



House of Commons  
Environment, Food and Rural  
Affairs Committee

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# Implementation of the Common Agricultural Policy in England 2014- 2020

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**Seventh Report of Session 2013–14**

*Volume I: Report, together with formal  
minutes, oral and written evidence*

*Additional written evidence is contained in  
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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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## Summary

In June 2013 EU leaders agreed the shape of the Common Agricultural Policy for 2014–2020. The final agreement leaves a great deal of flexibility for Member States to implement many aspects of the CAP in a way which suits them. On 31 October 2013 the Government launched consultation on *Implementation of CAP Reform in England*.

We find much to like in the Government’s proposals. We support the Government’s intention to raise the minimum claim threshold to five hectares. We agree with the Government’s intention to ‘move money uphill’ in Pillar I to increase the support for upland farmers but we caution that any loss of access to agri-environment scheme funding for those farming in the harshest of environments could leave them worse off overall. We support the Government’s position that England should adhere as closely as possible to the ‘greening’ measures set out in the direct payments regulation. A National Certification Scheme approach to ‘greening’ would have been worth considering had it offered the flexibility to avoid the Commission’s impractical crop diversification rule but it does not and the Government is right to dismiss this approach.

English farmers lag behind their main European competitors in levels of direct payment leaving them less able to invest and innovate. Cutting payments to English farmers will reduce their ability to compete in the marketplace and may leave them more vulnerable to shocks such as poor weather and price vulnerability. We therefore recommend that the Government maintains the current 9% rate of transfer from the Pillar I budget to Pillar II and only move to 15% in 2017 if it can demonstrate that additional funds are required and there is a clear benefit from the projects proposed.

The Government must take steps to ensure those actively farming receive the direct payments and that those farmers who have responded to the call to diversify are not captured by the ‘negative list’ of business types ineligible for CAP funding under Pillar I. We recommend the Government update commons registers and allow Commoners Associations to claim on behalf of all those who are actively farming the common so that commons attract the share of Pillar I money intended for them. We support the continuation of dual-use under Pillar II but Natural England must display a lot more rigour in arranging agri-environment contracts to ensure that payments under those schemes go to those who do the work and whose income is foregone. Where there is dispute, landowners, tenants and graziers must have access to a dispute resolution mechanism set up along similar lines to that suggested by the Tenancy Reform Industry Group.

This round of the CAP adds complexity to its predecessor and the implementing bodies are going to have to achieve a lot in a very short space of time. The Government is developing a single IT system through which all agencies will be able to administer the CAP. Past experience shows how crucial it is for the Government to get the delivery platform right and the development of the new IT system is one of the stand out risks, not least because the precise details of the implementing regulations have yet to be published. Given the lessons of the past we question whether this is the right time to be introducing a new IT system.

Access to CAP funding will be digital by default. Forcing people to engage digitally when

many cannot would undermine successful implementation of the new scheme. While we support the Government's ambition to encourage and support as many people as possible to apply online, a paper-based application process must be retained and hard-copy guidance be available.

# 1 Introduction

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1. Negotiations on reform of the Common Agricultural Policy (CAP) are in their final stages. Implementing regulations need to be drawn up and the official text has yet to be published but, one year later than hoped, the main points of the new CAP have been agreed. EU leaders promised a “greener, fairer and more efficient and more effective” CAP.<sup>1</sup> The final agreement leaves a great deal of flexibility for Member States to implement many aspects of the new CAP in a way which suits them.

## Our inquiry

2. This inquiry is part of our ongoing scrutiny of the policy, administration and expenditure of the Department for Environment, Food and Rural Affairs and its agencies. Our Report builds on our previous work, *The Common Agricultural Policy after 2013* (published in April 2011) and *Greening the Common Agricultural Policy* (published in June 2012).

3. Due to the compressed timetable of our inquiry we have not been able to cover all aspects of the CAP deal—we have focused instead on the areas highlighted as key by those who responded to our call for evidence. We also decided not to consider those aspects of the CAP deal on which Ministers had already reached a clear view as set out in their October 2013 consultation *Implementation of CAP Reform in England*, such as entitlements, coupled support and the small farmers’ scheme.<sup>2</sup>

## The negotiations

4. The Commission began with the intention to make agriculture in Europe greener, reduce the problems of administration and address the lack of a level playing field. Following ratification of the Lisbon Treaty, this was the first time the CAP was subject to ordinary legislative procedure—the requirement that both the European Parliament and the Council of the European Union must agree on the legislation before it is adopted. Between April 2013 and June 2013 more than 40 ‘trilogue’ discussions took place between the Council, Commission and negotiators from the European Parliament. This work allowed the Council and the Parliament to reach agreement on most aspects of the reforms in June 2013—political agreement on the few remaining issues was reached at the discussions on the EU’s budget on 24 September 2013.

5. Main elements of this round of reform include the provision that 30% of the direct payment is conditional on the delivery of ‘greening’ measures, while the remainder can be subject to redistribution or reduction; a top-up scheme for young farmers; an increase in the permitted level of coupled support; an active farmer test; and the ability for Member States to transfer up to 15% of funding from Pillar I to Pillar II or up to 25% in the other

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1 European Commission Press Release, Commission outlines blueprint for forward-looking Common Agricultural Policy after 2013, 18 November 2010

2 Department for Environment, Food and Rural Affairs, CAP Reform in England: Status report on Direct Payments, August 2013

direction.<sup>3</sup> The agreement also sees Member States moving to area-based payments and includes provisions for farmers who receive payments lower than 90% of the EU average to have their payments increased (internal convergence), and for Member States whose direct payments per hectare are below 90% of the EU average to have their Pillar I budget adjusted upwards (external convergence).

6. The Commissioner for Environment and Rural Affairs, Dacian Cioloş, described the June deal as a “paradigm shift for CAP with a new focus on greening, young farmers and a fairer system of redistribution between member states and farmers, that enforces the concept of public money for public goods”.<sup>4</sup> Whether the final agreement stands up to the Commissioner’s description has been widely questioned<sup>5</sup> but, as Dr James Jones, a farmer and consultant, told us, “anything that preserves the Common Agricultural Policy and the flow of money that it represents into the farming industry is a good deal for the farming industry.”<sup>6</sup>

7. The final agreement has left Member States with a great deal of flexibility, some of which may cause aspects of this reform to be more bureaucratic and less fair than its predecessor. It is also unclear whether the greening element, which was significantly watered down during the negotiations, will deliver any significant environmental public good, and there is little doubt that its imposition will increase the regulatory burden.

8. The UK wanted a CAP that improved the market orientation and international competitiveness of EU agriculture, that delivered greater environmental benefits and that was simpler for farmers and implementing bodies. Rt Hon. Owen Paterson, Secretary of State for Environment, Food and Rural Affairs, told us that:

[the CAP deal] is not really satisfactory from the point of view of my strategic aim, which was to continue the progress begun by MacSharry and continued by Fischler.<sup>7</sup> There are certain points where we definitely go backwards; the re-establishment of coupling is an example.<sup>8</sup>

9. The Secretary of State explained that the Government had prevented what it considers some of the more regressive and bureaucratic measures from being adopted:

We did stop a lot of bad stuff: the craziness of the active farmer was an example. On the last night, late on, there was a proposal to replace the milk regime with a really seriously misguided proposal to penalise the most efficient 5% of Europe’s dairy farmers and to reward the most inefficient. [...] I think we can take credit in some areas, such as the sugar reform, where we really dug in and worked with allies against some big opposition. It was always intended that 2015 would be the end of the sugar

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3 Coupled support refers to payments directly linked to production, for example per head of cattle; Pillar I payments are drawn from the European Agricultural Fund and support farmers’ incomes through direct payments and market measures; Pillar II payments are drawn from the European Agricultural Fund for Rural Development and provide support for rural development and environmental schemes.

4 *Irish Farmers’ Journal*, Cap deal agreed, 26 June 2013

5 Q 33 [David Baldock]

6 Q 5

7 Previous European Commissioners with responsibility for farming

8 Q 175



regime. The proposal was to push it out to 2020, which would have meant that it would have gone into the next round. Frankly, we would never, ever have got a stake through its heart. By accepting 2017, we will have a free market.<sup>9</sup>

While the UK Government did not end up with the deal it wanted, the final outcome might have been much worse and the Secretary of State and his officials are right to take credit for this.

10. Where the United Kingdom Government has come in for most criticism has been over its handling of the negotiations for the allocation of Pillar II funding, aimed at environmental and rural development schemes. While countries such as France and Italy saw their allocations increase by €1bn and €1.5bn respectively, the UK's budget for 2014–2020 is 5.5% less than for the previous CAP period. Without modulation (the transfer of money between Pillars) this means that annual Pillar II spend in England would be 16% less in 2014 than in 2013, and by 2020 it would be 27% less. The European Council stated that the allocation of funding would be based on 'objective criteria and past performance' but the Commission has not revealed how it interpreted this guidance in practice or what objective criteria were used.<sup>10</sup> On his CAP reform blog Alan Matthews, Professor Emeritus of European Agricultural Policy in the Department of Economics, Trinity College Dublin, considered that "the idea that Rural Development funds are distributed according to 'objective' criteria is a mirage. But it still leaves open the question how the agreed distribution was arrived at."<sup>11</sup>

11. As we will discuss later in the Report, such a poor outcome over the budget allocation for Pillar II may have ramifications that go beyond rural development. In order to meet policy objectives under Pillar II, the Government proposes to transfer 15% of funds from Pillar I into Pillar II. The NFU told us that such a transfer of funds out of the direct payments budget could harm the ability of English farmers to compete with farmers elsewhere in the UK and Europe.<sup>12</sup>

## The main challenges of implementation

12. The Government has undertaken to keep implementation as simple as possible while seeking to achieve good value for taxpayers and good outcomes for other policy goals.<sup>13</sup> A new IT platform is being developed, and application will be digital by default. We have no intention of rehearsing the problems that occurred during the implementation of the last CAP—the scale of which both the Rural Payments Agency and Government denied for far too long. However, all concerned with implementing the new system, from the RPA to the farmers who make claims, expect the lessons learnt from those difficulties to be applied this time around.<sup>14</sup> One of the main lessons from that period is the need to get the new IT

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9 Q 175

10 [www.capreform.eu](http://www.capreform.eu), The CAP budget in the MFF Part 3—Pillar 2 rural development allocations, 10 July 2013

11 *Ibid.*

12 Ev 82 [NFU]

13 Department for Environment, Food and Rural Affairs, *CAP Reform in England: Status report on Direct Payments*, August 2013

14 Ev 82 [NFU]; Q 150

system right. It is absolutely crucial that it performs effectively. This remains one of the stand-out challenges. The proposed digital by default approach must also take account of the lack of adequate broadband in some rural areas.

13. It is clear that there is much work for the RPA to do. Dr James Jones told us:

There is no doubt that there is a lot more work in this for the RPA and the agencies because, whatever their requirements are at the moment, they are going to be added to by requirements such as determining the age of a young farmer and whether they are eligible for that slice of the payment. There are the greening measures, and in particular the detailed mapping exercise that will have to be done to back up the determination of whether a farmer has 5% EFA on his holding as part of the arable area.<sup>15</sup>

14. The implementing bodies have much to achieve in a very short time. As Jo Broomfield, Director of the CAP Delivery Programme at the Department for Environment and Rural Affairs (Defra), pointed out “One of the biggest challenges I face is the limited time that we have to deliver the new solution, so this is a challenging programme that we are embarked upon, and we absolutely do not want to make the mistakes of the past.”<sup>16</sup> The new direct payments system will be implemented on 1 January 2015.

15. Given the added complexities of the new CAP, it is important that farmers are engaged in the process of change. Effective communication is critical, not least in the area of agri-environment schemes. Dave Webster, Chief Executive of Natural England, described his main challenge as maintaining business continuity and quality customer service during the transitional period: “We have over 45,000 multi-annual agreement holders. Clearly we have to communicate a phased closure of the current schemes and the introduction of the new schemes to our customers, and clearly we have got to take those same customers through digital by default.”<sup>17</sup> Not only are the implementing bodies developing and testing new procedures and systems, they also have to ensure business as usual under the existing mechanisms. We discuss these challenges in more detail later in this Report.

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15 Q 5

16 Q 97

17 Q 97

## 2 Direct Payments

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16. Under the reformed Common Agricultural Policy farmers will continue to receive direct payments and in doing so will have to satisfy the obligations of cross-compliance (the requirement for farmers to keep their land in good agricultural and environmental condition). The new Direct Payment will comprise a Basic Payment and one or more additional payments. For most farmers 30% of the Direct Payment will depend on their meeting various ‘greening’ criteria. There is also a new scheme for young farmers. A further change is that in order to receive a direct payment farmers will have to meet an ‘active farmer’ test.

### Regional distribution

17. In 2005 the Government adopted three regions for the Single Farm Payment Scheme:

- i. land in non-severely disadvantaged areas (SDAs) (i.e. the lowlands outside the SDA)
- ii. land in SDAs other than moorland (i.e. the uplands below the moorland line), and
- iii. moorland (land above the moorland line)

Rates of direct payment differed across the regions based on productivity; because farming is less productive in SDAs and moorland (the uplands) owing to poorer climate, soils and terrain, upland farmers received a lower payment per hectare than lowland farmers. Under the new CAP the Government can change the regional structure and the payment rates within it. The Government proposes to retain the existing three-tier structure to avoid a costly and time-consuming exercise to identify and map the new regions and is consulting on adjusting the payment rates with a view to ‘moving money uphill’.<sup>18</sup> **We agree with the Government that the existing regional structure should be retained.**

18. Upland farmers are particularly vulnerable with some existing on as little as £8,000 per year.<sup>19</sup> This is confirmed by Defra’s latest farm income study which shows that livestock farmers in the uplands failed to make a positive return from agriculture in 2012–13.<sup>20</sup> The average age of upland farmers is 60 and few young farmers are entering the sector.<sup>21</sup> Economic profitability is a challenge due to a range of factors, including higher costs in accessing the market and supply chain, competition from more intensive production systems, and the failure of the CAP adequately to recognise the value of upland farming. Reductions in CAP payments from a reduced Pillar I budget and the end of the agri-

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18 Department for Environment, Food and Rural Affairs, *Implementation of CAP Reform in England Consultation Document*, October 2013

19 Ev w1 [Susan Atkinson]

20 Department for Environment, Food and Rural Affairs, *Farm Business Income by type of farm in England, 2012/13*, 31 October 2013

21 Ev w1 [Susan Atkinson]

environment Uplands Entry Level Scheme (UELS)<sup>22</sup> cannot be offset by increased agricultural production.<sup>23</sup> As a result, upland farmers rely disproportionately on support from CAP payments. We therefore agree with the Government that it is only right for payments to be redistributed across the three regions in a manner that is fairer to all.<sup>24</sup>

19. We recognise that changing CAP payments to increase financial support to upland farmers without linking the additional support to any environmental objectives could lead to adverse environmental consequences such as intensification of in-bye land<sup>25</sup> and under-grazing of the hills.<sup>26</sup> It is all the more important therefore that the increase in the direct payment is complemented by a New Environmental Land Management Scheme (NELMS) which contains appropriate positive land management options that encourage take-up by upland farmers. Without such options it is possible that, despite ‘moving money uphill’ under Pillar I, the end of the Uplands Entry Level Scheme will mean upland farmers losing out overall as what they gain with one hand they more than lose with the other.<sup>27</sup>

20. Aligning the payment rates of lowland and SDA regions would see lowland farmers’ payments reduced by approximately €6 per hectare (as shown in Table 1 below).

**Table1: Regional distribution of direct payments**

Region	Basic plus greening payment (€ per hectare)		
	Lowland	SDA	Moorland
No change	€242	€195	€34
Aligning Lowland and SDA	€236	€236	€62

Source: Department for Environment, Food and Rural Affairs, *Implementation of CAP Reform in England Consultation Document*, October 2013

We note that lowland farmers are likely to be disproportionately disadvantaged financially by the introduction of greening. They will also lose the agri-environment Entry Level Scheme (ELS)<sup>28</sup> while at the same time being less able to access funding under NELMS than their upland counterparts, but we nevertheless believe that, for the reasons set out above, there is sufficient merit in ‘moving money uphill’ to justify this course of action.<sup>29</sup>

**21. Payment rates for the current lowland and SDA non-moorland region should be aligned. There remains merit in maintaining the moorland region at a separate lower rate but we believe it should receive the same cash uplift as those farming in the SDA**

22 The Uplands Entry Level Scheme (UELS) is an agri-environment scheme supporting upland farmers to deliver environmental management.

23 Ev 96 [RSPB] and Ev w12 [National Parks England]

24 Ev 82 [NFU] and Ev w1 [Susan Atkinson]

25 In-bye land is enclosed farm land which is used mainly for arable and grassland production and is not hill and rough grazing.

26 Ev w28 [Wildlife and Countryside Link]

27 Q 3 [Dr James Jones]

28 Entry Level Stewardship Scheme (ELS) is the basic support to farmers delivering simple and effective environmental management across the whole farm.

29 Department for Environment, Food and Rural Affairs, *Implementation of CAP Reform in England Consultation Document*, October 2013

given its high environmental value and the impact of the end of the Uplands Entry Level Scheme.

22. **The Government must ensure that the New Environmental Land Management Scheme is open to all upland farmers. It would not be acceptable for those farming in the most challenging of environments to be left worse off overall by the changes introduced under the new CAP.**

## Reduction in direct payments

23. As part of the CAP deal European Agriculture Ministers agreed to a provision to reduce payments going to the largest recipients. This can be achieved by reducing payments above a certain level or by making redistributive payments or both. Under the proposed system of reductions, Member States must impose a reduction of at least 5% on basic payments above €150,000. The level of reduction can be set as high as 100%. The Government's preferred option is to adopt the minimum reduction of 5% on basic payments over €150,000. All money 'saved' via this method must be transferred to Pillar II.

24. The Government has made it clear that it opposes capping payments i.e. raising the level of reduction to 100% at a certain threshold. The Secretary of State set out his reasoning to us:

I want to see an efficient, successful farming industry concentrating on the production of good-quality food, with successful environmental outcomes. I do not want to see our successful farmers spending hours and hours with expensive solicitors artificially carving up their holdings to avoid an arbitrary diktat on the size of their holding.<sup>30</sup>

25. **We agree with the Secretary of State that setting a ceiling at a certain level may discourage businesses from expanding and may simply lead to those affected finding a way around it.**

26. The Government sees Pillar II as delivering greater benefit and value for money than Pillar I. A mechanism that transfers money from those who can most afford it to Pillar II is one the Government should use. As the Secretary of State told us, those in receipt of the largest claims are also most likely to farm efficiently and be able to take advantage of the benefits that economies of scale bring with them.

27. The RPA told us that they would expect the 5% level of reduction at €150,000 to generate 'somewhere in the region of £1.2 million to £2.2 million per year'.<sup>31</sup> Such an amount of money is not insignificant and could make a big difference to the rural economy.<sup>32</sup> **We recommend that the Government increase the rate of reduction for those in receipt of basic payments over €300,000 in order to boost the funding available for rural development. We believe a higher level would not necessarily impact unduly**

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30 Q 178

31 Q 127

32 Taking the Devon and Somerset Rural Growth Network as an example, here Ministers have stated they expect the £2.9million investment to create 1,100 jobs and boost the region's economy by £58million, see <http://rdpenetwork.defra.gov.uk/news-and-publications/rdpe-news/rural-growth-networks>

**on the largest claimants, nor would it prompt them to seek to carve up their holdings. It would however provide extra funding to help deliver the Government's rural development policy objectives. We believe our proposals to be administratively simple and agree with the Government that reducing payments above a certain level is preferable to the redistributive option.**

### Active farmer test

28. In order to receive direct payments claimants will in future have to meet an 'active farmer test', the detailed rules of which have yet to be defined. What is clear is that the test will be in two parts. The first part is a 'negative list' of business types which will be ineligible to apply for direct payments. The list comprises operators of airports, railway services, waterworks, real estate services and permanent sport and recreational grounds. Businesses within this list could have their eligibility restored if:

- their direct payments represent at least 5% of their non-agricultural receipts;
- their agricultural activities are 'not insignificant'; or
- their organisation's principal objective is an agricultural activity.

29. The Government also has the discretion to add business types to the negative list should it become clear that their primary business is not related to agriculture. **The Government should review annually who receives direct payments and if it is clear that a business type for which agriculture is not a significant activity receives financial support, the Government should add it to the negative list.**

30. **A number of organisations raised concerns with us that the negative list might catch genuinely active farmers who have responded to the Government's call to diversify, by, for example, providing private water supplies or renting out real estate to supplement their farm income. The Government must ensure this does not happen.**

31. The Tenant Farmers Association suggest that the negative list should be expanded to ensure those in receipt of direct payments are actively farming:

We believe that added to the negative list of individuals who should be precluded from being defined as an active farmer are those who are not in occupation of land or rights of common, those that are not taking an entrepreneurial risk and not in day-to-day management control of that land. This would preclude quite a lot of individuals who now are able to claim subsidy through sorts of sham agreements such as contract farming, share farming and partnerships, where they are pretending that they are in occupation and taking an active interest and entrepreneurial risk, but they are not. We think there should be an added element to the negative list of those individuals.<sup>33</sup>

We agree with the TFA that the person doing the job should be the one who receives the direct support under Pillar I. For example, it is not acceptable for people who were previously tenants to be offered other arrangements such as share farming, contract

farming or grazing licences in order for the landlord to be able to claim the direct payment. **The Government must use the flexibility of the active farmer test to ensure that individuals who are not in occupation of the land or rights of common, who are not taking the entrepreneurial risk and who are not in day-to-day management control of land do not receive direct payments. At point of application claimants should declare that they are the active farmer, and checking the evidence to support such a declaration should be incorporated within the normal course of inspections.**

32. The second part of the active farmer test refers to a minimum level of activity and affects claimants when most of their land is naturally kept in a state suitable for grazing or agriculture. While we expect the minimum activity test to be one that few will fail, the idea of a minimum level of activity gives rise to concern, particularly if it is to involve a minimum stocking density. Care is required to ensure that criteria are not set at levels which would exclude very extensive livestock producers—many of whom are found in the High Nature Value<sup>34</sup> English uplands, or lead to activity that would damage habitats that can be an additional source of farm income in their own right through tourism.<sup>35</sup> Furthermore, the Central Association of Agricultural Valuers point out that:

A farmer who milks 200 cows on 300 acres of valley bottom land but also has 600 acres of high heather hill ground (assuming that that might be ‘naturally kept’ land) cannot be an active farmer unless he meets the minimum activity on the hill.

It would be perverse if such a situation were allowed to develop. **Commercial factors, not arbitrary criteria, should drive decisions to cultivate or rear animals. Care must be taken to ensure that criteria are not set at levels that would exclude low-intensity farming systems whose activity make a positive contribution to some of our areas of greatest environmental value. Furthermore, an over-prescriptive approach to the minimum activity criteria would only add to the list of eligibility checks that the RPA will have to undertake.**<sup>36</sup>

33. **To help farmers plan for the future Defra should communicate key decisions as soon as possible. Defra’s early announcement that entitlements will be rolled forward is a welcome example of this. We appreciate that the details of the active farmer test have yet to be published by the Commission but we expect Defra to give those affected as much advance notice as possible once final decisions on the test have been made.**

## Minimum claim size

34. The European regulation requires Member States to set a minimum claim size for direct payments. The Government has decided to set the threshold at the highest possible level of five hectares. This is the same level recommended by the Farming Regulation Task Force in 2011. We asked Richard Macdonald, who chaired Task Force and is now in charge

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34 ‘High Nature Value’ farming commitments were first established in the 1998 EU Biodiversity Strategy, which includes the explicit objective ‘to promote and support low-intensity farming systems’. HNV farming is characterised by a combination of low intensity of land use, presence of semi-natural vegetation, and the presence of a landscape mosaic.

35 Ev 96 [RSPB]; Ev 105 [The Wildlife Trusts]; Ev w28 [Wildlife and Countryside Link]

36 Ev 70 [Country Land and Business Association]

of the Task Force Implementation Group, what assessment the Task Force had made of such a measure:

The judgment we made was that the vast majority of those claimants [with less than 5 hectares] were not economic units. They were, in lay parlance, hobby farms. They were not the sort of units where there would, frankly, be significant change either way, ripped up or changed.

[...] By dint of what happened in 2004–05, we have added a great layer of bureaucracy that was never there beforehand. None of these people claimed or were in environmental schemes beforehand.<sup>37</sup>

Setting the minimum threshold at five hectares would, in 2012, have excluded 16,000 or 15% of claims and affected less than 1% of agricultural land. 60% of those holdings were also not being managed primarily for agricultural purposes. While land excluded by the threshold will cease to be subject to cross-compliance many components of cross-compliance will still apply under existing English or EU law. **We support the Government's intention to raise the minimum claim threshold to five hectares, and in so doing reduce the administrative burden on the Rural Payments Agency.**



## 3 Greening

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35. Arguably the most high-profile of the new CAP reforms is the introduction of a 'greening' payment. From 2015, in order to receive 30% of the direct payment farmers must deliver basic annual environmental measures that go beyond cross-compliance. There are three standard greening measures: crop diversification, permanent grassland and ecological focus areas.<sup>38</sup>

36. Greening is the Commission's main driver for making the Common Agricultural Policy deliver more for the environment but in England it will add complexity while delivering marginal environmental benefit. The Government worked hard to achieve the flexibility to operate a National Certification Scheme as an alternative to the standard greening measures but that achievement came with restrictions on how the scheme might be used. The scheme must deliver equivalent outcomes to the standard greening measures. For example, the scheme does not allow Member States to implement a viable alternative to the three-crop rule. Adopting a scheme that deviates from the Commission's standard measures also puts the Government at increased risk of disallowance (financial penalties incurred when CAP schemes are not applied correctly). **Disallowance under the previous CAP already stands at £580 million; implementing a scheme in the knowledge that it might attract further disallowance would be reckless. We support the Government's position that England should adhere as closely as possible to the measures set out in the direct payments regulation.**

37. **We do believe, however, that greening of the CAP will provide a valuable opportunity to address the decline in pollinators and we invite the Government to use greening to encourage the growing of pollinator-friendly crops.**

### *Ecological focus areas*

38. Our farmers have put a great deal of effort into meeting environmental obligations under the previous CAP with the result that English farming is greener than that of many other European countries. The Food and Drink Federation told us their greatest concern about greening was that Ecological Focus Areas could require a "default amount of land (5% rising to 7% by 2017) to be taken out of production."<sup>39</sup> At a time when food security is moving up the political agenda and when farm incomes are falling it does not seem right to us for farmers, who have already done a great deal, to be asked to take more land out of production. The concerns of the Food and Drink Federation were echoed by a number of other witnesses. Harry Cotterell, President of the Country Land and Business Association, suggested the way mapping was conducted by the RPA contributed to the problem:

The mapping of farms for the single farm payment has been incredibly tight. Land has been 'lost' every time we have been remapped. Basically, it is going to be very

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38 We considered each of these measures in detail in our earlier report *Greening the Common Agricultural Policy*.

39 Ev w8 [Food and Drink Federation]

difficult, utilising existing mapping systems, to try to establish how you are going to deliver ecological focus areas in the arable landscape. That is a big concern.<sup>40</sup>

**39. The Rural Payments Agency must ensure that mapping for the purposes of determining ecological focus areas is as wide as possible and all landscape features such as hedgerows, hedge banks, stone walls and other historically important boundaries, ditches and ponds should be included in the measurements. Furthermore, land already taken out of production under agri-environment schemes should be included though measures must be taken to prevent double payment. In response to this Report the RPA should set out how it intends to undertake mapping and how farmers will be able to verify the accuracy of its work.**

40. The bar on double-funding poses a challenge for both the design of EFA options and continuing and future agri-environment schemes. We support the idea of using EFAs to encourage an increase in pollinator numbers, but we do not want to see similar measures completely removed from Pillar II schemes as a result. The CLA suggest that “it would be more useful to allow the individual to decide whether to include an option under the Pillar I EFA or under Pillar II, rather than carrying an automatic transfer”.<sup>41</sup> We agree: take-up of measures under Pillar II is preferable as they are incentivised, open to all and made on a multi-annual basis; greening, however, is annual, it has exemptions and there is no incentive for farmers to choose a particular option. To transfer options out of Pillar II, certainly while ELS is still running, provides no guarantee of increased take-up. **Options should not be moved from Entry Level Schemes to greening Ecological Focus Areas, but should rather be available under both with the farmer stipulating under which Pillar the options are included.**

### *Crop diversification*

41. In our *Greening the Common Agricultural Policy* report we concluded that the crop diversification measure “will deliver minimal environmental benefits to the UK while placing substantial costs on UK farmers and administrators, as well as risking distorting the market for produce.”<sup>42</sup> We continue to see no merit in this requirement in England. As Peter Kendall, President of the NFU, told us

Smaller livestock farmers—not necessarily specialist arable farmers—who are growing one crop at the moment to feed their livestock will potentially be forced to grow two more in the future. It is very difficult.

The general feeling is there is no environmental benefit in making farmers grow three crops at all. It is very inefficient; it is forcing farmers to do something that the market is not requiring. It could be costly in terms of the machinery they use and the management they have to deploy.<sup>43</sup>

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40 Q 318

41 Ev 70 [Country Land and Business Association]

42 Environment, Food and Rural Affairs Committee, *Greening the Common Agricultural Policy*, Session 2012–13, HC 170

43 Q 81

42. The NFU are pushing the Government and Commission to come up with alternative choices for farmers that reduce the commercial impact of the three-crop rule but will also deliver greater environmental outcomes, such as substituting the requirement with an additional EFA commitment.<sup>44</sup> Such an ambition has our full support but we do not consider it achievable in the short term as our exchanges with the Secretary of State and his officials make clear:

**Iain McKenzie:** Have you spoken to the Commission on that specific point?

**Amy Holmes:** The Commission proposals are quite clear in that you cannot substitute crop diversification. There are equivalent measures that you can do, which are listed in the annex, but you cannot not do something outside that band. You cannot swap crop diversification for additional EFA measures, in essence.

**Iain McKenzie:** Have you spoken to them on that specific issue?

**Amy Holmes:** Officials have spoken to officials in the Commission.

**Martin Nesbit:** The legislation is pretty clear as well.

**Secretary of State:** I would repeat, though, that Commissioner Cioloş, from the very first meeting I had with him, was absolutely determined to push this through.<sup>45</sup>

In their consultation document Defra are clear that they see crop diversification as delivering little benefit but that the possible alternatives “are believed to be administratively difficult and costly for little or no additional benefit.”<sup>46</sup> **The introduction of the three-crop rule in England places an increased burden on farmers while delivering little benefit. The Government must push the Commission to review this rule at the earliest possible opportunity.**

### *Permanent grassland*

43. The permanent grassland rules require that the ratio of permanent grassland to agricultural area in England must not fall by more than 5%. The rules further require that there be no ploughing or conversion of environmentally sensitive grasslands covered by the Birds or Habitats Directive. **The Government should consider extending the areas of grassland that cannot be converted to include all SSSI and Biodiversity Action Plan-quality grassland. We agree with the Government that in the interests of simplicity the ratio of permanent grassland to eligible land should be recorded at a national level.**<sup>47</sup>

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44 Ev 82 [NFU]

45 Qq 185-6

46 Department for Environment, Food and Rural Affairs, *Implementation of CAP Reform in England Consultation Document*, October 2013

47 Ev w12 [National Parks England]; Q 261 [George Dunn]

## 4 Rural Development Programme

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44. Rural Development Programmes are the delivery mechanism for Pillar II funding. They typically consist of projects targeted at improving the environment, rural life and the productivity and competitiveness of agriculture and forestry. By the time it ends the Rural Development Programme for England for 2007–2013 will have spent £3.7 billion on the following areas:

- environmental land management (83%);
- farming and forestry competitiveness, productivity and skills (5%);
- wider rural growth (8%); and
- Leader (4%)<sup>48</sup>

In its October 2013 consultation the Government asks whether future spending should be primarily focused, as it is now, on environment, or whether greater proportions should go towards rural growth, or there should be more focus on competition.<sup>49</sup> We believe the future spending under Pillar II should have an increased focus on competition. **English farmers lag behind their main European competitors in levels of direct payment leaving them less able to invest and innovate. With the ability of the nation to feed itself growing in importance the Government should increase funding for innovation and measures to boost agricultural productivity.** This option also has the advantage of maintaining the proportion of funding spent on helping our rural communities and comes with only a small drop in funding for environmental measures.

45. The UK's reduced allocation of Pillar II funding for the next period means that future schemes will have to be better targeted and will be less widely available than current schemes. For example, it is estimated that the amount of land under an agri-environment scheme during 2014–2020 will fall from 70% to 35-40%.<sup>50</sup>

46. The Government have identified the following three main areas for support:

- growth: delivering rural economic growth;
- environment: restoring, preserving and enhancing our natural environment; and
- productivity: increasing the competitiveness and efficiency of our farming, forestry and land-base sectors.

To address the environment priority the Government is proposing a New Environment Land Management Scheme (NELMS).

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48 Department for Environment, Food and Rural Affairs, *CAP Reform in England: Status report on Rural Development Programme*, August 2013; Leader is funding for community led projects.

49 Department for Environment, Food and Rural Affairs, *Implementation of CAP Reform in England Consultation Document*, October 2013

50 *Ibid.*

## New Environment Land Management Scheme

### Focus

47. During our inquiry we asked how the funding for Pillar II agri-environment schemes should be spent. There was broad support for a scheme that built on the existing Higher Level Scheme (HLS) and incorporated elements of the Uplands Entry Level Scheme (UELS).<sup>51</sup> Abi Bunker, Head of Agriculture Policy at the RSPB, told us:

From the RSPB's perspective, the most important thing would be high quality, well targeted, advice-led agri-environment schemes, such as HLS. We have seen examples of how that has really provided enormous benefits in the uplands in terms of environmental quality, species and habitats. It has also leveraged in a lot of other funding, for example through the water companies, for investment in these areas. High quality, well targeted, advice-led HLS-type agreements or landscape-scale-type agreements for agri-environment is the number one priority.<sup>52</sup>

As we discussed in chapter two, it is crucial that the new scheme contains enough options for the majority of upland farmers to be able to take part. George Winn-Darley, a landowner and Moorland Association representative for the North York Moors, told us NELMS should “provide an effective upland management system and this should include factors such as a reduction in the risk of wild fire, effective heather regeneration, rewetting and water quality.”<sup>53</sup> Both the Wildlife Trusts and the Tenant Farmers Association called for the value of extensive grazing systems, which protect valuable ecosystems but where income from livestock is relatively poor, to be better recognised.<sup>54</sup> It would be disappointing if the Government recognised the challenges of farming in the uplands by ‘moving money uphill’ under Pillar I only for upland farmers’ incomes to fall overall due to an inability to access the new environmental land management scheme.

48. Natural England described the proposed new scheme to us:

The new scheme will have three elements: the first is a site element similar to the current HLS schemes, building on the best of those. It will be a multi-annual agreement for land management with capital items. It will be targeted at the highest value and site features, so it will tend to be a significant scale of schemes, sites and features. It will be discretionary and it clearly will be supported by Natural England advice and support.

A new element of the scheme is to operate at a landscape scale, because what we have found, particularly with the Entry Level schemes is that we have not necessarily made improvements to things like the farmland bird index. Operating at a landscape scale, building on the kind of concepts that Professor Lawton demonstrated with his

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51 Q 20 [Dr James Jones]; Ev w12 [National Parks England]; Ev 105 [The Wildlife Trusts]; Ev w28 [Wildlife and Countryside Link]

52 Q 43

53 Q 297

54 Ev 105 [The Wildlife Trusts]; Q 233

report, would enable us to make change at a more significant basis for the environment.

How that will operate we are not completely sure yet. Clearly we have got natural improvement areas at the moment, and that might operate as a way of getting that landscape scale change. Then there will be a final element, because the first two elements would be targeted. For the final element there would be a universal opportunity around capital to do good works for the environment across the country.<sup>55</sup>

Natural England confirmed that they “would still expect a significant uptake in the uplands through this new land management scheme, because clearly they provide a huge amount of environmental benefit through the work that they do”.<sup>56</sup> We welcome Natural England’s focus on maintaining those gains already achieved, particularly on the farms that have been successful in getting into HLS schemes as these have been shown to deliver greater benefits for biodiversity and ecosystem services than ELS schemes, elements of which have attracted criticism for delivering poor value for money.<sup>57</sup> Defra confirmed that part of NELMS would be highly targeted—echoing much of the evidence we received on this point—and on an ‘invitation’ basis.<sup>58</sup>

49. The proposed landscape approach had the support of Paul Wilkinson, Head of Living Landscapes at The Wildlife Trusts, who deemed it a beneficial and progressive step, and David Baldock, Executive Director of the Institute for European Environmental Policy, who was for looking for Natural England to be more innovative and experimental;<sup>59</sup> this support was not universal however. Harry Cotterell of the CLA warned that, “if nature improvement areas, for example, are used as a criterion to push schemes further up the list, farms and land outside of NIAs will be disadvantaged for no other reason than it is outside of an NIA.”<sup>60</sup> **Given the reduced pot of funding for Pillar II it is inevitable that not all farmers currently with land under environmental stewardship will have access to agri-environment schemes in the future. Those who have successfully implemented Higher Level stewardship agreements and shown the most interest in delivering environmental benefits should be first in the queue.**

50. Both the CLA and NFU argued for farmers to be able to put just some of their land into a scheme so that they could receive funding for delivering environmental goods on those portions of land not suitable for production.<sup>61</sup> Such an approach would have the advantage of maintaining land in production and may contribute to the aim of an ecosystems approach by enabling habitat corridors. We think this idea worth consideration but the ecological focus area measure within greening may be a better vehicle for such an

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55 Q 130

56 Q 132

57 Ev w19 [Natural Environment Research Council]; Ev w28 [Wildlife and Countryside Link]; Q 53 [Abi Bunker]; Ev 105 [The Wildlife Trusts]

58 Q 199

59 Q 51 and Q 53

60 Q 297

61 Q 297 and Q 86

approach. Certainly care would be needed to prevent double-funding but, as we concluded in the previous chapter, the existence of greening should not automatically mean similar measures cannot also exist within Pillar II.

### **Duration**

51. Entry Level Scheme agreements currently last for five years and Higher Level Scheme agreements for 10 years (but often with the option of a five-year break clause). Under NELMS the Government is proposing that five years becomes the norm. While he supported the principle of five-year agreements, George Winn-Darley, told us that:

in particular cases such as common land, which are complex to get into and which should run for longer, probably the existing 10 years is appropriate. Better value may be obtained by 10-year schemes, but applicants should have the option to break after five years to give them the confidence to enter it in the first place.<sup>62</sup>

National Parks England considered a 10-year agreement to be attractive to farmers: “It gave them security to plan (and ride out short-term market variations); to diversify, and has been essential for changes in management (e.g. from commercial to traditional breeds, to restore salt marshes and blanket bog) which are major business decisions and take longer to achieve.” **We consider 10-year agreements with the option of a five-year break clause to have considerable merit—they offer farmers and landowners security to initiate long-term projects. We recommend the option of a 10-year agreement be retained for agreements with specific long-term ambitions.**

### **Advice**

52. In order for agri-environment schemes to be effective they need to be supported by the right amount of advice, information and support.<sup>63</sup> The importance of experienced and knowledgeable advisers to the success of Pillar II schemes was repeatedly stressed to us.<sup>64</sup> While there was praise for the expertise of Natural England staff<sup>65</sup> there was also concern that Natural England might not be able to maintain sufficient support in the future due to reductions in their budget. David Baldock summed up the problem facing Natural England:

One difficulty would be dealing with the conflicts between, on the one hand, trying to have more targeted schemes and better results, and on the other hand, a shrinking administration and trying to simplify the thing. It is quite difficult to manage those conflicting pressures.<sup>66</sup>

One means of overcoming the problem of a lack resources is to use trusted advisers to deliver some of the roles previously done by Natural England. George Winn-Darley

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62 Q 297

63 Q 51 [David Baldock]

64 For example, Ev 96 [RSPB], Ev w19 [Natural Environment Research Council]; Q 54 and Q 62

65 Q 62 and Q 269

66 Q 62

believed such an approach to “have excellent potential for success but the detail needs to be got right”;<sup>67</sup> while organisations such as the Wildlife Trusts, RSPB and National Parks confirmed they would be willing to help Natural England make sure schemes are delivered to their best extent.<sup>68</sup> **We support the proposal that Natural England use trusted conservation organisations to provide expert advice to farmers. But the Government has repeatedly stated that it sees Pillar II as offering the best value for money for the taxpayer. It would be perverse for the Government to seek to transfer the maximum amount to Pillar II only to hinder the ability of Natural England to make the best use of it by imposing reductions in staff. Expert advice must not be seen as a cost to cut but rather as an essential component of securing maximum environmental benefit from Pillar II schemes.**

## Transition

53. The transition to the New Environmental Land Management Scheme will leave a number of farmers without access to agri-environment funding. Natural England explained the situation:

2014 is handled effectively, because we have got transitional funding both for Higher Level Stewardship and ELS, which will take us through to 2015. In 2015 there will be 9,000 Entry Level scheme applicants or agreements that will not have a scheme to go to; there will also be 2,000 upland Entry Level schemes. Those are the sort of numbers that we are talking to; of those a number will then potentially get into the Land Management Scheme.<sup>69</sup>

It is important that those farmers whose schemes are coming to an end are aware of the potential for a gap in funding. The CLA told us that “A lot of people who are in agri-environment schemes, and particularly ELS, do not really understand the fact that they are not going to get a renewal if it expires in the next two years, and there is little or, I think, no chance of any new entries.”<sup>70</sup> **Natural England must make sure agri-environment scheme holders are aware that they may not have a scheme to go to when their present one expires.**

## Tenancies

54. Agri-environment scheme payments are based on income foregone. The TFA told us of instances where a tenant had sought consent from the landowner to enter into an agri-environment scheme but the consent was made conditional on additional rent or extra payments.<sup>71</sup> **The person doing the work that qualifies for agri-environment scheme support, whose income is foregone, must be the person who receives the payment. It is unacceptable for a landowner to lay claim to part of that money through rental**

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67 Q 299

68 Q 62; Ev v12 [National Parks England]

69 Q 110

70 Q 323

71 Q 251



**increases or other payments. Such practices will discourage farmers from putting land into environmental stewardship.**

## Dual use

55. Dual use is the practice whereby a farmer with ‘land at his disposal’ can claim the direct payment while the landowner who can show ‘management control’ of the same land at the same time can also claim payment under Pillar II by putting the land into an agri-environment scheme. Dr James Jones told us that the Commission had “a complete anathema” about landowners receiving payments: “in the eyes of the Commission, it is untidy and inappropriate, so we have a problem here, and I think we are going to be under pressure to go down a single use route”.<sup>72</sup> The Tenant Farmers Association would support such a move:

Of course there are many cases where dual use operates on a fair and reasonable basis, however there are many cases where the TFA is aware that tenants are forced into having to comply with the terms of agri-environment schemes in the name of their landlord without adequate consideration to them either through a lower rent or management fee.<sup>73</sup>

George Dunn, Chief Executive of the Tenant Farmers Association, explained that there were situations where the landlord applies for the agri-environment scheme which has various conditions. Those conditions are then passed down in contract to the tenant without the tenant getting the benefit of the subsidy which goes to the landlord.<sup>74</sup>

56. It is clear that dual use works best when there is a partnership approach between the landlord and tenant and a clear division of labour. It can mean conservation organisations such as the RPSB and landowners like George Winn-Darley are able to engage in environmental land management and capital projects such as hedge and dry-stone wall restorations leaving the tenant to concentrate on food production in the middle of the field.<sup>75</sup> **We support the continuation of dual use and recommend that Defra push the Commission for its retention. The flexibility of dual use encourages more land to be put into agri-environment schemes while its removal is likely to undermine the landscape-scale agreements proposed under NELMS which large estates are perhaps better able to deliver in a coordinated way than their various tenants.**<sup>76</sup>

57. **Natural England should display a lot more rigour in arranging agri-environment contracts. Before contracts are signed they should offer advice to both parties, and must do much more to reassure themselves and us that payments for agri-environment schemes go to those who do the work and whose income is foregone.**

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72 Qq 9-11

73 Ev 101 [Tenant Farmers Association]

74 Q 254

75 Q 246; Q45

76 Ev w4 [Central Association of Agricultural Valuers]

## Dispute

58. Where disputes exist between landlords and tenants over who is the rightful applicant for CAP payments, George Dunn told us that:

there has generally been a reluctance on the part of DEFRA, the RPA and National England to get involved in trying to resolve [them]. In a number of cases we have persevered through those various agencies and Government Departments, and in a number of cases we have managed to get Natural England and RPA to rule on one side or the other on the basis of the evidence provided.

We think there is merit in these organisations actually taking a clearer view on who is right and who is wrong in accordance with the rules.<sup>77</sup>

We understand why Government would be reluctant to get involved in contract disputes between tenants and landlords but the Government has a vested interest in ensuring that the right person is claiming payments. To some extent such problems may be resolved by future rules on the definition of an active farmer, but nevertheless, as we concluded in our *Farming in the Uplands* Report, we do see the benefit of an improved dispute resolution mechanism.<sup>78</sup> In 2011, the Farming Regulation Task Force made the following point:

The process of resolving disputes which arise within agricultural tenancies has become complex and expensive. We think there should be consideration of a less costly approach. In particular this should allow the parties to a Tenancy Agreement to contract out of the arbitration provisions within the existing legislation and to opt for disputes to be settled by an Independent Expert where the matter does not relate to a notice to quit. This could cover rent reviews, consent for improvements, notices to do work, game damage and similar provisions. Arbitrations can be an expensive and protracted way of resolving certain disputes when compared with instructing an expert whose decision is binding on the parties.<sup>79</sup>

59. The Tenancy Reform Industry Group (TRIG) developed the Task Force's recommendations on tenancy law. In October 2012, it sent detailed proposals with draft legislation to ministers, recommending that the Government provide the option of using independent experts to resolve certain disputes within tenancies.<sup>80</sup> Richard Macdonald told us that the Tenancy Reform Industry Group's recommendations are with Ministers, "I would hope that could be implemented and see no reason why not."<sup>81</sup> **We recommend that the Government implement the recommendations prepared by the Tenancy Reform Industry Group following the Report of the Farming Regulation Task Force. Such a dispute resolution mechanism should include matters relating to payments under both Pillars of the CAP.**

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77 Q 288

78 Environment, Food and Rural Affairs Committee, Third Report of Session 2010-11, *Farming in the Uplands*, HC 556, para 55

79 The report of the independent farming regulation task force, May 2011

80 Farming regulation task force implementation group: 'one year on' assessment, 27 February 2013

81 Q 376

## Rural Economy and Local Enterprise Partnerships

60. In our Rural Communities inquiry we found that if the Government was going to achieve its top priority of growing the rural economy, then a number of barriers needed to be overcome, not least improving rural businesses' access to finance. This was borne out by the response to Defra's Rural Economy Grant scheme; the £60 million scheme funded out of Pillar II provided grants of between £25,000 and £1 million to enable a 'game changing' transformation of Farm, Agri-Food, Tourism and Forestry businesses and micro-enterprises in other high-growth sectors. It received "an unprecedented response [...] over 1,100 applications with a value of £244 million".<sup>82</sup> We concluded that the extent to which the Rural Economy Grant scheme was over-subscribed suggested Defra had successfully targeted funding at addressing a very specific and real barrier to growth for rural businesses. Lending is now on the increase but, according to the Federation of Small Businesses, obtaining credit remains an issue for small businesses.<sup>83</sup>

61. Defra's 2011 Rural Economy Growth Review included £15 million to set up five Rural Growth Networks (RGNs).<sup>84</sup> These are pilot projects aimed at testing different mechanisms for supporting rural businesses and stimulating economic growth in rural areas. Focuses of RGNs include former service personnel, women-led enterprises, and different types of incubation hubs. Defra expect the £15 million initiative to create more than 3,000 jobs and 700 businesses and provide a substantial boost to the local economy. In the Devon and Somerset RGN Ministers have stated they expect the £2.9 million investment to create 1,100 jobs and boost the region's economy by £58 million. The Minister for Rural Affairs admitted that he would "love to roll [RGNs] out more widely" but "funding is a limiting factor."<sup>85</sup>

62. In our Rural Communities inquiry we were impressed by the Rural Communities Policy Unit's "understanding of the rural economy and their strategy to target areas which present both different challenges to address and different opportunities to exploit. This was well considered and the insistence of robust business planning at the outset demonstrates welcome attention to value for money."<sup>86</sup> It is disappointing therefore that the Government state in their consultation that, except for projects funded through the LEADER Programme, all funding targeted at groups other than farmers will be channelled through the EU Growth Programme administered by Local Enterprise Partnerships (LEPS).<sup>87</sup> In

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82 Environment, Food and Rural Affairs Committee, Sixth Report of Session 2013-14, *Rural Communities*, HC 602, Ev 107 [CLA]

83 Federation of Small Businesses press release, *FSB hopes small firms will benefit following positive lending figures*, 2 September 2013

84 On 29 November 2011 Defra launched the Rural Economy Growth Review—a package of measures worth £165 million designed to stimulate rural economic growth. Measures included the Rural Economy Grant (£60 million), a Farming and Forestry Improvement Scheme (£20 million); a Skills and Knowledge Transfer training programme (£20 million), a £10 million contribution towards the Rural Community Broadband Fund, and five pilot Rural Growth Networks (£15 million).

