of decline in the productivity of EU farming compared to its international competitors, for example research shows that the UK has been losing ground against the US in productivity terms by 0.5% per year since 1973²⁴. The CAP is partly responsible for this, by first guaranteeing prices and then, through compensatory and then decoupled payments, guaranteeing a large slice of farmers’ income and ossifying existing farm structures; this has dampened incentives for investment in greater farm competitiveness.

16. Although the Communication makes references to the enhancement of competitiveness, it suggests no new ideas for how this can be achieved. However, it does make reference to the Commission’s Quality Products Package proposal which aims to “strengthen and simplify quality and promotion policies in order to enhance the competitiveness of the agriculture sector”. The Communication also suggests improving the value added by the farm sector to the food supply chain by addressing the imbalance of bargaining power across the chain to allow farmers to have a greater share. Within this it also talks about improving the level of competitiveness at each stage of the chain, which are measures that could be best addressed through Pillar 2 initiatives.

²⁴ *Productivity and International Competitiveness in European Union and United States Agriculture, 1973–2002*. V. Eldon Ball ERS/USDA Washington, DC; Jean-Pierre Butault INRA Paris, France; Carlos San Juan Mesonada and Ricardo Mora Universidad Carlos III de Madrid, Madrid, Spain. Available at <http://www.defra.gov.uk/evidence/economics/foodfarm/reports/documents/Product.pdf>

17. The Communication fails to articulate the ambition needed to promote EU agricultural competitiveness and risks missing an opportunity to put in place reforms to make the progress required by 2020. The Government wants to see a more innovative, self-reliant, profitable and competitive UK and EU farming industry with the ability to mitigate or withstand shocks and to recover quickly from them. Increasing the underlying competitiveness of a farm business is the best safety net. It will be important to develop credible ideas on improving farm competitiveness in order to strengthen the Commission's approach in this area. However, several of the measures proposed by the Commission would act against increased competitiveness. We are, for example, sceptical about the proposal to cap farm payments, which could simply encourage farmers to divide up their holdings into smaller units.

Do the proposals ensure fair competition for British agricultural products within the European Union?

18. It is important that any common agriculture policy helps open up trade to allow fair global competition. Defra is concerned the Commission's proposals do not tackle the remaining distortions in the single market. In particular, by mentioning voluntary coupled support under Pillar 1 "to take account of specific problems in certain regions", the Commission indicates no plans to complete the decoupling begun in 2003. The indication that Member States would still be able to pay out up to 3.5% of their allocation as headage payments therefore needs careful scrutiny (although the Communication does state this has to be within clearly defined limits). This type of payment is particularly damaging to competition and with Article 68 payments running at some €800 million, this is an issue which we expected the Commission to tackle.

19. British farming might also potentially suffer from the Commission's proposal (mentioned above) to cap payments to large farms, and from the idea of a special scheme of support for small farms, if this leads to changes in the way funding is allocated between Member States. No details have been supplied of how the Commission proposes to help smaller farms, but any distortion of subsidy in their favour could lead to economic inefficiency and perverse incentives.

Will the proposals achieve the correct balance between productivity and sustainability?

20. Farmers are responsible for managing over 70% of EU land. Against the backdrop of climate change, there is an important role for a future CAP rewarding farmers for delivering environmental benefits by managing the land effectively to promote long term resilience.

21. The Communication mentions the important themes of the environment, climate change and innovation. However, there are few proposals within it which look at how Pillar 2 will be improved in the next financial perspective. We would like to see a greater emphasis on the effectiveness of providing public benefits through Pillar 2: this is where CAP expenditure provides its clearest added-value at EU level. It ensures that public money is being used to provide the benefits valued by the public, particularly for the environment such as biodiversity and responding to the challenges of climate change. Farming will not be productive in the long-term, if environmental sustainability isn't prioritised now.

22. Agri-environment schemes have a central role to play in providing these types of benefits. In England approximately £3 billion will be spent over the current Programme on these schemes. They have been shown to make a successful contribution to tackling the decline in key farmland bird populations; and a recent Defra commissioned report²⁵ calculated that current schemes in England would provide around £820 million of wildlife and landscape benefits per year by 2013 (assuming original uptake targets are fulfilled). The report did not include other important benefits such as resource protection, or the positive impact of agri-environment schemes on public health. The recently launched ELS Training and Information Programme aims to help farmers maximise the environmental benefits of their individual schemes.