85 Environment, Food and Rural Affairs Committee, Sixth Report of Session 2013-14, *Rural Communities*, HC 602, Qq 87-88

86 Environment, Food and Rural Affairs Committee, Sixth Report of Session 2013-14, *Rural Communities*, HC 602, para 105

87 Department for Environment, Food and Rural Affairs, *Implementation of CAP Reform in England Consultation Document*, October 2013

our previous work we heard how many LEPs were too urban-focused and, though hard-working, were poorly resourced.<sup>88</sup>

63. It is reassuring that Defra will remain accountable for how Rural Development Programme funding will be spent by LEPs.<sup>89</sup> **We take this opportunity to remind Defra of the value of the Rural Economy Grant Scheme and the Rural Growth Networks it created. We recommend that Defra encourage those Local Enterprise Partnerships in receipt of Rural Development funding to offer similar schemes to rural businesses within their areas. We will hold Defra to account if rural communities fail to benefit from the Rural Development funding channelled through Local Enterprise Partnerships.**

### LEADER Programme

64. In our Rural Communities inquiry we heard evidence that, under the previous round of the Rural Development Programme, the LEADER programme had ceased to be fit for purpose.<sup>90</sup> Mike Perry from the Plunkett Foundation told us that, as the details of the new Rural Development Programme for England are being drawn up, policy makers need to make sure that the next generation of LEADER “actually fits the needs of communities today, as opposed to communities 10 years ago.”<sup>91</sup> Mr Perry gave the example that virtually none of the communities that have saved their shops and pubs have received any funding support through LEADER. We repeat our recommendation that **during development of the new Rural Development Programme Defra should explore how LEADER can be used better to help those communities looking to retain services that are under threat.**

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88 Environment, Food and Rural Affairs Committee, Sixth Report of Session 2013-14, *Rural Communities*, HC 602, paras 11-116; Third Report of Session 2010-12, *Farming in the Uplands*, HC 556, para 113

89 Q 220

90 The LEADER Programme is a community-led local development method for mobilising and developing rural communities through local public-private partnerships ('Local Action Groups'). It is designed to help rural people, groups and enterprises to consider the potential of their area and to encourage the implementation of integrated and innovative local development strategies. A minimum of 4% of Pillar II funding must be allocated to it.

91 Environment, Food and Rural Affairs Committee, Sixth Report of Session 2013-14, *Rural Communities*, HC 602, Q 403

## 5 Common land

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65. Common land is a piece of land in private ownership, where other people have certain traditional rights to use it in specified ways, such as being allowed to graze their livestock. There are 7,000 commons in England covering nearly 400,000 hectares, the majority in North Yorkshire and Cumbria. The Commission has yet to publish the rules for claiming direct payments on common land under the new CAP deal and the Government has resisted reaching a view until greater clarity has been provided.<sup>92</sup> The RPA confirmed to us that it had begun mapping all of the common land on the basis that they expect it to be one of the foundations for the allocation of funds in the future.<sup>93</sup>

66. We have heard that the needs of common land and individuals exercising commoners' rights were not given sufficient attention under the current CAP.<sup>94</sup> The NFU told us that the implementation of the current Single Payment Scheme in relation to common land had caused significant problems for some farmers in the hills and uplands:

Some were not allocated the correct amount of entitlements for the common, others were told they could not claim at all and, on some commons, areas have gone 'unclaimed' because rights recorded on the common land register do not sit with active graziers. All of this means that farmers actively involved in the management and grazing of upland commons may not currently receive their fair share of the SPS.<sup>95</sup>

67. When common land was considered in 2005 it was assumed that everyone who had a registered right would make a claim. However, many rights were not in fact claimed. Consequently large areas of common land did not attract the share of money that was intended for them. To address this, the Open Spaces Society argue for the implementation of Part I of the Commons Act 2006:

Part 1 of this Act secures the updating and maintenance of the common-land registers consisting of maps and registers of the ownership of the land and the rights over it. The registers were drawn up in the early 1970s and are inaccurate and out of date; they were produced in a very short period and contain many errors. Part 1 allows a limited reopening of the registers, to correct errors and enable the public to apply for inclusion of certain land which was wrongly omitted.<sup>96</sup>

The results of Defra's Red Tape Challenge on the themes of Biodiversity, Wildlife Management, Landscape, Countryside and Recreation contain a commitment to fully commence Part 1 of the 2006 Act throughout England. However, Defra state that

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92 Department for Environment, Food and Rural Affairs, *Implementation of CAP Reform in England Consultation Document*, October 2013

93 Q 144

94 Ev 70 [Country Land and Business Association]

95 Ev 82 [NFU]

96 Ev w20 [Open Spaces Society]

implementation is unlikely to happen within the life of the present Parliament, due to a combination of a lack of resources and other priorities.<sup>97</sup>

68. The Tenant Farmers Association caution against “slavish adherence to common land registers ... they will not record the use by tenant farmers of rights provided to them by their landlords through contracts of tenancy.”<sup>98</sup> The Farming Regulation Task Force also considered the problem of common land and concluded that there should be a single payment made to the appropriate Commoners Association (or equivalent):

The Association (or equivalent) should be responsible for identifying the active claimants, notifying the RPA and dividing the payment appropriately on the basis of those who are actively farming the common. We are aware that commoners, by definition, do not own the land they are grazing, but we understand that this approach is already used in the administration of agri-environment schemes for commoners. In line with our view that only those managing land should receive SPS (paragraph 7.21), and those actively farming the land are the graziers, we do not believe this arrangement should require landowner consent.<sup>99</sup>

69. One problem with the approach advocated by the Farming Regulation Task Force is that Commoners Associations do not hold entitlement, something that Richard Macdonald was clear should be changed.<sup>100</sup> Both George Winn-Darley and the NFU agreed that entitlements were a problem and that there should be the ability to claim them without having to buy them from the marketplace.<sup>101</sup>

**70. The Government must update the commons registers or implement Part I of the Commons Act 2006 to ensure accurate registers of common land are available for the purposes of mapping and payment. We acknowledge the benefit in the RPA mapping common land ahead of the implementation of the new deal but we are concerned that it may be doing so based on registers known to be inaccurate. In response to this report we expect the RPA to set out how it will deal with this potential problem.**

**71. We support the recommendation of the Farming Regulation Task Force that a single payment should be made to the appropriate Commoners Association for them to divide appropriately among those who are actively farming the common, and this need not exclude the landowner. The Government should consider ways in which the future national reserve can be used to allocate payment entitlements to Commoners Associations to enable them to do this. Such an approach should not require landowner consent. Whatever approach the Government chooses it must make sure that tenants using rights provided to them by the landlord are included alongside those with rights in perpetuity.**

72. The rules setting out the Commission’s approach to common land have yet to be published but we would be concerned if they were too prescriptive. We commented earlier

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97 See <https://www.gov.uk/common-land-management-protection-and-registering-to-use>

98 Ev 101 [Tenant Farmers Association]

99 The report of the independent farming regulation task force, May 2011

100 Q 355

101 Q285; Ev 82 [NFU]

on the problems that might result if the minimum activity test included a minimum stocking density and a similar point can be made about common land. James Bailey from the Federation of Yorkshire Commoners and Moorland Graziers told us, “If it gets too prescriptive in saying that, ‘You must only get paid for every beast that is on the common and never shall you be paid when it leaves the common,’ it will stop farmers from producing in an efficient fashion.”<sup>102</sup> The Government has stated that it will engage with stakeholders once the Commission has provided more clarity—it was reassuring to hear that the RPA had already begun this process, as Mark Grimshaw, its Chief Executive, explained: “What we are doing as an agency is engaging with as many of the common land associations as we possibly can to try to determine the most appropriate way to operate common land right in the future.”<sup>103</sup> **The Government must ensure the rules for common land are not designed in a way that would reduce a farmer’s ability to farm in an environmentally sustainable way.**

## Dispute

73. Problems with the way common land is treated under the CAP are not restricted to Pillar I payments. The disadvantages of dual use we described in the previous chapter also apply to common land. James Bailey told us there was a wide variation in the apportionment of agri-environment schemes and monies on common land in England: in Cumbria 95% of the money goes to the grazing, in Durham 50% goes to the grazing and 50% to the landowner.<sup>104</sup> George Winn-Darley explained that in applying for entry into a scheme:

we need to look at what the scheme is demanding and who is responsible for delivering those multiple aspects. It is then up to the parties to then negotiate together and agree a basis on which they can all sign up to the agreement and be responsible for delivering their part of the bargain.<sup>105</sup>

In the majority of cases such a partnership approach works well, but Mr Bailey considered that Natural England, who are responsible for agri-environment schemes, “have not been prepared to get involved to ensure that the money goes into the hands of the person doing the prescribed job.”<sup>106</sup> **Before an agri-environment scheme agreement is signed Natural England must ensure that those affected by the agreement either by undertaking work or through income foregone receive appropriate payment. Such steps should include advice to both parties. The inspection process should be used to ensure that the payment is going to the right person. Where there is dispute, graziers should have recourse to a similar dispute resolution mechanism as that proposed for tenants.**

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102 Q 260

103 Q 146

104 Q 250

105 Ev 109 [George Winn-Darley]

106 Q 250

## 6 Transfer between pillars

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74. Under the CAP deal Member States have the option to transfer funds between Pillars (often referred to as modulation). Up to 15% may be transferred from Pillar I to Pillar II, or 25% from Pillar II to Pillar I. In our Report on *Greening the Common Agricultural Policy* we considered the transfer of funds from Pillar I to Pillar II and concluded that “the competitiveness of UK farmers will be reduced if they are exposed to higher modulation rates than their European counterparts”. We recommended that “Defra does not set modulation rates higher than other Member States that receive similar single farm payment rates.”<sup>107</sup> Since we published the Report in June 2012 the provisional allocation of funding to Member States Pillar I and Pillar II budgets has been announced. The UK’s allocation of Pillar II funding is much less than most people predicted.

75. Member States must notify the Commission by 31 December 2013 on whether and to what extent they wish to transfer funds between Pillars. The Government has stated that it favours transferring the maximum 15% from Pillar I to Pillar II because it sees the Rural Development Programme as offering better value for money for the taxpayer than direct payments. On average, the rate of transfer over 2009–13 was 12%. The voluntary transfer rate applied in 2013 was 9%.<sup>108</sup>

76. The Government has rejected the options to transfer money from Pillar II to Pillar I and to introduce coupled support for certain sectors, rightly in our view. Nevertheless, if our main competitors implement them, our farmers may be put at a disadvantage. Some of our main competitors also still operate under a historical basis of payments linked to production, with the result that their payments are well above the EU average.<sup>109</sup> In their evidence the NFU highlight some of the differences in per hectare payments between English farmers and their main competitors:

Already a Dutch dairy farmer who continues to receive payments based on historical activity receives a payment per hectare in the order of €500/ha, a Danish dairy farmer €447/ha and even in Germany where the Government has implemented the area based approach, an arable farmer in an area such as Schleswig Holstein receives €359/ha. An English farmer currently receives €265/ha and will receive significantly less if Defra transfers up to 15% of the pillar 1 envelope to pillar 2 in the future.<sup>110</sup>

77. Higher payment rates mean farmers can invest more in their operations allowing them to increase their productivity and resilience. Cutting payments to farmers reduces their ability to compete in the marketplace and may leave them more vulnerable to shocks such as poor weather and price volatility. The latest report on average Farm Business Incomes makes clear the challenges facing English farmers. In 2012–13 farm incomes fell across most farm types as the effects of unfavourable weather, high input costs and the pound

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107 Environment, Food and Rural Affairs Committee, First Report of Session 2012-13, *Greening the Common Agricultural Policy*, HC 170

108 Department for Environment, Food and Rural Affairs, *Implementation of CAP Reform in England Consultation Document*, October 2013

109 Ev 70 [Country Land and Business Association]

110 Ev 82 [NFU]



strengthening against the euro, were felt across the cropping and livestock sectors.<sup>111</sup> Furthermore, the sector's buildings are now aging badly and their replacement is a major call on capital.<sup>112</sup> That expenditure is no longer recognised by the tax system: the abolition of the Agricultural Buildings Allowances, phased in from 2007 to full abolition in 2011, removed fiscal support worth approximately £60 million.

78. In its consultation paper the Government summarises the amount of funding that might be available for new activities for three different amounts of Pillar I to Pillar II transfer.

**Table 2: potential amounts available for the next Rural Development Programme (£bn)**

Pillar I to Pillar II transfer	Total for next RDP	Existing and transition commitments	5% Leader	Headroom for competitiveness, growth, new agri-environment, water quality and forestry
15%	3.874	2.155	0.155	1.564
9%	3.200	2.155	0.122	0.923
1%	2.302	2.155	0.078	0.069

*Source: Department for Environment, Food and Rural Affairs, Implementation of CAP Reform in England Consultation Document, October 2013, p58*

79. The reduced pot of money for Pillar II and depth of existing commitments shows that a degree of modulation is necessary. It is also clear that a transfer of 1% will be insufficient for Pillar II to deliver an effective Rural Development Programme for England but we stand by the principle of the recommendation in our earlier report that the competitiveness of English farmers will be reduced if they are exposed to higher rates of transfer from Pillar I than their European counterparts.

80. We agree with the NFU that if Defra is minded to introduce modulation, phased introduction would be appropriate.<sup>113</sup> Figures from the Defra consultation show that a modulation rate retained at the existing level of 9% would finance the £2.16 billion of existing and transition Pillar II commitments and would provide almost £1 billion to fund new activity. In addition, expected reductions in agri-environment payments to address the potential of double-funding caused by greening would release further funds for Pillar II activity.

81. Natural England told us the New Environmental Land Management Scheme—the main target of funding under Pillar II—will not commence until 1 January 2016. At the same time existing schemes will be coming to a close.<sup>114</sup> The NFU argue that the Government should not modulate at 15% until all the details of the rural development schemes are known:

111 Department for Environment, Food and Rural Affairs, Farm Business Income by type of farm in England, 2012/13, 31 October 2013

112 Ev w4 [Central Association of Agricultural Valuers]

113 *Farmers Weekly*, NFU wants two-stage approach to modulation, 1 November 2013

114 Q 107

We know that new schemes take time to design and make operational and we therefore believe that it would be much more appropriate to make use of the flexibility available to government to implement a two staged approach to future modulation rates, if additional funds are required.<sup>115</sup>

The Secretary of State explained to us that the Government would only modulate at 15% if there were a clear benefit:

Where we are is that I am clear that we are going to consult over the next few weeks. As long as there is a clear benefit from projects proposed, there is a justification for the 15% modulation. We are not going to do it, as I said, just for the hell of it. We will only do it if we can come up with good schemes that will help English agriculture, the rural environment and the rural economy.<sup>116</sup>

**82. We recommend the Government modulate at 9% now, while new Pillar II schemes are being developed, and only move to 15% in 2017 if the Government can demonstrate that additional funds are required and there is a clear benefit from the projects proposed.**

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115 *Farmers Weekly*, NFU wants two-stage approach to modulation, 1 November 2013

116 Q 191

## 7 Delivery

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### Proportionality

83. The Rural Payments Agency is responsible for delivery of the Single Payment Scheme. As well making payments this work includes inspection and enforcement of cross-compliance rules. Susan Atkinson questioned whether the RPA took a proportionate approach to carrying out its duties:

When there is a problem such as with a field boundary, why is the entire payment stopped and not just that of the field in question? Such actions can have a crippling effect on cash flow and lead to real hardship and, in some dire cases, suicide. Stoppages should be limited to only the matter in dispute. [...]

Nobody is above making mistakes and there should be far simpler processes for correcting them, with perhaps a small additional fee, rather than all payments being frozen or a calf not being able to be registered. There is a great difference between human error and deliberate fraud and the former should not be treated as if it were the latter.<sup>117</sup>

84. The problems of the performance of the Rural Payments Agency over the last seven years have been well-documented. The Agency has clearly improved, most payments are made on time and mistakes are fewer, but **we remain concerned that farmers can be heavily penalised for a genuine mistake but not appropriately compensated when it is the Rural Payments Agency who is in error. This culture within the RPA needs to be replaced by a more proportionate approach.**

85. Martin Haworth, Director of Policy at the NFU, explained that the reforms offer hope that this process might be improved:

this reform does offer two benefits. One is the recognition that it will be possible to take a more proportionate approach, including using what is now called the yellow-card process. For minor breaches that do not have an animal or human-health risk attached to them, as a first warning, farmers can just be given a warning without penalty. We would very much support that. It is something that the Government can decide to implement or not; we would certainly support it.<sup>118</sup>

The yellow-card approach had the support of the Farming Regulation Task Force. Richard Macdonald told us:

There is a question around a massive, very overt breach as to whether you should yellow card or not, or whether you should to go, to continue the analogy, straight to a red card. In my experience, though, and this is not only with the Task Force but beyond, the vast majority of breaches are not deliberate. They are usually out of

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117 Ev w1 [Susan Atkinson]

118 Q 91

ignorance or inefficiency, if I can put it rather bluntly, and therefore I think a yellow card system is a really good one.<sup>119</sup>

**We recommend that the Government adopt a yellow-card approach to dealing with minor and accidental breaches.**

## IT system

86. Defra is developing a single IT system through which all agencies will be able to administer the CAP. The design of the IT system is intended to be sufficiently flexible to cope with the changes that will be required as the Commission draws up its implementing rules. Jo Broomfield, Director of the CAP Delivery Programme at Defra, explained that predicting and reacting to the implementing rules is one of the most challenging aspects of the programme:

We have always recognised it as such. How can you build a solution when the requirements do not firm up until six months before you are due to deliver it? The approach we are taking with the new solution is it is designed at the outset to be a flexible solution, so that you can change the rules in it easily. We have separated out the key data sets from the core processing, so the approach we have taken gives us the best opportunity to be able to respond to late-breaking changes in implementing regulations as an example, or the Defra scheme design.<sup>120</sup>

87. The Government developed a new IT system for the implementation of the previous CAP deal. The failures of that system are well known and have been the subject of numerous reports and inquiries. Since the start of the current scheme the Government has incurred fines of £580 million in disallowance.<sup>121</sup> Mark Grimshaw explained that:

a lot of that is down to the fact that the originating technology was not fit for purpose, because of the way that it was specified, rather than the provision of the technology itself, and the lack of the control across the various schemes that were in place. One of the benefits of the new proposals is the introduction of something called Article 69, which places the responsibility on the agency to ensure that it can verify and control all future schemes. That helps us in terms of building in the disallowance capability to make sure we manage it in the first instance.<sup>122</sup>

Rather than start from scratch, Defra is integrating a product that is already in use in three European countries and manages 2 million farmers' payments. Jo Broomfield told us that reducing the disallowance risk is a prime concern of the IT programme and that the product chosen has a good track record in terms of not attracting disallowance penalties.<sup>123</sup>

88. Past experience shows how crucial it is for Defra to get the delivery platform right. The RPA emphasised that the lessons of the past had been learnt:

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119 Q 344

120 Q 151

121 Financial penalties incurred when CAP schemes are not applied correctly

122 Q 99

123 Q 100

We took 26 lessons to be learned from all of the reviews from the last implementation, and we have been through them systematically. One of the big issues was that the RPA and delivery bodies simply were not engaged in the policy discussions, and we have been right from the outset. Not only that, but we have successfully influenced the policy discussions to get the outcomes to focus very much on simplicity and deliverability. [...] So far so good; I think it is going as well as we could have expected it to, and maybe even a little bit better.<sup>124</sup>

This CAP adds complexity to its predecessor and the implementing bodies are going to have to achieve a lot in a very short space of time. Peter Kendall suggested “the RPA are well prepared and are thinking ahead about all of the issues that need to be addressed [...] it feels as if the RPA have done a really sterling job over recent years to get back on track and they are well-prepared for that changeover.”<sup>125</sup> We agree with the NFU that the implementing bodies are in a far better place at this stage of the development of the IT system than was the case with the previous system. **The IT system remains, however, one of the standout challenges of this round of the CAP not least because the precise details of the implementing regulations have yet to be published. Given the lessons of the past we question whether this is the right time to be introducing a new IT system.**

## Digital by default

89. Access to CAP funding will be digital by default. An ‘assisted digital service’ will be available for those who genuinely cannot access the new system, be it through lack of experience with the technology or the lack of the technology itself. The NFU and Tenant Farmers Association welcomed steps to improve digital communications but they both warned that a ‘digital by default’ strategy risked making CAP schemes inaccessible to some of their members. The TFA stated that:

paper-based systems must be maintained for the foreseeable future [...] for those who lack the capability to interact with Government on a digital basis.

the phrase “assisted digital” can have many meanings. We would not support the idea that access to the new schemes will be online only either applied for directly or through agents and intermediaries. Instead, we would support the segmentation of those customers who currently do not use SPS online into those who could be helped, either with training, access to broadband or better equipment, to access online services and those, on the other hand, for whom the transition will be just too difficult. For this latter group, which we appreciate will have to be carefully identified, the ability to supply information on a manual basis must be maintained.<sup>126</sup>

90. Currently, 54% of claimants for the Single Payment Scheme apply online, while 98.3% of all cattle movements were reported to British Cattle Movement Service electronically in October 2013. The RPA told us that “if you look at the entire cohort of our customer base, and include those that email us, which presupposes they have got some sort of internet

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124 Q 150

125 Q 67

126 Ev 101 [Tenant Farmers Association]

capability, 83% of our claimants are online.”<sup>127</sup> Defra aim to encourage and support as many people as possible to apply online but they accept this will not be possible in all cases. Jo Broomfield, explained there are three possible options for those who do not wish to apply online: face-to-face interaction; collect information on paper as happens now; or use an intermediary such as an agent to enter the information on the claimant’s behalf. The final option represents an extra cost though Defra suggested it was one that they may well cover.<sup>128</sup>

**91. We support Defra’s ambitions to encourage and support as many as people as possible to apply online but there will be some for whom such an approach is not appropriate. A paper-based application process must be retained and those farmers who take-up this option or who choose to use an agent must not be financially penalised as a result.**

### **Broadband**

92. Farmers’ ability to apply online is hampered by a lack of effective broadband in rural England. The Government is attempting to address this through the Rural Broadband Programme. Under the programme the Government aims to rollout out superfast broadband to 90% of areas and 2Mbps broadband to the remaining 10%. The programme, due to be completed by 2015, is almost two years behind schedule, with the hardest-to-reach 10% most affected.<sup>129</sup> A lack of transparency over coverage has left rural communities unable to determine when, or even if, their area will be included in the programme. For all the encouragement and support Defra wish to offer farmers, without access to effective broadband those farmers will not be able to apply online.

93. The Rural Communities Broadband Fund (RCBF) is available for communities not covered by the Rural Broadband Programme. Until maps are published defining the areas outside the programme’s reach it is difficult for any RCBF-type project to know where to operate. The £250 million of spending announced for the period 2015–17 further complicates this picture. The thinkbroadband news site explains that another problem is “that the existing superfast project may re-assess areas if costs are less than expected or take-up is higher than expected.”<sup>130</sup> The difficulty local broadband schemes are facing was recently highlighted in Oxfordshire where the Cotswold Broadband scheme lost the support of Oxfordshire County Council when the Council decided it was not going to separate the area due to be covered from their contracted plans with BT.<sup>131</sup>

94. Ian Trenholm, Defra’s Chief Operating Officer, extolled the virtues of satellite broadband as a potential solution for farmers but, as with community schemes, farmers are not going to invest in technology if they think fixed broadband is on the way.<sup>132</sup> A number of authorities are now publishing coverage maps, Cheshire and Northumberland being

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127 Q 143

128 Q 141

129 National Audit Office, *The Rural Broadband Programme*, Session 2013-14, HC 535

130 Thinkbroadband.com, Hampshire publishes broadband map of the big picture, 10 October 2013

131 BBC News online, Plug pulled on rural broadband projects in favour of BT, 12 November 2013

132 Q 162

recent examples, but they remain the exception. We repeat our recommendation that **details showing precisely what areas will be covered by the Rural Broadband Programme and when must be published in order to encourage alternative providers to fill in the gaps and provide certainty to those wishing to invest in private solutions such as satellite.**

## Advice and support

95. The NFU raised concerns about reduced resources as Defra and its agencies contribute to efficiency savings. The NFU explained that reductions in resource levels may coincide with a change in CAP policy that actually triggers increased demand for support:

it is critical that the operational knowledge gained through the current CAP is not lost as any resource efficiencies are implemented. Help with the completion of claims in the first year is likely to be vital for those seeking assistance.<sup>133</sup>

We agree with the NFU. **Given the complexities of the new CAP, it is crucial that the implementing bodies do not lose key staff at a time when their help and support will be most required to ensure a smooth transition to the new scheme.** Such support and guidance will be required from mid-2014 onwards. **We recommend that guidance is provided to farmers in paper form in the run-up to the start of the new scheme and from mid-2014 at the latest. Forcing people to engage digitally when it is known that many cannot would undermine successful implementation of the new scheme. If farmers understand the new scheme from the outset, there are likely to be fewer compliance issues, reducing the subsequent cost of inspection and enforcement.**

## 8 Conclusion

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96. The Commission's aim was that the future CAP would be greener, fairer and less bureaucratic than the past one. The Government has the task of meeting those challenges with less money than before and with more complicated rules to implement. It must do so against a background of falling farm incomes and an increase in volatility and shocks to the agricultural system. It is crucial, therefore, that the lessons learnt from the failures of the previous round of implementation are applied.

97. Detailed implementing regulations have still to be drawn up. Definitions of an active farmer and the treatment of common land are just two of many areas that await further clarification. Defra must continue to work closely with other Member States, the Commission and the European Parliament on the remaining detail and consult with stakeholders as more information becomes available. 2015 is not far distant for the implementation of complex new schemes; claimants will soon be making decisions on land occupation and cropping arrangements. It is imperative therefore that Defra gives early notice of its key decisions to those whose livelihoods depend upon them.

98. English agriculture has faced many challenges over the last decade from outbreaks of devastating animal diseases, falling farm-gate prices and rising input costs, to the vagaries of weather that has delivered drought, flooding and heavy snowfall. English farmers number among the proudest workers of any industry. It is clear that they would rather do without CAP payments, but the simple truth is that most would not be able to survive constant shocks to the sector without them.



# Conclusions and recommendations

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## Direct Payments

### *Regional distribution*

1. We agree with the Government that the existing regional structure should be retained. (Paragraph 17)
2. Payment rates for the current lowland and SDA non-moorland region should be aligned. There remains merit in maintaining the moorland region at a separate lower rate but we believe it should receive the same cash uplift as those farming in the SDA given its high environmental value and the impact of the end of the Uplands Entry Level Scheme. (Paragraph 21)
3. The Government must ensure that the New Environmental Land Management Scheme is open to all upland farmers. It would not be acceptable for those farming in the most challenging of environments to be left worse off overall by the changes introduced under the new CAP. (Paragraph 22)

### *Reduction in direct payments*

4. We agree with the Secretary of State that setting a ceiling at a certain level may discourage businesses from expanding and may simply lead to those affected finding a way around it. (Paragraph 25)
5. We recommend that the Government increase the rate of reduction for those in receipt of basic payments over €300,000 in order to boost the funding available for rural development. We believe a higher level would not necessarily impact unduly on the largest claimants, nor would it prompt them to seek to carve up their holdings. It would however provide extra funding to help deliver the Government's rural development policy objectives. We believe our proposals to be administratively simple and agree with the Government that reducing payments above a certain level is preferable to the redistributive option. (Paragraph 27)

### *Active farmer test*

6. The Government should review annually who receives direct payments and if it is clear that a business type for which agriculture is not a significant activity receives financial support, the Government should add it to the negative list. (Paragraph 29)
7. A number of organisations raised concerns with us that the negative list might catch genuinely active farmers who have responded to the Government's call to diversify, by, for example, providing private water supplies or renting out real estate to supplement their farm income. The Government must ensure this does not happen. (Paragraph 30)

8. The Government must use the flexibility of the active farmer test to ensure that individuals who are not in occupation of the land or rights of common, who are not taking the entrepreneurial risk and who are not in day-to-day management control of land do not receive direct payments. At point of application claimants should declare that they are the active farmer, and checking the evidence to support such a declaration should be incorporated within the normal course of inspections. (Paragraph 31)
9. Commercial factors, not arbitrary criteria, should drive decisions to cultivate or rear animals. Care must be taken to ensure that criteria are not set at levels that would exclude low-intensity farming systems whose activity make a positive contribution to some of our areas of greatest environmental value. Furthermore, an over-prescriptive approach to the minimum activity criteria would only add to the list of eligibility checks that the RPA will have to undertake (Paragraph 32)
10. To help farmers plan for the future Defra should communicate key decisions as soon as possible. Defra's early announcement that entitlements will be rolled forward is a welcome example of this. We appreciate that the details of the active farmer test have yet to be published by the Commission but we expect Defra to give those affected as much advance notice as possible once final decisions on the test have been made. (Paragraph 33)

### ***Minimum claim size***

11. We support the Government's intention to raise the minimum claim threshold to five hectares, and in so doing reduce the administrative burden on the Rural Payments Agency. (Paragraph 34)

### ***Greening***

12. Disallowance under the previous CAP already stands at £580 million; implementing a scheme in the knowledge that it might attract further disallowance would be reckless. We support the Government's position that England should adhere as closely as possible to the measures set out in the direct payments regulation. (Paragraph 36)
13. We do believe, however, that greening of the CAP will provide a valuable opportunity to address the decline in pollinators and we invite the Government to use greening to encourage the growing of pollinator-friendly crops. (Paragraph 37)

### ***Ecological focus areas***

14. The Rural Payments Agency must ensure that mapping for the purposes of determining ecological focus areas is as wide as possible and all landscape features such as hedgerows, hedge banks, stone walls and other historically important boundaries, ditches and ponds should be included in the measurements. Furthermore, land already taken out of production under agri-environment schemes should be included though measures must be taken to prevent double payment. In

response to this Report the RPA should set out how it intends to undertake mapping and how farmers will be able to verify the accuracy of its work. (Paragraph 39)

15. Options should not be moved from Entry Level Schemes to greening Ecological focus Areas, but should rather be available under both with the farmer stipulating under which Pillar the options are included. (Paragraph 40)

### ***Crop diversification***

16. The introduction of the three-crop rule in England places an increased burden on farmers while delivering little benefit. The Government must push the Commission to review this rule at the earliest possible opportunity. (Paragraph 42)

### ***Permanent grassland***

17. The Government should consider extending the areas of grassland that cannot be converted to include all SSSI and Biodiversity Action Plan-quality grassland. We agree with the Government that in the interests of simplicity the ratio of permanent grassland to eligible land should be recorded at a national level. (Paragraph 43)

### ***Rural Development Programme***

18. English farmers lag behind their main European competitors in levels of direct payment leaving them less able to invest and innovate. With the ability of the nation to feed itself growing in importance the Government should increase funding for innovation and measures to boost agricultural productivity. (Paragraph 45)

### ***New Environmental Land Management Scheme***

19. Given the reduced pot of funding for Pillar II it is inevitable that not all farmers currently with land under environmental stewardship will have access to agri-environment schemes in the future. Those who have successfully implemented Higher Level stewardship agreements and shown the most interest in delivering environmental benefits should be first in the queue. (Paragraph 49)
20. We consider 10-year agreements with the option of a five-year break clause to have considerable merit—they offer farmers and landowners security to initiate long-term projects. We recommend the option of a 10-year agreement be retained for agreements with specific long-term ambitions. (Paragraph 51)
21. We support the proposal that Natural England use trusted conservation organisations to provide expert advice to farmers. But the Government has repeatedly stated that it sees Pillar II as offering the best value for money for the taxpayer. It would be perverse for the Government to seek to transfer the maximum amount to Pillar II only to hinder the ability of Natural England to make the best use of it by imposing reductions in staff. Expert advice must not be seen as a cost to cut but rather as an essential component of securing maximum environmental benefit from Pillar II schemes (Paragraph 52)

22. Natural England must make sure agri-environment scheme holders are aware that they may not have a scheme to go to when their present one expires. (Paragraph 53)

### **Tenancies**

23. The person doing the work that qualifies for agri-environment scheme support, whose income is foregone, must be the person who receives the payment. It is unacceptable for a landowner to lay claim to part of that money through rental increases or other payments. Such practices will discourage farmers from putting land into environmental stewardship. (Paragraph 54)

### **Dual use**

24. We support the continuation of dual use and recommend that Defra push the Commission for its retention. The flexibility of dual use encourages more land to be put into agri-environment schemes while its removal is likely to undermine the landscape-scale agreements proposed under NELMS which large estates are perhaps better able to deliver in a coordinated way than their various tenants (Paragraph 56)
25. Natural England should display a lot more rigour in arranging agri-environment contracts. Before contracts are signed they should offer advice to both parties, and must do much more to reassure themselves and us that payments for agri-environment schemes go to those who do the work and whose income is foregone. (Paragraph 57)
26. We recommend that the Government implement the recommendations prepared by the Tenancy Reform Industry Group following the Report of the Farming Regulation Task Force. Such a dispute resolution mechanism should include matters relating to payments under both Pillars of the CAP. (Paragraph 59)

### **Rural economy and Local Enterprise Partnerships**

27. We take this opportunity to remind Defra of the value of the Rural Economy Grant Scheme and the Rural Growth Networks it created. We recommend that Defra encourage those Local Enterprise Partnerships in receipt of Rural Development funding to offer similar schemes to rural businesses within their areas. We will hold Defra to account if rural communities fail to benefit from the Rural Development funding channelled through Local Enterprise Partnerships. (Paragraph 63)

### **LEADER Programme**

28. During development of the new Rural Development Programme Defra should explore how LEADER can be used better to help those communities looking to retain services that are under threat. (Paragraph 64)

### **Common land**

29. The Government must update the commons registers or implement Part I of the Commons Act 2006 to ensure accurate registers of common land are available for the

purposes of mapping and payment. We acknowledge the benefit in the RPA mapping common land ahead of the implementation of the new deal but we are concerned that it may be doing so based on registers known to be inaccurate. In response to this report we expect the RPA to set out how it will deal with this potential problem. (Paragraph 70)

30. We support the recommendation of the Farming Regulation Task Force that a single payment should be made to the appropriate Commoners Association for them to divide appropriately among those who are actively farming the common, and this need not exclude the landowner. The Government should consider ways in which the future national reserve can be used to allocate payment entitlements to Commoners Associations to enable them to do this. Such an approach should not require landowner consent. Whatever approach the Government chooses it must make sure that tenants using rights provided to them by the landlord are included alongside those with rights in perpetuity. (Paragraph 71)
31. The Government must ensure the rules for common land are not designed in a way that would reduce a farmer's ability to farm in an environmentally sustainable way. (Paragraph 72)

### **Dispute**

32. Before an agri-environment scheme agreement is signed Natural England must ensure that those affected by the agreement either by undertaking work or through income foregone receive appropriate payment. Such steps should include advice to both parties. The inspection process should be used to ensure that the payment is going to the right person. Where there is dispute, graziers should have recourse to a similar dispute resolution mechanism as that proposed for tenants. (Paragraph 73)

### **Transfer between Pillars**

33. We recommend the Government modulate at 9% now, while new Pillar II schemes are being developed, and only move to 15% in 2017 if the Government can demonstrate that additional funds are required and there is a clear benefit from the projects proposed. (Paragraph 82)

### **Delivery**

34. We remain concerned that farmers can be heavily penalised for a genuine mistake but not appropriately compensated when it is the Rural Payments Agency who is in error. This culture within the RPA needs to be replaced by a more proportionate approach. (Paragraph 84)
35. We recommend that the Government adopt a yellow-card approach to dealing with minor and accidental breaches. (Paragraph 87)
36. The IT system remains, however, one of the standout challenges of this round of the CAP not least because the precise details of the implementing regulations have yet to

be published. Given the lessons of the past we question whether this is the right time to be introducing a new IT system. (Paragraph 88)

37. We support Defra's ambitions to encourage and support as many as people as possible to apply online but there will be some for whom such an approach is not appropriate. A paper-based application process must be retained and those farmers who take-up this option or who choose to use an agent must not be financially penalised as a result. (Paragraph 91)
38. Details showing precisely what areas will be covered by the Rural Broadband Programme and when must be published in order to encourage alternative providers to fill in the gaps and provide certainty to those wishing to invest in private solutions such as satellite. (Paragraph 94)
39. Given the complexities of the new CAP, it is crucial that the implementing bodies do not lose key staff at a time when their help and support will be most required to ensure a smooth transition to the new scheme (Paragraph 95)
40. We recommend that guidance is provided to farmers in paper form in the run-up to the start of the new scheme and from mid-2014 at the latest. Forcing people to engage digitally when it is known that many cannot would undermine successful implementation of the new scheme. If farmers understand the new scheme from the outset, there are likely to be fewer compliance issues, reducing the subsequent cost of inspection and enforcement. (Paragraph 95)

# Formal Minutes

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**Tuesday 26 November 2013**

Members present:

Miss Anne McIntosh, in the Chair

Richard Drax

Mary Glendon

Mrs Emma Lewell-Buck

Iain McKenzie

Sheryll Murray

Neil Parish

Ms Margaret Ritchie

Mr Mark Spencer

Draft Report (Implementation of the Common Agricultural Policy in England 2014–2020) brought up and read.

*Ordered*, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 98 read and agreed to.

Summary agreed to.

*Resolved*, That the Report be the Seventh Report of the Committee to the House.

*Ordered*, That the Chair make the Report to the House.

*Ordered*, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Wednesday 4 December at 2 pm

## Witnesses

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<b>Tuesday 15 October 2013</b>	<i>Page</i>
<b>Dr James Jones</b>	Ev 1
<b>Abi Bunker, RSPB, David Baldock, Institute for European Environmental Policy, and Paul Wilkinson, The Wildlife Trusts</b>	Ev 6
<b>Wednesday 23 October 2013</b>	
<b>Peter Kendall and Martin Haworth, National Farmers' Union</b>	Ev 14
<b>Mark Grimshaw, Rural Payments Agency, Dave Webster, Natural England, and Jo Broomfield, Defra</b>	Ev 22
<b>Tuesday 29 October 2013</b>	
<b>Rt Hon Owen Paterson MP, Ian Trenholm, Sarah Hendry, Martin Nesbit and Amy Holmes, Defra</b>	Ev 31
<b>Wednesday 30 October 2013</b>	
<b>James Bailey, Federation of Yorkshire Commoners and Moorland Graziers and George Dunn, Tenant Farmers Association</b>	Ev 41
<b>Harry Cotterell, Country Land and Business Association, and George Winn-Darley, Moorland Association representative for the North York Moors</b>	Ev 50
<b>Tuesday 5 November 2013</b>	
<b>Richard Macdonald, Farming Regulation Task Force Implementation Group</b>	Ev 60

## List of printed written evidence

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1	Country Land and Business Association	Ev 70
2	Department for Environment, Food and Rural Affairs	Ev 74
3	National Farmers' Union of England & Wales	Ev 82
4	Natural England	Ev 90
5	Royal Society for the Protection of Birds	Ev 96
6	Tenant Farmers Association	Ev 101
7	The Wildlife Trusts	Ev 105
8	George Winn-Darley	Ev 109



## List of additional written evidence

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(published in Volume II on the Committee's website [www.parliament.uk/efracom](http://www.parliament.uk/efracom))

1	Susan Atkinson	Ev w1
2	Christine Beaumont-Rydings	Ev w3
3	Central Association of Agricultural Valuers	Ev w4
4	Food and Drink Federation	Ev w8
5	J M Greensit	Ev w10
6	National Parks England	Ev w12
7	Natural Environment Research Council	Ev w19
8	Open Spaces Society	Ev w20
9	The Ramblers	Ev w21
10	Soil Association	Ev w23
11	UK Industrial Sugars Users Group	Ev w26
12	Wildlife & Countryside Link	Ev w28

## List of Reports from the Committee during the current Parliament

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The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

### Session 2013–14

First Report	Draft Dangerous Dogs (Amendment) Bill	HC 95 (HC 637)
Second Report	Vaccination against bovine TB	HC 258 (HC 705)
Third Report	Managing Flood Risk	HC 330 (HC 706)
Fourth Report	Wild Animals in Circuses	HC 553 (HC 746)
Fifth Report	Food Contamination	HC 141 (HC 707)
Sixth Report	Rural Communities	HC 602 (HC 764)
Seventh Report	CAP implementation 2014–2020	HC 745

### Session 2012–13

First Report	Greening the Common Agricultural Policy	HC 170 (HC 654)
Second Report	The Water White Paper	HC 374 (HC 602)
Third Report	Pre-appointment hearing: Chair of the Water Services Regulation Authority (Ofwat)	HC 471-I & -II
Fourth Report	Natural Environment White Paper	HC 492 (HC 653)
Fifth Report	Desinewed Meat	HC 120 (Cm 8462)
Sixth Report	Draft Water Bill	HC 674 (Cm 8643)
Seventh Report	Dog Control and Welfare	HC 575 (HC 1092)
Eighth Report	Contamination of Beef Products	HC 946 (HC 1085)

### Session 2010–12

First Report	Future Flood and Water Management Legislation	HC 522 (HC 922)
Second Report	The Marine Policy Statement	HC 635
Third Report	Farming in the Uplands	HC 556 (HC 953)
Fourth Report	The draft National Policy statement (NPS) on Waste Water	HC 736
Fifth Report	The Common Agricultural Policy after 2013	HC 671 (HC 1356)
Sixth Report	Implementation of the Common Fisheries Policy: Domestic Fisheries Management	HC 858 (HC 1485)
Seventh Report	Pre-appointment hearing: Chair of Gangmasters Licensing Authority	HC 1400-I & -II
Eighth Report	EU proposals for the dairy sector and the future of the dairy industry	HC 952 (HC 1548)
Ninth Report	The Welfare of Laying Hens Directive—Implications for the egg industry	HC 830 (HC 1664)
Tenth Report	The outcome of the independent Farming Regulation Task Force	HC 1266 (HC 1669)

Eleventh Report	The draft National Policy Statement for Hazardous Waste	HC 1465 (HC (Session 2012–13) 540)
Twelfth Report	EU proposals for reform of the Common Fisheries Policy	HC 1563-I & -II (HC (Session 2012–13) 108)
First Special Report	The National Forest: Government response to the Committee's Fourth Report of Session 2009–10	HC 400
Second Special Report	Dairy Farmers of Britain: Government response to the Committee's Fifth Report of Session 2009–10	HC 401



# Oral evidence

## Taken before the Environment, Food and Rural Affairs Committee on Tuesday 15 October 2013

Members present:

Miss Anne McIntosh (Chair)

Richard Drax  
Mrs Emma Lewell-Buck  
Iain McKenzie

Sheryll Murray  
Neil Parish  
Ms Margaret Ritchie

### Examination of Witness

*Witness:* **Dr James Jones**, Farmer and Consultant, gave evidence.

**Q1 Chair:** Good afternoon, Dr Jones. You are most welcome. We are very grateful to you for being here and contributing to our inquiry. I wonder if, just for the record, you could give your position, please.

**Dr Jones:** I am a farmer and consultant these days. I left a teaching job at the Royal Agricultural College, as it was then known, back in March, so I am an academic as well. I am the Chair of the Executive of the Agricultural Economics Society; I am on the Countryside Policies Panel of the RICS; I am also involved with the Institute of Agricultural Management; and I still have links with the Royal Agricultural University, with the CCRI, and also with Cumulus Consultants.

**Chair:** Thank you. I should have done some housekeeping. If I may, I would like to refer to my declaration of interest on the Register, and I will just ask if there are any other colleagues who wish to do the same.

**Neil Parish:** I will also refer to mine, please, Madam Chairman.

**Richard Drax:** May I refer to mine too, please?

**Q2 Chair:** Thank you. Dr Jones, Commissioner Ciołoş has described the CAP deal as a “paradigm shift” in emphasis, focusing more on greening and the delivery of public goods, yet others who are particularly involved on the environmental side have described it as a missed opportunity. It strikes me that we are probably about where we should be, but what is your view, as an expert in this field?

**Dr Jones:** Without sounding too flip or too rude about it, I would call it more in the nature of an image makeover than a fundamental paradigm shift. There are changes to the function of Pillar I, changes to the structure of direct payments and quite big changes to added requirements in Pillar II, but I would not say that fundamentally it is a particularly radical reform. I do not think it will be seen that way in historical context.

**Q3 Chair:** If you look at my own constituency where there is a large upland area, do you think that certain upland and hill farmers may be disadvantaged if they no longer receive direct payments under the reformed CAP?

**Dr Jones:** They will still receive direct payments, and there is the possibility, which has been discussed in

the Defra consultation, that some of those payments may be moved up the hill, and they might get more basic payment than they are used to getting in the form of a single payment. It has to be said, though, that it looks likely in England that the Uplands Entry Level Scheme will go along with the Entry Level Scheme itself, and therefore they might gain on the one hand with some extra direct payments and lose on the other with some agri-environment payments. There is also the possibility of a new form of less-favoured area payment in the form of the ANC payments, but Defra are suggesting in their consultation that they would rather restructure the regional values of direct payments than try to introduce a new strand to the payment structure.

**Q4 Chair:** Would you describe what has been proposed so far as a good deal for the whole of the UK?

**Dr Jones:** That is a tricky one. I think anything that preserves the Common Agricultural Policy and the flow of money that it represents into the farming industry is a good deal for the farming industry. There is a very heavy dependency on funding from the CAP in agriculture throughout the UK, and indeed throughout Europe. Therefore, if it is necessary to make these changes in order to preserve the concept, then they are worth doing. Does that represent value for money for the man in the street, the taxpayer, the person who is paying VAT and ultimately seeing that money go to Brussels? That is a rather different argument altogether. If you are looking at the change from where we were to where we will be, there are some negative aspects to this reform in the sense of it becoming more complicated and possibly more bureaucratic in the way it is being delivered. It is hard to see where the big positives are. There are some, but it strikes me that they are somewhat outweighed.

**Q5 Chair:** Initially, it was going to be simpler and easier to administer. Given the history behind the last reforms and the difficulties in administering them, particularly through the agencies that were responsible for both payments and cross-compliance, where do you envisage the greatest difficulties and bureaucratic hurdles will come in the round that has been described so far?

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**Dr Jones:** There is no doubt that there is a lot more work in this for the RPA and the agencies because, whatever their requirements are at the moment, they are going to be added to by requirements such as determining the age of a young farmer and whether they are eligible for that slice of the payment. There are the greening measures, and in particular the detailed mapping exercise that will have to be done to back up the determination of whether a farmer has 5% EFA on his holding as part of the arable area. There are quite a lot of things you can point to that are going to represent a lot of extra work. Not least of those might well be the reissuing of all entitlement, the force majeure cases and all that sort of thing that goes with it, so a great deal more administration is certainly on the way. Knowing how much it has cost the RPA to deliver, and the problems that they have had, it makes one quite apprehensive about what the effect of all that is going to be. That is without our seeing the farming industry try to react to the changes and mitigate the effect, which might also add to administrative difficulties for the RPA. This is one of the most concerning aspects of the reform.

**Q6 Chair:** We will go into more depth, but can I just ask whether there is the potential for a double whammy against English farmers competing both with farmers in the other regions of the UK and other farmers in the rest of Europe?

**Dr Jones:** The nature of direct and decoupled payments is that they should allow the farmer to be able to react to market forces. That is part of the benefit of it. One can argue about the distribution of that money and the level of support they get, but it is not quite the same thing as not giving them too many opportunities to find their own way. I am not too worried about the situation within the UK, although there might be a redistribution of funds with more of it ending up in Scotland than was the case previously. There is perhaps a bit more concern on a European scale because there is external convergence as part of the package, and that is likely to redistribute money within Europe. It does not look like the UK is going to be a particularly large loser under those circumstances, though. It looks to me that its distributive and anti-competitive effects are going to be fairly mild.

**Q7 Ms Ritchie:** Should Defra decide to transfer 15% of funds from Pillar I to Pillar II, what impact will that have on English farmers in terms of their ability to compete with their counterparts elsewhere in the UK and across Europe?

**Dr Jones:** The first point to make is that there is already this disparity. The modulation rates are lower in other parts of the UK than they are in England. As a result, whatever effects expected from that you would imagine have already happened. On the percentage rates that are being discussed, up to 15%, whilst I am not going to say that it is an insignificant amount of money, it is well within the range of the effect that you can have in terms of currency exchange rate changes and so forth. I do not think it is quite as sensitive as that, but there are disadvantages. If you go to Northumberland, on one side of this rather tenuous

border you are getting direct payments for suckled calves, and probably getting a higher level of payment because it is a different system. On the English side of the border, you get quite a lot less. Has that meant massive problems on the border between Northumberland and Berwickshire? I don't think so.

**Q8 Sheryll Murray:** How should the Government determine who is an active farmer in terms of minimum activity? Do you foresee the active farmer test creating any problems, such as the relationship between tenants and landowners?

**Dr Jones:** That is an interesting question. When the Commission originally designed their ideas of who was going to be an active farmer and had the test for what proportion of income, there were quite a number of what were going to be unfortunate cases. There were going to be people who were running a farm shop and doing all the things that they had been implored to do to add value to their product that got them a high turnover on something that is non-agricultural. There were institutions such as the Royal Agricultural University with their college farms where, important as those college farms are to their purpose of agricultural education, the amount they receive in a single payment will nevertheless be less than 5% of their turnover. The way that it is now being couched, which is to put it into a rather limited negative list of institutions, is putting it into a much smaller box in terms of impact. I would imagine it is going to be relatively light touch. Defra's proposals are showing no appetite for wanting to try and increase that list or make it bite any harder.

**Q9 Sheryll Murray:** Do you support calls for an end to the dual use?

**Dr Jones:** Dual use is another issue, where a landowner is claiming payments, normally Pillar II payments, and a tenant, or possibly a licensee, is claiming the Pillar I payment. In a way, I can see what the Commission is concerned about there, because they have a complete anathema about landowners receiving payments. That is an important point.

**Q10 Sheryll Murray:** Do you think this might undermine the goal of landscape-wide agreements?

**Dr Jones:** I do. What I was coming to really is that, despite the fact that the dual claim situation seems untidy and incorrect in the eyes of the Commission, nevertheless it allows landowners to ensure engagement with agri-environment schemes and so forth, but then have a fluid relationship between who the occupier is and who is farming it. From a practical point of view, that is actually very useful. In the eyes of the Commission, it is untidy and inappropriate, so we have a problem here, and I think we are going to be under pressure to go down a single use route.

**Q11 Chair:** Are you aware of particular problems on common land between graziers, landowners and tenants, and do you have a solution?

**Dr Jones:** I am personally not that familiar, but I was representing the RICS as a stakeholder during the CAP Reform process in 2004 and 2005. Common land was a very big issue then, and I am not sure it has

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been completely resolved. It is a big problem. It is an example of where a dual use situation could be quite convenient, where the owner of the common makes an undertaking, with the consent of all the active commoners, to put the common into an agri-environment agreement, but they are not farming it. They are leaving that to the commoners, in which case that is a good way in which dual use is being conducted. Commons do not fit very well with the concept of the single payment. The problem I have always had with the single payment and the way it is implemented, and a lot of the administrative complications, come from the fact that the Commission is wedded to the idea that you should have entitlement and land, but the two shall never be linked. I personally do not see why we could not do away with entitlement, and simply allow the occupier of the land that qualifies to claim a payment. It would simplify the whole situation and it would get away with some of these slightly weird rules that have to apply about “use it or lose it” and rotate it and trade it and move it around, and landlords and tenants and all the rest of it. However, the Commission is totally wedded to this approach because it does not want to see landowners receive payments directly.

**Q12 Iain McKenzie:** With the term “active farmer” in the test that is applied, would you say that there is there an opportunity to miscategorise a farmer as being inactive because of the diversity of the land that he farms? A lot of it may be difficult to farm and some of it may be easier; therefore, the easier areas are farmed; the majority that are difficult would be left and categorised as being inactive. Is there a great opportunity for that?

**Dr Jones:** There could be. It depends on the definition of what farming is and what an appropriate level of farming is. When we had the old LFA Scheme, it was a requirement to be a farmer, and the original scheme made payments for cattle and sheep on a headage basis; so the more you farmed the more you got. When that was converted to an area basis, it became “you must have cattle or sheep”, but there was no specification about how many. I suspect that is probably where we are going with this active farmer test: you have got to have some in order to qualify.

**Q13 Iain McKenzie:** It is an inexact science, this test. It is not exactly going to be able to apply across the country evenly and be looked upon as not being flexible.

**Dr Jones:** Absolutely. That is the issue really: what is appropriate, as well as what is necessary, in order to prove you are an active farmer. I am surprised that this element has made it through the reform process, because my understanding was that it would not be compliant with the WTO green box definitions, and that simply any sort of requirement that forced anybody to farm in order to receive the payment would endanger the Commission with having their payments reclassified from green box to amber box, which would blow the whole thing open in terms of compliance with the WTO Uruguay Round.

**Q14 Iain McKenzie:** Would it be any easier to identify or categorise an inactive farmer?

**Dr Jones:** Possibly, but of course there are quite a lot of farmers—well, dare I say it, there may be even some walking around the streets here in London—that might seem inactive to you or I, but managed through the offices of a good agent could seem very active indeed.

**Q15 Richard Drax:** The Government could choose to reduce direct payments above €150,000 by more than the minimum 5%, or even cap payments above a certain level in order to top up Pillar II. How would that affect agriculture in the UK?

**Dr Jones:** The biggest effect there would be on the very large farmers. The outstanding examples of that would be the Co-operative Wholesale Society, which is a very large single farmer. The National Trust is a very large farmer and a very large claimant. Because of the requirement, even where these institutions have land in different places where they are farming in quite a discrete and separate way, they nevertheless have to be regarded as one entity. It is just one holding as far as the EU is concerned. Those are the institutions or farmers that are going to be most affected, particularly by capping, but still by digression by the 5% reduction.

My understanding from the Defra consultation is that there is not much appetite for applying the cap, and that it will simply be the minimum requirement of the 5% digression over €150,000. That €150,000 is net of the greening component of the basic payment. In an exercise that was done by Andersons Consultants, they gave an example of a 3,500 acre cereal farm, admittedly with some allowance for offset of salary costs before the digression starts and affects the threshold figure. Nevertheless, on a farm of that scale, which is a large farm even by East Anglian standards, there was little or no effect. It has to come only really at the very highest level in terms of the very largest farm holdings in the UK before we are going to be seeing much effect at all.

**Q16 Iain McKenzie:** Are there particular aspects of the Commission’s green proposals that give you concern, or you think may add complexity without delivering environmental public good?

**Dr Jones:** Actually, I am very concerned about them, not so much in the way they are now likely to be implemented, because there are signs that the way in which they might be implemented will mean that for most farmers there is perhaps not going to be all that much effect. I think it is the fact that there is some sort of trade-off here with the greening measures, which are very basic. It is quite hard to see where the environmental benefit comes, particularly from the crop diversity measure, but across the piece, perhaps with the exception of the eco focus areas. You are trading off some very basic forms of greening, albeit standardised forms of greening, against voluntary and nuanced agri-environment measures. It would be sad if, in effect, what this reform has done is trade off broad and shallow agri-environment against greening.

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**Q17 Iain McKenzie:** Let me just give you an example on what you have just touched upon. Could greening disincentivise farmers to implement agri-environment schemes, or on the other hand lead to farmers currently in the Entry Level Stewardship (ELS) schemes being paid twice for delivering the same public good?

**Dr Jones:** I think it is clear that they will not be paid twice. I have a specialist interest here, which I should have mentioned at the outset, which is that an independent expert is required to report on the payment structure of the agri-environment schemes, and that is the role I have been playing in England since the 2005 reform. It has been my task to look at the baselines. You see, there is the potential at the moment for a modest level of greening that comes from the cross-compliance measures that could potentially overlap with the agri-environment. It does not, though, so we ensure that the baselines are quite clear, and that therefore the payments are only going to compensate farmers for what they do over and above the baseline set by cross compliance. They will not compensate them for the cross compliance bit.

**Q18 Iain McKenzie:** Would you say that the Government should devise its own certification scheme, or do you think that would just add a layer of bureaucracy and increase the risk of disallowance?

**Dr Jones:** It is an attractive option in a way, in the sense that it gives us more flexibility, it allows us to move away from these rather blanket, basic and blunt greening instruments towards something that is a bit more nuanced and so forth. There are plenty of examples of that in the Defra paper. You are right to mention disallowance, because there has to be equivalence. The test that seemed to be applied to ensure that there is equivalence heightened the risk to the UK in using a certification approach, and I think there is a fair chance they will trip over it and they will get disallowed.

The second thing is that Defra have pledged in their consultation not to gold-plate, not to go beyond the basic requirements. It is hard to see how they will do that by implementing a certificated route.

**Q19 Iain McKenzie:** With that in mind, do you think English farmers are being asked to do more than their rivals, and therefore are at a competitive disadvantage?

**Dr Jones:** It has not been decided what they have been asked to do yet, but there is all the potential for that in the proposals here. Certainly, if these were implemented as they have been set out, it does look to me as though there would be quite a lot more than basic greening would allow. I think that is inevitable, because basic greening does not offer much in the way of environmental gain. As I have said before, the crop diversity measure is a bit tenuous as to what it is contributing. The permanent pasture measure is very similar to what we currently have. You are mainly looking towards the eco focus. Many environmental organisations, including, I am sure, the speakers that you are going to be talking to next, will certainly not be entirely happy that that is going to deliver what they are looking for. It is not going to be equivalent

to what we could have had through the voluntary measures that we currently have.

**Q20 Neil Parish:** Given the pot for agri-environment schemes is likely to be much reduced, what are the main areas the new schemes should focus on? It is quite a broad question, really.

**Dr Jones:** I suppose they should focus on trying to maintain the gains we have already had, in particular in the farms that have been successful in the competitive arena of getting into Higher Level Stewardship (HLS) schemes, so a continuation would be one of the priorities. Obviously, we have a bigger menu of things that we want to achieve in Pillar II. We have focused very much in the past on biodiversity as the principal gain. Coming into that, we are now having more on a landscape scale. We are also looking more at water quality, quantity and other measures. You end up trying to do a lot more with a lot less, which is quite a tough thing to do.

**Q21 Neil Parish:** Can I move you on to upland farming, in particular hill farming? How are we going to particularly help them?

**Dr Jones:** Through the Pillar II?

**Neil Parish:** Yes.

**Dr Jones:** Obviously, there is the additional support that they might get through Pillar I by moving their money up the hill. At the moment, I do not see too many proposals specifically targeted at the uplands to try and achieve more, but I suppose that is what this consultation is about. It is a question of priorities and priority setting.

**Q22 Neil Parish:** If you want to be basic, if you want to green the CAP, surely the upland farming is one of the greenest parts of it. Do you feel that upland farmers are missing out somewhere?

**Dr Jones:** You could argue it is one of the greenest parts of it; there are some that might want to debate that with you. The important thing about the uplands is not only is it important environmentally, but it is fragile economically. Therefore, it is the most dependent on sources of income from both Pillar I and Pillar II. Most people would feel that that was important.

The issue is one of balance and what you are trying to achieve. There is no doubt that decoupling the payments has opened the door to extensification, and the upland farming economies are starting to look a bit fragile in the sense that there are a lot of hill farmers that, when they retire, are not being replaced by the younger generation. That may or may not be an issue depending on whether your interests are social and economic and community or whether they are environmental. It is something that we should be concerned about.

**Q23 Neil Parish:** You have alluded to the fact that Defra is putting forward the idea of taking non-seriously disadvantaged areas and combining them with seriously disadvantaged areas in order to take a little bit more money up the hill, so to speak, or certainly on the lowland part of the hills. Would you favour that? I have rather put you on the spot.



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**Dr Jones:** It depends what it is an alternative to. I can see a potentially rather messy situation developing here where we have a re-emphasis of the use of the EFA boundaries, which the Commission themselves are getting countries to redefine as ANC boundaries, which are somewhat different. If we are not careful, we will find that we keep on defining, re-defining, re-shaping and re-mapping and pushing these monies around.

**Q24 Neil Parish:** If you were just combining the two areas, you would not necessarily have to redefine the maps other than just taking out the boundary in between. Could one not argue that this is simplification?

**Dr Jones:** Yes. One of the issues that has not really been spoken about very much is the dominance of common land in the SDA. When Defra did the exercise on the regions, there were only 40 farms in England purely in the moorland SDA. They are all combinations of the two. As a result of that, there have been distinct winners and losers, because in the common land story you get your money dependent on what proportion of the land you have control over. Now, there are some commons where there are a lot of inactive commoners who in effect are taking that common land and saying, "We are not taking any money for that." That means that the more active commoners, who are probably farming all the rest of it and, therefore, are quite heavily stocked on the common, are not getting the money, and vice versa: you are getting commoners who have a big area; they are the only commoners who have commoners' rights. They may not be stocking them very heavily, but they are drawing all the payments themselves.

**Q25 Neil Parish:** Do you have any sympathy for the NFU's argument that some of the higher level schemes pay farmers to take land out of production, making farmers less productive and more dependent on the CAP? Therefore, they are not linked into the market but being taken further away from it.

**Dr Jones:** I do not know in detail. You are back to the uplands question. In the lowlands, I would not agree with that contention. They might well have a point in the uplands. Subtly, HLS agreements that were focussed on trying to reduce stocking and control the problems of over-grazing have almost had to be turned on their head and actually reintroduce some stocking. You are quite right that, if you are not careful, just setting upper limits means that you have to come back in a few years' time and set some lower limits instead. They might have a point.

**Q26 Mrs Lewell-Buck:** In terms of transition arrangements and those farmers whose ELS schemes are expiring in 2014–15, what do you think would be the impact of a gap in funding?

**Dr Jones:** There will still be funding, and, as I read it, there is an obligation to see out these schemes. There is not going to be a successor to ELS, so if their ELS agreement comes to an end during that period, effectively that will be the end of it. I do not think there is going to be a replacement for that. For those whose schemes are still ongoing, they will still get

their money until the schemes run out. That is my reading of the situation.

**Mrs Lewell-Buck:** As you see it, there is going to be no gap in funding at all.

**Dr Jones:** There is a period of no-man's-land, it seems to me, where we are still running under the old rules but in a new funding period. We have not come up with the new schemes as yet. I have been involved in the background work on NELMS, and it will be there, but the process has been delayed. There is going to be a gap between winding up old schemes, introducing new schemes and the money being rolled over from the current period. However, I do not foresee a complete gap in funding in that way.

**Mrs Lewell-Buck:** You do not foresee a huge impact from that.

**Dr Jones:** I do not think so, but perhaps you need to address that question to your witnesses from Defra.

**Q27 Mrs Lewell-Buck:** Do you think the existing entitlements should be rolled out or new ones allocated?

**Dr Jones:** Personally, I favour the continuation of the existing entitlements, simply because of the potential difficulties that exist with starting again and, therefore, tempting landowners to get rid of whoever the occupier is, so that they are the person in place, and so forth—the issues of redistribution of funding and the value that is tied up in entitlements. Part of the scenario, if we do stick with our existing entitlements, is to in effect write off or confiscate any entitlements that are in excess of the land that is available, and that will mop up the surplus of entitlements. It is a game of musical chairs that is played every year between those who have land without entitlement and those who have entitlement without land. However, as things stand, if we opt to continue, in 2015 those who hold entitlement but do not hold land are going to lose that part of it. In a way, that might focus their minds a bit and allow some redistribution to take place.

**Q28 Chair:** I have just a couple of short questions. In our previous uplands Report, we looked at water-management schemes rewarding farmers in upland areas for retaining water. Do you think there will be scope in the reformed CAP for this type of activity?

**Dr Jones:** I think the honest answer is there will be scope but little money. If we had more money and if there was more scope to achieve more with Pillar II, then yes. Cross-compliance, as I understand it, if anything, is going to become lighter touch rather than stronger. Things like the Water Framework Directive might possibly have come in as part of the SMRs, but I do not see things like that coming in in the short run. The answer is there is scope for it, but I am not sure there is going to be much in the way of money.

**Q29 Chair:** We also concluded in that Report that we were not convinced by the Government's arguments for ending coupled payments. Obviously, coupled payments continue in other parts of the UK. Do you have a view?

**Dr Jones:** Selectively, and for the right purpose, retaining the option at least to use coupled payments could potentially be beneficial. I know there are many

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who would criticise me for saying that, but, for example, they are used in Scotland to try to incentivise farmers to retain native breeds of suckler cows and higher value animals in the chain, and support a traditional form of hill farming. That is probably not a bad way of doing it. I know it is retrogressive and what we have moved away from, but coupled payments in the right form and the right place could have some value, certainly at the level at which they are being proposed.

**Q30 Chair:** Should farmers seeking to claim under Pillar II be concerned that there is no co-financing—that there is no transfer of funding?

**Dr Jones:** They should, and this is where the farming industry will be the loser if co-financing is not available at a reasonably generous level. The problem about modulation is that it does not come with the same degree of compulsion about co-financing, and we would not want to see exclusively modulated money used. We would want to see some co-financing as well.

**Chair:** You have been incredibly generous being here today, and we are very grateful to you, Dr Jones. Thank you very much.

**Dr Jones:** Not at all. It is my pleasure.

### Examination of Witnesses

*Witnesses:* **Abi Bunker**, Head of Agriculture Policy, RSPB, **David Baldock**, Executive Director, Institute for European Environmental Policy, and **Paul Wilkinson**, Head of Living Landscape, The Wildlife Trusts, gave evidence.

**Q31 Chair:** Good afternoon and welcome. Could each of you in turn say who you are and where you are from?

**Paul Wilkinson:** I am very pleased to be here. I am Paul Wilkinson, from the Wildlife Trusts, and Head of Living Landscape.

**Abi Bunker:** Hello. My name is Abi Bunker. I am Head of Agriculture Policy at the RSPB, and thank you for inviting me to come along.

**David Baldock:** My name is David Baldock. I am the Director of the Institute for European Environmental Policy. Thank you for the invitation.

**Q32 Chair:** You are all very welcome, and we are very grateful to you for giving up your time to participate in our inquiry. To begin with a general question, do you recognise the value of farmers as custodians of the countryside?

**Paul Wilkinson:** It is a very simple, straightforward yes. As organisations and as an organisation, the Wildlife Trusts work very closely with farmers and landowners, and we are farming and landowning organisations in our own right. We certainly recognise that and give thousands of days of advice to farmers every year. We certainly recognise that role.

**Abi Bunker:** I would endorse and add to that. If we do not recognise and work to support and embrace the work of farmers as owners and stewards of the countryside, and work with them to make the changes necessary, we will fail to deliver what we want for the environment in terms of our priority bird species, habitats and wider environmental delivery. Farming covers 70% of the UK countryside. If we want it to be a healthy, thriving environment, rich in wildlife, our farmers are a critical part of that.

**David Baldock:** I would agree with that. One thing our Institute has done is to help develop this idea of high-nature-value farmers to get people to understand, all through Europe, that farming is one of the ways in which we produce environmental benefits, so the answer is “yes”. Farmers’ relationship with the environment varies, as it does for the rest of us.

**Q33 Chair:** How would you describe the proposal for the next round of CAP reform in its present state? Would you describe the deal on the table being negotiated at the present time as a good deal for the UK Government, farmers or environmentalists?

**Abi Bunker:** On balance, the deal negotiated in Brussels has not been in line with the direction of travel we had in previous rounds of reform, which was slowly but definitely showing a move towards something about using public money to deliver public goods. There was a direction of travel, and the results from this reform have muddied the waters. I would agree with some of what the previous provider of evidence said: in many ways, it has complicated things; it has added complexity where it was unnecessary. For example, greening could have been done through an existing mechanism of cross-compliance—just enhancing the baseline across farming of things you wanted to deliver. That route was not chosen.

David talks about high-nature-value farming, which is a concept that we are working hard to make people aware of. It is not just in Romania and Bulgaria that you have high-nature-value farming, where there is an intrinsic link between the environmental delivery and the farming system itself. It is a concept that we have in farming systems and habitats in the UK. That has fundamentally failed in this reform as well; we argued very strongly that there should be greater support targeted on high-nature-value farming systems across Europe, and we were unsuccessful.

**David Baldock:** Can I add a couple of points? Some of the Commission’s original impulses were correct. They tried to bring greening into the whole of the CAP because they were trying to get a public goods delivery mechanism that delivered on all farms. One sensible aspect of that is trying to reduce the problems of administration and a lack of a level playground—trying to have simple rules—and there is a lot of pressure for that. Of course, trying to do it in practice in relation to the Pillar I rules proved to be a lot more difficult. In the end, we have ended up with a situation

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that is in many ways disappointing, but I would not say the impulses behind it were all bad.

On the UK, it is worth emphasising that one aspect of the deal that in our view is not satisfactory for the UK is that, because the Treasury—for reasons good or bad—prioritised the UK rebate during the MFF negotiations, the UK has ended up with a relatively small Pillar II and a relatively small share of the CAP budget. We are now facing some very difficult choices, which have been brought about by our negotiating strategy over the budget. I am not saying that was right or wrong, but there is a price to pay for it now. It is not all the making of the EU; it is the way that we in the UK went about pursuing those negotiations.

**Paul Wilkinson:** Picking up on the mainstreaming point—the impulse and the mainstreaming of environmental land management, and breaking down the cultural divide between what we see as farming and what we see as conservation—it is around environmental land management and achieving a range of outcomes from that. In terms of the deal overall, effectively we have less of a Pillar II budget and weakened greening, and we potentially, therefore, have to compensate for that in other ways, which I am sure we will come on to discuss.

**Q34 Chair:** To clarify, are you saying that the inequalities that exist within the United Kingdom, and between English farmers and other EU farmers, could possibly increase?

**David Baldock:** If you are talking about equality of payments from the CAP, which I think you are, there are huge disparities already in what farmers get in different parts of Europe. UK farmers get less per hectare than some in Northern Europe and more than others in Central and Eastern Europe. Because the UK has a relatively small Pillar II budget—smaller proportionately than several other member states, such as France—you could say the gap between the payment pot available to UK farmers and others has increased in the process, although not massively.

**Abi Bunker:** In terms of the proportion of our allocation in Pillar II, which is the Rural Development programmes, this time around in this country it is about 9% compared with 91% in Pillar I. The average across the EU of the amounts under Pillar II is about 24%. That is unfortunately despite assurances that, under Pillar II, we would have allocations to individual countries based on objective criteria, which failed to materialise. Once again, we have a very small pot of money in Pillar II compared with the rest of the EU. As in previous reform, there is the necessity of pushing up that pot of money in the UK through modulation from Pillar I to Pillar II.

**Q35 Ms Ritchie:** Given the rising cost of food and concerns over food security, should the Government not direct as much money as possible into Pillar I to support food production?

**Paul Wilkinson:** My starting point is what underpins food production and food security. We are increasingly aware that healthy, functioning ecosystems, soil and water availability are going to secure the long-term viability of farming. My starting

point is what we need to do to support the long-term future of those resources and how we restore and rebuild the functioning of those systems. My argument would be that we need to maximise the amount of money going into the schemes that support those higher environmental outcomes to secure the future of those farming systems.

There is this false argument around a focus on short-term competitiveness and food production over the long-term viability of the whole way in which we produce food and the systems that underpin it, that is our soil and water, and the way in which particular species interact to enable us to produce the food that we need. That would be my starting point. Therefore, absolutely you need to transfer the maximum 15% from Pillar I to Pillar II. Any less than that and you are undermining the viability of future environmental land management schemes. There simply will not be enough in the pot to meet existing commitments, let alone future needs.

**Abi Bunker:** I agree wholeheartedly with what Paul said. It has been unfortunate that there has been a very narrow focus in the debate as to what food security means. If you define it as just short-term increases in yield, I do not think that is the right understanding. That is not what food security is. Food security is a very valid objective of Government policy and policies like CAP, but delivering enhanced, long-term sustainable food security from which people will benefit is about investing in our ability to continue producing food safely and in an environmentally sound way for the long term. Being resilient to shocks to that system is also part of it; it is not just about producing more. I would agree that, just as with competitiveness, the kinds of activities you can do through Pillar II, such as agri-environment schemes, are about increasing environmental and food security.

**David Baldock:** I agree with a lot of that. The only point I would add is that, when one is thinking about longer-term food security, like feeding possibly 10 billion people by 2075, the key thing is using your resources well and having the technology available. Importantly, the impulse was there in the CAP to try to increase the emphasis on innovation and Research and Development, and rolling out technology. It is not a very large proportion of the whole, but there is a forward-looking element in there. That also contributes in the long term to food security—building a robust agriculture—more than just slinging some more money into Pillar I.

**Q36 Ms Ritchie:** Does the additional greening of Pillar I reduce the need to transfer the maximum amount to Pillar II? To what extent would maximum modulation impact on the ability of England's farmers to compete with their counterparts in other regions of the UK and other EU countries?

**David Baldock:** We believe for a number of reasons there is a strong case for continuing with modulation in the UK, starting from the rather basic point that we already have a number of environmental objectives, as well as innovation, we cannot meet. These are quite well measured. Abi can talk about some of these more than I can. If you look at the Pillar II objectives that now have been augmented in various ways, including

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having more specific climate mitigation objectives, it is very difficult for us to see how you can deliver these obligations in the UK without having the maximum-level obligation. Considering that the main drive, strongly supported by the UK Government, behind the changes in the CAP was to emphasise more public goods for public money, it is difficult for us to imagine an outcome whereby we are producing potentially fewer public goods by scaling back on the resources available. It is quite difficult to explain to the public.

On the competitiveness point, one can sympathise with the NFU that payments vary inside Europe, but it is not particularly clear where the evidence lies. In 2009, we did a piece of work for DG AGRI on the impacts of modulation with the Dutch Agricultural Economics Research Institute. We did some modelling exercises, and I can send you references, if it is any use. It showed the impacts of modulation on farm competitiveness to be extremely small. Farmers continue to receive money through Pillar II; it does not disappear out of the agricultural system. One would not say there were zero effects, but they were not significant on this evidence.

**Abi Bunker:** The connection between greening and agri-environment schemes is a false one; it is a very worrying connection if people view delivering greening across farming as some kind of argument that less is needed in agri-environment schemes. It is important to note that, although the impulse for greening may have been a good one for getting greater public goods delivery across the payments, by its very nature Pillar I is not suitable for delivering public goods. It is not multi-annual; it does not require ongoing activity over several years, which is exactly what is required through agri-environment schemes. It is not contractual; there is no contractual obligation to deliver between the landowner and farmer and the Government. It does not require the delivery of certain objectives.

Pillar I is not a suitable place to try to deliver the kinds of things that we know very much from the evidence on the current programme are totally possible and have been delivered through good agri-environment schemes. We have some things to learn from our experience of agri-environment schemes this time around, and things to improve. There is good evidence, particularly from England, on how much they can deliver for the environment and for taxpayers. In order of magnitude, if we want to deliver for the environment, numbers one, two and three are maximum modulation so that we can do as much as possible through high-quality, well targeted schemes in agri-environment.

**Chair:** We have to keep the answers a little shorter, or we simply will not get through our work this afternoon.

**Q37 Iain McKenzie:** You mentioned healthy, functioning water and soil. I can get my head around how a farmer can improve the soil, but how can he improve the water? I thought the main problem with water for farmers at the moment was that there was too much or too little.

**Paul Wilkinson:** It is not just what the farmer needs; it is the impact of the farming process on water quality and availability. Farming and food production require large amounts of water—certain crops certainly do—and farming system inputs can have impacts on water quality. However, if we channel some of the targeted schemes, we can invest in creating habitats and restoring wetland systems that can purify our water.

**Q38 Sheryll Murray:** On cross-compliance, what impact will the reduction in cross-compliance requirements have on the environment, and should they be mitigated by measures put in elsewhere, such as greening?

**Abi Bunker:** Some of the reductions in cross-compliance are worrying. For example, elements of the Birds and Habitats Directives have been removed from cross-compliance, which means we could see landowners breaking the law in terms of committing serious wildlife crime but continuing to receive their single farm payment, which, as a taxpayer myself, I find quite disturbing. There are other elements that have been removed because it is considered that greening will pick them up. The key point is that, as part of the negotiations in Brussels, so many exemptions to greening were agreed that it is not universal across our farmers, whereas cross-compliance is. There are some really big and worrying questions about the environmental impacts of the removals from cross-compliance. Yes, I agree.

**Chair:** If we are all agreed, we can move on.

**Q39 Neil Parish:** Talking about England now, should the regional allocation of direct payments be adjusted to increase support to upland farmers, and what might be the environmental impact of doing so? We have a table here that shows that the non-SDA land is some 6,717,000 hectares, and SDA not moorland is just 500,000 hectares. It would have the knock-on effect of not taking too much money away from the non-seriously disadvantaged farmers and giving a bit more to those farmers on the borders of the uplands. What is your view on that matter? This is single farm payment; this is Pillar I.

**Paul Wilkinson:** It almost links in some ways to what your colleague was saying about the importance of the uplands and the services that those farms provide. They provide a lot of the services that have no market value at the moment, in terms of supporting water quality, soil retention and climate change adaptation. Having some greater support for upland farming within the direct payment is certainly something we would support. We have to be clear about the purpose of that and the outcomes we are trying to achieve, and then work out the best way of doing it.

**Q40 Neil Parish:** Do you recognise that stocking on hill farms is necessary and that you have to have some more support in order to keep the sheep and cattle there? Do you see a benefit in that, or not? Are you determined to have the hillside with nothing on it?

**Abi Bunker:** Absolutely not.

**David Baldock:** No. We would all agree that it is important to keep the stock on the hills. They are a very important part of environmental management, as

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well as a good way of using the resource and keeping upland communities going. It is potentially a win-win-win. Certainly, speaking for my organisation, we would have some sympathy with the principle of moving support up the hill for that reason, but the trouble is we need an evidence base for this to say, "Actually, the effect is going to be", because you do not know how the incentives will play out. There needs to be some data to mess about with, which is not in the Defra consultation, so it would be quite helpful to be clear what the impact and the conditionality would be on those payments, but we accept there are issues of under-stocking in some areas.

**Q41 Neil Parish:** I suspect I will know the answer to this next one. Would moving money uphill negate the need for an upland-specific agricultural environment scheme?

**Abi Bunker:** It is an interesting way that Defra are going about it. In principle, I think removing the support targeted at certain areas with environmental conditions, via an agri-environment scheme, is a backwards step to something that potentially, unless they are very careful about it, is without conditions. They would really need to look at how an uplift to a direct payment would work. There was real value in having an uplift scheme, although I think it was unfortunately dumbed down later on as it was developed. It has not delivered as much as it could have done, had it had greater rigour in it. We think it would have been better to work on the quality of UELS rather than move away from it.

**Q42 Neil Parish:** Do we need an upland-specific agri-environment scheme or not?

**Abi Bunker:** Either you do it through an uplift to direct payment and ensure through cross compliance, implementation, maybe through the application of a national certification scheme of greening that you attach the environment conditionality. There may be scope for that.

**Q43 Neil Parish:** I link the last two parts of the questions together. How else might the Government use CAP to support farming in the uplands? Also, should the Government seek to reduce large payments by more than the minimum amount of 5% and then spread that money across? I am playing devil's advocate here. What would you like to see? Don't take any notice of Richard Drax next to me.

**Abi Bunker:** From the RSPB's perspective, the most important thing would be high quality, well targeted, advice-led agri-environment schemes, such as HLS. We have seen examples of how that has really provided enormous benefits in the uplands in terms of environmental quality, species and habitats. It has also leveraged in a lot of other funding, for example through the water companies, for investment in these areas. High quality, well targeted, advice-led HLS-type agreements or landscape-scale-type agreements for agri-environment is the number one priority.

**Q44 Richard Drax:** Will the active farmer test have any impact on the environment, particularly the minimum level of activity test?

**Paul Wilkinson:** It is fair to say that we have some concerns around the active farmer test. We are quite pleased in terms of the negative list, and we can see the reasons why we want to reduce the number of railways and sports grounds receiving the funding because there is such a limited amount. We need to make sure it is used in the best possible way. We do have concerns that there are still organisations that might be captured by that list that are trying to deliver the outcomes that the Government desire.

For example, we might be captured by the fact that we have low-intensity grazing, low-intensity management, which might mean that we are captured by the fact that we do not meet the minimum activity threshold. As organisations that are seeking to deliver many of the outcomes that the Government desire, it would seem counterproductive and counterintuitive to capture us. If organisations who are trying to deliver those environmental outcomes are captured by it, then yes, there would be impacts on the environment because you would be cancelling out those organisations that are trying to deliver high-end environmental outcomes.

**Abi Bunker:** As farmers, more so than organisations like ourselves, many of what we would consider high-nature-value farmers are extremely extensive. We know that work done in Scotland has shown that hundreds of farming businesses would be excluded on the basis of a stock intensity of below 0.02 livestock units per hectare. That is worrying, because those farming systems tend to be the most environmentally valuable.

**Q45 Richard Drax:** Finally, do you support the call for the end to dual use? I think you know dual use is: the landowner claiming for different subsidies on the same area of land.

**Abi Bunker:** The RSPB does not, no. We support dual use, and it is something we utilise ourselves on the land that we either manage or own, where the tenant farmer would receive a single farm payment, and because the RSPB is doing fairly high-level conservation management as part of an agri-environment scheme, we would receive the agri-environment payment. We find that it is really useful and works well. Clearly, it needs to be based upon a very strong and close working relationship between the tenant farmer, the grazier and ourselves. However, it is something that in the future would lead to problems, not just for ourselves but probably for everybody.

**Paul Wilkinson:** I agree. We would not support prohibition of dual use for the same reasons.

**David Baldock:** We would not either. We understand the Commission's impulse at a European level, what they are trying to achieve. However, when you confront it with actual practice where it works well, it would be counterproductive to insist on that.

**Q46 Iain McKenzie:** Continuing the theme of what you may or may not support, do you support the

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Government's aim not to make use of the coupled support?

**David Baldock:** We do sympathise with Defra's approach to try to contain the use of coupled support throughout the CAP negotiations, which they did pretty vigorously. There were some respects where coupling has been introduced on a much larger scale than anybody envisaged, so I think that was a correct position. It is therefore logical to be very sceptical about using coupled support in the UK. In principle, we would not want to rule out coupled support ever being useful in any circumstances, but we say the general principle of strong presumption against it is correct.

**Abi Bunker:** We would agree. We would not support coupled support and headage payments because we are still seeing environmental problems caused by that system that drove management that was counterproductive and ended up degrading the environment. As a principle, it is not something we would support.

**Paul Wilkinson:** Likewise. We have redefined the outcomes we are trying to achieve through the CAP. The coupled support was there for a particular purpose, and we have realised that it does not necessarily work and can be counterproductive and pretty damaging. As David said, we would not rule it out absolutely, but do not support it.

**Q47 Mrs Lewell-Buck:** Do you support Defra's current proposals to raise the minimum claim size, which would remove 16,000 claimants from the system?

**Abi Bunker:** This is the minimum claim size from one to five hectares. Yes, it is worrying that there would be a whole swathe of businesses, and again potentially some of our most valuable in terms of looking after our precious species and habitats, that may fall out of that. As with looking at the impact of putting money up the hill, I think they need to do some research fairly quickly to look at what the impact of this might be.

**David Baldock:** I would like to see the evidence from Defra.

**Sheryll Murray:** If this did not happen, where do you propose the extra money would come from to keep those claimants in? There is only one pot.

**Chair:** You could think about it and perhaps work it into an answer later. Can I just say there is going to be a vote at 4.30? We will interrupt, for which we apologise in advance, and I would just like to ask for your patience, and invite all colleagues to please come back after the first or second vote as quickly as we can. Thank you for your understanding. That is why we are trying to make progress.

**Q48 Ms Ritchie:** Do you foresee the greening criteria set out by the Commission as being able to deliver environmental benefits that represent value for money for the taxpayer? Are there any that give you particular concern?

**Paul Wilkinson:** We have been quite clear from the beginning that we feel the key mechanism within the greening is the ecological focus area, if that is deployed in the right way, in a smart way, where we look at the way those ecological focus areas operate

across the landscape scale. Through not just randomly allocating 5%, but actually looking at how we can connect up between farms, how we can link together various habitats that are created, there is some gain to be had. We are concerned by the permanent pasture measure because there is insufficient definition around permanent pasture, which is not refined enough to identify the difference between a wildflower-rich meadow and a field which has been ploughed five or six years ago and improved, but still is down as grass. There are some issues there, but I think the ecological focus area does have potential and that is the area we would want to focus on.

**Abi Bunker:** I agree. Something could be made of the environmental focus area, and that will be down to Defra, particularly in how it can deliver for pollinators, which are vital for productive farming. Not only are they a lovely, beautiful and valuable part of our biodiversity; they do a damn good job. As somebody pointed out, if we have pressure on our Pillar II and agri-environment, we know the scale of need from the state of nature is enormous, and way beyond what we have already. Asking and trying to make EFAs deliver for our widespread declining wildlife, such as some of our farmland birds, would be absolutely vital. The ideal way for Defra to do that is through the development of a national certification scheme.

**David Baldock:** Briefly on the permanent pasture, we think there is an important issue there. Unfortunately, it has not been treated in exactly the right way in the final version, so you could get too much effort going into something that was not really producing the outcome you wanted. It has already encouraged farmers to plough up permanent grassland, so that is quite worrying, to answer another part of your question. It is a question of what Defra does now to translate this into something that works well in the UK.

**Q49 Ms Ritchie:** Would devising a certification scheme as an alternative to the Commission's proposals risk adding a layer of bureaucracy and increase the risk of disallowance?

**David Baldock:** Can I start off with that?

**Chair:** If you all agree, you do not all have to speak. You can nominate someone each time.

**Abi Bunker:** We will tell you whether we agree.

**David Baldock:** I will keep it very short. There will be some administrative upfront costs in a certification scheme to set the whole thing up, because you would have to have a fresh scheme. Beyond that, it is not clear to us it would be more administratively demanding than another type of scheme. It is a bit unclear how the policing and monitoring of it would work at this stage. It could have certain advantages. It is an open question at the moment whether it could lead to disallowance. We would have to see the implementing rules. On any aspect of greening, Defra would point to the danger of disallowance.

**Q50 Ms Ritchie:** Do you accept English farmers' concerns that they have been asked to do more than their rivals and therefore are being put at a competitive disadvantage?

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**Abi Bunker:** Are you talking particularly about greening?

**Ms Ritchie:** Yes.

**Abi Bunker:** David made this point in the corridor earlier. We do not yet know how the other Member States are going to do greening. We are presupposing that England is going to do this way better than everyone else, which I think is slightly obnoxious.

**Richard Drax:** We always do.

**Neil Parish:** We have that potential.

**Abi Bunker:** Again, I go back to the principle of this public money delivering greater value for money when we are living in a time of constraints. Every sector of industry and every part of our public service is taking cuts. None of the bodies taking cuts are taking cuts in areas they feel they should be, I suspect. It is a case of making choices. I think we absolutely need to be getting much more in terms of public goods delivery, and greening needs to be utilised as much as it can. I do not believe it will create those competitiveness issues that others do.

**Q51 Ms Ritchie:** How might greening in Pillar I complement agri-environment schemes in Pillar II? Could greening dis-incentivise farmers to implement agri-environment schemes on the one hand, or lead to farmers currently in ELS schemes being paid twice for delivering the same public good on the other?

**Paul Wilkinson:** I will kick off and be very quick, Chair. It links to your question earlier around the links between the greening and agri-environment. The greening really is providing the baseline. It is about lifting the expectation and the environmental baseline around what individual farmers/landowners are delivering. In terms of the dual payment, the previous witness provided a robust answer on that as to how those payments would be made. The key thing, really, is around them looking at the agri-environment scheme. The landscape scale approach that Defra are taking is really beneficial. That is a progressive step that needs to be supported by advice and facilitation if it is going to achieve the outcomes that Defra are looking for.

**Chair:** Does anybody disagree?

**David Baldock:** No. One thing that is important in the second Pillar schemes is it needs to have the right amount of advice, information and support for farmers supporting them in a way you will not necessarily get under the first Pillar.

**Q52 Richard Drax:** Agri-environment schemes I want to ask you about now, and the anticipated environmental benefits. If they have not worked, how could they be better targeted? Can I just make one little addition here about the farmland bird index, which is declining—butterflies, moths and many other species too? It could be argued that the £450 million spent has failed. What single measure under the new CAP do you think would be most effective in reversing this, as part of this effectiveness?

**David Baldock:** We should be a little bit careful about saying agri-environment schemes have failed. They have multiple objectives. A lot of them are not about biodiversity, which is probably the most difficult bit to get right, and you have to do learning by doing. We

do not know what the counterfactual is: what would happen without them. We would certainly say we could do better, but I am nervous of your saying they failed. That is going a bit too far.

**Q53 Richard Drax:** How do we do better?

**David Baldock:** They could do better by having more ambitious objectives and better-targeted measures, which are essentially based on a better understanding of exactly what we want. There needs to be more focus, including an area-based approach as well as an individual-farm-based approach. We might want to be more innovative and experimental, and try some different approaches.

**Abi Bunker:** We have seen a flattening off of the farmland bird index over the last few years, but we have not seen the recovery that we need to see. However, I think there is good evidence to show that a lot of the problems with ELS are that there are a lot of options that are, forgive me, money for old rope. There are a lot of options that have been taken up that are not as high quality and evidence-based as they needed to be. The most important thing if we are going to do something that is open to all—and I do hope that there will be an agri-environment scheme that is technically open to all—is that the quality is ramped up, they are well-targeted and that they require the actions we know from the evidence will deliver in the right combinations and in the right places. Through doing that, at Hope Farm we have delivered a 200% increase in our farmland bird index, whilst also increasing our yields.

**Q54 Richard Drax:** Is this more oversight of farmers, more rules, more regulations, more areas? Is that what you are saying?

**Abi Bunker:** No, absolutely not. It is in the upfront design of the schemes and the way that you take farmers through so that they make the right choices—they are either required to make the right choices or guided to make the right choices—that will deliver for their farm, but also for the biodiversity or for the other environmental objectives that are ultimately the objective of that scheme.

**Paul Wilkinson:** I would agree in terms of the targeting, advice and support. The proposal to introduce a facilitation fund in order to then support farmers to develop the best package of measures for their particular landholding is a really positive step, and something that I hope carries forward in the consultation.

**Q55 Richard Drax:** An inspection regime—is that working, do you think?

**Abi Bunker:** I do not think it is working in terms of water quality. My understanding is that there are quite a lot of problems that are to do with not agri-environment, but complying with cross-compliance rules. The evidence that is coming out from Scotland and across England is that we have a lot of cross-compliance breaches, as agencies are walking river courses, so inspection and enforcement is a problem that needs to be addressed.

**Richard Drax:** And the other two gentlemen agree with that. Thank you.

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*Sitting suspended for a Division in the House.  
On resuming—*

**Q56 Richard Drax:** Do you have any sympathy with NFU's argument that some of the higher-level schemes pay farmers to take land out of production, making farmers less productive and more dependent on CAP money?

**Abi Bunker:** No, I do not.

**Richard Drax:** You have no sympathy.

**Abi Bunker:** Yes. There is an enormous amount of evidence from across the country that HLS has enabled farms to become more productive across a range of services. It is not just about food production. It has embraced and allowed these farms and the land management to deliver a greater range of products for society.

**Q57 Richard Drax:** What are these greater range of products, out of curiosity?

**Abi Bunker:** For example, the SCaMP Project, which has had a wedge of HLS funding, which leveraged in further funding, was all about re-wetting the peat and restoring the peat land to its former glory. The main aim of it, and why united utilities and water companies were involved, was to stop carbon leaching out of the soils into water, which of course then colours the water and needs to be cleaned up, the cost of which is transferred into water customers' bills. That was the main aim, but it was utilised as a multifunctional project, so not only was it able to address discolouration of water, but by building and restoring the peat through blocking of the drainage to restore the peat as a carbon sequester, it delivered climate change benefits and a biodiversity habitat.

**Paul Wilkinson:** I agree. It was a broader range of services, but it was also a competitive scheme. People entered it because they wanted to enter it. They were not forced to enter it. I think they entered it because they saw there was value for their business in receiving that funding to deliver that range of things that Abi described. We are talking in a very narrow definition of production in terms of your question. We are trying to describe a broader range of production.

**David Baldock:** On a more generic level, some de-stocking has occurred because the stocking was only there as a perverse response to stopping subsidies in the first place. If we go ahead and accept that we want public goods, we are going to have to pay for it. I would accept that ultimately farmers will be dependent on public money for some things, and that is okay. The public should be paying for it if they are getting the benefit from it. Although I can see where NFU are coming from, I do not think we should be frightened of the principle of actually saying certain things you have to live with and pay for. It is not what the farmer or I would do in my back garden either without some payment, so I think we will have to get comfortable with that idea eventually if we want the kind of countryside that meets all our objectives.