23. The best way for farmers to improve their earning power is to improve their competitiveness and productivity. Well-managed farms are best placed to manage the land sustainably, and provide valued public benefits, for which they should receive compensation from the tax payer through Pillar 2 of the CAP. We must ensure that improving productivity and sustainability are tackled together, including, but not limited to, activities that provide a "win-win" outcome for both. We will work with the Commission on ideas for achieving this, which the Communication currently lacks.

Do the proposals place the UK in a good position to help meet future food supply challenges?

24. The Commission's Communication notes the importance of food security: "Given that [food] demand worldwide will continue rising in the future...it is essential that EU agriculture maintains its production capacity and improves it". However, Defra does not consider that the EU's contribution to global food security is best served by using subsidy to maintain agricultural productions in all areas of Europe, no matter how unfavourable the agricultural conditions facing them may be. While there can be a justification for support in terms of the environmental public goods delivered in areas where agriculture has an important role but is unprofitable in purely market terms, particularly where those areas have high nature value, a range of national and EU instruments exist for this purpose.

²⁵ *Estimating the scale of wildlife and landscape benefits of Environmental Stewardship*. Report by the University of Newcastle and FERA in conjunction with TNS and the Countryside and Community Research Institute (CCRI). July 2010.

25. The argument that future food shortages justify blanket subsidies is weak. Food security does not require self-sufficiency; EU and global food security is best served by rebalancing the environmental and economic objectives of agriculture policies need to be rebalanced and help to deliver broader and deeper international trade.

Will the proposals redress the imbalance in support to different sectors created by the historic basis of payments?

26. The Commission appears to be proposing a complete end to the historic basis of direct payments, and thus an end to the situation in which different types of farms have received widely different amounts of support as a result of historic entitlements during the reference period. However, it is not clear just what the Commission's proposed new area payment would look like.

27. The Commission's Communication states that a flat rate system would be "infeasible", without explaining why, but goes on to describe the proposed payment as "uniform". The Commission's proposals for a compulsory supplementary green and a top up for areas of natural constraint have the potential to introduce new distortions in favour of particular types of farmer, although it will not be clear to what extent this is an issue until we see more details.

What aspects of the proposals should be made a common policy, and which are best left to Member States?

28. The recent EU Budget Review White paper stated the EU budget could best add value to Members States through being "used to finance EU public goods, where Members States and regions cannot finance themselves, or where it can secure better results". The Commission does not appear to have subjected its CAP proposals rigorously to this test.

29. It is important that policies are targeted appropriately at the right level through the principle of subsidiarity. Pillar 2 payments are able to respond to regional specificities while delivering environmental and economic objectives which are of wider European interest; and therefore add the best value. It will, however, be important to ensure that approaches to Pillar 1 and Pillar 2, and wider agricultural legislation, including the ideas trailed by the Commission on rebalancing market power, do not introduce competitive distortions between Member States.

Can the proposals be implemented simply and cost-effectively, within a short time-scale?

30. Whilst Defra strongly supports the Commission's objective to continue simplification of the CAP, we are not convinced that the proposals outlined in the Communication achieve this aim. The Communication makes a number of references to simplifying the CAP, in order to make more efficient use of limited resources (at government level) and to reduce the administrative burdens on farmers. However, in framing their specific proposals, and in particular Option ii, the Commission makes no mention of simplification in the supporting analysis. The Commission has offered no comparison of the three options in terms of how each would impact on the administrative burdens imposed on farmers and national administrations. On the face of it, Option 2 in particular would represent a much more complex system of direct payment support than the current arrangements, and it is therefore hard to see how this option at least could be implemented simply or cost-effectively. It seems highly likely it would impose more administrative burdens on farmers, not fewer.

31. In addition, the Communication says nothing about those aspects of the control system that will remain necessary whatever policies are included in the CAP, in particular the mechanisms by which financial audits are conducted and financial penalties imposed. This is an area where there is considerable scope for simplification and streamlining and it is disappointing that the Commission's Communication does not acknowledge the opportunities presented by this process to significantly reduce the associated costs and burdens. In this regard, we have specific concerns about the disproportionate nature of some penalties applied at Member State level when audits reveal compliance problems, exemplified by the frequent use of flat-rate penalties, rather than penalties that aim to reflect the actual risk to the fund. The Commission's approach to audit is unwieldy and outdated and imposes unnecessary costs on all Member States—the cost in England alone for responding to EU audits of the CAP is over £1.6 million per year²⁶. Issues such as this also translate into burdensome inspection and control systems at the farm level and policies such as cross-compliance need to developed alongside a clear analysis of the benefits of rigid and demanding control systems. The design of the CAP post-2013 needs to embody better regulation and simplification as fundamental principles, and not as incidental considerations.