**Q58 Neil Parish:** As a supplementary to that, do you not feel that perhaps there was over-stocking with the previous system that supported the headage payment, but there is almost an argument now that the stocking

density is too low in some cases, and there may be need to support them? Do you see that or not?

**Abi Bunker:** It is an interesting question and has there been a lot of anecdotal evidence on this for some time. That is why we decided, the year before last, to ask Cumulus Consultants to undertake a piece of work across the UK to actually try and get to grips with what is happening. Is it over-stocking or under-stocking? Is it over-grazing or under-grazing? The conclusion of that, which involved talking to farmers and land managers through questionnaires and focus groups as well as looking at the data, was the issues are extremely localised, and extremely different across the picture. We can see that there have been some quite fundamental changes, not just in stocking densities, but in the types of livestock and breeds that are used.

**Q59 Neil Parish:** I am concerned about the potential gap in funding for those farmers whose ELS schemes expire in 2014–2015. Do you see a danger of some of those farmers not going back into a scheme at all?

**Paul Wilkinson:** We are generally accepting that there will be less money, hence the need for us to put more money across in terms of modulation. We accept that we need to reach a broader range of objectives. The new scheme will mean there will be potentially fewer people receiving that funding, although we would support it being an open-to-all process. There will be a phasing out of people in the current schemes, and I do not think that is a bad thing because some of those schemes are not necessarily delivering what we needed them to deliver. A lot of these schemes are delivered in a way that is focused more on the outcomes, looking at the landscape scale and the higher environmental outcomes, and that is not necessarily a problem. That is just part of the process. We have less money and want to do more with it, so I would not necessarily see there being an issue with the gap. It is more of a fact that we are moving towards a different—

**Q60 Neil Parish:** Defra is talking about coming up with a medium-level scheme. Have you seen anything of this, and what is your view on that?

**Abi Bunker:** Whether it is called an entry-level scheme plus or middle—whatever it is called—if that first scheme is open to all, my understanding is that they wish to work and encourage work at a landscape scale. Whether that will be a default criterion for anyone entering—you have to enter at a certain scale either because you have got a large enough estate yourself or would be working in collaboration—I do not know. I think if they can provide funding to help, as Paul says, facilitate that kind of arrangement, it would be incredibly useful, as long as it learns the lessons from ELS in terms of designing in and requiring certain quality.

**Q61 Neil Parish:** Do you think it is better to encourage farmers down a route, rather than beat them with a stick if they don't necessarily do it in the right way from your point of view?

**Abi Bunker:** Clearly, encouragement has a really important role to play. Although the CFE did not meet



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its specific targeted objectives within the timeframe, it has shown that, where there has been investment in certain regions, ownership of the issues and action have started to increase and the quality has improved. That is clearly desirable and we do need to win hearts and minds, and it does need to be us working together. Unfortunately, we are not in an ideal world, and the evidence shows a combination of voluntary and requirement.

**Q62 Chair:** Can we just bring the threads together? At the beginning, you said you thought this was, to put words in your mouth, a “missed opportunity” in the sense that they could have got the baseline plus. Would you start by saying that it is a missed opportunity? Where do you think the greatest difficulty is in implementing both of those on the cross-compliance side and on the payments side?

**David Baldock:** One difficulty would be dealing with the conflicts between, on the one hand, trying to have more targeted schemes and better results, and on the other hand, a shrinking administration and trying to simplify the thing. It is quite difficult to manage those conflicting pressures. A second difficulty will be to do with trying to understand exactly what the nature of the disallowance threat is, and get the policies to work in proportion to those, because there is a danger of just running everything to avoid disallowance, and therefore having policies which do not deliver enough goods. There are certainly IT issues, but the final thing I would say is that there will be a one-off need to do a significant amount of mapping, and I know some agencies are worried about the costs and so forth. That is an inevitable one-off adjustment when we start directing agricultural policy more towards environmental outcomes. We are just going to have to do the mapping, and it is unfortunate to have to bear the costs at one time, but I do not see that we can avoid it.

**Paul Wilkinson:** I was going to say that one of the critical things is the fact that Natural England retains the agri-environment management. There is a really important need, in order to make sure this is not a missed opportunity, that there is advice linked to the agri-environment schemes to make sure they are achieving what they need to achieve. Natural England

has the expertise, evidence base and research to know what the key items and measures might need to be within individual schemes. Working with organisations like ours, we can make sure that those schemes are delivered to their best extent. The concern is that, as you will well know, the agencies are still facing further severe cuts, so there is a risk that the administrative support within the agencies could be even more limited in future in order to administer this scheme.

**Abi Bunker:** In Defra’s ability to turn this into something better than it looks like at the moment from the EU, the biggest threat is that they put effectiveness at the bottom of their list of the trio of things that come out repeatedly about simplicity, affordability and effectiveness. It is absolutely vital that they are effective. I am concerned about the underlying deregulatory agenda of this Government, which is potentially going to unpick a bunch of key underpinning stuff in terms of environmental protection.

**Q63 Neil Parish:** So you would like more regulation?

**Abi Bunker:** Absolutely not. I would like better regulation.

**Q64 Chair:** We can have better regulation here. Just a very quick question: out of 10, what mark do you give Defra’s communication and consultation on this stage of the CAP reform?

**David Baldock:** Gosh. Their communication has been pretty good with most of the main stakeholders.

**Abi Bunker:** I think it has been pretty good too. I would have liked earlier consultation, and it is a bit worrying that we still have not seen any consultation.

**Paul Wilkinson:** I will give you a seven.

**Chair:** Thank you very much for accommodating us. We are trying to get our Report out in time, and this had to be made before the final decisions are taken, so we are very grateful to you for being so generous with your time and accommodating our disappearance for the vote. Thank you very much indeed, and to the Committee as well for coming back. We stand adjourned, and reconvene tomorrow.

## Wednesday 23 October 2013

Members present:

Miss Anne McIntosh (Chair)

Richard Drax  
Mrs Mary Glendon

Sheryll Murray  
Neil Parish

### Examination of Witnesses

*Witnesses:* **Peter Kendall**, President, and **Martin Haworth**, Director of Policy and Communications, National Farmers' Union, gave evidence.

**Q65 Chair:** Good afternoon and welcome. Can I thank you very much, Mr Kendall, for agreeing to participate in our inquiry? If you could introduce yourself and your colleague for the record, that would be marvellous.

**Peter Kendall:** I am Peter Kendall, President of the NFU. Martin Haworth is our Director of Policy.

**Chair:** Since we last met, you have announced that you will not be standing again as President. I am sure we would like to record our congratulations on your continuing achievements—you are not going just yet—and all that you have achieved, not only on the behalf of your members but on behalf of the farming community and, I am sure, the countryside as well. The Committee would just like to note that, if we may.

**Neil Parish:** I would endorse that.

**Q66 Chair:** How would you describe the proposed deal, first of all as regards the UK taxpayer, and secondly as regards the English farmer?

**Peter Kendall:** Let me go back a stage. When the first proposals came out from the European Commission, I was probably less than careful with my choice of words about what the Commission was trying to achieve. We called it a dog's breakfast or lacking a vision for where it wanted to get European agriculture. It seemed to be a rather convoluted way of hanging on to the budget, rather than trying to move agriculture in a continued modernisation route that certainly Commissioner Mariann Fischer Boel and Commissioner Franz Fischler had tried to do in the past. They took the model, which we believe to be slightly confused, that was introduced and said that we now have co-decision with the European Parliament, so that we now have three European institutions representing 27—28 now—Member States; it was always going to be a bit of a fudge. In hindsight, it has turned out to be an enormous fudge. That was the backdrop to what we have tried to work around and influence in our lobbying, both in Brussels with the MEPs and with our Government.

For taxpayers, the Prime Minister quite intentionally set out to reduce the size of the European budget. Many people said he would never do that. As a farming organisation, we have no problem with reducing the overall budget. Particularly when compared to farmers, we understand that the citizens of Europe are having a really tough time, and we are all having to make sacrifices. Therefore, the reduction of the European budget was something we certainly did not argue against, and we accepted it. What we

did argue about, however, was that it should be done fairly. One of the big things that will come out in the next half an hour or so will be that we have actually had a bigger cut. We believe it is a 22% cut to the Pillar II allocation for the UK, which will impact everything we are going to discuss this morning.

Overall, it is right for taxpayers to demand better value. We understand that. Our concern is that, while we had a 22% cut in the UK, 16 other Member States out of the 27 had extra money: the French had an extra €1 billion Pillar II allocation; the Italians had an extra €1.5 billion Pillar II allocation; and Finland had a €700 million Pillar II allocation. We have had a 22.5% cut. So yes, it is a good deal for taxpayers, but this is not a great deal for the UK. We now have arguments about how that is split between England and Scotland. We are working closely with Northern Irish and Welsh farmers' organisations to say, "Leave the allocation as it is, but be well aware that the Scottish farmers and the Scottish Government are arguing for a reallocation towards themselves." While this is good for taxpayers, this is pretty scary stuff for English farmers, who already get significantly less per hectare than their key competitors.

**Q67 Chair:** Are you concerned about the timetable for implementation of the decisions in England?

**Peter Kendall:** I know you have Mark Grimshaw from the RPA following on. One thing Mark has always been very keen on is planning head. Compared to the reforms we had in 2005, which were driven by an ideological delivery over and above deliverability, the RPA are well prepared and are thinking ahead about all of the issues that need to be addressed. I hope those words do not come back to haunt my successor, as you rightly observed in the introduction; thank you very much for your kind words. However, it feels as if the RPA have done a really sterling job over recent years to get back on track and they are well-prepared for that changeover.

**Q68 Chair:** Have you identified any particular difficulties in relation to inspections, checking compliance and making payments?

**Peter Kendall:** It really does depend on the decisions that are yet to be taken by the UK Government. One of the things I worry about is whether, because we are seen to be anti-European, the Commission over-scrutinises what we do. Having had a Government that in 2005 said, "We know best; we are going to show Europe how to do this," I believe we were scrutinised very heavily. The £500 million of disallowance fines

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was a result of changing decision-making at the last minute and being badly prepared, but, also, telling the Commission that we knew best, and not following the prescribed routes.

Until we see whether or not the UK Government chooses to go down a national-certification scheme and a very simple implementation of the three EU greening measures, it is a job to say what our concerns would be.

**Q69 Chair:** Finally, in general terms, you have mentioned your concern about reduction in the budget. You are particularly concerned about the potential transfer from Pillar I to Pillar II. Are you also concerned about the implications if there is no matched funding under Pillar II and what the implications of this for your members will be?

**Peter Kendall:** Yes. We have always argued for matched funding, because this starts to enable governments to consider the EU budget for CAP to be a national budget, rather than one that is driving a European policy. Matched funding meant the UK Government had skin in the game. Now we know that the UK Government argued for potentially 20% modulation without any matched funding. This was just a way of raising money for national ends, rather than meeting European agricultural objectives. Matched funding was something we argued long and hard for; I know MEPs argued for it as well. Those decisions have now been taken and we are realistic enough to know where we sit.

You mentioned my concerns about modulation. This Committee was very helpful in July 2012 when you said that the competitiveness of UK farmers will be reduced if they are exposed to higher modulation rates than their European counterparts. You concluded, “We therefore recommend that Defra does not set modulation rates higher than other Member States that receive similar single farm payment rates.” That has been a valuable message for us, but I am afraid it is falling on deaf ears in Defra at this moment in time.

**Q70 Neil Parish:** Welcome to both of you. I largely echo your words that the present CAP has been a pig’s breakfast. I do not think those were the exact words you used, but they are the ones I will use.

Playing devil’s advocate, if I actually look at the table of payments across Europe—I can understand you wanting to argue the very best payments for UK farmers, and English farmers in particular—we do not fare too badly. Yes, France and Germany are a bit ahead of us, but looking at our main competitors, most of the Eastern and Central European countries are below us. Is it such a terrible deal for English farmers? I remember us starting the single farm payment back in 2004 and wondering whether there would be a single farm payment after 2012–2013. I would suggest to you, in all fairness, that these figures are not so dreadful.

**Peter Kendall:** If I can be slightly demob happy and suggest it is a real surprise to find Neil playing devil’s advocate. Chairman, I am not surprised at all to find Neil taking that line. If I were in your constituency, and I played back your words, and I said that a Dutch dairy farmer gets €500 a hectare, or tell your dairy

farmers that a Danish dairy farmer gets €477 per hectare—their costs would be identical to the dairy farmers in your constituency.

I am an arable farmer, as you often tease me, in the flatlands of East Anglia. A German arable farmer in Schleswig-Holstein would get €359. The lowland rate for England—for your constituents who are dairy farmers—is €263. You are talking about a Danish dairy farmer getting €200 more; you are talking about a Dutch dairy farmer getting twice as much.

When we talk about the dairy crisis of last year, it makes a hell of a difference to the resilience. We have always argued that, if we ratchet these payments down, we will live with it, because the market responds. If we end up with a system that allows French farmers to re-couple, the beef producers in your constituency will also be disadvantaged. The market will not respond in the way it should if single farm payments were unravelled evenly across Europe. To be honest, the farm structures and types of costs we have historically in Somerset or Bedfordshire were very different to parts of the accession countries that have come in, such as the Czech Republic, Hungary or Bulgaria, where their cost structures are very, very different. Our key competitors have much greater payments than we have, and it does impact on our resilience when we have extreme weather years, like 2012, and very volatile markets.

**Neil Parish:** To answer you, most of my constituents know exactly where I am coming from, especially the farmers. There is another part to the question. For all the rights and wrongs of the Beckett formula for making area-based payments, England has actually moved to an area-based payment and not a historic payment, hence a lot of the problems vis-à-vis dairy payments and beef. Ultimately, that is surely the way that the whole of Europe is going to have to go, and also Scotland and Wales. While there has been pain for English farmers, would you argue that in some respects—I did not think I would ever say this, either—we might be slightly ahead of the game, albeit not in the amount of money we are receiving per actual farmer?

**Peter Kendall:** Martin Haworth on my left was one of the early advocates of de-coupling. There was a genuine sense of travel in our advocacy of de-coupling. In other words, we went to historic originally, and then we moved from historic to area-based. Why? Because by having historic payments, we were able to say, “This money was not determined by what I am doing today; I am not influencing my market production, but it does reflect the cost base within my farming system.”

Everyone went to historic to start with. You then go to a regional basis evenly, and then you can start to wind them back and reduce them as the market is able to respond to those signals. We were very clear that we saw area-based payments. The Germans, who also adopted an area-based system, did so because it actually evened things up; they had a system which reduced the winners and losers, ultimately, through the system they imposed.

If that journey we have advocated as an organisation is to be followed, we are ahead of the game. Actually, however, this appalling implementation is allowing

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France to take an extra €1 billion into Pillar II, and they can then take that money from Pillar II, put it into Pillar I, and re-couple beef production, which is so important to your constituency.

**Neil Parish:** We will talk about Pillar I and Pillar II, but, talking about the principle of the funding, basically the payments that Scotland and Wales are receiving are based historically on what they were producing in 2001 and 2002. I do not think anybody in the real world would suggest that, by the time you get to 2020, they should still be receiving payments on the same basis. I know it is not your wish to be able to do that, but that is where I do actually support the idea of changes in the payment. Otherwise, we do not get any changes in agricultural practice. I know you, as President of the NFU, are very keen to see agriculture embrace new technologies and change. I just fear that if you stick to an historic-based payment, that will not happen.

**Martin Haworth:** We would absolutely agree with you. However, looking at the way different countries are going to move from that historic base to an area base, I will take the extreme example of the Flanders section of Belgium. They are going to do everything and use every mechanism they can to end up with a situation that entirely mirrors what is already happening, so there will not be any change. Scotland is also doing that, to some extent. France is doing that. A lot of countries are theoretically moving to an area base—we agree with you absolutely that that it is the right place to go—but they are doing it in such a way that they are in fact perpetuating, more or less, the historic system.

**Peter Kendall:** For farmers themselves, if you end up farming in Northumberland or in Cumbria, and you look across the border and see, so much flexibility having been granted in this current reform, that Scotland allows very large payments to be directed to certain sectors so they do not move to a level basis, those English farmers feel particularly betrayed, because some of those beef producers will see themselves getting a third of what some historic-payment producer is getting only a few miles away across the border.

We then hear that the Scottish want more money transferred from England, Wales and Northern Ireland to Scotland, but we also hear that the UK Government is planning to modulate 15% as well.

**Q71 Neil Parish:** I am coming on to that. You are making an argument for the United Kingdom necessarily controlling everything as one payment. The problem is when you have devolved powers for Scotland, Wales and Northern Ireland, you are going to get different systems. I agree with you: I am very much keen on the single farm payment, because I thought it was going to be regionally based and it would go area-based across the whole of Europe, but it has not done that.

This leads me on to the next question; I think I probably know the answer you may make to this first part. Should Defra try to transfer 15% of funds from Pillar I to Pillar II? By how much would the per-hectare payment be reduced? Do you agree with the 15%, or not?

**Peter Kendall:** I do not. I do not agree with it for a whole host of reasons. The mistake that would be made is to look at it in isolation. It is really important to look at all of this reform and its implementation in the round. We have to start by recognising there has been a 22% cut in the Pillar II allocation. We have to start with the realisation that our ambitions for environmental spend have to be held in check or very well targeted. I do not want to be accused of being anti-environment, but we have to target this really carefully. If you look at some of the past schemes that have been implemented, there have been some very grand, enormous schemes for large estates, sometimes paying farmers to stop producing altogether and completely re-wild—i.e. to de-stock and turn their farms over to re-wilding.

We should work out what our ambitions are. We should start by saying what we are trying to achieve and what we need to spend to do that. That needs to be done in a targeted way. For example, from the proposals we have seen from Defra, the Entry Level Stewardship scheme will cease to exist. I will give you just a couple of examples we have been working on. If you cease the Entry Level Stewardship scheme and Organic Entry Level Stewardship scheme, as we think Defra are planning to do, to carry on all of the rest of the work that is being done through Pillar II you would need 5% modulation. If you spent 50% of what is currently being spent on ELS and OELS—bearing in mind some of that work would be picked up by greening, by cross-compliance and by voluntary schemes that we are all promoting—you only need 9% modulation.

My question to Defra is this: why do you need 15%? When we want to create jobs, grow exports and produce more food, are we going to use that extra money to pay people to stop farming? For me, the holy grail is to use the land that is already out of production in a much smarter, targeted way for the environment, so we produce more food and we have a better environment.

**Q72 Neil Parish:** What percentage of funds under Pillar II should go to farmers? I expect you probably think 100%.

**Peter Kendall:** It depends on the conditions of the greening and what we are trying to get out of greening. What I certainly do not think we have with the Pillar I single farm payment is any incentive to overproduce, to intensify or to overgraze. We have had decoupling. I tear my hair out, because I still hear politicians—obviously not on the EFRA Select Committee, because you are all up to speed—still talking about production subsidies. It comes out of the Treasury and other Government Departments frequently, but Pillar I is not geared to production; it is a payment that helps us manage the volatility of the market, sometimes extreme weather events or distortions in global markets—because the Americans might dump on our markets, etc. It helps us to cope with those and increases our resilience, but it also helps us with the fact that we have higher production standards because of all of that European regulation we have as well.

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The SFP is separate to the environment spend. It is not driving anti-environment behaviour. I would also argue that farmers are responding ahead of Government policy to put right some of the excesses that were driven by production-related support in the 1970s and 1980s.

**Q73 Neil Parish:** You would probably also accept that most farmers pour their single farm payment into their business, and that helps to keep their business going. It could be argued that it also goes to help support production as well; I do not think you would necessarily disagree with that.

**Peter Kendall:** However, you always have the ability to stop producing and you still get the money. There is no incentive for me to produce more tons of wheat on my farm. The really important thing about this is—rather than the American system of counter-cyclical support where, when the globe collectively overproduces too much food, you then take your foot off the throttle—you produce less and you might even crop your second wheats or your poorer land. The single farm payment allows you to do that.

**Neil Parish:** I will not get into the argument over how much you are getting for your wheat and whether you get the single farm payment.

**Peter Kendall:** Have you seen the price drop recently?

**Q74 Neil Parish:** We will not get into this argument. The final part is this: do you agree with Natural England's assessment that there is no evidence that voluntary land-management agreements under Pillar II have any significant negative impact on levels of food production and productivity?

**Peter Kendall:** Barring a few cases, where we are paid for maintenance of hedgerows or stone walls, all the payments are related either to having rare breeds, low stocking rates or taking land out of production.

**Neil Parish:** So the answer is that you believe it does.

**Peter Kendall:** Unless we have an awful lot of schemes aimed just at stone walls and hedges, I cannot believe how it can be anything else. They might say there are not many farms that have been re-wilded, but, collectively, there is a lot of land taken out of production. If we increase these budgets and we increase our modulated spend, my question is: what we are going to do with it? How are we going to make sure we do not cut production at a time when our UK population is rising at a pretty fast rate?

**Q75 Sheryll Murray:** I have a couple of questions to ask. The first relates to degressivity and capping payments. The Tenant Farmers Association argue that capping payments at €300,000 would save at least £70 million, which could have the benefit of feeding through to the lower levels of modulation, possibly by as much as 4%. Given your desire to minimise modulation, would you support such a move?

**Peter Kendall:** No, I would not. That is not because I am in that bracket at all, before anyone suggests that.

**Neil Parish:** You had better declare an interest.

**Q76 Sheryll Murray:** Is it worth me enquiring, then, as to why farmers need €300,000 of taxpayer support each year?

**Peter Kendall:** My starting point is that I want to get to a place where farmers do not receive support. Part of not receiving support is an industry becoming increasingly competitive and driving the right market signals to enable us to become competitive.

If I have a family—I can find you examples—where three brothers work together and they have a large farm because they choose to work together—one might be in charge of the machinery; one might be in charge of the livestock; and one might be in charge of the cropping husbandry—I would much rather they remain together than they pay accountants, lawyers and business consultants to break up that business into three holdings.

The big goal of all of this is that European agriculture becomes more competitive. To put a signal in place that over a certain size we want you to not expand or we want you to break up your holdings to get around these rules would send a message that farms should get to a certain size but no bigger, or that we do not like people amalgamating or working together. That would be a negative message.

I, for one, really do believe we want to drive modern structures, we want to get people to share resources, and we want people to build competitive businesses. That is really the issue. What message would it send? Who would ultimately benefit? It would be lawyers, accountants and business consultants who would benefit from that.

**Q77 Sheryll Murray:** Can we now turn to the active-farmer test? How should the Government determine who is an active farmer in terms of minimum activity? Do you foresee the active-farmer test creating problems such as with the relationship between tenants and landowners?

**Martin Haworth:** The Commission's initial proposals for the active-farmer test were hugely bureaucratic. They would have required farmers to submit an enormous number of accounts to prove they were active farmers. We did not see that as workable; it would have certainly caused a huge bottleneck in the RPA and certainly led to difficulties with payments. We are pleased that that has gone.

We do want the payments to be targeted at active farmers. We think the best mechanism for doing that is to impose a minimum claim size of five hectares, which would take out about 16,000 of the claimants, many of whom are in no sense active farmers or people who rely on farming. A lot of them are not farmers at all.

To us, that measure is the single most effective measure to take out non-active farmers from the payment. Other than that, a lot of effort has gone into trying to define what an active farmer is, and no one has succeeded in doing it. We are probably ending up with a number of tests that would say who is not a farmer, but nothing to absolutely identify what is a farmer. That is probably as far as we can get on that score.

**Chair:** On the point Sheryll is raising, you do not see any potential difficulties between tenant farmers and their landowners in this regard.

**Peter Kendall:** We could move on to look at minimum activity in conjunction with the active-farmer test.

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**Sheryll Murray:** There is also dual use, as well.

**Peter Kendall:** When we look at the potential—I know it has been discussed in this Committee before—needs of upland farmers and how they might be affected, particularly if the upland Entry Level Stewardship scheme was also reduced in due course and more money were to go to the upland areas, a minimum activity would have real benefit; it would make sure it does not go just to large inactive landowners in the uplands. This is a limited pot.

I bat for productive farming. I want farmers to be treated fairly in the European perspective. It is important that we continue our environmental performance as well, but I do not bat for people who just own land. That is not a priority of mine in any shape or form.

**Q78 Mrs Glindon:** Mr Kendall, you have just alluded to upland farmers. Should the regional allocation of direct payments be adjusted to increase support for upland farmers? If so, what would be your preferred means of doing so?

**Peter Kendall:** I go back to my opening comments about trying to avoid cherry-picking bits of this debate in isolation. I talked about modulation and saying that we could have a discussion about modulation without knowing what our needs for agri-environment are. It is unclear, and not decided yet what the future agri-environment scheme will look like in its entirety or how easy it will be for an upland farmer to access that agri-environment scheme.

We have said—and I have support from the NFU council—we should make sure that we share the pain of that reduction in funding, and we acknowledge very clearly how important those environmental payments are for upland farmers, and we also understand—this is in our response—that upland farmers have less choice and more limited options than other farmers. However, the reason why we are not saying, in a very simple way, “We should move money from lowlands to uplands”, is because it is not that simple. If I take a lowland livestock farmer today, he will lose Entry Level Stewardship scheme payments; he could face 15% modulation. I suspect, as a lowland farmer, he will have more negative impacts of greening on his farm business. On top of losing his ELS money, he could potentially lose 15% in modulation and have costs associated with greening. To lose another 1% or 2% to the upland areas would mean that that lowland livestock farmer could lose out very dramatically.

We have already pointed out that if you are a lowland livestock farmer going from 9% modulation—these are Defra figures from 2012—to 15%, that would cost an extra 6%, and 12% of his farm income would be gone in modulation. I really am determined that, when we talk about transfers to the uplands, we make sure we are sharing the pain evenly, and we do not see a massive drop in income for those lowland farmers. Their £12 an acre is really important to the ELS. The modulated money will impact. As I said, there will be a 12% drop in income if it goes up to 15%. We cannot just promise lots of goodies for the uplands without understanding where it is coming from. Those upland farmers might not only get extra money on their single farm payment, but have a NELM scheme that makes

it easy for them to get that money and have greening that is actually very easy for them to meet. We have to do this in the round and not in isolation.

However, I repeat my commitment: we do not want upland farmers to lose out and we do understand that they have limited options as well.

**Q79 Mrs Glindon:** You have said it is complicated. You do not have a preferred method as to how exactly you could move the money uphill.

**Peter Kendall:** I do. All you need to do is set different rates for the lowlands and the uplands in the different regions. However, I do not say we should do it now; we need to do it in the round when discussing all of those other implications, because those with constituencies with livestock farmers in lowland areas will realise they have had a pretty torrid couple of years. It is not all roses for them, and we need to make sure they are not massively disadvantaged to put a few extra pounds into the uplands.

**Q80 Mrs Glindon:** Do you think there is a risk that changes to Pillar II schemes could possibly leave upland farmers worse off, despite the proposals to move money uphill through changing regional distribution?

**Peter Kendall:** Absolutely, yes. One of the points we have been making about lowland farmers is that, if ELS ceases to exist, for a lowlands farmer that is £30 a hectare just gone.

I started my career in the NFU having a bit of a disagreement with Don Curry on modulation. Bearing in mind we were the only country in Europe to modulate, the deal that was done at the time was that you would take money off farmers; it was match-funded by the Treasury and it was accessible to all farmers. The Government said, “We still have to modulate. We want to modulate to the maximum degree. There will be no match-funding and it will not be open to everybody anymore either.” People say to me, “Farmers do not mind modulation.” Farmers hate modulation, because it is now going to become even more selective. There will be some farmers, like those we have just been talking about, who will not be able to get any of that 15% back, and the Government has stopped match-funding at the same time. There is a big sense of betrayal. A promise was made when we started modulating and, exactly as I depicted nine years ago, it was a Trojan horse for cutting English farmers’ payments.

**Q81 Mrs Glindon:** I want to ask a question on greening now. Are there particular aspects of the Commission’s greening proposals that give you concern?

**Martin Haworth:** Yes. We have done a lot of meetings around the country; we have probably been to every county in the country. The one aspect that comes out time and again is that, for some farmers, the obligation for arable farmers over a certain size to grow three crops on their land is the one that is most concerning to them. Let us be clear: for many arable farmers, that will not be a problem. I am not suggesting it is a problem everyone will face, but for some farmers it will be very difficult, particularly those ones who

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maybe are specialists and rent different parts of land every year and grow specialist crops. It will be very difficult for them to do that. Smaller livestock farmers—not necessarily specialist arable farmers—who are growing one crop at the moment to feed their livestock will potentially be forced to grow two more in the future. It is very difficult.

The general feeling is there is no environmental benefit in making farmers grow three crops at all. It is very inefficient; it is forcing farmers to do something that the market is not requiring. It could be costly in terms of the machinery they use and the management they have to deploy. For all those reasons, that is the one thing that, time and again, a certain section of farmers has said is very difficult. We have been trying to find a way to avoid that problem, possibly by saying farmers could do something else instead of growing those three crops or do more of the other obligations. At the moment, the Commission is being very difficult about that. Defra is very concerned and is very risk-averse in the way it is looking at imposing or applying the greening. Therefore, it is very unwilling to do something that is potentially going to cause difficulties with the Commission or with inspection. At the moment, we are looking very, very hard at trying to find a way for those farmers who are in this potential problem to get out of it. It is probably our biggest challenge in greening.

**Q82 Mrs Glendon:** Under a certification scheme, do you think the Government would have the flexibility to provide equivalent measures to some of the Commission's proposals such as the three-crop rule you have mentioned? Would you like to see such a scheme?

**Martin Haworth:** Frankly, the certification scheme puts us in something of a dilemma. Yes, if it gave us more flexibility and enabled those farmers I have mentioned to get out of the three-crop rule, it would clearly be very good news. We would welcome it.

However, the downside is: what are the conditions that are going to be imposed by the Commission on that? They are likely going to be a lot more onerous in terms of the inspection regimes, etc; we have to take that into account. Secondly, to be frank, through bitter experience farmers have learnt that changes of Government and changes of Minister can alter the rules.

A certification scheme gives us flexibility that is good for us, but it could also give flexibility to a future Minister or Government to make the conditions much more onerous. That is something we cannot ignore.

**Q83 Mrs Glendon:** Greening is a payment which suggests that taxpayers should receive something in return. What measures should the Government use to assess whether greening is delivering for the taxpayer?

**Peter Kendall:** I would start by saying all of the payment is trying to make sure that food production is being delivered in a more sustainable way. That is why we have cross-compliance. I would also, as I have already said, acknowledge that around the world agricultural markets are distorted in nearly all developed countries. In Australia they intervene in

certain ways with a gentler touch, obviously, compared to what we do in Europe. The United States and Canada are very protectionist. In certain sectors, Japan is enormously protective for one of the biggest economies in the world. For me, that cushion against distorted markets is important for farming. We know this is not a factory putting steel in one end and nuts and bolts out of the other. Weather can have enormous impact on that.

The payment we get is delivering value for taxpayers. The greening is a new element that the Commissioner decided was a way of selling the whole CAP—defending the budget—to taxpayers. I am not sure how much it will deliver for the environment. If we can, we should make sure that with Ecological Focus Areas, one of those three greening elements, we keep a reasonable amount of the Entry Level Stewardship scheme measures on farms, and that will have some benefit.

On farms, I already see a dramatic improvement in the state of our water, the way otters are returning to rivers, the way hedgerows are managed and the way we manage margins. I find it desperately sad that some of the green NGOs paint a picture of the British countryside as an absolutely basket case. It is not a countryside I recognise. Every time I fly in and out of this country I look at it with immense pride; I do not recognise the basket case that some of them portray.

**Q84 Richard Drax:** If I may move on now, if I can, to the Rural Development Programme, in your written evidence you argue that rural development spending should be re-prioritised to focus on measures to improve farmers' productivity and profitability; what measures did you have in mind?

**Peter Kendall:** That is not saying we welcome maximum modulation so that you can then give it back to farmers. It is on the basis that, if we do have a limited spend, rather than pay to take land out of production on a big scale and pay people to keep livestock that is no longer economic or reduce stocking rates, we should also look at having some availability for farmers, whether it is through investing in smarter technology that reduces our input or helping people with slurry storage, for example. Those sorts of infrastructure areas would be the sort of element we would suggest.

However, we do it with a real warning sign, as well: this can actually be pretty wasteful at times. If you end up with a scheme that we have to tender for, and that Defra has to administer, so before we start I lose a pound from my single farm payment, and to get it back I have to compete with other people, submit an application form and probably pay a consultant to approve it. I then have the work done; usually, if it is a grant scheme, it is expensive. You would be amazed how people put the prices up for that. I will then need to have it inspected before I then have the money passed back to me, having been approved, etc. My hunch is that we might get 40p back in the pound, because of all of those dead administrative costs.

My personal preference is to leave as much of that single farm payment to farmers to make those investments themselves. It is very bureaucratic to set up those schemes. If the Government is determined to

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take that money, hopefully it will be at a lower level than the 15% they have talked about and some will go back into helping manage some of those important areas we were talking about. Whether it is slurry or smart farming technology—robotic milking is one that Owen Paterson uses—I want to see farmers make the right investments to be more competitive and resilient going forward.

**Richard Drax:** Can I just refer to my Register of Members' Interests, which I have not done because I was late?

**Chair:** I would obviously also like to refer to mine.

**Q85 Richard Drax:** I just wanted to put that on the record, because we are talking about the CAP.

Are you worried that, if the Government chooses not to focus on green issues, it will jeopardise the long-term health of the environment, which determines the viability and future of farming, or is that mumbo-jumbo?

**Peter Kendall:** I think it is mumbo-jumbo. I have grazes on my hands from cleaning out drains yesterday morning. The most important asset on my farm is the soil. There is no incentive for me to compact or damage my soil. I want to make money so that I can invest in better tyres and better track technology. I have done quite a bit of investing in drainage this year. Why? Because we have had a wet year.

Farmers farm as if they are going to farm their farms forever. They do not smash and grab, in my opinion; they invest for the long term. What we need is to make sure the right message and education gets through to farmers, so we know how to improve our performance. Yes, we have made mistakes in the past. A lot of that was very badly directed agricultural policy, but if you give us the right information, research and development, we will definitely put ourselves on the track of improving the environment. This is true when it comes to biodiversity, as well. I walk my dog with the kids on a Sunday morning. Biodiversity is an area that we really value as farmers. I see no interest in damaging the environment. It is about making sure that we do not have policies that conflict with that. Realistically, if you go back 20 years or 30 years, we were paid to take the hedges out; we were paid to fill the ponds in. No wonder there was some negative impact. If you go back far enough, Dig for Victory during and after the second world war was a massive reason for grassland being removed. There has been a massive improvement in the way the countryside has been managed, but behind us were negative agricultural policies that incentivised some of that damage.

**Q86 Richard Drax:** With the likelihood of agri-environment pots being reduced, what should the new schemes focus on?

**Peter Kendall:** We need to make sure that these schemes do not lead to large land abandonment. For example, for our farm at home—I apologise for using this example—to go back into a high-level scheme, naturally they are going to say, “You need to take 7% of land out of production.” I would like them to say to me, “You should be targeting 1% farmed in a really

smart way, doing the right pollen and nectar mixes and putting the right wild-bird mixes in those awkward corners.” Also, rather than saying to me that I cannot be part of the scheme, I want access to grants to plant new hedgerows, to plant those corners up into a new coppice, to maybe create a pond in that awkward corner that was probably there 40 or 50 years ago.

At the moment, the schemes are large, very land-hungry and they demand you put in your entire farm to qualify. I want something that allows everybody to do a little bit on their farm to add to the schemes they have been involved in in the past.

**Q87 Richard Drax:** As the funding goes down, do you increase the competition to get that funding amongst farmers?

**Peter Kendall:** It is definitely going to mean a competition for that money. That is why to pay very large schemes lots of money for taking land out of production. Actually, some of this creates more of a subsidy dependency than helping people do projects or small-scale initiatives, rather than paying whole estates and farms to become less productive.

**Q88 Richard Drax:** If the ELS schemes end as predicted, and Defra implemented greening in a way that was no more onerous than elsewhere in Europe, might this lead to English farmers delivering less environmental public good than under the previous CAP?

**Peter Kendall:** Yes, it could. One of the reasons why we as an organisation have been a lead partner of the Campaign for the Farmed Environment is so that, historically when set-aside went, and if ELS goes in the future, we try to get farmers to do the smartest possible things under Ecological Focus Areas. Rather than just do the easy things, let us keep as much of the ELS measures on our farms in place to make sure we keep those environmental benefits. I cannot guarantee that, but let us start with the harsh reality that the Government did negotiate a 22% cut in Pillar II funding. NFU as an organisation put significant resources into the Campaign for the Farmed Environment. First of all, we should maintain the ELS measures—or as many as we can—for the delivery of Ecological Focus Areas.

The second thing would be to carry on the work we have done through the Campaign for the Farmed Environment, where agronomists are increasingly being trained to have environmental qualifications, because with the latest sprayer technology and what-have-you, you can draw straight lines down the edge of a field, and you can now plant on that awkward half a hectare; there are now pollen and nectar mixes that the bees will benefit from.

Those messages are coming across from the advisory services and the partners we have in our businesses. Whether they are agronomists or food nutritionists on dairy farms or whatever, we need to make sure those right messages are conveyed, because we all want to see a more vibrant environment as well as a productive environment.

**Sheryll Murray:** I would like to move on to transition arrangements and, in particular, the Entry Level



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Stewardship schemes. Does the potential for a gap in funding for those farmers who use Entry Level Stewardship schemes that expire in 2014–2015 concern you? I know from some of my own farmers—and I think the Chairman has also had representations from hers—that there is a growing concern. What is your view?

**Peter Kendall:** We know there is a large renewal coming up. What we have argued for is to make sure people are told up front what the rules and conditions are. For 2015–2016 there are about 9,000 people dropping out each year.

**Sheryll Murray:** What about 2014?

**Peter Kendall:** There are no new applications being taken in, actually. We are aware that there is no money coming in to that. Bearing in mind the expectation is that ELS will cease to exist, we are aware of that funding gap. That is why I have made the point that, for example, before we commit up front to moving money from the lowlands to the uplands, we must bear in mind that those lowland Entry Level Stewardship scheme farmers have already lost about £12 an acre or £30 per hectare. Yes, it is a concern, but it needs to be addressed in the whole discussion, rather than in a piecemeal manner.

**Q89 Chair:** I have a couple of points. You may have already answered them, but just elaborate. In your written evidence, you mention you are aware of the problem with common land and graziers. I know that the NFU locally have been particularly helpful. Is there anything you would like to put on the record about active graziers and the potential that they might be affected?

**Peter Kendall:** I made this point earlier about this. If more money were to go to the uplands, a minimum activity is something that could well be used to make sure it does not get moved to that land and goes to people who are not actually farming it.

**Q90 Chair:** Again, you may feel you have answered this. If the Government does review the allocation between the English regions—the three non-severely disadvantaged areas and the other two—do you have any strong views in the NFU whether it should be two or three?

**Peter Kendall:** Defra have been clear already that they intend to keep the two lines of three areas in place and they just change the rates. I am much more concerned if the money changes allocations throughout the UK. Scotland would be my biggest concern. Defra has said it wants to keep the areas; it is a matter of the payment rates within them.

**Q91 Chair:** Are there any concerns you have about the current inspection regime and if there is any scope for improvement?

**Peter Kendall:** We had very strong representations from our membership when we raised this at our NFU council only last week: they believe the penalties are disproportionate. A cropping farm keeping livestock is very heavily penalised for a small indiscretion of keeping cattle—that might be a tag problem. Farmers think it is very unfair.

The Commission has been very clear: they will not allow you to separate different parts of your business out. They believe that the large sums of public money at stake—those fines and those inspections—are proportionate. We tread very carefully. Why? Because this is public money and we understand the desire for scrutiny, but farmers do feel—I know my Deputy President, Meurig Raymond, who farms in Pembrokeshire, has very regular and very intense inspections—it is overly bureaucratic. Then again, it is in return for significant public support.

**Martin Haworth:** To add to that, this reform does offer two benefits. One is the recognition that it will be possible to take a more proportionate approach, including using what is now called the yellow-card process. For minor breaches that do not have an animal or human-health risk attached to them, as a first warning, farmers can just be given a warning without penalty. We would very much support that. It is something that the Government can decide to implement or not; we would certainly support it. Secondly, looking at the current list of cross-compliance conditions, particularly on the side of the Good Agricultural and Environmental Conditions, it is possible for the Government to review that list and potentially reduce it. We think some of them are redundant or unnecessary; we would again urge that to happen.

**Q92 Chair:** Have you seen any change following the recommendations of Richard Macdonald's Farming Regulation Task Force in relation to compliance?

**Peter Kendall:** I am not sure a better regulation initiative in the UK can have a big impact on the rules being created by the European Commission. As I said in my introduction, the process, the greening and the re-coupling—all of the rules that are being created—are not to help us become more competitive and grow businesses in a successful way; it has been about defending the budget. It has been a really regrettable reform, in my opinion.

There are big trade-offs here. You have Mark Grimshaw from the RPA coming later on. We might say that if we could have had a light-touch certification scheme, it would stop us having to have three crops. Three crops is regulation gone mad, in my humble opinion. Why would you want to make somebody who has 200 or 300 acres of grass and 100 acres of barley grow three crops? The storage implications and the running around do not have any place with better regulation and building competitive businesses.

The trade-off is that, once we go to a certification scheme, it becomes more complicated for the RPA. The Commission say the UK or England is not doing what it really intended, and therefore it will scrutinise them even more intensively than they would have otherwise. For all the best intentions of better regulation, I am afraid we are in a bad place. The £500 million of disallowance hangs over us heavily. Because of that, we will go for simple implementation, and there will be regulatory madness for every working farmer.

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**Q93 Richard Drax:** May I ask you one quick, literally yes-or-no question, Mr Kendall? Bearing in mind that we are talking about the CAP and the EU, out of interest, because we have you here, if the UK came out of the EU, could English farming survive without any subsidies at all, or would what we are talking about here have to be replaced by some national support?

**Peter Kendall:** There must be national support. I know that was a short point, but if I can say very briefly, people often hold New Zealand up as some sort of beacon of removing agricultural subsidy. The agricultural industry is responsible for just over half the GDP of New Zealand. When they pulled support, their currency fell by 40%.

Our economy is driven by the City of London and many other parts—Land Rover and Jaguar, maybe, to a small degree. However, if you stop supporting British agriculture, the currency would not fall by 4%. A lot of the subsidy regime in New Zealand was replaced by increased prices, because of that currency devaluation.

To work in a market such as Europe, I look at other examples. Norway and Switzerland probably have higher levels of support, and they have to meet all of the same regulatory standards, because they export big percentages of their farm produce into those markets. It is far from an easy debate to have.

**Q94 Chair:** What would happen if the Scottish people vote to come out of the United Kingdom? Would we have to re-enter separate negotiations for CAP funding?

**Peter Kendall:** I would probably have a party.

**Chair:** Do not be selfish, Mr Kendall.

**Peter Kendall:** I understand that they would be outside the European Union and they would have to renegotiate their entry, which I would wish them well on. I would be interested to see how they started to make the justification for a budget allocation. Martin might be better placed to know whether we would hang onto the whole UK allocation or whether we would lose some of that as well.

**Chair:** I have to declare an interest: I am a non-practising Scottish advocate; I am not in a position to comment.

I do not think anyone has seen the legal advice, but they are claiming that they would still remain and they would wish to consider themselves members of the European Union. I do not know if Mr Haworth could comment.

**Martin Haworth:** That is a matter of debate and dispute, is it not? Most lawyers think that they would be outside the European Union and would have to negotiate their way back in; the Scottish Government takes a contrary view on that. I am not a constitutional expert enough to be able to give you any answer at all, I am afraid.

**Q95 Chair:** A more parochial question: we understand that the Government indicates that the local economic partnerships will have a role to play in distributing the Rural Development Fund. Do you think that they are particularly well-qualified to do so? Do you think they have got a good experience in rural affairs? I think in my own case, North Yorkshire, they possibly have, but I was wondering more generally.

**Peter Kendall:** There are some good examples, but, by and large, there was very poor agricultural representation. What I have a real gripe about is that 5% of these funds go into a leader project; we have got a long list of money that has been taken off farmers in modulated form. I go back to my point about half the Danish and significantly less than the Dutch. We have got a long list of where they paid for pantomime costumes in the village hall down the road from our headquarters or thatching bus shelters; 5% has to go into those sorts of projects. It leaves the farmers' pockets—and let us not imagine it is farmers like me, but some of the mixed farming families down in the West Country, who have had all these problems with the weather—and goes into schemes that are not involving farmers, and that leaves me profoundly worried. I think sometimes it is wasted.

**Chair:** That is very helpful indeed. On behalf of the whole Committee, can I thank you, Mr Kendall and Mr Haworth, for contributing to our inquiry, and we wish you every possible success with the continuation of your presidency. Thank you very much indeed.

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### Examination of Witnesses

*Witnesses:* **Mark Grimshaw**, Chief Executive, Rural Payments Agency, **Dave Webster**, Chief Executive, Natural England, and **Jo Broomfield**, CAP Delivery Programme Director, Defra, gave evidence.

**Q96 Chair:** Good afternoon, gentlemen. If I could thank you very much indeed, welcome you and thank you very much indeed for agreeing to participate in our inquiry on implementation of the CAP. Could I just ask you first of all to introduce yourselves and give your positions for the record, if you would?

**Dave Webster:** Hello. I am Dave Webster. I am Chief Executive of Natural England.

**Mark Grimshaw:** I am Mark Grimshaw. I am the Chief Executive of the Rural Payments Agency.

**Jo Broomfield:** I am Jo Broomfield. I am the Director of the CAP Delivery Programme.

**Q97 Chair:** You are all extremely welcome and, again, thank you for participating in our inquiry. Just a general question to begin with, to each of you: what are the main challenges that you face within your organisation in implementing this round of CAP reform?

**Dave Webster:** From a Natural England perspective, clearly there are IT challenges and clearly there are contributions to the scheme design, but probably the main challenge is to maintain business continuity and quality customer service during this transitional period. We have over 45,000 multi-annual agreement

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holders. Clearly we have to communicate a phased closure of the current schemes and the introduction of the new schemes to our customers, and clearly we have got to take those same customers through digital by default.

**Mark Grimshaw:** It is a fairly similar situation for the RPA: maintaining the performance that we have striven very hard to establish over the last couple of years; organising the transition from the current schemes to the basic payment schemes and other schemes that we are responsible for running; communications, to our people internally, to our stakeholders and most importantly to our customers, so that they understand what is expected of them; the detailed testing regime that we will go through in partnership with the CAP Delivery Programme; and business as usual for all of the other things we do that will not be picked up in this particular round of changes.

**Jo Broomfield:** Picking up on some of the points that my colleagues have raised, obviously I have to make sure that that transition for the delivery bodies between the legacy scheme operation and the new operation is as smooth as we can make it. One of the biggest challenges I face is the limited time that we have to deliver the new solution, so this is a challenging programme that we are embarked upon, and we absolutely do not want to make the mistakes of the past. The journey for customers, as Mark has outlined, is quite significant in terms of our move to a more digital solution, and obviously we strive to make sure that the policy that we get to implement in the system is actually deliverable.

**Q98 Chair:** If I could just ask Mr Grimshaw, on the cost of administering the 2005 reforms, the cost, according to the National Audit Office, of an individual claim in England was about £1,700, compared to £285 in Scotland. What assurance can you give the Committee today that the costs of the next round will be less?

**Mark Grimshaw:** We can certainly confirm that they will be less than £1,700. It is worth just looking at the journey since the first year of the scheme, so in 2012–2013, our last audited figures, the cost of a claim was down to £691. It is currently standing at £673, and our target for completion of this financial year is £647, so it is more than a 50% reduction against the £1,700 that you mentioned. We would be seeking additional reductions, assuming that the policy outcomes that we end up with are deliverable, from the £647 that we expect to be at at the end of this year.

**Q99 Chair:** You will have heard the evidence we just heard from the last witness, Mr Kendall, that the farmers still seem to be smarting from the £500 million disallowance, and obviously we congratulate you; I think you have reduced the disallowance this particular year. What reassurance, again, can you give the Committee, Mr Grimshaw, that going forward we will not see the high levels of disallowance that we have seen in the past?

**Mark Grimshaw:** The figure, just for the record, is £580 million since the start of the current scheme; a

lot of that is down to the fact that the originating technology was not fit for purpose, because of the way that it was specified, rather than the provision of the technology itself, and the lack of the control across the various schemes that were in place. One of the benefits of the new proposals is the introduction of something called Article 69, which places the responsibility on the agency to ensure that it can verify and control all future schemes. That helps us in terms of building in the disallowance capability to make sure we manage it in the first instance.

We also have far better capability in communicating with our customers, to make sure that they are aware of their responsibilities under cross-compliance. The system that is being built by Jo and his colleagues, if you accept the principle of out-of-the-box, the solution that they are building comes with a much lower incidence of disallowance from the Commission in the first place. That is all predicated on us getting the most advantageous policy outcomes, and making sure that customers do the right things, if you will excuse the pun, in the field.

**Q100 Chair:** You are not intending to change the system at this stage before the introduction in 2015?

**Mark Grimshaw:** No. The work that is underway at the moment, which Jo can certainly give you the details on, is to prepare the new system for go-live in line with the new scheme, which will be 2015, although we will be releasing early elements of the scheme for customers to begin to get an appreciation of the feel and the interface, so that we can start to build some of the database quality checks that will be required.

**Chair:** Is there anything you would like to add?

**Jo Broomfield:** Just to reassure the Committee that reducing the disallowance risk going forward is a prime concern of the programme. As Mark has said, because we are integrating an off-the-shelf product that has been used in other Member States already, and has a good track record in terms of not attracting disallowance penalties, that is a core plank of our approach. We are also making sure we are picking up the lessons that have been learnt in the past years since 2005, and there obviously has been quite a lot of learning around what causes disallowance and what we need to focus on.

**Q101 Chair:** Just in this last year, regarding the disallowance for a fruit-and-vegetable producer organisation regime, who would it normally have fallen to to have identified that as being not fitting into what producer organisation?

**Mark Grimshaw:** It would fall to our agency to be responsible for the forecasting of potential disallowance risk, whether it be for fruit and veg or for any of the other land-based schemes or, in fact, for any of the Pillar II schemes. We maintain the responsibility through a disallowance capability that we have in-house to look across all of the schemes.

**Q102 Chair:** Is there any special gift to identifying future disallowance?

**Mark Grimshaw:** No, we do not have a particularly accurate crystal ball, but disallowance is clearly a

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function of what has happened in the past. We are looking in 2013 at disallowance impacts from years 2007 through to 2010, and disallowance tends typically to run on a five-year cycle. Even in 2017, when you would expect to be well in to impact from the future scheme and the future system, we will still be getting disallowance from today's activity. If you think of a rolling five-year process, that is the best way to look at it.

**Q103 Chair:** I have not got it in particular for you; it is just a stream of questions that sprung to mind, Mr Grimshaw, and perhaps Mr Broomfield might want to contribute as well, but how much of a burden will the three-crop rule be for the RPA?

**Mark Grimshaw:** If the decision taken by Defra through policy colleagues and Ministers is to go with the simple scheme that has been put forward by the Commission, it will be relatively straightforward for us to co-ordinate. The level of inspection will be minimised, because it will be the scheme as put forward by the Commission. The moment we move away from the Commission's preferred scheme then it becomes increasingly more burdensome to manage the process, and it becomes more costly. Supporting the Secretary of State's drive for simplicity and deliverability, the RPA would certainly prefer that we went with the scheme as preferred and put forward by the Commission.

**Q104 Chair:** To both yourself and Mr Broomfield, does greening require you to do a whole mapping exercise, for example, to take account of the EFAs—the Ecological Focus Areas?

**Jo Broomfield:** It does require some new mapping data to be collected, but that is a core part of the technology that we are looking to implement. The real challenge then is how we collect that information from customers, and there are some transitional arrangements that we are also looking to exploit in terms of how long we have to collect that information before we are into a very strict validation regime around it. It does impose additional system requirements, but that is within our plans, and it is within the core product that we are looking to use as well.

**Q105 Chair:** Is there anything you would like to add to that, Mr Grimshaw?

**Mark Grimshaw:** Yes, just one thing: one of the lessons that we learnt from the 2005 exercise was that the agency needed to engage far earlier with the Department, and make sure that deliverability was at the forefront. On the piece that we have just been referring to, we are looking at an extended period of time before we have to have all of the mapping rules in place. That has been negotiated by our negotiators on the back of what some would call demands and others some would call requests from the RPA to get derogation on the rules. That is good news from an RPA and UK perspective.

**Q106 Chair:** Excellent. To what extent, having already moved to area-based, does that mean that the

CAP implementation in England will be easier the next time around?

**Mark Grimshaw:** It should be a lot more straightforward, because we just have the one area-payment rate. Having moved from the historic to the area-payment is good news as far as we are concerned; we will see the benefits of that in the 2013 payments, because we are at 100% payments by area. It helps us; it is one of those nice-to-haves. Other countries in Europe do not have that benefit. We have been through the pain over the course of seven years; we are out the other side on that particular issue.

**Chair:** It is worth recording that you do seem to have turned around what was a very bad situation quite significantly.

**Q107 Neil Parish:** These questions are to Mr Webster. Why does Natural England give 2016 as a start date for new agri-environment schemes, when both the Commission and Defra have committed to working towards the schemes beginning in January 2015? How long a gap do you foresee in these schemes?

**Dave Webster:** Effectively there is no difference. The actual programme is anticipated to start on 1 January 2015, but the schemes that Natural England will engage with—the New Environmental Land Management Scheme—will not commence until 1 January 2016. We will be able to arrange agreements or start to negotiate agreements in 2015, but they will not formally start until 1 January.

**Q108 Neil Parish:** So people coming out of schemes at the beginning of 2015 will not necessarily be able to get another scheme going until 2016.

**Dave Webster:** No. There are transitional arrangements in place for 2014; there is £26 million of funding, but in 2015 there is no funding. That will be for new agreements; clearly the existing agreements will just continue, and there are no schemes coming to an end in 2015.

**Q109 Neil Parish:** Right, so if a farmer has an existing agreement he or she can extend that, can they?

**Dave Webster:** No, there are no agreements under HLS currently that will end in 2015.

**Q110 Neil Parish:** What assessment have you made of the potential impact of a funding gap between those ELS schemes expiring before 2016?

**Dave Webster:** We know what the situation is. 2014 is handled effectively, because we have got transitional funding both for Higher Level Stewardship and ELS, which will take us through to 2015. In 2015 there will be 9,000 Entry Level scheme applicants or agreements that will not have a scheme to go to; there will also be 2,000 upland Entry Level schemes. Those are the sort of numbers that we are talking to; of those a number will then potentially get into the Land Management Scheme.

**Q111 Neil Parish:** You are talking about 11,000 schemes altogether, so a significant number?

**Dave Webster:** Agreements, yes.

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**Q112 Neil Parish:** Is there any way the Government can find money to plug that gap?

**Dave Webster:** That would be a matter for the Government; it would be a policy consideration.

**Q113 Neil Parish:** Are you confident those farmers are aware that the funding will cease?

**Dave Webster:** Certainly there is a range of meetings with stakeholders through the CAP Implementation Programme. Certainly for the Entry Level schemes we have put notes on our website, we have done targeted communications around it, and if you take Entry Level Stewardship as an example, we did not have any late applications, so the message seems to have got out.

**Q114 Neil Parish:** Is there a danger that farmers that cannot get those schemes in place, because of that year's gap, move out of these schemes altogether?

**Dave Webster:** We tend to find in practice that there are always some gaps, so even with the continuity of schemes you will probably have at least three or four months where farmers take a view, because they are voluntary schemes, about whether they want to go back in. We are not anticipating an issue around that.

**Q115 Neil Parish:** The next question is to Mr Webster and Mr Grimshaw. In terms of active farmers, how should the minimum level of activity be defined to avoid adverse impacts both on farmers and the environment? It is quite a thorny issue.

**Mark Grimshaw:** As I am sure the Committee are aware, Defra have not defined the minimum-activity test yet. Again, we would advocate sticking with the requirements laid down by the Commission, so we would look very much at, if you like, the ineligible, the negative list of businesses, and the minimum-activity requirements, so keeping land naturally in good agricultural environmental conditions—from an RPA perspective as simple as possible.

**Q116 Neil Parish:** Would you be looking at the way that land is managed? You could have somebody who runs a farm, very environmentally friendly, does all the right things, but only gets perhaps 5% of his or her income actually from farming.

**Mark Grimshaw:** You are entering into the policy space that has not been determined yet, so I cannot answer that one, I am afraid.

**Q117 Neil Parish:** Is that going to be looked at or not?

**Mark Grimshaw:** I believe the policy people have it on their radar.

**Q118 Neil Parish:** When will potential claimants be told whether they qualify under the minimum-activity test? If you have not actually set the test, it is very difficult to answer that question.

**Mark Grimshaw:** Exactly, so I think we have to wait for the consultation to be concluded and for Ministers and policymakers to—

**Neil Parish:** When do you think that you will have concluded your survey and what-have-you?

**Mark Grimshaw:** My understanding is that it will have to be concluded this calendar year.

**Q119 Neil Parish:** That is probably good news. Do you foresee any problems for the tenant-landlord relationship?

**Mark Grimshaw:** I do not see any significant problems, providing there are no dramatic changes to the rules. If you are referring to dual use, which I suspect you probably are, we have been advocating over the last 12 to 18 months that tenant farmers make sure they have a properly documented legal agreement in place, and that they are not relying on word of mouth or historic gentlemen's agreements, because when one of our inspectors arrives to validate that dual use is appropriate, they will need to see the documentation. That is a campaign that we have run in conjunction with George Dunn and the Tenant Farmers' Association, and it is good, sensible business practice to make sure your contracts are in place.

**Mrs Glendon:** Mr Grimshaw, the Tenant Farmers' Association consider that those who bear the entrepreneurial risk should receive CAP payments. How might this be enforced?

**Mark Grimshaw:** From an RPA perspective, it is relatively black-and-white. If a legal contract is in place that gives the responsibility for the land and the ability to claim the CAP, we will pay it; if there is not, we would question it. It is very much developing the answer that I gave to Mr Parish. Make sure that the contracts are in place, and make sure that as the tenant you have the right agreement in place with the landlord, and then when we see the contract, if we need to, we can ensure that we are paying the appropriate party.

**Q120 Neil Parish:** On that particular one, are you going to give advice to farmers as to what those contracts should be, because otherwise they will put in a contract, but then you will say that contract is no good?

**Mark Grimshaw:** We do not give formal advice. We would leave that to somebody like the Tenant Farmers' Association, but we would strongly recommend that a legal contract that is appropriate and proportionate was put in place.

**Q121 Mrs Glendon:** Could I ask this question of Mr Webster and Mr Grimshaw: should dual use be retained and, if so, why? Are you aware of any problems under the current system?

**Dave Webster:** It is a policy decision for Defra, rather than Natural England as a delivery agency. It is a difficult area from a Natural England perspective, because you want to balance the opportunity to engage with both Pillar I and Pillar II schemes. If it was prohibited we do believe there is a risk of undermining the environmental outcomes in the short term, but we would expect over time that businesses will adjust, and because the Pillar II schemes are so competitive, we would expect there not to be a long-term impact on the take-up of the schemes.

**Mark Grimshaw:** Unfortunately the European Commission do not look upon dual-use claims particularly favourably. The arrangements that people

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have in place are going to be scrutinised, which is why we have joined forces with the Tenant Farmers' Association to make sure contracts are as robust as possible. Providing they adhere to the rules as they currently stand, we would see no reason why they could not exist in the future.

**Q122 Chair:** Can I just pursue that point, because does Natural England not give any advice whatsoever on a legal contract?

**Dave Webster:** No. It tends to be an internal matter between the landowner and the tenant. We are constructing templates on the ratio of agreements that were in place and the payments between, because clearly, as you are aware, there has to be agreement between the landowner and the tenant about what the respective payment is and who will pick that up. Because it tends to be an internal contract matter, Natural England does not tend to provide advice in those circumstances.

**Q123 Chair:** Are you not concerned that landowners in more than one part of the country are top-slicing up to 70% of the payments off and calling them administration fees?

**Dave Webster:** We are very aware of that, and clearly we have tried to provide information on what that ratio of cost between the landowner and the tenant is, to illustrate what good practice looks like, but because we have not got a legal arrangement in this situation we cannot take it any further than that.

**Q124 Chair:** If you are the custodian of taxpayers' public funds, and you see that the money, to me, is being used inappropriately, surely you should not hand that money over? To me 15% or 20% might seem a more accurate administrative cost, but it goes to the very heart, as Mr Parish and Mrs Glendon were saying, of making sure that the appropriate monies reach the appropriate person farming the land. If you are a landowner taking 70% out of the agreement without being able to sign that agreement otherwise, that, to me, does not seem a good use of taxpayers' money, nor a legitimate use of taxpayers' money.

**Dave Webster:** We do not have the ability to intervene through the regulations to make the sort of intervention that you are talking about.

**Q125 Chair:** I am struggling to understand why you do not have the ability to intervene. You are charged by successive Governments to administer the CAP monies in this regard; it falls to you. I cannot believe that Mr Grimshaw or Mr Broomfield would say that they were placed to do this; it falls to you to sign off that scheme. It just strikes me that you are being spectacularly absent from these arrangements and allowing money to be misappropriated, if that is not too strong a word, for purposes that have nothing to do with administration, but mean that the money, which should be going to the tenant who is actively farming the land, is going somewhere else.

**Dave Webster:** What we endeavour to do in arranging the agreement is seek to ensure that there is a written agreement in place, with dispute resolution, that identifies the respective payments between the tenant

and the landowner. Before we enter into the agreement that is where we apply our control, because clearly once the agreement is in place it is very difficult to apply any measure to it.

**Q126 Chair:** We recommended in our uplands report that there should be a dispute-resolution mechanism, but I am not entirely sure that any of the existing agreements commit to that? It might be something you might like to consider.

**Dave Webster:** We can take that back to Defra as well, because it can be part of the scheme design.

**Chair:** Mr Broomfield might like to carry that away with him as well.

**Q127 Richard Drax:** On capping payments, Mr Grimshaw, what is your estimate of the amount of funding the minimum level of degressivity will generate for Pillar II per year?

**Mark Grimshaw:** Assuming that it comes in at 5% then we would expect that that would be somewhere in the region of £1.2 million to £2.2 million per year.

**Q128 Richard Drax:** Again to you, Mr Grimshaw, if I may, would it be possible to introduce a payments cap, for example, at €300,000, in such a way that it would prevent large farms breaking up, and thereby maintaining their large claims of public money?

**Mark Grimshaw:** It is unlikely that we would be able to do it in such a way as to stop farmers or landowners taking decisions to redistribute some of their assets and perhaps create other organisation. What we will be able to do is identify that and decide then how to deal with it; simply putting the cap in place is likely to generate some interesting business activities.

**Q129 Neil Parish:** One last question on that: with the amount of money saved from capping or degressivity, can the Government spend that money in any way it likes on CAP and on greening, or not?

**Mark Grimshaw:** As far as I am aware, it can be recycled.

**Neil Parish:** So to the uplands or whatever—whatever it felt like doing.

**Mark Grimshaw:** Yes.

**Q130 Neil Parish:** Mr Webster, can you provide some detail of what agri-environment schemes will be available under new CAP? How will they operate? For example, will they focus on particularly the geography, and will they be 10-year agreements?

**Dave Webster:** The detail of the design is still being developed, and it will be subject to a consultation from Defra, and clearly they deal with design and we implement it, although we have been helping with the design. What we are trying to do here is take the best of the existing design, the delivery experience, and the evidence that we can bring. The new scheme will have three elements: the first is a site element similar to the current HLS schemes, building on the best of those. It will be a multi-annual agreement for land management with capital items. It will be targeted at the highest value and site features, so it will tend to be a significant scale of schemes, sites and features. It

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will be discretionary and it clearly will be supported by Natural England advice and support.

A new element of the scheme is to operate at a landscape scale, because what we have found, particularly with the Entry Level schemes is that we have not necessarily made improvements to things like the farmland bird index. Operating at a landscape scale, building on the kind of concepts that Professor Lawton demonstrated with his report, would enable us to make change at a more significant basis for the environment.

How that will operate we are not completely sure yet. Clearly we have got natural improvement areas at the moment, and that might operate as a way of getting that landscape scale change. Then there will be a final element, because the first two elements would be targeted. For the final element there would be a universal opportunity around capital to do good works for the environment across the country.

**Q131 Neil Parish:** There would be some capital involved. How long are the agreements? Are they going to be 10 years?

**Dave Webster:** Five-year agreements.

**Q132 Neil Parish:** Why are you proposing the removal of the separate uplands and organic agri-environment schemes or strands?

**Dave Webster:** Clearly that is not a Natural England decision; that is a policy decision that Defra are considering. From our perspective, we would still expect a significant uptake in the uplands through this new land management scheme, because clearly they provide a huge amount of environmental benefit through the work that they do. We would expect the existing options in the upland scheme to be in place in the new scheme, and that would allow farmers to take up those environmental outcomes.

**Q133 Neil Parish:** Will farmers have to compete for funds under Pillar II?

**Dave Webster:** Yes.

**Q134 Neil Parish:** How do you see greening, either through the basic Commission measures or a certification scheme, complementing work under Pillar II?

**Dave Webster:** It is very much complementary. Greening will deliver a certain level of environmental benefit, but the bulk of what was delivered through ELS will now be delivered through the new scheme.

**Q135 Neil Parish:** Have you any idea what this new scheme is going to be called?

**Dave Webster:** No.

**Q136 Neil Parish:** This is to all of you: I hate the word “stakeholders”, but are stakeholders right to be concerned that your resources are being reduced at the same time as you are implementing a complex policy that may require offering extra support to claimants?

**Mark Grimshaw:** Stakeholders are right to have concerns. The challenge is for us to make sure that those concerns are nullified by a good explanation as to what we are doing. It is absolutely fair to say that

the RPA’s budget has been reduced; it has been reduced in-year. However, our performance has also improved dramatically over the course of the last two and a half years, and the plans that we have in place will see that improvement continue. As the Chief Executive of the agency, I am quite content at the moment, with the forecast budgets for 2014–2015, that I can deliver the asks that are being made of me; from 2015/2016 onwards it becomes a little hazier, and we will tackle those issues when we get close to them.

**Q137 Neil Parish:** Many of my farming constituents complain that they do not get enough advice from your good selves, because you say, “We cannot give advice”. Are you thinking of changing that policy, or not?

**Mark Grimshaw:** No, we are not in the advice game. Certainly when we are on-farm we will have a constructive discussion. Our inspectors are all very experienced land-based individuals. They will have a discussion, whether it is about cattle, land or environment agency schemes, but they will stop short of giving advice.

**Q138 Neil Parish:** Many of your inspectors might be, but not all are that expert sometimes, but I will not have a big argument about that. How will you handle claimants who lack the capability to interact with the Government on a digital basis, especially if broadband is not everywhere?

**Jo Broomfield:** First of all, we acknowledge that there is a real challenge out there, and we have heard that message very strongly from stakeholder groups as well. However, we think it is right that we are designing this new service as a digital service, so that the experience we offer to customers going forward is a much better experience, so it is a common platform they can use to apply for any of the schemes, rather than the separate systems they have to go through at the moment. It will be more intuitive, and it will do some of the checking for them to illustrate incompatibilities between schemes they are applying for and cross-compliance issues that they need to be aware of; it will be an enhanced way to offer them guidance through the system as they are making their application.

That is where we want to be. We recognise, though, that there is a real problem out there with some of our customers, be that a broadband-availability issue, or be that just IT literacy, etc. We are developing an assisted digital proposition, which is in line with Government thinking in this area, to see how we can help those people who have a genuine need who cannot get online, and what we can do, and we have a number of options that we are working up at the moment to help those people. A lot of this is will be quite a big campaign to help people move to using digital services.

**Q139 Neil Parish:** Many older farmers did not go into farming to work a computer.

**Jo Broomfield:** I understand.

**Neil Parish:** The last part of the question is about the fact that in the past the RPA has been accused of not

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being proportionate in its response to genuine mistakes, which are then difficult to correct. Do you recognise this criticism and how will genuine mistakes be handled in the future? I want to add one last part to it: when you make a mistake it does not seem to be a problem; when farmers make a mistake it seems to be a huge problem.

**Mark Grimshaw:** I do recognise the issue, partly because it appears in my postbag reasonably frequently. Part of the difficulty here is that the RPA has to wear two different hats, so when it comes to a matter of enforcement in order to maintain the disciplines out there in the field, we do not have much in the way of latitude. The cross-compliance regulations are the cross-compliance regulations. There are opportunities for farmers to put certain things right within certain timeframes, but when we find that somebody has contravened a rule or a regulation two, three, four or five times, then the approach that we have to take is laid down for us. I know that inspectors are now being encouraged to have a conversation about how improvements can be made, but the rules, as they say, are the rules.

When it comes to applying those sorts of challenges internally, we have worked very closely with the Parliamentary Ombudsman to look at our complaints-and-appeals process. We have sorted the vast majority of outstanding complaints and appeals in the last two and a half years, and we have made a number of ex gratia payments to recompense individuals for the time and effort they have had to go to to raise concerns with us. Wherever possible, we have followed the Ombudsman's six key principles, and the main one that we would be interested in is putting right the issues for the individual claimant, and putting them back into a position where there has been no financial loss. That has been an active campaign that I have driven personally since I last had the pleasure of coming here.

**Q140 Neil Parish:** Things have improved, but certainly at the beginning, for instance, many farmers were sent maps where you sent them land that they did not even farm and had never farmed. If a farmer filled in a form that put on land that they were not farming they were in huge trouble, yet you seem to be able to bung out whatever you liked, and it does make farmers rather upset.

**Mark Grimshaw:** Yes, and that is one of the big concerns that we are dealing with for the future scheme, and making sure that the mapping information that we have on record is as accurate as it possibly can be, partly because of some of the challenges around ecological focus areas and the possibility of three crops, etc.

We are doing some very intense work with Jo and people on the programme to try to get to a position where it is transparent in terms of the movement of mapping from the current environment on the Rural Land Register to the new environment that they will need for the basic payments scheme. By opening visibility to the scheme early, to allow people to go in and have a look, have a feel, play with their maps online, but not be able to change the core data, we are hoping that we will be able to get people into a

position where, when the scheme opens for business, they can go online and make the necessary changes.

**Q141 Chair:** Mr Grimshaw, just one thing: you said you are working up a number of options; are you able to share what the options are with us?

**Mark Grimshaw:** The options for digital by default? It was Jo that said that.

**Chair:** Are you able to share that with us?

**Jo Broomfield:** Essentially it is fairly simple in terms of the options that you have if somebody cannot get online: either we can have a face-to-face interaction with them, and enter details on to the system with them present and them certifying that those details are correct—that happens in other Member States who are using the technology we are adopting—or we can collect that information on a paper form, much as we do now. This is not our preferred approach; this is for the exceptional cases, where people really cannot get online. That can either be rekeyed or scanned in, depending on the volumes we are dealing with. Alternatively, we can look at intermediary use, so somebody else working with a farmer or a customer to enter that information, so that may be an agent or even somebody acting in a paid intermediary fashion. Broadly all of the variants of the options that we have revolve around those three approaches, and we are just trying to understand how best we target and engage with people to understand when we need to offer those approaches. As much of this as possible we want to be the customer self-selecting what is the right route is for them, and giving them as much encouragement and support to get online if they are able to as we can. We recognise we are going to have to do some work.

**Q142 Chair:** We have established in our Rural Communities Report recently that many rural areas—and I am afraid I am particularly rural—the distance from the exchange for the farmers, and the cabinet, is so great that they really do feel discriminated.

**Jo Broomfield:** We are doing a couple of other things. Obviously there is the rural broadband fund that Defra is operating under at the moment. That is due to distribute £20 million by March 2015, so there is some activity going on to address some of those hardest-to-reach areas.

In the technology space, where we are developing, we are doing as much as we can to test as we go, to try to make sure we get the solutions as performant as we can at the lowest bandwidth speeds that we can, so that we try to make the service as accessible as it can be.

**Q143 Chair:** There just seems to be a bit of a gulf with Defra's understanding of what is happening on the ground, and it just seems unfair that farmers are having to pay for their own access to a satellite system by computer, when I do not know if that is even eligible for this rural broadband fund.

**Jo Broomfield:** I am not sure; we could check that for you.

**Mark Grimshaw:** It might be helpful for the Committee: one of the things that we have been doing over the last couple of years is developing our analytical capability, which I talked to you about



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before. Just to note some of the statistics on existing claimants and their ability to get online, 54% of the customers that apply for SPS—the basic system currently—apply electronically, so they apply through SPS Online; 91.5% of all British Cattle Movement Service activity is done electronically. If you look at the entire cohort of our customer base, and include those that email us, which presupposes they have got some sort of internet capability, 83% of our claimants are online.

**Q144 Mrs Glindon:** The current implementation of the SPS has caused significant problems in relation to common land. What approach is the Government taking to common land under the new CAP?

**Mark Grimshaw:** That is probably one for me. That is part of the consultation process currently. However, as an agency, we are trying to get a little step ahead here, and we invoked, at the beginning of this calendar year, a campaign to actively map all of the common land, on the basis that we expect that to be one of the foundations for the allocation of funds in the future, assuming that those decisions are taken. The Committee can have a little bit of confidence that we are trying to get ahead of the game here, and we are going through the activity of mapping common land. Jo is already building that into the future solution as well.

**Q145 Mrs Glindon:** In line with what the NFU would consider to be appropriate, would the Government plan to implement part 1 of the Commons Act 2006, which does secure the updating of the registers?

**Mark Grimshaw:** Unfortunately you are going to get the “that is a policy” answer, I am afraid to say. You will need to speak next week to our policy leads on that one.

**Q146 Chair:** Just before we leave that, I think it is the NFU evidence on common land that there were a number of active graziers whose common land register was not perhaps absolutely up to date and recorded. Mr Grimshaw, would you look favourably on their additional payment entitlements being considered, so they do not lose out on what they should have received.

**Mark Grimshaw:** Again, we are awaiting policy advice as to the approach that our policy colleagues want us to take. What we are doing as an agency is engaging with as many of the common land associations as we possibly can to try to determine the most appropriate way to operate common land right in the future. As you will know, it is a somewhat convoluted and complex space going back many tens of years, and probably does need a focus to sort it out.

**Chair:** If I could just make a personal plea, because a number of us do represent commons land on the Committee, it really is quite urgent, because obviously with the graziers, by definition, their income is perhaps not as generous as some of the other parties, may we say. Could be dealt with, and some pressure brought to bear, Mr Broomfield, on the policymakers, as we indeed will hope to do over the next week or two as well?

**Q147 Neil Parish:** To Mr Webster and Mr Grimshaw, what should the Government set as the minimum-claim threshold, and why?

**Mark Grimshaw:** Again, this process is going to be one of those, “It is a policy issue”.

**Neil Parish:** But from your point of view it is relevant.

**Mark Grimshaw:** Yes, it is very relevant. I heard Peter Kendall and Martin Haworth talk about five hectares as a minimum. Five hectares would take approximately 16,000 claimants out of the claimant count, have a relatively light impact on the amount of land involved in schemes—possibly 50,000 hectares—and reduce the challenge on the successful delivery of the future scheme. If that were to come back as a proposition that was approved by the Department, we would not be uncomfortable with it.

**Q148 Neil Parish:** The national parks are not very happy, are they? They are saying that five hectares would significantly bar quite a lot of claimants in the national park. Would we be able to make an exception for them, or would you have to set one bar for everybody?

**Mark Grimshaw:** We would certainly have to set one rule for everybody. Interestingly enough we did pick that up as an issue in their written evidence. We do not understand the logic that they have applied, so we are going to pick it up with them separately. Instinctively, it seems a little odd to have national parks that are less than five hectares.

**Q149 Neil Parish:** When you are processing a claim of one to five hectares, I suspect the cost of processing that claim is probably greater than the claim itself in many cases.

**Mark Grimshaw:** It certainly would have been in the early days; I doubt very much that it would be today, especially if they have not been any—

**Neil Parish:** You are much leaner and meaner now, are you?

**Mark Grimshaw:** Thank you, I could have said that, but much better coming from you.

**Q150 Chair:** On a lighter note, if possible, you have all been very generous with your time. In the interests of communication—it is particularly directed at the RPA—do you each feel that you are being listened to and that the communications between yourselves and Defra are perhaps better than possibly were perceived in 2005? Mr Webster, would you like to go?

**Dave Webster:** I think they are very good. We spend a lot of time together as a three. There is a capital programme board that we all sit on; there is a capital steering group that we all sit on, and there is a chief executive group, so we have a lot of engagement with Defra and with each other to make sure that we learn the lessons from the last scheme and implement this effectively.

**Mark Grimshaw:** I would agree absolutely. We took 26 lessons to be learned from all of the reviews from the last implementation, and we have been through them systematically. One of the big issues was that the RPA and delivery bodies simply were not engaged in the policy discussions, and we have been right from

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the outset. Not only that, but we have successfully influenced the policy discussions to get the outcomes to focus very much on simplicity and deliverability. While all of that is very encouraging, we have got to keep going, because the implementing regulations have still got to be landed successfully, and we want to bear down on any last-minute decisions to implement the national options. So far so good; I think it is going as well as we could have expected it to, and maybe even a little bit better.

**Q151 Chair:** Could I just add a riding question, because we mentioned at the outset about the timetable, and Mr Grimshaw, I think, was asked specifically. On the question of the implementing regulations, we have heard from a number of witnesses and we have our own concerns. Is there going to be enough time for these to be both consulted upon and adequately put in place, so that the delivering bodies will have it cut and dried?

**Jo Broomfield:** It is one of the more challenging aspects of the programme. We have always recognised

it as such. How can you build a solution when the requirements do not firm up until six months before you are due to deliver it? The approach we are taking with the new solution is it is designed at the outset to be a flexible solution, so that you can change the rules in it easily. We have separated out the key data sets from the core processing, so the approach we have taken gives us the best opportunity to be able to respond to late-breaking changes in implementing regulations as an example, or the Defra scheme design.

At this point I am confident that we will be able to, providing, as Mark has said, that we continue to get the deliverability point across to the policymakers, and all the signs are that that is landing.

**Chair:** I am sure we will be watching you. Can I thank you, on behalf of the Committee, Mr Webster, Mr Grimshaw and Mr Broomfield, for being so generous with your time and contributing at this stage of our inquiry? We wish you every success. Thank you very much indeed.

**Tuesday 29 October 2013**

Members present:

Miss Anne McIntosh (Chair)

Richard Drax  
Mrs Emma Lewell-Buck  
Iain McKenzie

Sheryll Murray  
Neil Parish  
Ms Margaret Ritchie

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**Examination of Witnesses**

*Witnesses:* **Rt Hon Owen Paterson MP**, Secretary of State for Environment, Food and Rural Affairs, **Ian Trenholm**, Chief Operating Officer, **Sarah Hendry**, Director, Rural Development, Sustainable Communities and Crops, **Martin Nesbit**, Acting Director General, Strategy, Evidence and Customer, and until recently Director EU, International and CAP Reform, and **Amy Holmes**, Acting Director, EU, International and CAP Reform, Defra, gave evidence.

**Q152 Chair:** Good afternoon again, Secretary of State. Would you like to introduce the new members of your team for the second part of the session, where we are looking at the reform to the Common Agricultural Policy and how we are going to implement it?

**Mr Paterson:** Very good. Thank you for inviting us back. Can I introduce Sarah Hendry on my right, who is Director of Rural Development and CAP Implementation; Ian Trenholm stays in his place, and is Chief Operating Officer; on my left are Martin Nesbit, Acting Director General of Strategy and Evidence, and Amy Holmes, Interim Director of International, EU and CAP Reform.

**Q153 Chair:** We are delighted to welcome your colleagues back, and thank you for this session. We have not completed our evidence session, so we are taking it slightly out of kilter. I must refer to the registered interest that I have.

**Richard Drax:** Can I also do the same, please?

**Q154 Chair:** Secretary of State, I think you alluded to this in the earlier evidence session, but, under a previous Government, the cost of implementing the last round of CAP reform was an individual cost of each claim in England of about £1,700. Are you able to give the Committee an assurance today that this system will be implemented in England in a significantly easier, more simplified manner than that?

**Mr Paterson:** Yes. I was really shocked a year ago when I came in and found out just how much we have had to spend on disallowance. When Bronwyn Hill first showed me the figures, I could not believe how much it was, so I have been absolutely clear from the moment I took over that we want to introduce CAP reform in a manner which does not let us in for significant disallowance.

**Q155 Chair:** I am sorry; we can come on to disallowance, but I think it was the manner in which the then Secretary of State had gone for option three, which was the most complicated with knobs on. We started, in our first report on this round of CAP reform, being told that this was going to be an altogether simpler, easy-to-administer reform. Could you give us this afternoon an assurance as regards the way it is implemented in England? We can come on

to fines and disallowance in a moment, but will the whole implementation be simpler?

**Mr Paterson:** Yes, emphatically, because that is the way to avoid disallowance. That is the big driver for us. There was a lot of speculation that we were going to make greening much more complicated. We want to make it really simple and easy for people to apply, and we want to make it really simple and easy for our payments agency to send out the payments. We want to have an easy system. Ian, do you want to go into more detail on the system?

**Q156 Chair:** Just before you do, are you not planning to introduce any new computer system at this time?

**Mr Paterson:** We are, absolutely.

**Chair:** This is where it went very badly wrong in 2005.

**Ian Trenholm:** Yes, we are, for two reasons. One is that the computer system that we currently have is a very old system and needs replacing. We cannot use the existing computer system to administer the new policy, so we are taking the opportunity to replace an outdated computer system with a state-of-the-art computer system that will be both cheaper to put in and cheaper to maintain. It will also be more flexible in the long term, because one of the key practical issues is that the existing system is very much what is called hard-coded, which means that every time you want to make a change, you have to spend an awful lot of money making that change and doing some very complex testing. The new system is a series of components and, as a component becomes outdated, you can swap it out and replace it with a new one. I am very happy to go into further detail, if that is helpful.

**Q157 Chair:** Mr Trenholm, this is precisely what the previous Committee was told in 2003, 2004, 2005 and 2006: that we were going to have this very easy-to-use and simple system to administer, which was all-singing and all-dancing, and it absolutely crashed on day one. I think we are going to take a lot of persuading that that is not going to happen this time.

**Ian Trenholm:** If I could come back, we are already prototyping the system. We will be launching a Map-based system in November. We are looking to put our first release live next summer in what is called an

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alpha release. We are doing a lot more testing. We are sitting down with farmers in their offices and at their kitchen tables, rehearsing through the system with them right now. We are starting much, much earlier than was ever the case before. The technology that we are using is a much simpler technology. It is open-source technology.

We are also using a software system at the core of the system that has been used for some years by the Italian paying agency and one or two others, and that system has never had disallowance levied against it as a computer system. Using that as the core of our system very significantly de-risks what we are doing. I think what happened in 2005 was we tried to build a system from scratch and, as you know as a Committee, this is an incredibly complex policy, so building a computer system around a complex policy which was changing at the last minute is probably the worst way of going about things. We are going about this in a very different way.

It is also worth saying that, having experienced the 2005-to-now problems, we have learned from those problems. We have systematically gone through all of the reports that have ever been written, we have taken all of the recommendations and we have made sure that those recommendations have been built into our project plan. I absolutely take the cynicism, if you will, that this is a new computer system, but we have learned a number of lessons and I am confident that we will not have the same issues that we had in 2005.

**Q158 Chair:** As I see it, what you are saying is that farmers in upland areas particularly, who are very remote from the cabinet as far as getting rural broadband is concerned, which is not going to be in place before 2016 in many areas, are going to have Digital by Default in 2015 and a new computer system at the same time.

**Ian Trenholm:** They are not two different things. Essentially, there will be one computer system. We are developing an assisted digital strategy, which means that we are looking at how we can help farmers who, for one reason or another, cannot access services digitally. As Mr Grimshaw told you last week, over 80% of farmers currently contact the RPA electronically. We have gone up from 40% to 54% of applications online over the last year. I think we need to consider the needs of farmers across the piece. A very significant number of farmers are and wish to interact with us electronically. We then have to look at the other farmers who cannot or choose not to, and work out how we are going to help them. That will probably be in a different way.

**Q159 Sheryll Murray:** Could I just ask you to distinguish between the hardware and the software? Am I to take it that you are writing a new software programme? If you are, will it be compatible with the certain specification of hardware? In other words, are you looking at writing something that is compatible with Windows 8, for instance, which is completely different, or are you going to make it compatible with the lowest hardware operating system?

**Ian Trenholm:** Within reason. We are testing our system on a range of different browsers, which I think

is your question, and also at a range of different speeds. We are testing it on what a 56K dial-up modem would be like, and also testing the performance at very high-speed broadband. We are doing that continuously and we are trying to make sure that the software runs as efficiently as we can. We are not going to go back to very old software that is insecure, because it is not in our interests. It is not in the farmers' interests for them to be running computer systems which are, say, Windows 95 or very old systems. It is just not secure enough.

**Q160 Iain McKenzie:** You link in with the broadband providers or suppliers. What has that been like? I have been talking to some and they are still very reluctant to commit to certain rural areas of the country in terms of providing the fibre-optics and the superfast broadband.

**Ian Trenholm:** We are working with our colleagues at DCMS, who are leading on the overall broadband programme. We will be looking at different farms in different locations and working out where there is good broadband coverage and where there is not good broadband coverage. We will have to make sure that our assisted digital strategy takes into account where there is strong and weak broadband coverage. We and the programme are not directly linking with the broadband providers, because we cannot be confident of the exact detail, on a farm-by-farm basis, at this stage. We have to build a system that is generic enough to be run across a range of different systems, be that satellite broadband or fibre-optic and so forth.

**Q161 Mrs Lewell-Buck:** Correct me if I am wrong but I think the timeline to have your IT systems in place and everyone onboard is 2015. Is that correct?

**Ian Trenholm:** That is correct.

**Q162 Mrs Lewell-Buck:** Bearing in mind the comments from the Chair and the rest of my colleagues on the Committee, is it realistic that these farmers will be up and running with this IT by 2015, and would it not be more reasonable and responsible to offer a manual option as well, while people are coming on board?

**Ian Trenholm:** We may very well do that. As I said, we are putting in place an assisted digital strategy that looks at exactly what technologies farmers can have. It is possible today for a farmer to go out and buy a satellite-broadband service. They can do that wherever they live in the UK, irrespective of what is going on in the broader picture.

**Q163 Chair:** Would they have to pay for that themselves?

**Ian Trenholm:** They would.

**Q164 Chair:** Are you going to give them some money out of the rural community broadband fund for this purpose?

**Ian Trenholm:** The cost of a satellite broadband service is broadly equivalent to a mobile phone package, so I do not think it is a particularly expensive option.

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**Q165 Chair:** Do you know?

**Ian Trenholm:** I do know. I looked it up earlier on.

**Q166 Chair:** How much is it?

**Ian Trenholm:** £15 a month with a £99 installation fee.

**Q167 Chair:** Whereas the people who get superfast broadband by 2015 will not have to do that.

**Ian Trenholm:** They will still have to pay for broadband. They will still have to pay a provider a fee.

**Q168 Chair:** Can I just play back a couple of things you have said, please, just for greater clarity for my farmers, as well as anybody else? We have been told in the evidence we heard in the Rural Communities report—and we have just had your response to that—that not everyone is going to have superfast broadband by 2016. Does it not seem a reasonable request that those farmers who are not going to have superfast broadband by 2016 should be told by BT who they are and where they are, so that they can make alternative arrangements such as the ones you have suggested?

**Sarah Hendry:** A lot of the counties are working with BT to try to map people within the 90% and the 10%. I believe the vast majority of that has now been done; a lot of the contracts have been signed on a county basis and there are a few more to do, so we should have that clarity. I think there is then sometimes a bit of negotiation or playing around at the margins with BT or the other providers.

**Q169 Chair:** If you could use your good offices, that would be very helpful.

**Sarah Hendry:** Yes, we certainly should have that clarity in time for this.

**Q170 Chair:** Just to clarify another point you made, if I may, Mr Trenholm, you said that the new system would be tested at high-speed broadband. What about those who do not get the high-speed?

**Ian Trenholm:** It is being tested for all speeds, from 56K dialup up to superfast broadband. That is how we are building the system. We are doing that on a continuous basis. Every time we build a new release of the software, we are testing it across a range of speeds and a range of browsers and so forth. We are trying to replicate the experience of a range of different farmers.

**Q171 Chair:** Might those farmers who live a long way from the cabinet and who will not qualify for fast speeds be given extra help between now and 2016?

**Ian Trenholm:** Yes, exactly. What we are doing is putting an assisted digital strategy in place. That may very well be the option to submit on paper, but, more likely, we would encourage them to use an agent or some other person to assist them in completing—

**Q172 Chair:** That is an additional cost. In addition to the satellite, they are going to have to pay for an agent to help them.

**Ian Trenholm:** We may very well pay for the agent.

**Q173 Chair:** You may.

**Ian Trenholm:** We may.

**Q174 Chair:** Could we just get on the record how much we think it is going to cost and how much Defra are prepared to make available?

**Ian Trenholm:** We have not decided that yet. As I said, we are putting in place an assisted digital strategy. We are quite clearly looking at which farmers are currently able to interact with us online, and who currently does and who currently does not. One of the things that Mr Grimshaw and his team have done over the last few years is to look very carefully at how farmers are interacting with us. There are quite distinctive patterns and quite distinctive types of farmer, so we want to make sure that, where farmers genuinely need support, we can provide that support. Where farmers are choosing not to interact with us electronically but could, I think we have to ask the question why that is, and we should be encouraging them to interact with us electronically.

**Q175 Chair:** That is very helpful, thank you. Secretary of State, does the reformed CAP, in your view, represent a good deal for the UK taxpayer?

**Mr Paterson:** It is not really satisfactory from the point of view of my strategic aim, which was to continue the progress begun by MacSharry and continued by Fischler. There are certain points where we definitely go backwards; the reestablishment of coupling is an example. Our achievement, working closely with likeminded allies, is that we have stopped some really bad things happening. We may not get thanked for it, because I am not rung up by my farmers saying, “Thank you very much, Mr Paterson, this has not happened,” but we did stop a lot of bad stuff: the craziness of the “active farmer” test was an example. On the last night, late on, there was a proposal to replace the milk regime with a really seriously misguided proposal to penalise the most efficient 5% of Europe’s dairy farmers and to reward the most inefficient.

We did stop a lot of bad stuff, and I think we can take credit in some areas, such as the sugar reform, where we really dug in and worked with allies against some big opposition. It was always intended that 2015 would be the end of the sugar regime. The proposal was to push it out to 2020, which would have meant that it would have gone into the next round. Frankly, we would never, ever have got a stake through its heart. By accepting 2017, we will have a free market. There are great opportunities and it is really good for our hardworking citizens. The ludicrous sugar regime at the moment adds 1% to the shopping basket of every citizen in this country, because we are paying 35% over the odds for the sugar.

**Q176 Ms Ritchie:** As a supplementary to you, Chair, this is really around the budget—and I should say now that I am going to have to leave to go to another meeting. Given that the European Commission expects you to have a determination in respect of the budget for yourselves and also for the devolved regions, when do you hope that will happen? Will Scottish independence have any impact on the allocations to devolved regions?

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**Mr Paterson:** We have had clear submissions from all constituent parts of the United Kingdom. We will be discussing this at the highest levels of Government and we will be making a decision very soon.

**Q177 Sheryll Murray:** Thank you very much, Madam Chairman. Secretary of State, I just wanted to turn to Pillar II and the budget. The Commission have not revealed how their guidelines are interpreted in practice, but did the UK Government fail to get an equitable share of the rural-development funding, and if so, why? Was it because of the way in which the Commission guidelines worked, and did they work against us, or was there another reason?

**Mr Paterson:** There is always a cause for celebration and a cause for grievance on anything to do with finance and the European Common Agricultural Policy. You can look at these things from various different angles. It is partly historic. What we should celebrate is that there will be very significant payment by the public purse on Pillar II. We are looking at a figure of €1.84 billion. That is a substantial sum of public money, and the trick is to make sure that we spend it wisely.

**Q178 Neil Parish:** Given that Government is philosophically opposed to direct payments, why are you so against capping very large payments, for example at €500,000, or increasing degressivity above 5%? Playing devil's advocate, why do some claimants need more than €500,000 of taxpayers' support?

**Mr Paterson:** I want to see an efficient, successful farming industry concentrating on the production of good-quality food, with successful environmental outcomes. I do not want to see our successful farmers spending hours and hours with expensive solicitors artificially carving up their holdings to avoid an arbitrary diktat on the size of their holding. I am happy to see a slice of 5% above 150,000 on the basic payment without greening, which is what we intend to do and what we are consulting on, but I really do not want to see our most successful large landowners spending the whole time artificially locked up with expensive lawyers. I would much prefer to see them working.

**Q179 Neil Parish:** Do you see those payments as land management, not just about the fact of the size of the farm and how they manage the land? Is that how you see the payment working?

**Mr Paterson:** This is a substantial sum of public money, which helps maintain the industry. The trick is to see how it is going to develop down the road. This replaced the original subsidy of large amounts of food surplus. It was clear, from the beginning of the reform, that this was going to be there. There are all sorts of questions, when you look at other countries, as to whether it is good value, which is why we will have an interesting discussion, I am sure, in a few minutes on modulation from Pillar I to Pillar II.

**Q180 Neil Parish:** Are you able to use this 5% that comes from degressivity or capping the over-€500,000 payments for environmental schemes and the like, if you so choose?

**Mr Paterson:** Yes. I think we can put it straight into Pillar II. That would be the proposal.

**Q181 Neil Parish:** You are not thinking of more than 5%, then.

**Mr Paterson:** No, not at the moment. As I said, I want our successful farmers to concentrate on being successful farmers, managing their farms, producing good food and improving the environment. That is what I want them to concentrate on. I do not want them huddled up with expensive lawyers because of some pretty arbitrary diktat on how large their holding should be.

**Q182 Iain McKenzie:** Secretary of State, do you agree with Natural England's assessment that the implementation of greening based on the basic greening measures is unlikely to generate measurable environmental benefits?