December 2010

²⁶ RPA figures, 2010. This figure excludes any corrective action that arises as a result of audit recommendations. The cost to Defra of the certification audit in England by NAO (to meet EU requirements) is nearly £0.5m pa. It is possible that this could rise considerably after 2013 under the Commission's guideline for the audit of legality and regularity

Supplementary written evidence submitted by the Department for Environment Food and Rural Affairs (Defra)

DEFRA RESPONSE TO FOLLOW UP QUESTIONS

1. *Could you give a more detailed explanation following your answer to Q502 regarding greening of the CAP. Specifically, if Defra would like to see more of the CAP budget being used to pay for environmental protection activities, how much more (as a percentage or in cash terms)? Does Defra aim to achieve this solely by a transfer from the direct payments budget or also by redistributing between the other Axes in pillar 2?*

The UK Government would support a greater share of a smaller CAP budget being distributed towards Pillar 2 activities, particularly towards achieving competitiveness and environmental outcomes. The shift in funding should be from Pillar 1, as part of the transition away from direct payments towards the payment of environmental public goods beyond those the market provides. We have not, at this stage, formed a view as to what the optimal level of funding should be, although the Government's objective to secure a very substantial reduction in the funding for the CAP as a whole should be borne in mind. At present, the focus is on ensuring that the CAP is reformed so as to deliver the best value for money, so a greater level of outcomes can be delivered from more efficient and effective use of Pillar 2 funds. Pillar 2 funds are used to deliver other EU public goods beyond the environment, and we would want to see this continue, particularly in relation to competitiveness, enabling farmers to move away from a reliance on subsidies. However, among Member States there is a considerable range of priorities in rural development programmes; the UK would like to see a greater focus of the use of EU resources on shared EU policy objectives, and in many other Member States this could mean a greater focus on the environment.

2. *The Committee notes that Mr Paice has recently warned farmers to undertake more voluntary environmentally-friendly activities as part of the Campaign for the Farmed Environment, or face additional regulation.²⁷ What similarities does Defra see between the environmental measures advocated by the Campaign for the Farmed Environment and the green top-up in pillar 1 proposed by the Commission?*

The Commission's Communication provided very little detail on how greening might work in practice, and in particular what measures would be covered. The role of Campaign for the Farmed Environment is to engage farmers and get more of them to routinely undertake work on a voluntary basis to effect better environmental outcomes. Its objective is to replicate the environmental benefits formerly provided by set aside land and so deliver better environmental outcomes for farmland birds, other farm wildlife and for soil and water. Farmers can do this by either by choosing key infield options under Environmental Stewardship or by carrying out wholly unfunded work. The Campaign works alongside other agri-environment initiatives such as stewardship schemes but its key difference is that it is led at industry level and driven by local groups; regulation would be more costly, more bureaucratic, and less flexible to the farming industry. Until the Commission are in a position to provide further information, it is unclear the extent of any overlap.

3. *The Committee received a weight of evidence citing poor returns to farmers along the supply chain as a reason for the low profitability of farming. To what extent does the income support provided through the CAP allow this situation to be maintained?*

In 2009–10 average Farm Business Income across all farm types in England was £43,300²⁸ but showed marked variation by farm type. Within this, the single payment amounted on average to £27,100, income from agricultural activity to £4,400, income from diversified activities to £6,400 and agri-environment income to £5,400. There was, however, a wide variation in income levels and 12% of farms made a loss in terms of Farm Business Income in 2009–10. Detailed figures by farm type are shown in the table below. It should be noted that these are average figures and for all farm types there is a wide range of performance around this figure. For example, while low performing dairy farms (bottom 25%) recorded an average Farm Business Income of just over £40/ha in 2009–10, the figure for high performing (top 25%) dairy farms was nearly £820/ha. For cereal farms the corresponding figures were a loss of nearly £25/ha and a profit of over £450/ha and, for LFA grazing livestock farms, a loss of nearly £50/ha and a profit of £215/ha.