**Mr Paterson:** I think it will deliver some benefits. It was absolutely clear, from the very earliest discussions I had, that the Commission were determined to push this through. I think we are in a different position to other European Member States. We have good schemes already in Pillar II on ELS and HLS, which do deliver environmental outcomes. As a country, we are further down the road on this, but we are only one of 28 now and we had to accept that the Commission was absolutely determined to put this greening element through. I think the trick is to make it as simple and easy to reply as possible. The one area where we are consulting very publicly is to see if we could do something on pollination, which is a matter of huge interest to the general public, and quite rightly because pollination is of absolutely critical importance to our plant environment. Without gold-plating and without making it unnecessarily complicated, I am still very keen to see if we could get something in there on pollination. It might be in the EFAs, but I am not sure. We will, clearly, put this in our consultation document.

**Q183 Iain McKenzie:** How much flexibility would you say you have over the implementation of greening?

**Mr Paterson:** There is not a huge amount. Commissioner Ciolos was very clear about his three criteria.

**Q184 Iain McKenzie:** Were you talking about approaching the Commission about a certification scheme that would permit farmers to undertake an alternative measure to three-crop rotation?

**Mr Paterson:** I have talked to Peter Kendall about this. I know that the NFU are keen on this proposal. The feedback we have had from the Commission is that they are not enthusiastic, and it could be complicated.

**Q185 Iain McKenzie:** Have you spoken to the Commission on that specific point?

**Amy Holmes:** As I understand it, what the NFU are asking for, and what Peter Kendall described when he gave evidence, is to not do the crop diversification measure but to supplement it with additional EFA

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measures using a national certification scheme. The Commission proposals are quite clear in that you cannot substitute crop diversification. There are equivalent measures that you can do, which are listed in the annex, but you cannot not do something outside that band. You cannot swap crop diversification for additional EFA measures, in essence.

**Q186 Iain McKenzie:** Have you spoken to them on that specific issue?

**Amy Holmes:** Officials have spoken to officials in the Commission.

**Martin Nesbit:** The legislation is pretty clear as well.

**Q187 Iain McKenzie:** Finally, Secretary of State, are there any particular aspects of the Commission's greening proposals that give you concern?

**Mr Paterson:** Yes. The arbitrary nature of the crop rotation will be difficult for some people. I was talking to a chicken farmer in Worcestershire not long ago. He only grows wheat to feed his chickens and he will have a problem. I can see people doing swaps with neighbours and renting land off each other, which will give some complications to the RPA. This does not affect us, because Scotland will be running its own CAP. One of our big achievements was to get absolutely total autonomy for the four regions of the UK. I was up in Scotland not long ago and there will be a problem, for instance, in some of their big barley growing areas, where they grow barley for malt for the whisky industry. They will not be rotating much, so I think that could cause them problems. I would repeat, though, that Commissioner Cioloş, from the very first meeting I had with him, was absolutely determined to push this through.

**Q188 Iain McKenzie:** When will you assess whether the greening payment delivers environmental benefits? How will you assess that?

**Mr Paterson:** In some of the stuff like the EFAs, there is the potential to deliver some of the benefits that we are already getting in ELS. As I see it, we will get a slug of the benefits from ELS, which means we will have to create something new in Pillar II, but we have to decide what we do in greening before we can move on to what replaces ELS.

**Q189 Iain McKenzie:** As a quick supplementary, on the referendum on Scottish independence, what would be the impact on the CAP breakdown be for England if it fell to a yes vote?

**Mr Paterson:** I do not speculate on what happens if there is a yes vote. I am very confident that the Scots will be sensible and will maintain the Union, which has brought great benefits to all constituent parts of the UK since it was set up.

**Q190 Richard Drax:** If we may come back to modulation, Secretary of State, can I just ask very quickly whether you think that English farmers are, on the whole, some of the efficient, most environmentally friendly and best farmers, probably, in the EU right now?

**Mr Paterson:** Why do I think they are?

**Richard Drax:** Do you think they are, and that English farming is up here, the gold standard, compared to some countries, or most countries, in the EU?

**Mr Paterson:** That is a very good question. I have not looked at the direct productivity comparisons with other EU farmers, but what I am seeing is that English farmers are successfully competing in a world market. They are producing products that consumers want to buy and we are beginning to make inroads into export. They would not do that if they were out of kilter with the market. I was clear from the beginning that my ideal—to get back to the Chairman's first question—

**Q191 Richard Drax:** I have to interrupt, I am sorry, because we are pushed for time. I do not want to go too far along these lines. The reason I ask you that question is that, certainly from the NFU's perspective—and I know you know this; I think you are quoted as saying they are “obsessed” with this 15% modulation—to them, and to others, this combination of greening rules, cross-compliance, Pillar II measures and voluntary measures will, together, produce the environmental benefits that we need, without the move to 15% modulation, which they and many others would argue is going to make them uncompetitive within the EU. What is your view on this modulation and where are we going with it?

**Mr Paterson:** Just let me quickly finish your first question. As I see it, since direct subsidy of production stopped and you had the single farm payment, English farmers have reacted successfully to market signals. We do not need coupling in this country to have a successful beef industry. That, I think, is the way to go, and I have always said that there is a role for public funds to compensate farmers and landowners for the public good provided by the environmental work that they do and for which there is no obvious market mechanism.

I think the whole argument about modulation is very mixed. Peter Kendall has fought a very public campaign. He does not want to go above 9%, which is where we are at the moment, and he does not want to go to the 15%, which we could go to. That was made very clear to me on a weekly basis when I went to an agricultural show all through the summer. Whenever I went to the NFU tent, I was given a very clear line. I have to say, however, that the minute I left the NFU tent, I was frequently grabbed by another farmer or another landowner who said, ‘You stick to your guns. I am in ELS. I am in HLS. We very much value the Pillar II money.’ I would point out to everyone that 70% of our agricultural land is in one of these schemes, so it is not an absolutely black-and-white argument that all the farming community follow the leadership of the NFU line. In fact, I have had county chairmen of the NFU saying they would like to scrap all subsidies, going back to the earlier question over here.

Where we are is that I am clear that we are going to consult over the next few weeks. As long as there is a clear benefit from projects proposed, there is a justification for the 15% modulation. We are not going to do it, as I said, just for the hell of it. We will only do it if we can come up with good schemes that will

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help English agriculture, the rural environment and the rural economy. If we come up with projects, that is a good use of public money, and we have to look the taxpayer in the eye—and they are having a tough time at the moment. Because of world weather conditions, we have recently had an increase in prices. This is very important. The public have to see what they get for this public money.

**Q192 Richard Drax:** I think we all accept that, but the point is that, if no one else in the EU does it, does that not make the English farmer vulnerable to being uncompetitive?

**Mr Paterson:** No, I completely disagree that English farming is going to be made uncompetitive because of a few euros' difference per hectare. There is already a massive discrepancy in payments per hectare right across Europe. There is no level playing field, and there never was from the beginning. If you look at the new entrants in eastern Europe, they are miles behind us. We are a little below the average, in the middle, but Malta is miles ahead of us, as are some of the more mature countries. This does not make the difference. What makes the difference is being world competitive on technology, skills and things like rural broadband, as we have just been talking about. That is what is going to make the difference to our agriculture. Training, skills and bringing in technology are the things that really matter.

**Q193 Richard Drax:** We mentioned food scarcity earlier, and the fact that 1 billion more are going to need to be fed. Would that not imply that more money should go to Pillar I rather than Pillar II?

**Mr Paterson:** No, not necessarily. You only need to look at our consultation document when it comes out. There are real benefits to some of these Pillar II schemes, enhancing our skills and our productivity. We have to compete in the world against farmers in Brazil, America and elsewhere.

**Q194 Richard Drax:** How will Pillar II help us enhance our productivity? That is what we are here to ask you.

**Mr Paterson:** The programmes that we have—improving technology, improving the standards to which we produce agricultural products, getting people into food production and adding value—are all absolutely integral to ensuring that our productivity improves. Productivity is really important in this. It is much more important than a few hundred pounds an acre in Pillar I. It really is key to me.

**Q195 Richard Drax:** How is more money to Pillar II going to increase productivity?

**Mr Paterson:** That depends on us constructing schemes which will help.

**Q196 Richard Drax:** The production of food or the greening of the environment?

**Mr Paterson:** Pillar II schemes have to help either the rural economy, agriculture or the rural environment. There will be a mix. It is, however, really important that we look the taxpayer in the eye—who, under difficult circumstances, is going to be spending £3.5

billion on this, which is a very significant sum of money—and ask what they are going to get for it. That is why, going back to the earlier question, I am keen to get something in here on pollination, which is a matter of intense interest—and quite rightly—to the general public. You could look the public in the eye and say, 'For this, we are improving the status of pollinators.'

**Q197 Richard Drax:** Finally, does the addition of greening under Pillar I reduce the need to transfer the maximum amount to Pillar II?

**Mr Paterson:** I have partially touched on this. What it means is that you take a slug of activity out of ELS, because you cannot pay for something twice, which is one of our absolutely key points in the negotiations. Once you have taken a slice out of ELS, you know what is not there and you can then create son-of-ELS and, probably, HLS. I repeat very clearly that we are not going to do this unless we come up with some very worthwhile schemes that will deliver public benefits.

**Q198 Neil Parish:** Going on to the agri-environment schemes, you talked about competitive agriculture in Pillar II, but what proportion of the Pillar II budget, whatever you modulate it at, will be available for agri-environment schemes as opposed to measures aimed at boosting the rural economy? Of the 9% or 15% you take, what are you going to spend on agri-environment schemes?

**Mr Paterson:** I might not know the detail of this. A lot of this is already committed, do not forget. We have already committed on schemes up to 2015. You have Leader, where, under EU rules, we have to spend 5% of the rural development money. Sarah, as the absolute guru on the detail, might get into this.

**Sarah Hendry:** Currently, you would put around 80% of Pillar II money into agri-environment schemes. When you see the consultation document, it will model various scenarios for how we might or might not flex that, and people can comment on that. If we continued on something like that share, the thing we have to take into account is that we have a large overhang of existing commitments in multi-annual agreements. That will take up more than £2 billion of the budget available to us in England, so the headroom left for new agreements, even if we transferred the full amount from Pillar I, would be relatively small, at something like 30% of the overall pot available to us.

**Q199 Neil Parish:** That leads me to the other part of my question. Natural England told us that farmers will have to compete for stewardship-scheme funding. How will this competitive process take place? If you want the uplands and others to have these stewardship schemes, how are you going to make sure that the right people get the scheme, and who is going to be the judge of that?

**Sarah Hendry:** The basis on which we are thinking about doing that now—and, again, that is being developed and we have had quite a lot of contact with environmental organisations, including Natural England, and with farmers and others—is that part of



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it would be very highly targeted. I think Natural England use the phrase “on invitation”, so we would have a very clear idea about where our highest value SSSIs and other sites are. Some of them might already be in schemes and, therefore, when they come to an end, you would invite those to continue. That would be highly targeted. If we have sufficient money in Pillar II, we might look at something that is on more of a landscape proposal, perhaps on a catchment basis or other landscape areas where you can start to roll out the Lawton vision of doing things in a joined-up way and looking at multiple objectives around biodiversity, water, woodland and other things. We have yet to think about how we encourage the right kind of proposals to come forward, but there might be a role there for environmental, wildlife and farmers’ groups and others to come forward with proposals for where they can make an offer.

**Q200 Neil Parish:** There are some very good ideas there, but, if you are going to go down that path, surely you have to have some idea of what is going to cost and how much you would need to modulate in order to get yourself there.

**Sarah Hendry:** I mentioned before that we have the existing over £2 billion of commitments. I know that we will need to use at least 5% of the EU money that we get for Pillar II for Leader—that is a requirement. We know that, just to achieve that, we will need to transfer across at least 1%. If we transferred up to around 15%, that would enable us to run some schemes on the basis that we had set out in the consultation. If you scaled that back and went down to 9%, you would be talking about having about half the amount available, and so on. It is about hard choices, depending on the money.

**Q201 Chair:** I think it is under the direct payment scheme, but it might be under the agri-environment scheme; we are hearing stories—and are about to take evidence—that 70% of the scheme is going on administration costs. Does that not seem uncomfortably high?

**Sarah Hendry:** Do you mean administration costs to our delivery bodies?

**Q202 Chair:** It is particularly relating to common land. We might come back and look at that, but it strikes me that 70% of the scheme going on administration costs is not a good use of taxpayers’ money.

**Sarah Hendry:** Where we pay out money, and if we are talking about agri-environment agreements, we will pay that to the person who enters into the agreement. In some cases, that might be the landlord, if that is the person who comes forward and has the appropriate management control over the longer term; in other cases, it would be to the tenants; if they were commoners, it could be directly to the tenants. Any agreement they enter into would tend to be a private matter.

**Q203 Chair:** This leads neatly into Sheryll Murray’s question on the active-farmer test.

**Q204 Sheryll Murray:** There are different views from various people on the active-farmer test. How are you going to determine who is an active farmer in terms of minimum activity? Do you see the active-farmer test creating any problems, such as the relationship between tenants and landowners? In your answer, perhaps you could let us know when claimants will be notified if they are considered active farmers and eligible to receive CAP funding.

**Sarah Hendry:** Frankly, this is one of the most difficult areas at the moment. As you will be aware, there is a so-called negative list of activities set out in the regulation, including things like providing water services, railways and golf courses and what have you. There is a certain amount of work that we need to do in talking to farming and other organisations to think about how we could apply that test: will people need to come forward if they think they need to make a case on it, or are there other ways of doing it? It is potentially one of the more burdensome activities that RPA might need to undertake. It is hard and we will be doing some more consultation with it. We set out the position in the consultation document but we do not yet have a nice, easy approach to that.

**Q205 Sheryll Murray:** Do you foresee an end to dual-use payments? It has caused difficulties, with farmers perhaps getting money from Pillar I and landowners getting money from Pillar II. Can you see an end to that?

**Sarah Hendry:** We know it is one of the areas that the European Commission has had a lot of concerns about in terms of whether we can really show that the different people receiving the different payments for the same piece of land have the right level of control. We have needed to tighten up the evidence that we get under the current scheme. I think we will need to look, in the light of the detailed implementing rules, at whether or not that can continue. Clearly, it has advantages if you want to enter into an agri-environment agreement, particularly on a high-value piece of land, where it might need to be the landlord who signs the agreement. That is another piece of work in progress for us.

**Q206 Chair:** If I could just dwell on that point for one moment, this is where a problem is arising, because it is the tenants or the farmers—often, the graziers, if it is common land—doing the work. If the evidence we hear does point in the direction of 70% being creamed off on administration charges under a clause of that agreement, does that not seem an abuse of the intended purpose of the agri-environment scheme?

**Sarah Hendry:** If that is what is happening, it is clearly not what is intended. We place no requirement on anyone to levy administration charges, commission or anything else. All we require in those circumstances is the signature to indicate that the landowner is content for the agreement to happen. Anything more than that will tend to be a private agreement between the landowner and the tenants, and that is something that is very difficult for us to get into. We do not have any losses on that.

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**Q207 Chair:** We are told that Natural England cannot get into it, and it is causing a lot of anxiety for people who, historically, used to get the money themselves. Now, the money is being creamed off, potentially, as we will possibly hear, if that is the case, by landowners. Is it something you could address at this stage of implementing the next round?

**Sarah Hendry:** We do not think we have the mechanism to address it.

**Q208 Chair:** Is it an injustice that will just persist?

**Sarah Hendry:** We are not aware of lots and lots of cases of this. I know, Chairman, that you have raised some cases that are known to you.

**Q209 Chair:** In various parts of the country. You could potentially look at this.

**Sarah Hendry:** I am not sure that we have the mechanism to do it.

**Q210 Chair:** Where does the mechanism lie? Do we need a mediation or resolution, as we advocated in our uplands report?

**Sarah Hendry:** That might be a route.

**Q211 Neil Parish:** In terms of regional payments, the Government is looking at whether it can combine the same payment for non-SDA land and SDA; non-moorland would be a similar type of payment. This would have the effect of moving some money slightly uphill, so to speak. That would perhaps be useful to upland farmers, but if the uplands scheme in Pillar II is discontinued, might upland farmers still be worse off, despite the changes in regional distribution? Do you understand what I am talking about?

**Mr Paterson:** Yes, sorry. I am clear that, in the uplands—going to my mantra about food—because of the nature of the ground, it is not possible to survive on food-production alone, so there is a very clear role for taxpayers' money to compensate farmers. People will not go to the Lake District or the Peak District if the stone walls have all fallen down, and if the carrion crows and the bracken have taken over. There is a real environmental-management role upon which sits a huge rural-tourism industry which is worth about £33 billion. I am absolutely clear that there is a role for Pillar II schemes, and I think there is a clear role for ensuring that an adequate slice of Pillar I is moved uphill so that farming continues as a thriving activity in the hills. We are consulting on this, as you will see in the paper when it comes out.

**Q212 Neil Parish:** Can I take your answer to mean that payment for non-SDA and SDA land will be the same or similar, and that you are also still looking at having upland environmental schemes in Pillar II? Will you have the money for Pillar II payments?

**Mr Paterson:** No, this will be a change in Pillar I. There will be a deliberate shift in Pillar I to move some more money uphill, and that is quite deliberate. Do you have the details?

**Sarah Hendry:** Yes, I do.

**Neil Parish:** It is £257 a hectare for non-SDA and £208 for SDA at the moment. If you change it to the

same, it will be moving about £50 per hectare in Pillar I.

*Sitting suspended for a Division in the House.*

*On resuming—*

**Q213 Chair:** Thank you very much, Secretary of State, for returning. Could I just follow up on National Parks first of all? Setting the minimum claim at five hectares will remove 40% of the holdings within National Parks and 8% of the land from cross-compliance obligations, with potentially a detrimental impact. It might have been put to you on your visit to North Yorkshire but, if not, are you concerned—and do you share the concerns that have been put—about that loss of entitlement?

**Sarah Hendry:** Can I do that one, Chairman? Looking at the figures that National Parks have put forward, we think that they have derived those from census information which was available to them. If we look at the information that comes from the single farm payment data for 2012, we think that they overestimate the impact in National Parks. They also did not disallow the people below one hectare who were already excluded from SPS. If you look at the data, the National Parks come off rather better than the English average. In England, it is less than 1% of agricultural land; in National Parks, it is about 0.4% of agricultural land that would be excluded. The cross-compliance provides an additional leverage on things that are largely set in existing legislation, so, even on land that was excluded from cross-compliance, a lot of the requirements still apply.

**Q214 Chair:** That is very helpful, thank you. Secretary of State, a previous Minister for Agriculture, Jim Paice, was very aware of and very helpful around particular problems for common land, and particularly the registration of entitlements for commoners. The way in which the current implementation has been applied in the single payment scheme has caused significant problems. Will you take a political interest, as Secretary of State, in common land under the reformed CAP? It is not widely across England but common land exists in areas like North Yorkshire, Cumbria, Northumberland and, I understand, parts of Cornwall and Devon.

**Mr Paterson:** Broadly, we are looking at various options on this, but we intend to have the maps completed by 2015. Sarah, do you want to talk more about the details?

**Sarah Hendry:** As the Secretary of State has said, we will be doing the remapping, because we recognise that that is very important. On the implementation of part one of the Commons Act, we are looking for options as to how we might be able to do that.

**Q215 Chair:** Securing the register where it was unsecured in the past is something that you are prepared for.

**Sarah Hendry:** We recognise that there are problems where you have land that either is not on the register or is erroneous on the register.

**Q216 Sheryll Murray:** Could I just turn to the LEPs? Love them or hate them—and I think there is

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a mixed view on them—how much Pillar II funding will be channelled through the LEPs? How will you ensure accountability? That is where there has been a lot of criticism in the past.

**Mr Paterson:** This is one of the issues that we will be consulting on. We want to have the LEPs involved in this. I have talked to various LEPs as I went around the country, and particularly the one at the Royal Cornwall Show. There are various key things that we do need to finalise, which is why we need to get on with the consultation. Is there anything in particular that you want to mention on this, Sarah?

**Sarah Hendry:** On the control and how it is spent, we have set out in the guidance to LEPs the measures that we think will be appropriate for this money to be spent on. We will be looking for them, in their strategies on how they will spend European funds, to reflect how they will do that. We have the opportunity to talk to them and they have been putting drafts in recently. There will be a list of things that we think would be appropriate and we will help to manage the money for them.

**Q217 Sheryll Murray:** Will there be more stringent control over them? Will they be held to account in a more stringent way than, perhaps, we have seen in the past?

**Sarah Hendry:** It will be different from the regional development agencies, yes.

**Q218 Richard Drax:** The LEP in Dorset has extremely able, worthy and hardworking people. “Hardworking” is, perhaps, the phrase that I should underline. They are so busy. How, realistically, are these people going to cope with more administration, more budgets, more money and more detail? How is this going to work, practically?

**Sarah Hendry:** Different LEPs organise themselves in different ways. Some of them, clearly, are drawing on the capacity that they have in local authorities. Local authorities will be the accountable bodies for the funds that LEPs have to deal with, and we would remain, technically, the managing authority for European funds put through them. Our teams are available to do a lot of the administration for them. They would have a strategic role and they could help with prioritising and make decisions, but the detailed administration would remain with civil servants to enable them to focus on their strategic role.

**Q219 Richard Drax:** Dorset County Council, which is facing another budget cut and having to cut its budget from £300 million to £100 million, is worried about this because it is going to mean more of its staff involved in doing this sort of work. Is that not going to affect their budgets?

**Sarah Hendry:** That, clearly, is a decision for different LEPs in different authorities, but there are very significant sums of money available to be spent on purposes that local authorities have a strong interest in. They would need to make a judgment on how they want to be involved in that.

**Q220 Sheryll Murray:** I take a different view to Richard on this. Are there going to be checks on the

local authority to make sure that they are doing their job properly, if they are the authority that is directly overseeing the way that the money is being spent? Will your Department be making sure that the checks are in place so that the funds are diverted in the right way?

**Sarah Hendry:** Ultimately, the responsibility for accounting for the money—a lot of which comes from Europe—rests with us or the other Government Departments as those managing authorities, and it is our role and responsibility to make sure that the right checks and procedures are in place.

**Q221 Chair:** If we hear evidence to the fact that it is a problem, that a private agreement is causing difficulties for individual tenants and graziers, will the Department look at creating a mechanism to deal with this type of problem?

**Mr Paterson:** I am not sure that we can commit until we see the detail.

**Q222 Chair:** That is up to us to make a recommendation.

**Mr Paterson:** Apart from the case that you have brought to our attention, I have not come across this anywhere else. I do think that there is a limit to how much we can get involved in private arrangements between private landlords and private tenants. Ultimately, there are solicitors who can help resolve this in law. There is a limit to how much we can get involved.

**Q223 Chair:** We will come back to this when we hear the evidence. Mr Nesbit?

**Martin Nesbit:** The only thing I was thinking of adding was that, given the emphasis that we have placed on the simplicity of implementation, particularly for direct payments, we need to be careful about adding additional rules on expenditure which then impose burdens on the full range of landlords and tenants, as well as those particularly affected in these individual cases, and potentially increasing the disallowance risk to the Department too. This is clearly something that will need further thought.

**Q224 Chair:** We need to take the evidence and then come back to you, but my understanding is that this is much more pervasive. If they think they are getting away with it, it will only increase as well. On the Macdonald taskforce that the Committee is very excited about, what stage are we at in implementing their recommendations, particularly on cross-compliance?

**Mr Paterson:** We have implemented a good number, and I commented on this in the earlier session. The problem that we have is proving a negative. People do not ring me up and say, “Thank you very much for not having inspected my farm”, but, thanks to what we have done, there will be 8,000 fewer inspections of dairies this year. What we are trying to do is to reward those who do respect the regulations. The vast majority of farmers are responsible, and their reward is that they will be bothered less.

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**Q225 Chair:** Does the launching by the Department of the red-tape challenge not negate the work or mean that the Department is parting company from the Macdonald taskforce?

**Mr Paterson:** No, I think that that all works together.

**Chair:** You have been very generous. We have taken things slightly out of kilter, which is a little

unfortunate, in some of the questioning, but we are very grateful to you for the time you have made available. We will draw our conclusions and be in touch with the Department at that time, but thank you to you and your team for being so generous with us this afternoon. Thank you very much.

**Mr Paterson:** Very good to see you.

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## Wednesday 30 October 2013

Members present:

Miss Anne McIntosh (Chair)

Mrs Emma Lewell-Buck  
Mrs Mary Glendon  
Sheryll Murray

Neil Parish  
Ms Margaret Ritchie

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### Examination of Witnesses

*Witnesses:* **James Bailey**, Federation of Yorkshire Commoners and Moorland Graziers, and **George Dunn**, Chief Executive, Tenant Farmers Association, gave evidence.

**Q226 Chair:** Good afternoon and welcome. First of all, can I welcome you both and thank you very much indeed for contributing to our inquiry on reform to the CAP and implementation of this round of CAP reform? I thought, for the purposes of the record, I would ask you each to introduce yourselves and give your formal titles. I am sure you can do it much better than I can.

**George Dunn:** Thank you, Madam Chair. My name is George Dunn, and I am the Chief Executive from the Tenant Farmers Association.

**James Bailey:** I am Jim Bailey. I am a farmer in the North York Moors National Park. I am also part of the Federation of Yorkshire Commoners and various other guises.

**Q227 Chair:** Excellent. I am particularly pleased to welcome Jim here today as being one of my local councillors as well. You are both very welcome, though, thank you. Could I just ask a couple of general questions, if I may, at the outset? Do you believe that the current deal that is being negotiated is a fair one and a good deal for UK farmers, and particularly for tenant farmers? How do you view the current deal as it is presently on offer?

**George Dunn:** There are elements of the deal with which we still have some fundamental difficulty, for example, the way in which the Commission has decided to put in the greening measures. The Council and Presidency have obviously agreed with this, as has the Parliament, but it does present us with some major problems.

We understand why it was done that way: because they wanted simplicity and something that might provide some environmental benefit to the CAP. However, the three measures do not appear to sit very well with an outcome driven policy of trying to get really good agri-environment outcomes for the whole of the country. The greening elements do cause us some concern, but overall in the main it was probably the best deal that we were going to get, and it has given a large amount of discretion to Member States, so a lot will depend on how Member States decide to take things forward. Of course, in the UK, we have England, Scotland, Wales and Northern Ireland taking different views on each aspect of the policy, so there is still much to play for in our view.

**Chair:** Mr Bailey, is there anything you would like to add?

**James Bailey:** I concur with that, Madam Chairman. Since the last deal was struck the world has changed.

Agricultural production is something that is far more important to us now than it was in 2005, so it is important that we maintain a level playing field as far as possible. Of course, I fully believe the CAP needs to be publicly acceptable, and we need to make sure that we have the support of the general public in that.

**Q228 Chair:** In the course of our earlier inquiry and our recommendations for upland farming, we recommended that there should be a dispute resolution mechanism for situations possibly arising between landowners and tenants. Is that something that you feel would be welcome? I was slightly surprised yesterday when one of the departmental officials told us that it is not something that the Department could get involved in. We were also told during the course of the inquiry that Natural England itself is not able to give advice on these agreements as they go through. Do you have a view about whether there should be a mechanism for dispute resolution, and what form that might take?

**George Dunn:** Madam Chairman, over the years, we have seen a number of occasions where there have been disputes between, in our case, landlords and tenants, over who is the rightful applicant for both Pillar I and Pillar II payments under the CAP. There has generally been a reluctance on the part of Defra, the RPA and National England to get involved in trying to resolve those disputes. In a number of cases we have persevered through those various agencies and Government Departments, and in a number of cases we have managed to get National England and RPA to rule on one side or the other on the basis of the evidence provided.

We think there is merit in these organisations actually taking a clearer view on who is right and who is wrong in accordance with the rules. After all, they are responsible for taxpayers' money and giving that out within a policy environment. If one individual is claiming incorrectly, then surely the Government Department or agency has an interest to ensure that that individual cannot capitalise from their activity. We would absolutely agree that there must be something within National England, RPA or even Defra to find a way through these issues.

**James Bailey:** I would agree with that. On common land, there is a slightly different dynamic, but I agree with the tenant farmers that the recourse for landowners generally is through the rent and not through directly taking a payment that supports a particular activity or outcome. It would clearly seem

to be wrong for the active person on the land not to get that support payment if that is what it is designated for. For example, on common land, it is not like a tenant and landowner business, because the commoners own their rights in perpetuity. It is not like you actually have a tenancy; commoners own their grazing rights, and of course the landowner owns his rights as well. Where those rights attract various or different public support, then there is a difficulty in getting that relationship sorted out. On that in particular, we do need a mechanism for ensuring that the money is paid onto the ground to the people who are actually doing the job. I am not sure that has always been the case in the current situation.

**Q229 Chair:** Where would you both foresee the biggest challenge under the new revised CAP implementation for those charged with the inspection, the checking compliance and the making of payments under the reformed CAP, the next round?

**George Dunn:** That is a big question. From my perspective, there are four areas of principal concern. One is the greening elements that we have already discussed, and making sure that they actually deliver something meaningful whilst not providing too much of a burden on the industry going forward. Secondly, there is the vexed question of the balance between Pillar I and Pillar II. Although the Secretary of State has promised an early discussion on that, I think that conversation is yet to begin, let alone be well developed. There is the whole area of active farmer and deciding who should be the eligible and rightful recipient of support through both Pillar I and Pillar II. A big concern for us is the Government's drive to digital communications. We know that the RPA is developing the new system for both Pillar I and Pillar II schemes on a Digital by Default basis, but from our perspective it would be gold-plating to require individuals to be applying for schemes online. We would want to see a continuing option for individuals to apply on paper, particularly where they are in situations where broadband connections are pretty poor or they do not have the skills themselves to do that. Those are the four areas I think are the biggest challenges.

**Q230 Chair:** On that last point, you would like to continue to see manual applications until such time as—

**George Dunn:** Yes. Obviously we see the advantages of a digital system. We are quite happy to encourage our members to go for the digital solution. We are bringing RPA with us on our road show of meetings with members next year to encourage members to switch to digital because we see the advantages. Frankly, there are a large number of individuals who will not be able to make the transition, and they should not be penalised because of that.

**Q231 Neil Parish:** Good afternoon, Mr Dunn, Mr Bailey. Talking about English payments, how should the regional allocation of direct payments be adjusted to increase support for upland farmers, and is this the best means of moving money uphill?

**George Dunn:** The TFA has always taken the view, right back to the 2003 reforms that were implemented in 2005, that what is known as the SDA area and the lowland areas should have been at the same rate. We campaigned for that at the time, and we know that there have been various discussions already with Defra over what happens for the new regime. We would say that now is the time to align the payments for the SDA and for the lowland areas.

We would, however, say that we would wish to retain the moorland rate where it is, but to provide instead a specially developed Pillar II scheme for moorland graziers, which targets agri-environment benefits of mixed grazing systems in moorland areas. There would then be a recognition of the real advantage that grazing could bring to the moorland areas, so the payments are not being taken away by grouse moor owners and those involved in sporting, and it is actually supporting the types of activity that encourage biodiversity in those areas.

**Q232 Neil Parish:** And increasing suckler cows and the like, not just sheep?

**George Dunn:** It is not just sheep: mixed grazing systems, suckler cows and breeding ewes in those areas, definitely.

**Neil Parish:** I very much agree with your comments.

**James Bailey:** I support that view in principle, and I do believe that some of our stewardship schemes are getting over-prescriptive. The basic management that has been secured is upland grazing. Also, though, upland grazing does not happen in a ring on the moorland line; it happens in a farmed unit, which usually crosses onto the moorland line and has other land as well. Being too prescriptive can actually have side effects for other land as well, so it is important if it is basic agricultural support that we are looking at, with added environmental benefits, that that is looked at as a viable unit as opposed to just being specifically SSSI. Interestingly, in the North York Moors National Park, I understand £148 million worth of HLS money is going onto the moorland, and I think £2.3 million worth is going onto all the other schemes. A big percentage of that money is maybe not for other things as well as grazing. Maybe a UELS or lower-level type of agricultural support could deliver the grazing in those SSSIs for less money than is being spent at the moment.

**Q233 Neil Parish:** Thank you for that answer. If you reduce the number of sheep on the hill, then that does not actually reduce the amount of grazing. What happens is they concentrate on one particular area, and then the other areas get out of control. Has that been your experience?

**George Dunn:** Absolutely. Some of the schemes that have attempted to reduce livestock numbers have been misguided. We are reaping some of the whirlwind for that when you look at what is happening to some of the ecosystems in those areas. It would be interesting for the Committee to know that, in discussions we have had already with Defra and National England, there does appear to be somewhat of a reluctance to use Pillar II money in the way that we have suggested for those grazing systems in the moorland. The view

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appears to be that, if we slap a little bit more Pillar I money up there, then the job will be done. I do not think that is the case. We need to have something rather more thought through for that.

**Q234 Neil Parish:** On the Pillar I money being moved, are you just slightly worried—and this is particularly to Mr Dunn—that it might increase the rent levels? If the single farm payment levels go up, will that affect the rents?

**George Dunn:** Of course, single farm payment is a relevant factor in a rent review process. We cannot avoid that; it is part of the return that the farmer gets from farming the land. We take an old-fashioned view, though, and say that the return to the landowner is the rent and should not be the subsidy, so we do reject those situations where subsidy finds its way directly into the back pockets of landlords. There is a discussion to be had between the tenant and the landowner as to the right rent to be paid. We have never shied away from the fact that the payments received are relevant factors in the rent review process.

When you look at agri-environment payments, they tend to be paid for income forgone. So long as landlords and their agents do not double-count that when they are trying to get rent from individuals, when they see how much individuals are getting through Pillar II, because they are actually having to have extra costs to do that, then there is a reasonable discussion to be had between landlord and tenant as to what the rent should be.

**Q235 Neil Parish:** Is there a risk that changes to Pillar II schemes, such as removal of the separate upland scheme, may undermine increased support under Pillar I? You may gain on one hand and lose on the other.

**George Dunn:** You are right; there is obviously a pendulum here. You move it one way and you take from the other, so there is a concern. There is only a set amount of money here, but there needs to be a proper thought-through scheme that targets the sorts of benefits and land management that we want for those areas.

**Neil Parish:** Mr Bailey, do you have anything to add?

**James Bailey:** I know that some of my colleagues are keen on having the maximum amount of Pillar II money, but we do also need to be mindful of the amount that we need to do what we require. We should not just get as much as we can. We should clearly be modulating the amount that we need to deliver what we think is required. There is a sum that needs to be done there, I believe.

**Chair:** I omitted to refer to my entry on the Members Register. I apologise for that.

**Q236 Sheryll Murray:** Would you transfer the maximum of 15% from Pillar I to Pillar II? Would it advantage or disadvantage English farmers, and why?

**George Dunn:** That is not exactly the right question, whether or not you transfer the maximum. What we do not know, as I said at the beginning, is what the programme is for Pillar II. Until we know that, and how much we need to spend through Pillar II, you

cannot have a reasonable discussion about how much you need to be transferring. It might be 15%. We do not think that it is, but I do not think you can have that discussion without really knowing the programme of work to be taken forward. As Jim has rightly said, we should not transfer any more than we need to provide the benefits that we are looking to achieve. There are some question marks over whether the existing schemes are providing the benefits that we really want to achieve in any case, so that is an unanswerable question until the Secretary of State tells us what he thinks he wants to do under Pillar II.

**James Bailey:** I answered the question before they asked it, George.

**Q237 Sheryll Murray:** Do you have any idea of an ideal percentage, perhaps, from the Pillar I budget that the Government should transfer to Pillar II?

**George Dunn:** The answer again is no, because we have not yet seen or had a discussion or a debate with the Secretary of State about what Pillar II will look like.

**Q238 Sheryll Murray:** When do you anticipate having a debate with the Secretary of State?

**George Dunn:** The Secretary of State did promise in the summer it would be an early debate, and here we are in mid-autumn without yet having that debate, so we are waiting with bated breath to have it. There has been some stakeholder engagement, but we have not yet seen a proper programme of costed proposals. Of course, the Secretary of State has the option of setting one rate this year and coming back for a second bite of the cherry in future. If the Secretary of State is not in a position to tell us exactly how the money should be spent, then he should perhaps take a conservative position and have a lower rate of modulation for this year and then come back to it again next year when he is in a better position to tell us what he wants to do.

**Q239 Sheryll Murray:** Do you think it is important that our farmers, then, are operating on a level playing field with the farmers from other Member States?

**George Dunn:** There is certainly a need to ensure that we do not disadvantage our farming industry. Of course, as I alluded to at the beginning, we have differences between the four countries within the United Kingdom, so there will be issues in ensuring that we do not have a system that disadvantages UK farmers in comparison to the other Member States of the Union.

**Q240 Sheryll Murray:** Going back to your previous answers, have you a date for any meeting with the Secretary of State, or have you met with the Secretary of State up to now?

**George Dunn:** Meetings with the Secretary of State go on all the time, and there is a great amount of stakeholder engagement. That is great, but there is a danger that you have lots of activity but not much achievement. There is quite a lot of activity at the moment; I am not sure how much achievement we are yet seeing, and we are still waiting for the publication of the official consultation document on

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implementation. Yes, there is a lot of discussion, but it is still much awaited.

**Q241 Chair:** Are you surprised that the Government has not launched the consultation document yet? Do you think that four weeks is long enough in which to consult?

**George Dunn:** I am surprised, but given that we had a reshuffle of Ministers, clearly officials will want to make sure that the new team of Ministers are up to speed with what the Government wish to propose.

**Q242 Ms Ritchie:** This question is to Mr Dunn of the Tenant Farmer Association. In your evidence, you put the case for a payment cap. Is there a risk that such a cap might encourage larger farms to break up in order to continue claiming large sums of CAP support?

**George Dunn:** Of course there is a danger, and no doubt there will be smart firms of land agents around the country already putting together plans to advise those large landowners and landholders to put in place whatever schemes they can. In fact, the regulations, as I read them, provide that Member States have to guard against such activity, and it would be how RPA addresses the issue of individuals wishing to split up their businesses in order to gain greater support through the CAP. There is a mechanism already in place to allow that to happen, and we know who these individuals are. In the evidence, I referred to the answer given to the Member of Parliament on the 174 individuals who are above what we consider to be a reasonable cap of €300,000. You can keep an eye on 174 individuals and what they do, I would have thought. It seems relatively straightforward to make sure that if they do split businesses, they are doing it for the right reasons and not simply to take advantage of the payment cap.

**Q243 Ms Ritchie:** Why might a farmer need more than €300,000 of taxpayer support?

**George Dunn:** I am perhaps not the right person to answer that question, because we would argue that they do not need it.

**Ms Ritchie:** I thought you might have some suggestion.

**James Bailey:** I will just add a little bit to that, because I am supportive of a cap at the right level. It is about getting the detail right, isn't it? You could also say that maybe you should have an incentive at the bottom level, so you could load the first €100,000 instead of stopping at the second. There are different ways of getting the same thing. It is difficult to say, if you want a level playing field, that a cap should be had, but I do believe that in general that makes the whole CAP more acceptable to the taxpayer. I do think at the largest end of the scale in some of our most productive land, reliance on the taxpayers' money to get those outcomes is not as important. Still, in the less productive land, moving into the uplands and specially designated areas, special protected areas, clearly you have extra constraints where economic activity in agriculture is less beneficial, it is still a lot cheaper to support agriculture than it is to try and

manage those places in other ways. These days, thank goodness, as a farmer, we do need the produce.

**George Dunn:** The politics of this are quite interesting, because here we have a Secretary of State in a Government Department that is pretty anti-Pillar I payments. The Tenant Farmers Association is not in any way anti-Pillar I payments. We think they continue to be a very important source of funding for the industry, and for a very long time to come, but here is a Government Department that has espoused its antithesis to Pillar I, and yet it is not interested in capping payments under Pillar I and putting the money that would be saved from that into Pillar II, where it appears to be really excited about doing business through Pillar II. Why do we have a Secretary of State that is in that position of being pretty anti-Pillar I, but not wanting to take money from the top recipients and stick it into Pillar II, which is a policy he appears to like?

**Q244 Sheryll Murray:** Do you think that, if you did cap at €300,000 or even less, it might stop the incentive for people to want to grow their businesses?

**George Dunn:** The incentive to grow businesses is a complex beast.

**Sheryll Murray:** I am just playing devil's advocate.

**George Dunn:** No, but if we are saying that the only reason that people are growing businesses is to capitalise on CAP support, I am not sure that that would be supported in the marketplace. If you look at some of the sectors that are not supported, such as poultry, pigs etc, there are some very large businesses in those sectors that do not get the support of other sectors and do not appear to be restricted in their patterns of growth. I do not think it would necessarily follow.

**Q245 Mrs Lewell-Buck:** How should the Government determine who is an active farmer? What problems do you see occurring between tenants, graziers and landowners?

**James Bailey:** There are two questions there. I will let George deal with the active farmer, and then I will have a go at the second one.

**George Dunn:** We already have, within the European regulations as being drafted, a stab at what it means to be an active farmer. There are some issues that are highlighted as individuals who should be on a negative list. However there is also, as we said in our evidence, the flexibility for the Secretary of State to add to that list of individuals. Of course we want to have a system that is workable and does not provide too many burdens on the sector or the Government Departments in implementing it. We believe that added to the negative list of individuals who should be precluded from being defined as an active farmer are those who are not in occupation of land or rights of common, those that are not taking an entrepreneurial risk and not in day-to-day management control of that land. This would preclude quite a lot of individuals who now are able to claim subsidy through sorts of sham agreements such as contract farming, share farming and partnerships, where they are pretending that they are in occupation and taking an active interest and entrepreneurial risk,



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but they are not. We think there should be an added element to the negative list of those individuals.

**James Bailey:** Clearly, on the question of the relationship between the tenants and the landlords, the tenant/landlord situation is a contract, is it not? We also need to remember that there are many other dynamics between the tenant and the landlord when you are delivering an outcome for agricultural support. There can also be other dynamics that can influence that bargain, if you like. We do need to make sure that, so long as the person meets the requirement for agricultural support, that goes to the person doing the job. In many cases, a tenant may be beholden for family jobs or other situations within their locality, and so we need to be careful that it is judged by the agricultural work they do and does not get subdivided by other pressures.

**George Dunn:** If we put commons on one side for the moment, and just look at the landlord and tenant in an occupation, there is a twilight zone where within the landlord/tenant situation, quite clearly it is the tenant who has the land at his disposal, and is able to claim under the Pillar I scheme. We might come onto dual use a bit later, but there are situations where tenancies are being brought to a conclusion and decisions are being made about how those tenancies or that land should be farmed going forward. In some instances, we are seeing previous tenants being offered other arrangements such as contract farming arrangements, share farming arrangements and grazing licences in order to try and attempt to put the landowner in pole position to be able to claim whatever comes in 2015. In a lot of cases, sadly, some of the agreements that have come to a conclusion have contained clauses that require the outgoing tenant to pass the SPS entitlements to the landlord for little or no consideration in comparison to their value, so the landlord is very much in pole position when he gets those in his hands. We think there is work that needs to be done on the active-farmer definition to stop that twilight zone.

We do not think it is necessary for applicants to have to submit vast amounts of information and evidence at the point of the application. These things can be checked on inspection to see whether or not people are passing the active-farmer test. It will be a deterrent as opposed to something that will add a burden.

**Q246 Mrs Lewell-Buck:** So you would like to see some safeguards in place, but you think that that needs to be regulated.

**George Dunn:** Yes, there needs to be regulation about it. We do not foresee there needing to be vast amounts of information at the point of application, but individuals who make an application need to be clearly aware that, should they have an inspection, they will be asked to provide evidence at that stage that they are actually the active farmer.

**Q247 Mrs Lewell-Buck:** You feel that the Government should do that inspection.

**George Dunn:** Definitely.

**Q248 Chair:** Can I just ask a couple of questions on this? Do you think that tenant farmers are treated in a

particular way in England as opposed to the rest of the United Kingdom, and as opposed to the rest of Europe?

**James Bailey:** I could not answer that because I do not know much about the rest of Europe and tenancy, I am afraid.

**George Dunn:** I am not so sure what you are driving at, Madam Chairman, but I would say obviously—

**Chair:** I remember having conversations with Franz Fischler and Marianne Fischer Boel on behalf of tenants, when I was an MEP, just trying to explain the particular circumstances of tenants.

**George Dunn:** I would tend to suggest that there is a difference in the way that tenants are treated in England, depending on who their landlord is. Sometimes we find that the old-money landlords, the dukes, earls and lords are the better landlords because they have been landlords forever and want to be landlords forever, and develop good relationships with their tenants. In some cases, they have in-hand advisers. Sadly, it is the new-money landlords, who take very little interest in their estates and employ big firms of agents to do the management on their behalf, where we have the difficulty. I do not think there is necessarily a difference of treatment across Member States, but there is a difference of treatment depending on who your landlord is and who is helping them manage those units.

**Q249 Chair:** We have heard reports during the course of this inquiry that some landlords are taking 70% of an agreement in administration charges. Do you have any evidence of that happening?

**George Dunn:** I am not aware of those sorts of arrangements coming across my desk. Obviously, we are aware of many situations where landlords' agents are taking a pretty aggressive approach in rent reviews, and also in these new arrangements that I was talking about. I am not aware of that particular figure being quoted at me for the administration charge.

**James Bailey:** In the Pillar II stewardship schemes, that is an issue, but in the general landlord/tenant schemes, clearly it is the person concerned with the land that should be getting the support, because if the landlord takes the support payment then there is no incentive to put in the investment that you need to run a viable business in the longer term. Clearly, it is important that this is what goes to the base of the investment, and any extra profit from that should come out through the rent. When it comes to dual use or common land, as you say, then the issue is that the person doing the work that qualifies for support should be the one getting the support.

**Q250 Chair:** Could you confirm whether there are situations, or would you say there are no situations, in Pillar II stewardship schemes where landlords/landowners are taking up to 70% in administration charges?

**James Bailey:** Madam Chairman, I just have a draft report here from the national Foundation for Common Land, which is the apportionment of agri-environment schemes and monies on common land in England. That has been compiled out of a questionnaire of 200

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English commoners. There is a lot of detailed information as to how those various agreements have been reported here, but it does conclude that there is a wild variation in how that happens from maybe a 50%-50% split. The figures are quoted in Cumbria that 95% of the money goes to the grazing. The figures in Durham are that 50% goes to the grazing. I have to say, my own experience of those schemes is that, when it comes to the actual apportionment of multi-stakeholder schemes, Natural England have not been prepared to get involved to ensure that the money goes into the hands of the person doing the prescribed job. To be honest, I think that is tantamount to an abuse of the taxpayers' money.

**Q251 Chair:** Would you be able to submit that?

**James Bailey:** This is a draft. Do you want me to send it as a draft? I do not think there will be many amendments to it, and it will be coming out soon. You heard it here first, Madam Chairman.

**George Dunn:** When you rephrased your question slightly, you said up to 70%. We are aware of situations where tenants have had to seek consent from their landlords for entry into agri-environment schemes, either because the tenancies preclude them or they have not got a long enough agreement in order to fulfil the commitments of the scheme, where payments have been asked for by landlords for the consent being offered either in the form of additional rent or in payments themselves. However, they are wide and various and I could not give you a set figure for what they are.

**Q252 Chair:** You would not suggest that that is what was intended under the current wave.

**George Dunn:** Clearly not what was intended, but when you throw a subsidy into the system, and you have a landlord/tenant system that seems to jar with it now in the way that it does, then inevitably both parties are going to try and seek as much value as they can from the system.

**Q253 Neil Parish:** Mr Dunn, you talked about dual use payments. Should the implementation of the new CAP bring an end to the practice of dual use payments?

**George Dunn:** We have said for a long time that we think that dual use had had its day. Of course, in Wales they have already decided to bring dual use to an end a little while ago. However, we have said that we want people to have as much notice as possible that the arrangements are coming to an end. We would see that, in implementing the new regime from 2015, it should be the case that dual use is no longer accepted as a feature going forward, but that for the remaining years of the current regime, dual use continues to allow people to put in place whatever measures they need to make adjustments.

**Q254 Neil Parish:** What do you consider to be the negative impact on the tenant of dual use?

**George Dunn:** We have seen many situations where sadly, the landlord is the applicant for the agri-environment scheme, and has certain conditions that need to be met for that scheme to be maintained.

Those conditions are then passed down in a contract of tenancy to an individual, who is then required to adhere to those, but without getting the benefit of the subsidy, which goes to the landowner. The argument is, of course, that the market and the rents will adjust, but we know that the rental market is really quite thin. There is a great demand for individuals, particularly from young people looking to get a start in the industry, so regularly you could have 60 or 70 people interested in a farm, holding or block of land either to increase the size of their business or to get a foothold on the ladder. Sadly, people do therefore get themselves into positions of signing up to agreements that may not be in their best economic interest. The ability for landlords to be able to do that fuels that cycle, so we would say the ability of a landlord to claim Pillar II payments should be removed in a situation where he is letting the farm as a tenancy.

**Neil Parish:** Do you want to add anything, Mr Bailey?

**James Bailey:** It is an important distinction. I am not sure I am 100% with the tenant farmers on this, but I am about 95%. The point is that going into an agri-environment scheme often is at the cost of production and efficiency. If that ability is taken away from a land user before he gets his land, then clearly he has to operate within a reduced efficiency. The key to it is that the criteria for being able to access those schemes needs to be the same, so then there would be levels of scheme. Particularly in Pillar II, for instance, capital payments are something which we have sadly lost in agricultural support. The ability to maintain field boundaries and things like that are very simple public goods that agricultural businesses can take advantage of.

If there was support, particularly in designated or sensitive areas, or landscape designations for enhanced environmental, and hence landscape, benefits that a farmer could take on, he could choose to take those levels of extra investment, and, if you like, buy public goods with public money.

**Q255 Neil Parish:** The final part of my question is, if you have a large estate, would ending the practice of dual use undermine the goal of landscape-wide agreements with estates, and are you more likely to have the capability to deliver in a co-ordinate way? If you have a large estate delivering environmental schemes, are you best placed to do that rather than the individual tenants?

**George Dunn:** Clearly if you have landscape-scale outcomes that you are trying to obtain, the easiest way to do that is to pay the person who owns the whole of the landscape in order to do that. We are saying that this is a Common Agricultural Policy that has elements of supporting agriculture and agri-environment schemes to individuals who are farmers in their own account. Inevitably, the policy has to be that you have to work for those landscape-scale issues through the farmers who are farming that landscape rather than the person who owns it. It is easy for the Government to get what it wants by doing what it is doing, but we do not think it is the right thing to do morally because the farmers are the ones who should be getting the support.

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**Q256 Neil Parish:** I suppose, putting it the other way round, the tenants could get together and pay the landlord or whomever to do the schemes throughout the whole. Then the control would be in the tenant's hand and not necessarily the landlord. Is that how you see it?

**George Dunn:** We have said, and I have said in this room, we take the old-fashioned view that the landlord's return is the rent. The tenants should be able to utilise the land for productive purposes and claim schemes etc, and remunerate the landlord through the rent. We get concerned when the landlord has already pocketed the support payment and then starts the negotiations.

**Q257 Ms Ritchie:** Is the Government right to consider setting five hectares as the minimum claim threshold?

**James Bailey:** I think so.

**George Dunn:** Yes, I would agree. When the single payment scheme was introduced in 2005 we suddenly found 40,000 new applicants to the system. Many of them were basically pony paddock owners that filled up the whole of the RPA system, so it is right that we should have a reasonable threshold. Five hectares seems reasonable, from our perspective.

**Q258 Sheryll Murray:** Can we turn to commons?

**George Dunn:** Then I can shut up.

**Sheryll Murray:** Are there any problems with the way common land is treated under the current CAP system? If so, what might the Government do to address this under the new deal?

**James Bailey:** How long have you got?

**Sheryll Murray:** Like Madam Chairman, I have got some commoners in my constituency as well.

**James Bailey:** Indeed we have. I think there are problems. The fundamental difference, as I said earlier, is that the grazing on commons belongs to the commoners, and the land belongs to the landowner. The landowner never has owned the grazing of the commons. Under the feudal system, it was given to landowners subject to the rights of our commoners. That is how we are, so we need to make sure that those two interests do not foul up the delivery of the management that the common agricultural policy is seeking to get. That is my only slight reservation. When you say "dual funding" I am not sure whether it is two separate schemes that we need, or whether it is just a better framework for delivering one scheme to the different stakeholders. Clearly there are instances where extra requirements are placed on one side or the other, which are not part of the scheme. In a sense, why should the taxpayer be providing those?

**Q259 Chair:** If I could press you, Mr Dunn, I think you referred earlier to the position of graziers on common land. Is there anything you would like to elaborate on?

**George Dunn:** I would not pretend to be an expert, Madam Chairman, on the commons issue, so I will keep my counsel on that front.

**Q260 Chair:** Could I just put one question that I think is in the NFU memorandum rather than yours?

We are told by the NFU that the way that the current single farm payment is implemented in relation to common land is causing significant problems for some farmers in the hills and uplands. Some were not allocated the correct amount of entitlements for the common; others were told they could not claim at all. Some commons areas have gone unclaimed because rights recorded on the Common Land Register do not sit with active farmers. Do you believe that these issues should be redressed, and do you think there will be the opportunity to do so through this reform of the CAP?

**James Bailey:** I sincerely hope, Madam, Chairman, that this Committee will bring the opportunity for that to be looked at, because it does need to be looked at quite carefully. There is always going to be a difficulty because of the wide variation. I refer to this report, which is quite interesting, given that variation. Of course, there needs to be a far better prescription as to who is entitled to what part of the payment for doing which job.

As I referred to in the first instance, I do not know up and down the country, but in the North York Moors the Pillar II money on the SSSI designation, I think, is £124 million. The question is, if that is a SSSI, if we had management control over that for the last 20 something years, are we getting good value for that £124 million? Would a grazing scheme produce the same outcomes for less? I think it perhaps would.

Moving down the line, sooner or later when you have a management designation, you have to manage that in the taxpayers' interests. Would you say to someone going through a 30 mile per hour speed limit, "You should be compensated for reducing to 30 miles per hour"? I do not think you would. Sooner or later, we need to be using those designations to say, "Well, where there is economic viability, then controls can manage that. Where there is not economic viability, we need to use support, particularly in upland grazing, to encourage that activity." I think the outcomes we are getting from the money need to be looked at again. What I would add about the single farm payment is that it is quite a basic support, and there is a real danger on common land of being too prescriptive. As I first said, you have to look at a farm business as a unit: maybe a partner on common land, maybe a partner not on common land. If it gets too prescriptive in saying that, "You must only get paid for every beast that is on the common and never shall you be paid when it leaves the common," it will stop farmers from producing in an efficient fashion.

The final outcome is that whoever is delivering those schemes needs to be more involved in putting the money that the taxpayers give into the hands of the people doing what the taxpayers expect to get for it.

**George Dunn:** I hesitate to stray into the areas of commons when there is a real expert sitting beside me, but I think what Defra and the RPA probably did do under the last scheme was to put common land in with the "too difficult" pile to be brought back to attention later, and never really got round to it. Having been a member of the Future of Farming Group under David Fursdon's chairmanship, one of the conclusions we made was that Defra needs to bone up on the sort of business structures that exist in rural communities

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and agriculture, which is sadly lacking within Defra. Commons is a key element of that. The knowledge about common land within Defra is severely lacking, and we definitely need to find a way of resolving that issue and other business structures so that the CAP reform implementation understands and is intelligent about the way in which agriculture takes place in this country.

One side issue is, of course, there are rights of common, as Jim has explained, but we also have tenants that are using landlords' surplus rights under tenancy agreements, who are not listed on the Commons Register, but are still necessarily using those rights. We need to make sure in any scheme that we are including those with rights in perpetuity on the register, and those who are using landlords' surplus rights as well.

**Q261 Mrs Lewell-Buck:** Moving on to greening, are there any particular aspects of the Commission's proposals that are causing you concern?

**George Dunn:** All of them, but principally the three-crop rule is going to cause some major difficulties for some of our members. There are some derogations in that but I think that that is going to be a particular problem for us going forward. If we have the permanent pasture situation operated at a national level, that will clearly ease some of the concern with that particular provision.

On ecological focus areas, we have a particular concern from the Tenant Farmers Association because, when you are a tenant farmer, you wish to rent in the productive areas of the landlord's holding, and many of the issues that may be considered to be EFA might be reserved by the landlord—woodlands and buffer strips etc. For a tenant farmer to find the relevant amount of EFA, it might be more difficult than for an owner-occupier to find the same amount of EFA, so we need to have a discussion with Defra as to what is going to qualify as an ecological focus area item. We have some concerns with that, but the three-crop rule particularly is one that we are very concerned about.

**Q262 Mrs Lewell-Buck:** You might have already answered the question I was going to ask, but would you prefer the Government to opt for a certification scheme or would you want them to stick with the standard measures put forward by the Commission?

**George Dunn:** I do not think it is an either/or; it is both. The Commission provisions are there and they should be available for individuals to choose if they so desire, because other Member States, as was said earlier on, will be using those situations. We are very interested in talking to the Secretary of State about developing a parallel line which has some equivalence to the greening measures to provide another flexible route for achieving the benefits that we want to see through the greening elements.

**Q263 Mrs Lewell-Buck:** You are looking for some flexibility and common sense to match the needs of the farmers.

**George Dunn:** Yes, it is not an either/or; it is both.

**Q264 Mrs Lewell-Buck:** The National Parks argue that the permanent grassland should be assessed at farm level rather than at national or regional level. Would this involve a costly remapping exercise for the RPA?

**George Dunn:** I would say so, and we are arguing for it to be looked at at a national level, so we would reject, from the TFA's perspective, that aspect of the National Parks report. Jim, you might have a different view on that.

**James Bailey:** As Chairman of National Parks England, I should have, but I am not exactly sure what it is. It is important that we make sure we get suitable public goods from taxpayers' money in those places that do not impinge on the viability of the businesses using that land.

**Q265 Mrs Lewell-Buck:** What kind of measures can the Government use to assess whether greening is delivering for the taxpayer?

**James Bailey:** If you take the whole dynamics of agricultural support, that greening does make it more acceptable to the taxpayer. I fully believe that we should have nothing to fear from the taxpayer. We should be able to go and say to any reasonable taxpayer that they are getting good value for their money, and I truly believe that. However, if you ask whether a huge, intensive, multinational agri-business delivers good environmental value for the taxpayer, maybe not; its priority is delivering produce, economics and efficiency. Clearly, the more traditional mixed-farmed landscape and the social benefits that kind of go with that, in less productive areas, do deliver public benefits. Maintaining that as best we can does make the whole system more acceptable to the taxpayer. It should not be a burden on production, but there is a lot of production going on which is greener and more acceptable to the taxpayer, and we should support that and recognise it.

**George Dunn:** I also think that we make a mistake if we think that Pillar I is not delivering public benefits. Pillar I is certainly delivering public benefits. My members use the profits that they make, both from farming the land and from the receipts that they get from the Government, to ensure that their holdings are maintained and that the environmental assets that they are managing are maintained as well. I have many conversations with my members when they are delighted about seeing wildlife, biodiversity and species-rich grasslands in their farms, which they are funding themselves through the profits that they make from the whole farming system. I think we should not make the assumption that Pillar II is delivering everything that we want and that greening is going to provide lots more. I think the greening elements confuse matters.

**Chair:** I am going to move it along, because we will have a Division shortly.

**Q266 Neil Parish:** Talking about greening, and given that the pot for agri-environment schemes is likely to be much reduced, what should the new schemes focus on and what are your main concerns about the present proposals? You talked a bit about the schemes earlier on.

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**George Dunn:** You are right: there is pressure on the Pillar II pot, which, again, going back to an earlier question, underlines the importance of using the capping so that you can put more money back into Pillar II to provide the budget that you want and not take as much through modulation. It is important we have schemes that are outcome-driven, and our concern with the schemes that we have traditionally known and loved over the past seven or eight years have been very process-driven. We need to have a grown-up discussion with the Government about what it is they want achieved and what outcomes they want. The best people to articulate how best to get those outcomes are the grassroots farmers themselves. We need a two-way dialogue between those who are looking for the outcomes that are required by taxpayers and the management that might achieve those at a grassroots level. You might have two different management regimes across two holdings providing the same outcome, so I think there needs to be a—

**Q267 Neil Parish:** Can I press you on that point? Are you sure at the moment that grassroots farmers are getting their message through to Defra and the Ministers?

**George Dunn:** No, I do not think they are. In a previous incarnation, I was involved in reviewing schemes like the ESA schemes when I was an economist for MAFF. One of the conclusions that we reached at the time was that the best schemes were those where there were great project officers who knew their farming community, had dialogues with the farming community and could develop schemes, almost on a bespoke basis, to reach the outcomes that they wanted. Sadly, I think we lost that over time when engagement has become more process-driven.

**Q268 Neil Parish:** What is the optimum length of time for an agri-environment scheme, in your view?

**George Dunn:** It would be different for each outcome. If you are looking for a salt marsh, you are going to be looking for a long period of time. If you are looking for a capital scheme, it may be a very short period of time. You cannot be prescriptive about that.

**James Bailey:** Clearly, capital schemes are a very important bit of what comes next, and I do think some of the schemes we have now are overly prescriptive, to the point that they are not being terribly efficient in delivering what is expected of them.

**Q269 Neil Parish:** How do you rate the performance of the present schemes and Natural England, in terms of both advice and inspection?

**George Dunn:** From my perspective, I think Natural England have come a long way. Certainly, our engagement over time has much improved. In times past, we have had some difficult conversations with Natural England, and they have taken particularly difficult stances on issues, but, over time, they have learned the importance of engaging productively with farmers at a grassroots level. The way in which they have managed to deal with the budget cuts that they had was quite sensible. They took out the middle-management tier, if you like, but kept the frontline

people who were engaging with the farming community. We have seen Natural England come into its own.

**Chair:** Mr Bailey, we do need to speed up because we are limited for time, but do contribute.

**James Bailey:** I was not going to disagree with that. What I would say is that the current batch of schemes are overly complex, and I think we would get better value from something that was a bit simpler, particularly giving access to capital funding for environmental benefit.

**Q270 Ms Ritchie:** Is the potential for a gap in funding for those farmers whose ELS schemes expire in 2014 and 2015 a concern?

**George Dunn:** For brevity, yes, and it needs to be addressed as soon as possible.

**Q271 Mrs Lewell-Buck:** The Government has indicated that Local Enterprise Partnerships will be responsible for delivering part of the rural development budget. I am sure you are aware that LEPs often do not operate in rural areas, so I am just curious as to whether you think they have the expertise and accountability to be able to do so.

**James Bailey:** It is a big question. LEPs are clearly not what the RDAs were, and I do not think that they have the same capacity to deliver a lot of the rural stuff that they did do. However, there are other partners that they can work with to do that. Probably the LEPs would not be involved in agricultural support; it is more to do with the higher-level stuff. There might be an umbrella incentive for getting landscape-scale advantage, beyond a single landowner or business. They have a role to play but there is a capacity issue that we need to see.

**Q272 Mrs Lewell-Buck:** Do you think that, if the LEPs incorporated other people to the table and brought people who did have the knowledge and expertise, it could work that way?

**James Bailey:** Either that or to, if you like, second or employ those people to deliver on their behalf: National Parks, AONBs and the NFU. Who knows? Clearly, there are people out there with that expertise, should they need it.

**George Dunn:** From my perspective, I am yet to really appreciate what benefit LEPs bring. I am always wary of putting gatekeepers in the way between those who are delivering and those who are seeking the policy outcomes. I go back to what I said earlier: you can have lots of activity but not much achievement, and there is a lot of activity and talking in those institutions, but not much delivery.

**Q273 Mrs Lewell-Buck:** It will be interesting when you have a rural/urban constituency and you have the LEPs trying to work together from two completely different viewpoints. That is when it will be quite interesting.

**George Dunn:** That creation of gatekeepers is unhelpful.

**Q274 Chair:** In terms of something you said earlier on the Digital by Default, do you believe that the

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LEPs could have a role in putting pressure on both the county council, in the example of North Yorkshire, but also the provider, BT, in bringing digital sooner and faster speeds to rural areas where the farm is very far removed from the cabinet?

**James Bailey:** I must say that there has been a lot of talk about who should do this or why it has not happened. Clearly, the fundamental point of this is the viability. As the viability of digital keeps increasing, the bit that is left, which the taxpayer has to support, gets less and less attractive, and nobody is prepared to pick up that last 5% of connectivity. LEPs could do it but it is passing the buck. Somebody just needs to get hold of it and say, "Let us get this done."

**George Dunn:** This Committee's own report has looked at that issue, and there are some great local schemes out there that are doing it, despite the broadband commitment of the Government. I am not sure that we need LEPs, necessarily, to do that job.

**Q275 Sheryll Murray:** Madam Chairman, I will very quickly incorporate this into my question. In previous work, we have been quite critical of LEPs because of their lack of accountability and the resources that they have. What do you think about that? Finally, could I turn to the recommendations of Richard Macdonald task force and ask whether the enforcement of compliance has become noticeably proportionate and risk-based following the recommendations of Richard Macdonald?

**George Dunn:** On the first question, I would agree with you: I would question the benefit that we get through the LEP structure. On the second question, the answer is that there is a lot more that could be done to implement the Macdonald recommendations. The first-year report that the Macdonald implementation group showed some of the frustration with the lack of progress that there has been in putting in place—

**Q276 Sheryll Murray:** Has anything changed?

**George Dunn:** Not much has changed.

**Q277 Sheryll Murray:** Could you give us some examples of what you think has changed and what could change?

**George Dunn:** What has changed is there has been a lot more talk about how earned recognition is to be defined and used, but we have yet to see it come to

any fruition. In other work that I have been involved with in the Tenancy Reform Industry Group, we managed to make great progress on certain of the areas that Richard said that we should, but the Government sits on the regulations that we drafted for them and they are yet to be implemented.

**Q278 Neil Parish:** Government is slow.

**George Dunn:** Yes.

**James Bailey:** On the point about the LEPs, I do think that the point that we have slightly missed is that there is a job to be done in leveraging in European money and in getting the best value out of our European situation, and the old rural development agencies used to do that very well. It is all about a workman and his tools, and I am sure that the LEPs could do that, but there is a bit of a gap there that people are not really picking up on in terms of whether we are getting the maximum that we could out of the European funding that is available in the pot. I am just not quite sure who is picking that tab up. Certainly, we are missing it in North Yorkshire at the moment.

**Q279 Sheryll Murray:** If I could just ask a supplementary there, some of the old RDA areas were very large. Coming from Cornwall, I am very aware that we are different, because we have Objective 1, but do you not think that the LEPs can deliver more closely to the stakeholders than, perhaps, the old regions?

**James Bailey:** I sincerely hope so.

**George Dunn:** Evidence today would say otherwise.

**Q280 Neil Parish:** We have Richard Macdonald coming in next week. What should we be asking him to get rid of in the way of rules and regulations? You have one minute.

**George Dunn:** I might write to you on that one.

**Q281 Chair:** As regards the LEADER programme, are you as relaxed as you appear about the transitional arrangements?

**George Dunn:** No, we need to get the transitional arrangements sorted, and sorted pretty quickly. I was agreeing that we needed action on that fast.

**Chair:** You have both been extremely kind and generous with your time before the Committee. We are most grateful.

### Examination of Witnesses

*Witnesses:* **Harry Cotterell**, President, Country Land and Business Association, and **George Winn-Darley**, Moorland Association representative for the North York Moors, gave evidence.

**Q282 Chair:** I now take the opportunity to welcome our next two witnesses: Harry Cotterell, who is well known to the Committee as President of the CLA; and George Winn-Darley from my own area, so a particularly warm welcome to you, George. Would you like to each present yourselves, as the other witnesses did, just to give your name?

**Harry Cotterell:** Harry Cotterell, President of the CLA.

**George Winn-Darley:** George Winn-Darley. I am a landowner in North Yorkshire, rural chartered surveyor and valuer. You have me down as a representative of the Moorland Association for the North York Moors, which is correct, but I do not lead on CAP reform and agri-environment schemes for them. That is done by the Secretary, but you wanted me instead of the Secretary, so I am very happy to do what I can to help today.

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**Q283 Chair:** You are both very knowledgeable. Thank you very much for participating in our inquiry. Just a general question to begin with: do you believe that the proposed deal that is being negotiated is a good deal for UK farmers and landowners?

**Harry Cotterell:** If you go back to 2007, the agricultural political landscape at that time was pretty bleak in terms of the CAP regime, from our point of view. Now, the settlement that we look like reaching and the implementation that Defra looks to be going through with is a reasonable settlement. Obviously, farmers will be doing more for less, but that is broadly the direction of travel in this policy and so, yes, broadly speaking, we are reasonably content with the settlement as it looks like finishing up.

**George Winn-Darley:** We need farmers and land managers, especially in the hills, particularly if they are to optimise the many side benefits that they provide, such as biodiversity, public access, the landscape backdrop for tourism, archaeological preservation, drinking water supply, climate change mitigation, carbon storage, flood storage and management, the vital economic support for rural communities, as well the principal output of most farmers, which is food production. Support for upland farmers and land managers is needed. The wide range of public benefits that flow from their management is undervalued. Yes, the CAP does represent a good deal for the taxpayer.

**Q284 Chair:** It is well known, and we have heard again during the course of the inquiry, that the 2005 arrangements initially led to a cost of an individual farm payment application being processed of £1,700 in England. Where do you both foresee that the most difficulties will arise with the bodies being charged with inspecting and checking compliance, and making payments under the new revised CAP?

**Harry Cotterell:** I would preface any remark on this subject by pointing out the incredible difference between the RPA five years ago and the RPA now. Our organisation, which really was almost snowed under with complaints and problems relating to the old RPA, is now virtually running with hardly any complaints. Quite a lot of them are user error, rather than necessarily RPA error. That is through effective management. We would like to see that effective management continue.

In terms of the RPA, the priority initially must be to get the IT system absolutely right. That was the cause, I suspect, of the majority of the problems at the outset of the existing reform period. We would like to see more join-up between the RPA and Natural England particularly. I find there is too much duplication, and it would make the inspection regimes a little clearer. Broadly speaking, good management from those organisations will actually deliver a lot more than possibly being too prescriptive about how they carry out inspections.

One final point: it is unclear at the moment what is going to be required, because the management of ecological focus areas is as yet not decided. We would be very concerned if we have to go into a complete remapping exercise. The cost of that for the RPA will be pretty horrendous, so that is a major concern. It

looks like, the way EFAs are shaping up at the moment, that is a likely outcome and that makes us nervous.

**George Winn-Darley:** Digital by default is going to be a challenge for those in rural areas who have not yet got adequate broadband coverage. I echo what Mr Cotterell said: that IT must be fit for purpose on this, and that is key. There is a desire for more of the Pillar II money to be delivered competitively. This means that significant resources will need to be expended in preparing applications that will fail. There needs to be a quick and simple screening process to achieve that competitiveness, so that time and resources can be committed to working up detailed applications, which will be guaranteed to be rewarded with a completed scheme.

The young farmers scheme will be an added complication, collecting the data to prove that, for instance, an applicant is the first-time head of a business. That will be open to interpretation. There is a particular problem with entitlements on commons, even assuming they can be rolled over. Especially in the uplands and commons, there is much land that does not have entitlements, due to the problems of mapping and allocation of entitlements stemming from 2005. There should be the ability to claim entitlements without having to buy them from the marketplace to meet this demand, and ensure the uplands get their fair share.

**Q285 Chair:** That might even relate to the question I asked at the end of the last evidence session about many of those entitled to common land not being registered. Are you agreeing that where they have existing entitlements they should be properly registered?

**George Winn-Darley:** That is absolutely right.

**Q286 Chair:** We heard yesterday about people being asked to make their own arrangements in the 10% or the 5% hardest to reach areas for broadband, where it is not expected to get superfast broadband before 2016. Are you aware of any arrangements, particularly locally in my area—it would be good to get it on the record—but more generally Mr Cotterell, where farmers are having to make their own arrangements through satellite and other companies at vast expense? Is there anything you would like to share with us?

**George Winn-Darley:** I am aware of the problem and, in the part of the world that you and I come from, we have NYnet. I have worked and met with them to try to help resolve this problem. It is the final 7% in that particular case that is causing a challenge.

**Harry Cotterell:** As you know, Madam Chairman, we have been very vociferous on broadband for 11 years now. Our concerns are not specific particularly to the single farm payments and the CAP regime; they are across the whole board. Effectively, if you do not have broadband, you are significantly disadvantaged in the modern world at the moment, and that is only going to get worse.

Yes, a lot of our members make alternative arrangements. A lot of our members will pay very large sums of money to bring broadband into commercial developments and that kind of thing, just

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because it is the only way you can let them. I personally have invested in a satellite, which is unbelievably expensive, only moderately efficient and I would much prefer to be on the kind of system that is available in London. George Dunn from the Tenant Farmers Association was right: in hard-to-reach areas where you cannot get broadband, it is only fair that you can fill in a paper copy. That has to be accepted, because it is unreasonable to make a farmer go out and pay for broadband access, or for an agent to do it, for the simple reason that he needs broadband to achieve the filling-in of a claim.

**Q287 Ms Ritchie:** To Mr Cotterell, and maybe, Mr Winn-Darley, you have a view: in your written evidence, you propose more than doubling the payment rate for moorland. What is the justification for this?

**Harry Cotterell:** I think the difficulty is that, firstly, the uplands have existed under a myriad of subsidy regimes for a number of years. For the last half/third of the period of this reform, they have been operating under UELS, which has been a reasonably effective scheme. That is almost certain to disappear, going forward, everyone accepts. Therefore, we believe that it is better to give the uplands some certainty for the period of this reform and to basically take away the disparity between SDA and non-SDA areas, and to move a certain amount of money up the hill above the moorland line, which will then give them some certainty going forward. This Committee is well aware and does not need me to tell them of the huge benefits and difficulties of farming in the uplands. We believe that that is the best and simplest way of dealing with the problem.

**George Winn-Darley:** I set out the list of benefits in an earlier answer today and I echo the points made by Mr Cotterell on this. I would go further to point out that the uplands were badly treated in the last CAP reform, and there is a strong argument for now moving a greater proportion of the money back to the moorland and SDA areas. Furthermore, NELMS will not be as available and will not be available to the more environmentally marginal holdings, which would have benefited from the UELS money that Mr Cotterell referred to. However, if their Pillar I money is supplemented by the moorland and SDA uplift, it will make that money available to support those more environmentally marginal holdings.

**Q288 Ms Ritchie:** Supplementary to those, is there a risk that increasing funding for upland farmers through Pillar I may feed into land and rental prices?

**Harry Cotterell:** It is very difficult to say. There are a lot of factors that determine rental values and this is only one element of it. You are losing UELS, so that is money that has gone, and you are introducing an increased single farm payment. Hopefully one will roughly cancel the other out, and so I would expect it not to be hugely significant in terms of that aspect of rental values.

**George Winn-Darley:** I do not have any more to add on that.

**Q289 Ms Ritchie:** Is it fair to reduce payments to lowland farmers, when they are already going to be most affected by the introduction of greening and the end of ELS schemes?

**Harry Cotterell:** Our view is that it is never easy to say that payments need to be reduced. We would not say that they need to be reduced. The numbers that are being talked about at the moment lead to something like a 2.7% reduction in the single farm payment in the lowland areas, so that is the sort of alteration in the Pillar I pot, if you see me. We think that that is acceptable in this instance. To be fair, we have asked quite a lot of our lowland members and they have not been too concerned about that aspect. Within the country as a whole, there is an understanding that the uplands, because they have few production solutions and provide all the benefits that Mr Winn-Darley has already outlined, really do need the support.

**George Winn-Darley:** I would point out that the relatively small reduction in the lowland rate, if you want to call it that, could be several-fold increased or reduced from that level purely by the changes in the exchange rate. There is a degree of proportionality that needs to be looked at.

**Q290 Chair:** Could I just ask you, on the back of that, to respond to something Mr Dunn said? He does seem to have a point that the landowner receives the rent, so it would be expected that the tenant received the payment for the activity performed. Does that not seem very sensible?

**Harry Cotterell:** The last bit of your question is right: whoever performs the activity should receive the payment or, if there is another mechanism utilised, it should be reflected in the rent. Our concern is that the CAP will get too hung up about landlord and tenant when, in fact, the thing that should be dealing with landlord and tenant is the rent and the contract.

If you start trying to tinker too closely with the CAP system to deal with landlord and tenant, you are almost certainly going to cause some unintended consequence elsewhere, which could take away all the benefits you are trying to achieve. Broadly speaking, we would like to see the landlord and tenant system outside of the CAP, so that there is maximum flexibility in terms of its utilisation. The point you made right at the beginning is absolutely right: whoever does the work or, in the terms of the Pillar I payment, whoever is occupying the land—has the land at their disposal is a perfectly reasonable definition—is the one who should get the payment.

**George Winn-Darley:** I would only add that landlord and tenant very often work in co-operation to get the best out of the system. For instance, landlords will help tenants get into agri-environment schemes. For instance on capital works, landlords might actually go out and do some of the capital works—hedge restorations, dry stone restorations—that the tenant perhaps is not so interested in doing. The tenant, through the scheme that he is in, will claim the capital payments and pass those through to contribute towards the landlord's costs. That sort of partnership working is very important.



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**Q291 Chair:** Do you watch *Downton Abbey*?

**Harry Cotterell:** Certainly not.

**George Winn-Darley:** I do. It is very popular.

**Q292 Chair:** Do you believe that you both pass the *Downton Abbey* test that you are in a partnership with your tenants, a landlord/tenant partnership?

**Harry Cotterell:** Completely. It is a complete anomaly for landlords and for landowners not to seek a good working relationship with their tenants. Quite frankly, it is madness not to. Everyone's objective should be identical, which is maximising profitability for both parties and I am sure George Dunn of the Tenant Farmers Association would totally agree with me on that.

**Q293 Chair:** In our uplands report, we concluded that there should be a dispute resolution mechanism, which currently does not exist, if there are the types of disputes arising that can so easily arise. We have alluded to that in this evidence session and the previous evidence session. Would you both welcome such a dispute resolution mechanism?

**Harry Cotterell:** To be completely honest, Madam Chairman, I do not have a view on that at the moment. I am sure we do. Can I give it to you in writing?

**Chair:** Yes, that works.

**George Winn-Darley:** On HLS schemes, we have actually achieved something in the region of 95% of SSSI moorland having ended up in an HLS scheme. That is due to a great deal of hard work by a lot of people. I am not aware that that resolution process has a huge demand, if we are getting a 95% success rate.

**Q294 Chair:** Who is "we"? You said, "We have achieved a 95% success rate."

**George Winn-Darley:** 95% of SSSI moorland is in an HLS scheme, and that has delivered 96% of heather SSSI moorland being in recovering or favourable condition, which exceeds the Government's target. The "we" is part of the partnership working that we are talking about.

**Q295 Chair:** I do not think either of you would object to such a dispute resolution mechanism if it was deemed to be appropriate. You would not object.

**George Winn-Darley:** I do not know what the proposal is to object to. There are a number of—

**Chair:** It would be good to know if you have some ideas on this. I am accused of leading the witnesses.

**Harry Cotterell:** I know you are not trying to catch me out, but I am just concerned about the crossover with any dispute resolution mechanism that you might be talking about. I am not completely clear about the crossover between that and the Tenancy Reform Industry Group. I do not want to say something that—

**Chair:** We could get very excited about that—tenancy reform.

**Harry Cotterell:** The Tenancy Reform Industry Group on which we and several stakeholders sit. I do not sit on it personally, but I do not want to say anything that would be—

**Chair:** It was not a leading question; that was not intended.

**Harry Cotterell:** Absolutely.

**Q296 Mrs Lewell-Buck:** With regards to the transfer between Pillar I and Pillar II, would transfer of the maximum 15% be a good or bad thing for farmers?

**Harry Cotterell:** I would refer to Mr Dunn's earlier remarks; we think that the programme should be costed before the percentage rate is set. I would agree with Mr Dunn's remarks that, actually, 15% would be too high. We hope that 15% would be too high.

**George Winn-Darley:** The Moorland Association would prefer more money in Pillar II, as it would be targeted but, if it is in Pillar I, then it needs to be fairer. Having done the detailed costing that both Mr Dunn and Mr Cotterell have referred to, if the answer is that 15% is the right answer, then that looks reasonable to me and to the Moorland Association.

**Q297 Neil Parish:** Good afternoon, Mr Cotterell and Mr Winn-Darley. Carrying on with the environmental schemes, given the pot for agri-environment schemes is likely to be reduced, what should the new environmental land management schemes focus on and what are your main concerns about the proposals? It looks like ELS is going to go; what should it be replaced with?

**George Winn-Darley:** HLS agreements need to be considerably simplified. They should run for five years. I think that is part of the question you are wanting to ask.

**Neil Parish:** That has answered my second question, yes. Carry on.

**George Winn-Darley:** Except for in particular cases such as common land, which are complex to get into and which should run for longer, probably the existing 10 years is appropriate. Better value may be obtained by 10-year schemes, but applicants should have the option to break after five years to give them the confidence to enter it in the first place. NELMS should provide an effective upland management system and this should include factors such as a reduction in the risk of wild fire, effective heather regeneration, rewetting and water quality.

**Harry Cotterell:** Targeted outcomes, I think, Mr Parish, in the first instance, and they must be tangible. In terms of targeting, we would not like to see it being targeted in geographical areas. We have concerns that, if nature improvement areas, for example, are used as a criterion to push schemes further up the list, farms and land outside of NIAs will be disadvantaged for no other reason than it is outside of an NIA. We are concerned about the geographical aspect of targeting. We are quite keen to see farm-specific schemes continue. We think that that is a good way of delivery; it is simple and there is little crossover. We are quite taken by the idea that is coming in, in Wales at the moment, which is part-farm schemes, so that farmers can put their environmental delivery land in one area and production land in another, without the two having to significantly cause crossover.

**Neil Parish:** Flexibility, then.

**Harry Cotterell:** Maximum flexibility, I think. The real difficulty is going to be the gap between greening and NELMS, the New Environmental Land Management Scheme. We have high hopes that this will be delivered by farmers in the Campaign for the Farmed Environment, which we have been supporters

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of for a number of years. This has a significant role to play in terms of farmers delivering environmental outcomes on the ground, going forward.

**Q298 Neil Parish:** The final part of my question: Mr Dunn was very supportive of what Natural England has been doing and how they have been managing the present schemes. In terms of advice and inspections, how would you like Natural England to go forward with the new proposals? Are you happy with what they are doing at the moment or what?

**Harry Cotterell:** I do not deal with it. I will hand over to Mr Winn-Darley in a minute, because he deals with them much more on a face-to-face basis. Our principles are that advice and aftercare should be built into the design of the scheme and, therefore, take in the inspection regime as well. Mr Dunn said that the fact that the men on the ground have remained in place is a good thing. We would agree with that. A lot of the relationships between farmers and landowners on the ground are completely driven by the often perceived quality of the Natural England operator on the ground, whose job it is to liaise.

**Q299 Neil Parish:** Do you feel these people are getting enough advice from Natural England?

**Harry Cotterell:** In terms of going forward, we have a bit of a concern, but the actual delivery on the ground, in most places, has been fairly reasonable. Mr Winn-Darley goes head to head.

**George Winn-Darley:** They have undergone a dramatic restructuring and they have lost most of their expert staff. On the applicant side, there is usually one advisor who is expected to deal with all issues, from getting the detail of the RLR mapping correct to identifying the appropriate potential conservation benefits of a particular holding, with reference to the landscape character area targets of that and the implications of those on the farming system; and to be able to understand the practical implications of the detailed administrative process to drive it through to completion.

On Natural England's side, these roles are all dealt with by numerous different people in respect of that same application, which is hugely inefficient. I believe that a front-of-house officer who deals with the applicant should be given overall responsibility for delivering the scheme, and any aspect that is delegated to colleagues to do is just that—delegated—i.e. the front-of-house officer should have the overall charge and responsibility for the back-room staff, who should be answerable to them as their team leader. These front-of-house team leaders need to be suitably qualified and trained to be able to fulfil these roles and take on this responsibility. This would have a massive impact on making the process simpler, quicker and more efficient. The same principles apply to the delivery of the single farm payment by the Rural Payments Agency.

The suggestion in NELMS that farmers' trusted advisers will be paid by Natural England to deliver some of the roles previously done by them sounds to have excellent potential for success, but the detail needs to be got right.

**Neil Parish:** Thank you very much. You make some very interesting points there, because having one person see the whole application through would be a huge benefit, both in environmental schemes and the RPA, single farm payment.

**Q300 Chair:** You are both essentially saying that it should be as simple and easy to administer as possible and, like the previous witnesses, not too prescriptive. Without leading you to that conclusion, would you agree?

**Harry Cotterell:** I would agree with that.

**Q301 Ms Ritchie:** Should the implementation of the new CAP bring an end to the practice of dual-use payments?

**Harry Cotterell:** In our view, no. We support dual use, because it is part of the flexibility to which I have already referred earlier and we are pleased that Defra seems to be taking a stance. We think it incentivises more land to be put into agri-environment schemes, because you have two parties that are capable or could possibly bring the scheme to a head. We appreciate that the introduction of greening into Pillar I could cause difficulties, but we cannot believe that it is impossible to design a greening scheme so that it does not impact, so that there is a clear definition between who is providing the Pillar I work and who is providing the agri-environment work. We would be disappointed if dual claims were ruled out.

**Q302 Ms Ritchie:** I am moving on to a supplementary, which is based really around the ethics. Why should people receive payment on land for which they do not bear the entrepreneurial risk?

**Harry Cotterell:** Because they are providing the delivery of a public good. The agri-environment schemes are payment for provision of services and loss of—

**Ms Ritchie:** Agriculture?

**Harry Cotterell:** Yes, in the lowlands. The person who is doing the work should receive the payment so, if it is the landowner in the uplands who is doing the dry stone walling, the hedge work or whatever it happens to be, he should be paid to do it. Let us keep the landlord and tenant system out of the CAP. Let that be resolved by negotiation and rent.

**George Winn-Darley:** Dual use is a good thing. Dual use is perfectly possible and simply requires proper care with the documentation. If you want to maximise the non-food-production outcomes, then the systems should be set up to be capable of accommodating dual use. The landlord/tenant relationship very often divides between these two interests and, effectively, partnerships can operate better by the landlord delivering the conservation biodiversity benefits, managing hedges and field corners, for instance, whilst the tenant concentrates on his food production business enterprises in the middle of the field. However, the RLR mapping rules prevent one from being able to separate fields up like this into two separate parcels, so it is impossible to comply with the schemes without a dual use of the same RLR parcel.

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**Ms Ritchie:** The ethics question as well: in your view, why should people receive payment on land for which they do not bear the entrepreneurial risk?

**George Winn-Darley:** I think Mr Cotterell has answered that very well. The money should follow the responsibility for delivering it.

**Q303 Neil Parish:** I want to talk about grazing now. What should the Government do to improve the way common land is treated under CAP to ensure that payments go to those who are actively grazing? When you had the 2004–05 reforms, you moved the support from sheep and cattle to area payment. There has been a huge problem with those with common rights ever since, and it never really was sorted out properly in the ensuing years. What is your solution to this?

**George Winn-Darley:** I hope that the new system is not very different from the one we have just come through. It has taken a long time for all parties involved, including Defra staff, to work it out. I would urge the minimum of changes. The old system worked surprisingly well, as long as all concerned are prepared to recognise all legitimate interests. As I mentioned earlier, 95% of moorland SSSIs leading on to the favourable condition bears testament to that hard work by many people.

**Harry Cotterell:** I broadly agree with that. We are very reluctant, as are the Government, to see a re-coupling of support with stocking numbers and grazing numbers, because we think it will lead to artificial sheep: sheep which are there for subsidy reasons as opposed to for economic reasons. We all know what de-coupling leads to.

**Q304 Neil Parish:** I have met quite a lot of unhappy commoners over the years, who believe that they are not getting their due recompense. Is that your experience, perhaps Mr Winn-Darley in particular?

**George Winn-Darley:** A typical HLS scheme covering SSSI and Natura 2000 designated sites over a common will have a management plan and various specifications, which typically run to 40 pages of text, plus about nine sets of plans and appendices and perhaps another 10 pages of general parcel-based summaries and administrative details. Of all this, only about four pages in total set out issues which are within the gift of a common right holder who has a registered right to graze a set number of animals. All the other obligations are the responsibility of the freehold owner of the common to deliver, so that puts it in perspective perhaps, in a slightly crude way.

**Q305 Chair:** Just to be equally crude back, that potentially is a matter of dispute. At the moment, we come back to this fact that we do not have a dispute resolution mechanism. If I look at paragraph 33 of the CLA, Country Land and Business Association, evidence, it says here that “The key concern on the implementation of the single payment system for common land is that many available entitlements have not been claimed on, simply because some common right holders do not engage in agricultural activity and, therefore, see no need to claim SPS.” For many of the graziers that Mr Parish and I seem to have been meeting, over recent months and years, the difficulty

seems to arise from whether you actually allow sheep grazing to be recognised as an agricultural activity. That should not pose an issue, should it? Sheep grazing, for those graziers who have rights in perpetuity on common land, is an agricultural activity, which should benefit under this particular scheme.

**Harry Cotterell:** Presumably, though, if it is an agri-environment scheme, the grazing of the sheep is only one aspect of a number of other management requirements to deliver.

**Q306 Chair:** For example, shooting is not recognised as being an agricultural activity, is it, whereas grazing is?

**Harry Cotterell:** Yes, but the two are not mutually exclusive.

**Chair:** I would agree. Do you agree, Mr Winn-Darley, that the two are not mutually exclusive?

**George Winn-Darley:** They are not mutually exclusive, no.

**Chair:** Do not feel inhibited by keeping to a script. Please do feel that you can talk freely.

**George Winn-Darley:** I am slightly confused by your question. Common land is a very complicated—

**Q307 Chair:** I have rehearsed what the CLA memorandum says, and then the NFU memorandum says, at paragraph 34 of the NFU brief on page 77 of our bundle of evidence, many farmers—“farmers actively involved”, not “many”, so I am putting words into the statement that are not there—“Farmers actively involved in the management and grazing of upland commons may not currently receive their fair share of the SPS” and the NFU believes “that Defra should consider ways in which future national reserve can be used to allocate additional payment entitlements to farmers affected by these problems.” That is as regards the SPS. I think we are possibly looking at a situation here of a stewardship scheme, where active farmers are losing out and the graziers, to my certain knowledge, have great difficulty in accessing the funds. That should not be the case, should it, Mr Winn-Darley?

**George Winn-Darley:** I do not agree. The statistics I gave you are that 95% of moorland SSSIs are in an HLS scheme. They are accessing the payment through that. If they are an active grazier carrying out an agricultural activity within that, they will be getting the share that they have negotiated within that scheme. It will be different. All commons are very different, so it is very difficult to be prescriptive on this, which is the reason why I urge that there is very little change on the commons side. There is no easy answer. There are many commons in your constituency, in North York Moors, where essentially the common rights holders simply have the right to graze. There are other commons in Cumbria where the common rights holders actually have many more rights and, indeed, might even own the freehold amongst themselves. Obviously the situations are completely different as to who has the responsibility of delivering different aspects.

**Chair:** I accept that

**George Winn-Darley:** Therefore, the money needs to follow the responsibility.

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**Q308 Chair:** If 70% of the agreement of the stewardship scheme funding is going towards administration costs, it does not leave an awful lot of money for the graziers.

**George Winn-Darley:** I am not familiar with that figure at all.

**Harry Cotterell:** I have to say, Madam Chairman, on the administrative costs, one assumes in this example—and I must admit I have never heard of it—that it is 70% of the annual payment for presumably the first year to get the thing done and implemented.

**Chair:** We will have the written evidence, because we are going to receive the report. Mr Parish would like to come in on this one.

**Q309 Neil Parish:** Just one final pop at this one really: basically, if you own the land or you farm the land, as a tenancy or an owner, you have an area payment, either for a stewardship scheme or for the single farm payment. The problem with common land is that you have so many people grazing across a big area. The argument comes as to who owns what, how many cattle or how many sheep, and so what percentage of that land area do they actually have and then what payment comes back to them? That is what it seems the argument is about. Perhaps I am simplifying it too much.

**George Winn-Darley:** There should not be an argument about how much people have got, because the 1965 Commons Registration Act required everyone to register precisely with a number how many rights they have to graze. We have moved on from that and we have that. The difficulty comes if we are then talking about Pillar I and the single farm payment money.

The difficulty comes in the system that Defra set up for doing this. They started out by only looking at the rights that were registered. They would go the county council, look at how many rights were registered and then they assumed that everybody who had a registered right was going to claim. A lot of those rights were not claimed on. In North York Moors, sometimes as much as two thirds of those rights were not claimed on at all, so the single farm payment that travelled on and was targeted at those areas ended up not reaching those areas and the uplands missed out, as a result of it.

There are then complicated rules about surpluses and whether or not the owner of the freehold, who has a right to graze as well, which is secondary to the registered common right, should get something. In most cases on the North York Moors, there are so many rights registered that there is no surplus available to the owner, so they completely lose out on the basic calculation. In other areas, particularly on the Pennines, the number of registered rights is much closer to the carrying capacity of the common, which is what they use as their threshold. Therefore there is a surplus quite often available to the owner. It is very detailed and very complicated, and every common is different.

**Q310 Neil Parish:** Perhaps we could have some written evidence from you, can we, on this particular item?

**George Winn-Darley:** I am very happy to supply that. If you would like to supply the details of this 70% figure, I will happily comment on that too.

**Q311 Chair:** I might be on my own here, but I am slightly confused why we are all talking about SSSIs when we are talking about common land.

**Neil Parish:** They are a target in the SSSI.

**Chair:** It would be helpful to put a little bit more flesh on the bones there.

**Q312 Ms Ritchie:** Thank you, Madam Chair. Moving on the active-farmer test, how should the Government determine who is an active farmer?

**Harry Cotterell:** The three tests engaged in production, keeping land in good grazing condition and then the minimum level of activity we are reasonably comfortable with. It will be the job of the Government or Defra to define the level of minimum activity, and we believe that, if you are engaged in production or maintaining land in grazeable condition, it is sufficient. We would be concerned about the setting of a stocking density for reasons I have already covered, as a trigger for the active-farmer test.

**George Winn-Darley:** Active farmers must include land managers who, for instance, are not exercising grazing rights as they could do, but are still delivering good agricultural environment condition, partly as a result of that decision. HLS schemes, or NELMS as we will get into them, involving grazing usually have a minimum stocking level, and that is the appropriate place for the minimum stocking density to be set.