| | <i>Of which from:</i> | | | | | <i>% of farms in profit after single payment</i> | <i>% of farms in profit before single payment</i> |
|--------------|-----------------------------|-----------------------------|-----------------------|-------------------------|------------------------|--|---|
| | <i>Farm Business Income</i> | <i>Agriculture Activity</i> | <i>Single Payment</i> | <i>Agri-environment</i> | <i>Diversification</i> | | |
| Cereals | 46,050 | -15,212 | 42,555 | 7,367 | 11,339 | 88 | 48 |
| General | | | | | | | |
| Cropping | 66,037 | 7,092 | 43,574 | 8,135 | 7,235 | 89 | 59 |
| Mixed | 39,833 | -637 | 28,706 | 5,330 | 6,434 | 85 | 54 |
| Horticulture | 49,300 | 37,684 | 2,417 | 1,183 | 8,017 | 82 | 79 |

²⁷ <http://www.cfeonline.org.uk/News/Back-CFE-or-risk-%E2%80%98compulsory-approach%E2%80%99,-says-Jim-Paice/>

²⁸ <http://www.defra.gov.uk/evidence/statistics/foodfarm/farmmanage/fbs/published-data/farmaccounts/2010/index.htm>

| | <i>Of which from:</i> | | | | | <i>% of farms in profit after single payment</i> | <i>% of farms in profit before single payment</i> |
|-----------------------|-----------------------------|-----------------------------|-----------------------|-------------------------|------------------------|--|---|
| | <i>Farm Business Income</i> | <i>Agriculture Activity</i> | <i>Single Payment</i> | <i>Agri-environment</i> | <i>Diversification</i> | | |
| Dairy Lowland Grazing | 56,113 | 24,233 | 25,193 | 3,364 | 3,322 | 90 | 72 |
| Livestock LFA Grazing | 21,995 | -2,869 | 16,828 | 3,903 | 4,133 | 90 | 54 |
| Livestock Specialist | 22,206 | -5,203 | 17,961 | 8,368 | 1,079 | 90 | 54 |
| Pigs Specialist | 71,565 | 62,375 | 6,786 | 1,091 | 1,313 | 91 | 87 |
| Poultry | 66,326 | 49,974 | 3,274 | 705 | 12,373 | 88 | 86 |
| All types | 43,348 | 4,420 | 27,069 | 5,425 | 6,434 | 88 | 59 |

The single payment obviously makes a contribution to farm incomes, at least in the short term. However, because the payment is capitalised into land values to a large extent, it also contributes to costs such as rent. In the absence of such payments we would therefore expect these costs to reduce in the longer term.

Farm incomes are volatile and show large year to year movements as relatively small changes to the inputs or outputs costs of a farm business will have a much larger proportional impact on the resulting income figure. Although there can be scope to increase receipts through further value adding activity, for example processing or selling through farm shops, farmers are generally price takers for their outputs with prices determined by the market largely at a European, or even global, level. Hence, for the large majority of outputs, farmgate prices in the UK follow those of wider international markets. Given that the power of UK farmers, both individually and collectively, to influence the prices at which they purchase major inputs or sell outputs is therefore rather limited, any underlying improvement in farm incomes will be determined by how efficiently the sector converts its inputs into outputs—or how successful it is in raising its productivity.

The UK Government supports the Commission's proposal to increase the bargaining power of farmers and producers across the food chain, which may in turn help them increase their profitability. To monitor the effects the market has on farmers or other primary producers, the Government is establishing a Groceries Code Adjudicator (GCA) to observe and enforce the Groceries Supply Code of Practice (GSCOP). The GSCOP was introduced so that major retailers with buyer power would be prevented from passing excessive risks or unexpected costs onto suppliers. The GCA will investigate complaints from anyone in the supply chain that is directly or indirectly affected by a breach of the Code and can deal with them anonymously.

4. *Mr Paice said that one of Defra's principal objectives was to get a fairer deal on pillar 2 expenditure. How committed is the Commission to a re-distribution of pillar 2 funding, and what impression has Defra received as to how pillar 2 funding will be allocated in future, specifically, the criteria that will be used?*

The Commission have indicated their desire for Pillar 2 to be allocated on the basis of an objective criteria in the future. The UK would strongly support a distribution of Pillar 2 based on objective criteria, such as available land use. To date the Commission have provided limited information beyond their aim for allocations to be objective, and we will work to ensure this is the case.

5. *Could the Minister expand on his comment that the CAP should not have an income support role, particularly, how this statement can be aligned with his commitment to supporting hill farming (which is currently unprofitable and is likely to continue to be so)?*

The future objectives for support to hill farming will be set out in forthcoming announcements following the review of policy on the English uplands. As a general principle, a focus on the delivery of identifiable public benefits will continue to underpin Government policy on the use of public expenditure.

6. *How will the Commission's proposals that support for LFA be delivered in pillar 1 and pillar 2 affect Defra's ability to deliver its new measures on support for hill farming.*

The Commission has proposed the continuation of the option of making Less Favoured Area payments under Pillar 2 (rural development); and has also suggested that Member States will have the option of making higher levels of payment available under Pillar 1 to farms in areas with "specific natural constraints". Given the current approach to regional allocation of payments under Pillar 1 in England, it therefore seems likely that there will be considerable flexibility to adjust the allocation of expenditure in England, should it be necessary, to meet the Coalition Government's objectives on hill farming.

7. *Could the Minister follow up on his answer to Q456—are payments under pillar 1 more or less expensive and complex to administer (per claimant) than payments under pillar 2?*

It is not straightforward to make a direct comparison between the administrative costs of Pillar 1 (direct payments) and Pillar 2 (rural development) and looking at simple average figures is unlikely to give a meaningful picture.

Unlike Pillar 1, Pillar 2 includes a wide variety of schemes and measures, with different levels of uptake and administrative requirements, and calculating the cost per claim on a consistent basis is therefore difficult. Taking as an illustration Environmental Stewardship, for the agri-environment scheme which makes up the majority of the Rural Development Programme for England, the average administrative cost per agreement can be estimated at around £700. However, this average includes the costs of both the Entry Level Scheme, which was designed to deliver wide scale environmental benefits via a low cost mechanism that is simple to administer, and the Higher Level Scheme, which is targeted to achieve the highest environmental benefit and involves a detailed process of negotiation and monitoring, leading to greater administrative costs.

At the same time, efforts to reduce the administrative costs (minus IT costs and depreciation) of making Pillar 1 payments are bearing fruit and in England, for example, the average cost per claim has gone from over £1,200 in 2007–08 to a figure expected to be around £850 for 2010–11.

More important than a simple comparison of administrative costs is the fact that schemes under Pillar 2 are designed to deliver public goods, in contrast to the direct payments under Pillar 1. They are targeted on achieving particular outcomes, which tends to increase the complexity of the schemes. But when the public benefits are taken into account there is a significant difference in terms of overall value for money, in favour of the Pillar 2 schemes.

8. *Could you expand on your point in Q458 about using more pillar 2 money for spreading technology to the farming industry—are additional instruments or tools are needed in the CAP to achieve this?*

Encouraging innovation—including better use of existing technologies—will support many of the UK's objectives for CAP such as increasing competitiveness and tackling climate change. It is not foreseen that a significant change in measures is required to enable the spread of technology to the farming industry, as the existing measures are comprehensive. However, improvements could be made to the design of the Rural Development Regulation to enable more efficient use of such measures—such as a shift away from the Axis approach to more easily facilitate use of different measures to achieve multiple outcomes. More generally, there is a need, as noted in the UK Government's response to the Commission, for consideration to be given to the potential for novel financial instruments, including loan funds, to maximise the impact of the available public funding.

9. *Mr Paice said that “it is not for Governments to determine that sort of detail” referring to ways of making farming more competitive. Can he clarify what he meant by this statement?*

The UK Government wants to see a more competitive and responsive food chain in Britain, with farmers and producers reacting to market signals so as to meet the demands of consumers. UK farmers are best placed to make the right decisions on what to produce and how to grow their businesses to achieve this aim—whether by expanding production, building co-operative links with neighbouring producers or focusing on the development of high-value goods. Government's role is not to micromanage farmers nor suggest what their decisions should be, but rather to ensure that markets work efficiently and to provide appropriate support that farmers might need to implement the decisions they have taken, or to help them invest in improving their business skills. To this end, Defra works to facilitate information and research sharing and to assist the development of skills networks, with appropriate funding provided for investment through the Rural Development Programme for England.

10. *Could Defra expand on their answer to Q468—does Defra support a re-allocation of pillar 1 payments among farm-holdings based on the land quality (as well as other criteria such as their area); and if so, should more productive land receive more or less subsidy per hectare than less productive land?*

The UK Government wants to see all types of farming making a profit *and* providing public goods. We would be concerned if one type of land was subsidised over another simply for being of better or worse quality or productivity. Any support for farmers should be focussed on the delivery of public goods rather than ongoing income support, however, while direct payments exist, we fully endorse a rolling out of area-based payments and moving away from a historic system.

Land that naturally struggles to provide beneficial environmental goods and services can be supported through Pillar 2 agri-environment schemes, which offer targeted and objective driven support, delivering better value for money for the European taxpayer and more outcome based deliverables. It is also worth noting that while strong agri-environment schemes provide appropriate targeting of environmental benefits where they are most needed, *all* agricultural land is capable of providing a significant level of benefit through these schemes.

11. *The Commission has released new proposals regarding an “income stabilisation” tool to help manage price volatility.²⁹ What are Defra’s views on its utility for UK farmers, impact on competitiveness, and budgetary and WTO implications? Should this tool be mandatory across all Member States, or should individual Member States have the option to fund it from their national ceilings?*

The Commission has confirmed that it is considering the option of an income insurance scheme whose take-up would be voluntary both by Member States and, where a Member State did choose to offer a scheme, by farmers within that Member State. It would not be in the UK’s interest to argue for a compulsory scheme, both because any new source of spending would put upward pressure on the overall CAP budget, which the UK wishes to reduce, but also because experience in other countries (e.g. US, Canada) where insurance schemes of this nature exist suggests that administration costs can be very high in relation to turnover.

There is also a risk that operating an insurance scheme within a Member State’s Pillar 2 envelope of funding for rural development programmes would be likely to destabilise those programmes, since expenditure on income insurance claims is likely to fluctuate unpredictably.

The Commission believes that the type of scheme it intends to propose—in which farmers themselves would bear the first tranche of any income shortfall, and receive insurance payouts in respect of part but not all of any further losses—would be classified by the WTO as “Green Box” and thus have no implications for the EU’s trade policy. Defra is not in a position to confirm this view until it receives further details of the Commission’s proposal.

Defra will be discussing with stakeholders what the UK’s attitude should be to the possibility that some, but not all, Member States might choose to offer the sort of income insurance scheme being developed by the Commission.

12. *What is Defra’s position on which aspects of the CAP policy should be decided at EU level and which left to national level? Is the current arrangement suitable?*

In its nature CAP is an EU policy; there is a clear single market and trade policy justification to operating collective rules on subsidies and other payments available to farm businesses. The wider EU market is of primary importance to UK producers and there needs to be a level playing field across the EU. However, as stated in our written evidence to the Inquiry, it is important that policies are targeted appropriately at the right level and therefore we recognise the importance of subsidiarity, particularly in relation to rural development programmes. Defra and its Ministers will continue to work closely with other Member States to ensure agriculture policies are targeted at the right level and are well placed to contribute to a thriving EU agricultural sector.

13. *What the implications would be for the UK finances of a transfer of the CAP budget from pillar 1 to pillar 2, on the scale that Defra appears to be seeking, given that increased pillar 2 spend would require increased contribution from HMT due to co-financing, while pillar 1 is entirely funded by the EU? Has this been costed into future spending plans? Will these increased contributions due to co-financing have to be met from Defra’s budget, or from HMT?*

The UK Government would like to see an increase in the proportion of pillar 2 within an overall smaller CAP because Pillar 2 is focused on delivering public goods. We also strongly support the principle of co-financing as it provides better assurance that EU budget expenditure will be spent at Member State level in ways which deliver value for money. In the negotiations we shall be seeking to strike the right balance between a Pillar 2 budget which will deliver the required outcomes at best value for money and which will be affordable for the taxpayer.

In relation to forecasted spending plans, until the negotiations on both the Financial Perspectives and CAP Reform have been completed, the level of CAP funding the UK receives, and the cost in relation to co-financing, will remain unclear. However, affordability to the UK will remain a consideration. Decisions on Departmental budgets beyond the period covered by SR 2010 (2011–12 to 2014–15) will be made as part of the next Spending Review, in the normal way.

March 2011

²⁹ <http://www.agra-net.com/portal2/home.jsp?template=newsarticle&artid=20017843399&pubid=ag002>

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