**Q313 Ms Ritchie:** Do you foresee the active-farmer test creating any problems, for example on the relationship between tenants and graziers and the landowners?

**Harry Cotterell:** Is this for the single farm payment or is this for agri-environment?

**Ms Ritchie:** This is around the whole area of the active-farmer test relating to single farm payment.

**Harry Cotterell:** Relating to single farm payment only, by the time the regulation is drafted and clear, I do not see that there will be significantly large issues in the Pillar I aspect of this. Do you?

**George Winn-Darley:** No.

**Harry Cotterell:** I think it is going to be fairly clear in Pillar I by the time the regulation is drafted.

**Ms Ritchie:** What is your view, Mr Winn-Darley?

**George Winn-Darley:** As I said, I do not envisage a particular problem with this in Pillar I either.

**Q314 Chair:** On Pillar II, are you concerned that the lack of co-financing will be an issue, if more money is moved into Pillar II?

**Harry Cotterell:** The Pillar II budget is such a difficult one, because we were really supportive of the Government's principal lobbying priority, and I remember saying that to you in my first appearance in front of your Committee, Madam Chairman. We supported the Government's principal lobbying position, which was a fair deal for British farmers from Pillar II, because that had not been achieved in the Beckett reforms. Here we are with actually a very poor deal from Pillar II for UK agriculture. We have

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always known, or we have certainly known for a couple of years, that co-financing is not going to be realistically available in the current economic climate, and we have to accept that. That is going to have significant impacts on agri-environment schemes and Pillar II funding. At the moment, about 80% of Pillar II funding ends up in agri-environment schemes. We would like to see that number maintained. Whether that is related to the co-financing aspect of your question or not, we think that we would like to see agri-environment funding being the priority of Pillar II spending.

**George Winn-Darley:** I was going to say something about public access, which suffered due to the cuts on the co-financing. The new NELMS are being targeted at landscape-scale schemes, and permissive access would be well suited to be delivered on those sorts of landscape-scale schemes that they are talking about trying to achieve. It was a great pity that permissive access under the HLS scheme was so badly delivered by Natural England, so that there was so little publicity about the permissive access that was available. I would encourage that that be properly addressed and we consider bringing permissive use access agreements back in. It gives taxpayers ultimate value for money.

**Q315 Mrs Lewell-Buck:** Similar to the questions that were asked of the previous witnesses, should the Government seek to reduce payments above €150,000 by more than the proposed 5%?

**Harry Cotterell:** No.

**Mrs Lewell-Buck:** Why is that, Mr Cotterell?

**Harry Cotterell:** We feel that capping discriminates against UK agriculture as a whole. We feel that we are the country that would be most greatly affected. As far as I can gather, so do all political parties in this country. I have not heard any of them come out in favour of a cap for precisely that reason. The direction of agriculture over the duration of this reform period will be into fewer farms farming more acres. That is a fact of life and that process will be significantly inhibited, if you start hitting a capping level at that level. I understand that it is quite an attractive proposal, but we feel that the overall impact on UK agriculture would be pretty negative as a whole.

**George Winn-Darley:** After the last CAP reform in 2005, we were told that this was a transitional phase towards removal of the CAP and that we should use the money to help restructure businesses, so that they maximise the chance of being able to be financially viable without CAP support. Inevitably, this means that unless the price of food commodity is going to increase many-fold, which seems both unlikely and politically unattractive, holdings need to become bigger and more efficient. Capping acts as a penalty against this. Penalising larger operators, which are the ones most likely to pioneer and put the investment in to pioneer better solutions, such as improving hill livestock breeding, seems to be a retrograde step to me.

**Q316 Neil Parish:** Can I just say that, in the end, the Government has to pay for greening, HLS schemes and others? We have to either modulate all of

agriculture, the whole payment across the scheme, or we target the larger farms. Now, there must be some economies of scale in larger farms. You cannot actually sit there and tell me that somebody who is receiving €300,000 to €500,000 cannot actually take a 5% hit.

**Harry Cotterell:** The point is that area is the way that we have chosen to deliver this scheme, just like in the old days it used to be headage. Our concern about capping rates is this: George brought out a number of people who were affected; it is not very high at the moment, but once they are introduced there is only one direction that capping rates go. While the threat is there, as an entrepreneurial farmer who is trying to grow his business, you look with some concern about whether you are getting up towards the capping rate. Are you going to be affected if they bring it down by 30%, have a mid-year review or whatever it happens to be? That would be our concern.

**Q317 Neil Parish:** You do accept the argument, though, that you have to get the money from somewhere. Do you actually feel that 5% on €300,000 is going to be hugely detrimental to a business of that size?

**Harry Cotterell:** It is the principle, Mr Parish, and I have articulated our concerns.

**George Winn-Darley:** I am comfortable with the level at 5%, but I would hope that it would be recycled into schemes to address better livestock breeding regimes, in conjunction with EBLEX and the agricultural colleges. That would be a very positive outcome for it all, because this is a huge challenge for the future of the uplands.

**Neil Parish:** In an answer from the Secretary of State, we have got quite a lot of flexibility on how we can actually spend any capping of the large payments that we do.

**Chair:** Following the logic through, we could allow more for the graziers, which would be excellent.

**Q318 Mrs Glendon:** On greening, how should the Government implement greening to deliver most value for money for the taxpayer?

**Harry Cotterell:** Probably not in the way it is going to be made to do it at the moment, I am afraid. We have significant concerns with the crop diversification measure. We do not think that is going to deliver a great deal, and we think it is going to impact on two types of farmers: firstly, the farmers who are just over the 30-hectare threshold, who are going to be made to produce three different crops. They are going to produce an amount of probably two crops, which they are virtually unable to sell, because it is going to be too small an impact, so it is going to have a negative impact on those farmers, who are at the smaller end of the scale.

On the other hand, it is going to have an impact on the larger farming businesses that are operating in conjunction with their neighbours in pooling machinery and that kind of thing. Therefore, they bloc up their crops into individual holdings, and we feel that that will make it difficult if you have to extend that into three crops. It is bound to increase, firstly, contract costs, because the sprayer operator or the drill

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is going to have to go from one farm to the other, to satisfy nothing more than a requirement to have multiple crops on a holding. Secondly, it will challenge efficiency and, I suspect, have a carbon impact, with additional travelling on the roads, which, of course, is never popular. Agricultural vehicles on the roads, in my part of the world, at this time of the year, are an horrendous issue. If you are moving farming businesses and their tack around for no other reason than to reduce their efficiency, it slightly grates.

We have problems too with EFAs—ecological focus areas—but I do not know if you want to talk about those at the moment. We are concerned about the mapping of ecological focus areas. We want them to bring in the widest part of the farm, bearing in mind Mr Dunn’s comments relating to the tenants. The mapping of farms for the single farm payment has been incredibly tight. Land has been “lost” every time we have been remapped. Basically, it is going to be very difficult, utilising existing mapping systems, to try to establish how you are going to deliver ecological focus areas in the arable landscape. That is a big concern. Having said all that, greening is a good thing. It demonstrates the direction in which the CAP is going. It is a good thing for this particular reform, because we do understand that the public need to see some justification for the size of this policy.

**Mrs Glendon:** Mr Winn-Darley, do you agree?

**George Winn-Darley:** I have nothing to add to that.

**Q319 Mrs Glendon:** You have talked about some of your concerns as well. Would you prefer the Government to opt for a certification scheme?

**Harry Cotterell:** We are ambivalent about that. We would support a certification scheme, if it was not too complicated, with too many options, because you are going to get into this challenge between flexibility, simplicity and cost of administration. We are totally aware that it is the easiest thing in the world to ask for everything and then suddenly find out that it is costing more to deliver each single farm payment than the last scheme did. We would also be concerned if the national certification scheme was the only way that greening was to be delivered. We would like to see the three greening measures available as well, if farmers were not able to meet the requirements of the certification scheme. I am asking for flexibility but I am well aware of the challenges of delivering flexibility.

**Q320 Mrs Glendon:** You touched on the EFA scheme. How should greening work alongside agri-environment schemes in Pillar II?

**Harry Cotterell:** That element is going to be quite difficult. I think there is going to be a gap left by the removal of ELS—the entry level scheme—and the bar is going to be raised. Access to the new scheme, NELMS, is going to be significantly higher than it is for ELS at the moment. Whilst greening will deliver to a level, there is going to be a gap between what greening is achieving and NELMS, and I think we would like to see that taken up by the Campaign for the Farmed Environment in trying to persuade farmers to voluntarily deliver environmental measures. We

were pleased to see that that has received funding for another year. We would like to see a commitment to fund it for, say, the period of this CAP reform, so that it can play a significant part in the delivery.

**Q321 Mrs Glendon:** Is there a risk that this round of CAP will deliver less for the environment than its predecessor?

**Harry Cotterell:** It is very difficult. As I said at the beginning, farmers are going to have to do more for their money. They are going to have to do more, and the money is going to diminish. The overall answer is no, but it does depend on how effective the NELMS is, what the take-up is and the budget that is available.

**George Winn-Darley:** Generally, we should aim for greening to get more environmental benefits and to position UK farming in the vanguard of sustainable agriculture. If you want to get the most out of biodiversity on a particular farm, you have to have the maximum flexibility to work with the farmers, landowners and managers of that land to be able to deliver the optimum that you can there. We are slightly stuck, in that the EU is passing down to us some fairly stringent rules on greening. We just have to make the best of it in those principles.

**Q322 Mrs Glendon:** Is the Government right to consider setting five hectares as the minimum claimed threshold?

**Harry Cotterell:** Yes. We are well aware of the remarks that Madam Chairman made about the cost of implementation. We agree that five hectares is a reasonable threshold.

**Q323 Neil Parish:** The National Parks are not very keen on this, because they think a lot of people will be excluded from payment. What do you consider about that? It is something like 30–40% of claimants in National Park areas, so quite a high figure. I agree with you in many respects, but the National Parks are—

**Harry Cotterell:** They are probably not what you or I might call farmers, I suspect.

**George Winn-Darley:** It seems practical to remove the administrative burden of applicants below five hectares, which is, essentially, around or less than £1,000. If it is costing £1,700 to process an application, it does not seem to provide very good value for money for the taxpayer.

**Neil Parish:** It is £1,250, I suppose, if it is £250 a hectare.

**Q324 Chair:** We do not want to discriminate against small or large farmers, do we? Are you concerned about the transition arrangements, particularly under some of the rural development funding?

**Harry Cotterell:** Yes. We have been doing a lot of road-shows trying to test our members’ feelings about the CAP. A lot of people who are in agri-environment schemes, and particularly ELS, do not really understand the fact that they are not going to get a renewal if it expires in the next two years, and there is little or, I think, no chance of any new entries. We are keen that Natural England get out there and engage with them as a matter of urgency, to try to

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ensure that all applicants to agri-environment are well aware of the situation as it stands at the moment. Let us not wait until the new scheme is designed and all the rest of it because, by then, quite a lot of people will have already been disappointed. There is going to be an issue on the crossover between what happens afterwards. It is inevitable.

**George Winn-Darley:** Some farmers will be disadvantaged, and the environment and the outcomes will also suffer. Most upland HLS schemes end after 2014, so this is not such a significant issue. I think it will be more of an issue in ESAs. Advisers who have set up businesses to deliver agri-environment schemes will also suffer. They are key people for Defra to achieve their delivery targets, and it is unfortunate that there is going to be this gap.

**Q325 Chair:** Just one final question: the LEPs—the local enterprise partnerships—are going to be asked to deliver part of the rural development programme. Are you comfortable with that? Do you believe that they have the expertise to deliver on that and that they are fully accountable?

**Harry Cotterell:** Some certainly have. Some are very rural-facing, which is good news. Particularly in the South West, we are getting some strong feedback from a lot of LEPs, and we would be quite comfortable with them. It will depend on the competencies of each

individual LEP—there is no doubt about that. However, it certainly gives LEPs a *raison d'être* as well, which is a useful thing. Since the Heseltine review, the observer's view of LEPs has gone from a potential talking shop, which I know is an issue that you have had within this Committee, into something that tangibly could have a significant funding-delivery job on the ground. We are trying to ensure that our members who are involved with LEPs start sharing best practice around the country in terms of how they engage with the rural areas beyond just CLA-type issues, but also in terms of the countryside and the rural economy at large.

**George Winn-Darley:** We need to be careful. Reflecting comments made by yourself and your Committee members earlier, the Common Agricultural Policy needs to be targeted at land-based activities. Having said that, in the North of England, farmer networks have been very successful and, if there were more of those, that would be welcomed.

**Chair:** We look forward to receiving the additional written evidence that you very kindly promised to give, but we thank you both. Mr Winn-Darley, Mr Cotterell, thank you very much indeed for being with us and for participating in our inquiry. We are very grateful indeed. I thank the Committee also and the staff. We stand adjourned until next week.

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**Tuesday 5 November 2013**

Members present:

Miss Anne McIntosh (Chair)

Richard Drax  
Sheryll Murray  
Neil Parish

Ms Margaret Ritchie  
Mr Mark Spencer

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**Examination of Witness**

*Witness:* **Richard Macdonald**, Chair, Farming Regulation Task Force Implementation Group, gave evidence.

**Q326 Chair:** Good afternoon and welcome. A particular welcome to you, Mr Macdonald. Thank you very much for agreeing to return.

We would like to put questions to you under two headings, if we may. One is our last evidence session preparing for the CAP reform and its implementation, which is the thrust of our inquiry this time; then secondly, we would like you to update us on the work of the Farming Regulation Task Force. That is how we are proposing to divide the afternoon up. We are not sure, but there may be a vote. If there is, we will just adjourn for a short period, if you could bear with us, but you are very welcome indeed.

Bearing in mind that the present reform is meant to be simpler and easier to administer, where do you think we are in terms of simplicity in implementing what will be the revised CAP?

**Richard Macdonald:** Thank you very much, and thank you for inviting me back. I should say for a bit of context that for the first time in any CAP negotiation I have not been involved, which I have to say has been a mild relief. I am not directly involved, but looking from the outside and being a reasonably informed observer, and looking at it through the eyes of the task force and better regulation, I think it is fairly well chronicled, and I would agree that it is not simpler. There is still clearly quite a lot of implementing regulations to go. Often on these things the devil is in the detail, and the burden is often in the detail, and there is still quite a lot of detail to be negotiated. However, my overall read is that this is more complicated and not simpler, sadly.

**Q327 Chair:** Do you think it might result in an increased, rather than a decreased, regulatory burden on farmers?

**Richard Macdonald:** That is a very good question. At face value, yes, there are more requirements and demands. If you look at the cross-compliance conditions in the broadest context, and the greening and various requirements that are going to be made of individual farmers, then it is more complicated.

The reason it is an interesting question is that at the same time—you may want to come on to this—my reading is that the Government, the RPA and the whole advance of online technology and use of digital is very significantly better and more prepared, and indeed more advanced, than in 2005, when frankly it was very poorly delivered and ill-considered.

**Q328 Chair:** One of the issues in 2005 was that the computer system was being changed. Does it alarm

you that they are again intending to introduce a new computer system prior to the reforms taking effect?

**Richard Macdonald:** I guess we all have alarms or concerns when any big new computer system is going in. I am not directly involved, but I have been quite closely connected to the Defra CAP delivery team, and through that we have asked a lot of questions about RPA. I have also made a point of asking other stakeholders about what they see and what their involvement is, and have had regular reports from Mark Grimshaw, the Chief Executive of the RPA.

These are always famous last words before something is implemented, but my view is that they have done a pretty good job. I can draw direct comparisons. I am one of those who were around in 2004/2005, and frankly it was very badly done then. It was self-evidently very badly done. You could tell that at every step of the way. We had a senior management of the RPA, which again is well chronicled and has been through this Committee, that was in a significant state of denial about what was happening. This is a very transparent process and quite a modular process. It has been very significantly trialled and is being trialled. One of the really good things is that it has had a very significant involvement of stakeholders and, to take the terrible jargon out, of farmers. They have gone out, tried this around kitchen tables and applied it, so all the signs look pretty positive to me.

**Q329 Chair:** Where do you think the biggest challenges will come in terms of delivery, compliance, inspecting and making the payments?

**Richard Macdonald:** I am hopeful. Even if there was not a new IT system, we have a new payment system, so there has to be a completely new programming of it. At any stage where there is new programming there must be some additional risk to the continuation of the status quo. I am neither an IT expert nor on the inside, but all the signs I am getting are that the preparation for a different programme for different payments, even in a new IT system, is good.

The whole inspection regime is potentially the most complicated. There are two broad issues that have bothered farmers—you are all very familiar with this—in the last seven or eight years. One is the delay in payments and all the difficulties around payments. That is particularly exacerbated around the fringes with complicated cases, such as those involving people with multiple land holdings and so on. Those fringe issues are just not simple, but I am hopeful that that will be significantly better on the basis of the information I have been given.



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Inspections is the other issue that always irritates farmers, and it is about proportionality, the length of time on farm and how much microscopic attention to detail there is. They are all issues that have a propensity and capacity to carry on, and they are still very much on my radar. Some of those issues, as we laid out in the original Task Force report, are issues for the implementing regulation, so that is what I refer to among the things that have still got to be really nailed down, as I understand it. I could give some examples of where it would be easier or more difficult if you want.

**Q330 Chair:** If you could do that in writing, that would be very helpful. Obviously we will not be consulted on the implementing regulations, and I always prefer when it is on the main face of what is being agreed that we can see and hold the Department to account.

**Richard Macdonald:** The point I am making is that in looking at it now, there are still issues that will make a significant difference between achieving simplicity and not doing so. Frankly, once the big arguments are over about how much money there is, whether it is allocated from Pillar I and Pillar II, in a year's time everyone will have forgotten that. What everybody will be paying attention to is the detailed delivery.

**Q331 Ms Ritchie:** You are very welcome. Is there a risk that the drive for simplification may make the Government more risk-averse and less focused on delivering public goods for the taxpayer?

**Richard Macdonald:** There is always that balancing act. I do not envy anybody in trying to get it absolutely right. We should not in any way underestimate. You will be aware that I was Director General of the NFU going back, and I always used to push for things. I probably did not give sufficient consideration to some of the disallowance questions. The disallowance is big money. I cannot remember the figures, but from memory, on this issue alone, it is getting on for £1 billion. Any Government that does not take proper account of disallowance and the need to do that is probably verging on irresponsible and would be in front of the Public Accounts Committee, let alone this Committee, in short order.

There is a whole dimension of different greening and environmental conditions that you could argue deliver a bigger breadth of public good. I would argue on core Pillar I payments that, every time you do that, you add more complexity, and in doing so increase the risk of disallowance, which is I suppose the answer to your question. You also make it more complicated for farmers. Is that better regulation? I would probably say no. The whole drive of everything I have said on this is "Keep it simple," and often keeping simple is not adding additional conditions.

**Q332 Ms Ritchie:** As a supplementary to that, do you think applying the Commission's three greening measures in England will deliver sufficient environmental benefit to justify the huge spend of public money?

**Richard Macdonald:** I suspect the benefit of it is relatively marginal, if I am candid. Therefore there must be question marks as to whether or not it justifies the complexity and the additional spend. That is a personal view.

**Q333 Chair:** The cost of the first year, I think it was, when the current CAP came into effect in England, was £1,700 to process each claim. Presumably, even with disallowance, we will not come anywhere close to that figure going forward.

**Richard Macdonald:** I am not involved in it, but I would be extraordinarily disappointed if the administration figure did not come down very significantly. After all, we should have learnt huge lessons over the last seven or eight years. Although this is different, it is in many ways a continuation of the past. We are on a hybrid; it is a regional payment. It is not that great big huge change that occurred in 2005, and we do have the benefit of IT. The sooner we can get into complete delivery online, online application and frankly Digital by Default with all the difficulties around that, the better, as far as that is concerned. You are not interested in Wales and Scotland, but they will have a lot of those difficulties that were around in 2005.

**Q334 Neil Parish:** Wales and Scotland were delivering it on a historic basis anyway, so not a regional basis. As far as England is concerned, you have said that, from a bureaucratic and administrative point of view, taking 16,500 claimants out because they have five hectares or less is a good thing, but are you a little worried about the greening aspects of it and taking them out as far as cross-compliance is concerned from an environmental point of view?

**Richard Macdonald:** My judgment is as good or bad as your own as far as this is concerned. When the original Task Force made that judgment, and it is the five hectare one that the Government are going to recommend, the judgment we made was that the vast majority of those claimants were not economic units. They were, in lay parlance, hobby farms. They were not the sort of units where there would, frankly, be significant change either way, ripped up or changed. They were what they are and will stay that way. The very small number of economic units would be largely intensive poultry, pig and horticultural units, where candidly a few hundred pounds on the turnover of those would not make any difference. As you know, I am very involved in a big poultry business in Moy Park, and none of those units candidly would make the slightest bit of difference in any sense. In fact, probably most of those intensive economic units would choose not to apply for it because of all the bureaucracy around it. It would not be worth the £1,000 or thereabouts.

**Q335 Neil Parish:** The National Parks were a bit concerned when they came to see us because 40% of their claimants are five hectares and below. Do you have any sympathy for their position?

**Richard Macdonald:** I am not sure I share the same concern. I do not know whether that is being sympathetic or not. Candidly, and this is a judgment

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based on 35 or 40 years of experience in the industry, I am not sure there will be much impact for good or bad on that. By dint of what happened in 2004–05, we have added a great layer of bureaucracy that was never there beforehand. None of these people claimed or were in environmental schemes beforehand.

**Q336 Neil Parish:** I think that answers the question. From a bureaucratic point of view, you can see the benefit of taking out 16,500 applicants. The next question: the Task Force recommended that mapping for the single payment scheme should be made simpler. Are you content with the approach of the RPA in taking from the new CAP? One of the things I am worried about is that we did have a very complicated mapping system. It seems to have taken nine years to get there. Are you confident that, if we change that system, we will not have another load of problems?

**Richard Macdonald:** Confident is probably a strong word. I have been given information by RPA, and also by stakeholders and other people that have looked at it; the view coming to me is confident. I am being told by the CAP delivery team and stakeholders that it is a robust system. There is nothing sitting worrying me, as there was on previous occasions, that there is something about to go wrong there.

**Q337 Neil Parish:** I have a supplementary on that. As the Task Force Implementation Group, have you been involved in discussions with the Rural Payments Agency on implementation of the new CAP?

**Richard Macdonald:** We have done it through Defra and their CAP delivery team. We have had regular reports from RPA via that, so we have done it through the Defra team, who include RPA as part of that. It is maybe something that I would consider or should do in the weeks ahead, but I have not thought there was a particular value of going to Reading and looking at the microscopic detail. I have made a point of trying to talk not just to the people who “would tell me, wouldn’t they?” but also to the stakeholders involved, so to NFU and CLA.

**Q338 Neil Parish:** Are you confident that Defra and RPA have actually talked to real live farmers about the real issues when they have gone through these stakeholder processes?

**Richard Macdonald:** From everything I have seen, yes. One of the points we made in the Task Force, which is a broader point but it applies to the CAP, was that Defra and its agencies must get out there and engage with real farmers, not just do it through the usual stakeholder groups. From what I have seen, they have done a pretty good job of that. There is a massive reputational risk to them all if they do not do that, so they would be pretty stupid if they have not.

**Chair:** You alluded to it earlier as well. As you say, it has been road-tested.

**Neil Parish:** I just wanted to double-check that.

**Q339 Ms Ritchie:** Do the proposals on cross-compliance satisfy the recommendations of the Task Force?

**Richard Macdonald:** If you gave us a free run at it, we would probably simplify more and take one or two things out that are still there as cross-compliance conditions. I do not particularly want to see a reduction in standards; there is a really important argument about public benefit and that this should not be just a payment to do nothing. However, I was really pleased to see that there is a proposal to reduce the cross-compliance conditions because I thought some of them were unnecessary. Some of the cross-compliance conditions have been not taken out but changed; some of them are outcome rather than process driven. The obvious example is soils, which is a really good change as far as that is concerned.

**Q340 Ms Ritchie:** Therefore, do you believe the Government could do more to reduce regulation in this area?

**Richard Macdonald:** This bit is really difficult for me, and probably for you, to make a judgment on. All the signs and noise that I have had are that the Government have been very robust in their attempts in Europe to simplify and to reduce unnecessary cross-compliance conditions. It would appear to me that much of the complexity and lack of simplification arises because of where the Commission has started and where other Member States are.

I am aware from my previous involvement in CAP negotiations that they are a haggle. Chairman, you will know that from your European Parliament days. Therefore, you have to decide what is really important and what you will give up. I am not in the middle of that. Are the individual cross-compliance conditions big issues in a haggle? I would say individually no. There are probably more important things that you have to try to achieve out of that. As far as that is concerned, if it was just the Government doing this, I would say you should go a lot further. In the context of the negotiation, they have probably got as far as they are going to get.

**Q341 Ms Ritchie:** Are you concerned that replacing aspects of cross-compliance with greening measures will mean fewer claimants are bound by the obligations?

**Richard Macdonald:** I am not sure I know the answer to that, to be frank, but I have a general concern that greening measures add a complexity that I am not sure, frankly, is necessary in terms of the benefit to the cost. However, all the indications I have are that it is a done deal as far as that is concerned.

**Chair:** We are investigating what is happening, but it is unacceptable having this noise while we are taking evidence from you, so we are doing our best to find out what it is.

**Q342 Sheryll Murray:** The Task Force argue that guidance on cross-compliance be overhauled and field-tested. What steps have you taken to ensure the Government acts on this recommendation and produces guidance that is acceptable?

**Richard Macdonald:** We have renamed ourselves from the Task Force to the Implementation Group, or rather Defra has renamed us. One of the things that the Implementation Group has been most strong on,

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and you may want to go onto this in the broader context, is about reducing process. Some of that is about moving from paper to online, which I think is a huge step forward and we should drive that more. Some of it is about driving greater clarity. Less is more, generally. The aspirations as far as the CAP guidance are good. The proof is still probably in the pudding in terms of whether or not that is actually going to happen.

**Q343 Sheryll Murray:** Could we then turn to a proportionate response to non-compliance? The Implementation Group recommended that cross-compliance enforcement could be made proportionate. Is there any evidence of this happening?

**Richard Macdonald:** Some of this is getting into detail that I am probably not the world's greatest expert on, but from the two or three bits I have seen there have been some improvements in proportionality. I was looking at the cross-compliance conditions on soils. The penalties on that have been reduced and are more outcome-driven, which I think is really good. I suspect some of this is still going to be in the implementing regulations: the inspection regime; who is inspected; whether that is risk-based; and what the penalty regimes are. These things are intensely irritating to people, and we can get massively wrapped up in a huge amount of detail on them.

**Q344 Sheryll Murray:** The NFU told us that there is a yellow card process where, for the first minor breach, farmers can be given a warning without penalty. Have you discussed this step with the RPA and Defra?

**Richard Macdonald:** It is something that the Task Force and the Implementation Group have felt is a very good idea. There is a question around a massive, very overt breach as to whether you should yellow card or not, or whether you should go, to continue the analogy, straight to a red card. In my experience, though, and this is not only with the Task Force but beyond, the vast majority of breaches are not deliberate. They are usually out of ignorance or inefficiency, if I can put it rather bluntly, and therefore I think a yellow card system is a really good one.

**Q345 Chair:** During the course of the evidence that we have heard, we have learned that Natural England is not allowed to give advice to farmers on their applications and on cross-compliance. Would it not seem nice and beneficial that Natural England, rather than just castigate, could actually advise them how they would qualify and how they would not? It certainly seems surprising to me that they are not allowed to.

**Richard Macdonald:** I must admit I did not know that, so I am very happy to look into it. I must say, when I looked at the guidance proposals that were referred to earlier on, and the online application process, one of the things I thought was very good was the way that you could actually step-by-step go into it and see difficulties, disallowance or tripwires as you came along. I think the electronic system, for

both application and guidance, appears to be very good in giving farmers guidance to do that.

I do not know the answer to the Natural England question. One issue for them is simply about resources, and I do not know whether that is driven by that.

**Q346 Chair:** If you could, it would be interesting to know.

**Richard Macdonald:** I will happily look into that. As a general rule, the more that we can engage farmers not only to comply, but to do the right thing and provide good value for public money, the better.

**Q347 Neil Parish:** The Task Force recommended that the RPA allowed claimants to submit their applications earlier. I think the beginning of May is the European deadline. Have you discussed this with the RPA?

**Richard Macdonald:** I have discussed it with the Defra Implementation Group, and made the point again that I think it would be a very good thing to do. The principle of it is agreed, so I do not think anybody is arguing about the principle of allowing people to apply earlier. There is an important cross-condition to it that is if you go in early you do not put yourself in the firing line for inspections. The Government needs to clarify that otherwise people will not apply early. I am not aware that there is any significant issue to that happening, although it probably still has to be confirmed in the implementing regulations.

**Q348 Neil Parish:** In an ideal world—I do not think we can probably get there—farmers could submit their applications early, and then if there were very obvious mistakes they could be rectified. I suspect that is probably difficult to do under the European rules, is it?

**Richard Macdonald:** I think the second half of your point is. In the ideal world, given the fact that the rules do not allow for mistakes to be rectified afterwards, what we would do is have a wide window and a terrific guidance process so that everyone got there step by step so there just were no mistakes. I am repeating myself, but in terms of doing it online as opposed to paper, it frustrates us enormously when we do online applications, a red sticker comes up and says “send it back and start again”, but all of those things are a good process to avoid disallowance in every sense.

**Q349 Neil Parish:** I have one final question. A sore that I have got is that, going back to 2005–06 and onwards, if the RPA made a mistake, they seemed to be able to rectify it. If a farmer made a genuine mistake, it was almost impossible to put it right. How do we deal with that one?

**Richard Macdonald:** I think you and I are in the same place.

**Q350 Chair:** Have the RPA moved on since then?

**Richard Macdonald:** I totally agree with you; we could probably have a competition to see how many times we have been irritated and who has been irritated most on it, and we both have been irritated a

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lot. Given where the Commission is—once you have submitted, that cannot be turned around—what it tells me is that all the effort has to be in getting the original application right. Therefore, the application process, the advice and guidance into it, the engagement of all the other stakeholders to do it, and keeping it as simple as possible are critical. One of my observations and the Task Force recommendation about the need for simplicity is because, if you do not have simplicity, things go wrong.

**Q351 Richard Drax:** Will the active-farmer test increase the regulatory burden, and how might it be avoided?

**Richard Macdonald:** Inevitably, it will increase the regulatory burden. The Task Force did mull over this for a long time and eventually made a recommendation that there should be an active-farmer test. It made the recommendation on the premise that it was better regulation; in other words, it was poor regulation to be allowing people who are not farmers to be claiming a farming payment. You might argue that is a fairly tortuous or semantic point, but I do not think there is any doubt in that however you do it, you increase the regulatory burden and you make it more complex by having an active-farmer test.

Looking at the way that the Government appears to be providing for it, if I make assumptions out of the consultation document they have done, they are probably going to do it as simply as they can, but there we should not be in any doubt that that will add complexity.

**Q352 Richard Drax:** Can you suggest how it might reduce the regulatory burden in any way, very simply? Have you got any ideas as to how it might reduce this regulatory burden?

**Richard Macdonald:** I do not think it will. By putting a further cross-condition on a payment, it adds another inspection requirement and something every farmer has to ask himself and put himself through the hoop about. Is that right? It is a really difficult policy point. Was it right to be paying a Common Agricultural Policy payment to people who are not farming?

**Richard Drax:** Madam Chairman and Members, I refer people to the Register of Members' Interests, because I came in late, just so that it is on the record.

**Chair:** I think we all declared it at the start of the inquiry so it is covered.

**Q353 Ms Ritchie:** Why did the Task Force oppose the cap in payments?

**Richard Macdonald:** For two reasons. We started with a premise—and the active-farmer test is probably the one where we broke away from our own rules—to say everything needed to be put through a simplicity test. Everything that adds complexity both to the Government system and to the requirements of farmers is not a good thing. This will do that; there is no doubt in my mind. I can go through all of these proposals and go, "More simple, more complicated, more simple, more complicated". This is more complicated. That is one reason.

The second is that we tried to apply a broader test about better regulation in the broader sense. We felt it

was poor regulation, in the context of trying to ensure that we had competitive farming, to be putting in essentially something which has a social as opposed to economic dimension to it.

**Q354 Ms Ritchie:** Are larger farms able to take advantage of economies of scale? If this is the case, does that not mean they should be more reliant on taxpayers' support than smaller farms?

**Richard Macdonald:** You are probably taking me into policy areas rather than being a terribly dull better regulator. Yes, it is true in just about every walk of life that businesses are getting bigger or niche. There is an inevitable truth about that. One of questions on this is: what is the payment trying to do? I am going outside what I should be talking about, but the payment is there for public good; to create environmental good. Therefore, you are paying per acre and trying to do that, and we are trying to encourage economic success. I am not sure that capping it is going to do that, but that is off my formal brief and into personal view.

**Q355 Chair:** It causes a problem where there is common land. The evidence we heard from the NFU was that there is difficulty where entitlements for common land were not properly registered. For many of those that should be entitled, the claims have gone unclaimed because the rights recorded on the common land do not sit with the active graziers. It was certainly music to my ears that your report declares in favour so closely with what the NFU are arguing, that there should be a single payment to the appropriate commoners association. How do you believe that view can be best put forward, and how can the Government address the problem of how common land is treated under the CAP?

**Richard Macdonald:** It is entirely a matter for the Government to negotiate with the Commission. There is a complexity in it in that commoners associations do not hold entitlement and are not land keepers in their own right. However, as you know from your own constituency, we have a very significant area of common land in this country. My view is it should be entitled, and indeed there is a public benefit from making payments in those areas, to the single farm payment. I remain very strongly of the view that the recommendation of the Task Force, and I think the view that this Committee has expressed beforehand, is right. Because I am not involved in the inner negotiations, I find it difficult to make that—

**Q356 Chair:** I think it was your recommendation in paragraph 7.21. I just want to press you on this because it is unfair that graziers should be required to go to law and to require legal representation on something that so clearly should be their entitlement, as you have so eloquently said in your conclusion. We had earlier concluded in the uplands report that there should be a dispute resolution mechanism. Would that not be an appropriate way forward? There are very few instances of this. It is particularly painful, and I am acutely aware of problems in my own area and parts of County Durham, Northumbria and Cumbria where these problems exist. Surely the right should

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come down on the side of the grazier, and it is not for the landowner to say that his consent should be required.

**Richard Macdonald:** I could not agree more.

**Q357 Chair:** What is happening at the moment is it is going by default, as I understand, but I may have got it wrong, to the landowner. They are entering into an agreement, creaming off sometimes 70%, it is said, in administrative costs, so the grazier who is actually doing the work and should have the entitlement is only getting the crumbs under the table.

**Richard Macdonald:** I agree with that. There are other cases where nobody is getting it, so there is no benefit to anybody. You could argue in terms of public benefit, therefore there is no payment going in to achieve cross-compliance conditions and environmental benefit.

**Q358 Chair:** Are you minded to press your recommendation home, though?

**Richard Macdonald:** I have only relatively recently seen the difficulties that the Commission have expressed about this. It is a point that I do intend to press and I am very happy to give that commitment.

**Q359 Chair:** That is a very welcome commitment. If we could proceed now to the core task of the Farming Regulation Task Force—I think you said the title has been changed, but for the purposes of today, we will call it that.

**Richard Macdonald:** It is much easier to do that.

**Chair:** This is the first opportunity we have had, and it is a very welcome one. You just mentioned public good, but there was a lot of talk earlier, when you were first before us, about earned recognition. Can you explain to the Committee whether there is a discrepancy there? Are we talking about the same thing? If farmers have the Farm Assurance Scheme that they are in and they have got the recognition, do they still have to go through the full cross-compliance?

**Richard Macdonald:** In the context of cross-compliance, it is an issue that—continuing the shorthand—the Task Force have continued to press, to ask Defra to measure whether or not farm assurance gives sufficient additional reassurance that farmers will be compliant to use farm assurance as a means of reducing the cross-compliance inspections. I hope that makes sense. My secondary view on that is that we must be led by the facts and by the science of it. In other words, if there is no evidence that farmers who are farm assured are any more compliant than those who are not, then I do not think we should press for earned recognition on that. That work is currently being done by Defra. It has taken quite a long time to do it, and I think a submission on that is likely to go to the Secretary of State, and indeed I will see it as well, relatively soon. Clearly, I am hopeful that we would be able to find some way of introducing some sort of risk assessment of better farmers to ensure less inspection. That is cross-compliance, and then there are a whole load of other possibilities beyond that.

**Q360 Chair:** On the public good, my concern is that on the hills you really need farming—you need sheep and livestock there. The public good is a very amorphous, tenuous concept that is very difficult surely to quantify.

**Richard Macdonald:** Yes, some of it is very difficult to quantify. Some of it is less so. It depends what you define as public good.

**Q361 Chair:** Who will define the public good?

**Richard Macdonald:** In the context of cross-compliance, if you define adherence to the cross-compliance conditions as public good, then it is measurable in part. Some things are more measurable than others. For example, compliance to animal identification and losing ear tags is much easier to measure than some of the environmental conditions. By and large, though, with cross-compliance you have a breach or you do not have a breach, and therefore you can measure that. The animal ID one is probably one of the big acid tests in the middle of this about whether or not there is a difference in farm assurance.

**Q362 Chair:** How would you describe progress since we last met you in the Committee? How much progress has there been towards deregulation and accomplishing what the Task Force set out to do?

**Richard Macdonald:** Generally?

**Chair:** Yes.

**Richard Macdonald:** Quite a lot. An agricultural friend of mine described it as like pushing slurry uphill. That is probably a bit uncharitable, but most regulations, as I said when I came here, have an original purpose. Therefore, the supposition that people came up with and landed on my plate when I first took this on was there would be a bonfire of regulations. It is difficult because they have a purpose, and a lot of them are enshrined in Europe. Again, as you know all too well, they are quite difficult to unravel; Mr Parish knows that as well.

A lot of our focus has been on reducing process and inspection, bringing in earned recognition for rewarding the good and penalising the bad. There has been really quite significant progress on that. How is that measured on the farm? I imagine I am talking to a receptive audience here. Farmers tend to not necessarily appreciate improvements; they move on to the next thing. There have been quite a lot of things done that are less burdensome. Some of them have been quite high profile and some have just happened.

**Q363 Chair:** If we may go through some of them, my particular pet would be: can we get rid of the six-day rule?

**Richard Macdonald:** It may be just worth saying that I have agreed with Ministers that I am going to do a report that will have a sort of overall, “How have they done?” front to it, and then literally a recommendation-by-recommendation report on that. My intention is to publish that in January or February. I have literally just started writing it. I should also add that I have agreed with Ministers that that is my sign-off as far as this is concerned. You can only keep going round the buoys on these things so many times.

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At the moment—I am not sure how this will end up—I am putting green ticks on things, and orange lights and red crosses. The whole livestock movement has probably got a red cross on it at the moment. It is a disappointment to me. Of the three or four big issues that came to me repeatedly when I first took this on, particularly from the North of England, one was how the whole livestock movement system was bust in many ways. As I said to you beforehand, it was bust not only for the farmers, but actually worryingly bust for the state in terms of its risk management of diseases. Some of that has been put right, or is being put right, by the move to electronic tagging of sheep, which had not necessarily made me popular, but I think is a good move in terms of disease management. The six-day stands still, and that has not changed. As I understand it, the Secretary of State has some proposals from Defra at the moment to consider on that, so it is not dead, but has taken a fair old time to get here. Those proposals do have a cost to them, because some of it requires quite a significant change. As is self-evident from the changes that I recommended and the Government accepted, they require quite a significant change in the whole data management of it, and, dare I say it, some new IT. I imagine what the Secretary of State will need to be considering is two questions. Can he afford it, and does he want to do it all at the same time that the CAP changes have taken place? I remain fairly robust on this. In hopefully a friendly and positive way, I have said that is not really my problem. My problem is to ensure that we have good regulation.

**Q364 Chair:** When you have a red mark and a green mark, it causes a lot of confusion on the sale of livestock and what farmers are permitted to do.

**Richard Macdonald:** We could be here for a long time agreeing that the system does not work.

**Chair:** We will have a drink another time.

**Richard Macdonald:** It has a whole load of problems with it, including being a significant economic restraint to people who do all of their trading at a very narrow window. I do not know all of your constituencies, but they will be in at least two or three of them.

**Q365 Chair:** Were you consulted, and are surprised that Defra has launched a red tape challenge for agriculture when you have not completed your work?

**Richard Macdonald:** I do not know about consulted, but I knew it was coming. In fairness to Defra, and I am entirely independent of this, this is largely coming from the Cabinet Office. It is part of the whole sequence of red tape challenging. What I would think and hope is that a significant part of the better regulation job has been done by the Task Force and all the implementation requirements that the Government agreed on that. In the whole of the Task Force, you may recall, I went to where I thought there were problems, so I did not bother with regulation that was maybe bad, but just had no impact. I suspect that quite a lot of this secondary exercise is tidying up all those statutory instruments that mean nothing and impact on nobody, but I do not want to upset Mr Letwin in saying that.

**Q366 Sheryll Murray:** Are there any areas you can identify where perhaps we could cut the red tape and bureaucracy that you have not already made suggestions about?

**Richard Macdonald:** If I am candid, they are not significant. Stop me if I am going off at a tangent, but in my mind the most important part of our Task Force recommendation was to help Defra get into a state where it is fit for purpose to better regulate. I have described that maybe slightly rudely as being a culture change in the Department so that it was really au fait with agriculture, worked in partnership with the industry and a whole load of other things about culture change. I will report on this in detail when I do the report, but that is happening. Like all culture changes, though, it is pretty slow. It takes time to change a huge Department.

My view is that, if you get that culture change right, and everybody there is really trying to force through the principles of better regulation and every time something comes in front of them asking, “Is this fit for purpose? How is this going to land on the ground? Are we reducing the impact?” and so on—I have got a stock 20 questions I ask on all these things—we could all be comfortable or reasonably comfortable that literally anything that came in front of the Department would go through a process with people who are accustomed to it, and we would get a good regulatory outcome.

I am really boring about lots of stuff on this, but getting the Department in a state where it is really in tune with agriculture, and where the industry is also doing its bit to deliver in partnership, I think means that we will all have a lot less to debate about, and good regulation in the future.

**Q367 Sheryll Murray:** I have a very quick supplementary. Do you think there is good communication between the regional levels and the Department based in London as far as getting the regulations and tidying this up, then?

**Richard Macdonald:** I do not think there are bad communications. There is a degree of inevitability about a large Department, based in the middle of London—being candid—with people who live in London, regulating and involving themselves in an industry that is very far from London. That is just a fact of geography rather than a criticism. One of the things that I recommended in the Task Force that is happening, and I think it is really pleasing that it is happening, is significant numbers of Defra staff are getting out on the farms and going into factories. I heard recently that some have been on agricultural courses at Cirencester and so on. I think that is really good.

**Q368 Ms Ritchie:** In relation to the environment, why is the Implementation Group pushing for the nitrates directive to be removed when nitrogen pollution has a harmful impact on environmental and public health?

**Richard Macdonald:** This is an issue that you and I are both familiar with in the context of Northern Ireland as well as England. To be really clear, we are not pressing to avoid regulating on diffused pollution,

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but we think the nitrates directive is a blunt weapon. My view is it is 20 years out of date, and what we should be doing, under the new water framework directive, is dealing with diffused pollution in the whole on a catchment basis. If you look at this through the eyes of a farmer, what none of us would do is look at this as being nitrates. We would look at this as nitrates, phosphates and the application of what we are doing in a field. I think we need to turn the spotlight round so it is nitrates, phosphates, soils, pesticides—the whole works.

**Q369 Ms Ritchie:** A lot of regulations exist to protect the environment. To what extent are environmental bodies represented on the Implementation Group?

**Richard Macdonald:** They are not. They were in the Task Force. In terms of the Implementation Group, the RSPB were involved. They decided not to be on the Implementation Group not because they fell out with me or objected to me, but largely it was just a question of their resource allocation and whether they could put time into spending hours and hours on regulatory issues, an awful lot of which were not environmental issues. I am not aware that there was any policy fallout as far as that is concerned.

If it helps in terms of reassurance, there are two things. One is that I am really clear that this is not about dropping standards. This is about how you do things. The second is that I think, and I hope, I have been—and again it will stand the test of time in terms of the final report I do—completely transparent about what I am trying to do. We do not have any secrets about what we are trying to do, and I am perfectly open to any criticism, including that we are not sticking to environmental standards.

You are right, there are environmental issues, but the reality is most of the regulatory issues that we have got our teeth into are not environmental ones.

**Q370 Neil Parish:** We are meeting on 5 November, so therefore a bonfire of red tape might be quite useful. I am not sure we have had enough yet by any means. The question is earlier this year the Tenant Farmers Association expressed concern that “the approach being taken on earned recognition may do little to reduce the burden of regulation”. In their words, “it may in fact enhance it”. Are you satisfied the Government’s approach will reduce the burden of regulation and administration?

**Richard Macdonald:** On earned recognition, yes. There are, in very broad terms, 31 significant inspection regimes on farms. 14 of those at the moment have got some form of earned recognition. There is a handful more where we could do quite a lot more, and reduce regulation. To put it simply, as we are in simple regulatory stuff, I disagree with the TFA. Earned recognition reduces the regulatory burden, but, probably more to the point, it rewards the good and penalises the bad. That seems to me a really good principle of better regulation. I have had that discussion with George Dunn, and we disagree.

**Q371 Neil Parish:** Turning the question almost on its head then, is the Government’s plan to reduce

inspections and introduce earned recognition sufficiently ambitious? It is completely the opposite question, really.

**Richard Macdonald:** There is more that can be done. Ministers are very ambitious about this, and there are certainly three or four areas where we could, should and will do more.

**Q372 Neil Parish:** Would it be fair to say that civil servants are not quite as ambitious, or would that be unfair?

**Richard Macdonald:** I thought you might read that into what I was saying. I am not here to defend anybody in particular, because I am just my own man on this, but that is a little bit unfair.

**Neil Parish:** Yes, a little bit harsh.

**Richard Macdonald:** Some of it comes back to the earlier question about trying to help people understand what it is. Some of this is very new to people. The second is—and I have levelled this comment to the industry as well—that there is a responsibility to the industry. I have challenged the NFU, the CLA and the TFA to come forward with “Where do you want earned recognition? Where do you think you can put forward assurance schemes or other external, third-party accreditation that will do it?” If I am really honest, they have not come up with much. Without blowing my own trumpet, because I have no reason to do that, most of the earned-recognition proposals that have come forward have come from me. If I am honest, that is a bit disappointing for me to say that.

**Q373 Neil Parish:** Sometimes farmers are very good at moaning about the regulation but not necessarily giving much of an idea of what to do about it. Has the Government done enough to ensure that the assurance schemes out there are robust enough so that they can take the place of official inspections? Sometimes, perhaps, some tweaking and alteration to the assurance schemes could take away inspection.

**Richard Macdonald:** Forgive me, but that is a very good, broad question to which there are 25 particular answers.

**Neil Parish:** We do not necessarily have time for 25 answers.

**Richard Macdonald:** No, but let me just illustrate. I promise you I will not go through 25. I can bore on this, but I promise you I will not go that far. On a particular individual thing—let’s say on livestock movements, for the sake of argument—it is not a general Government requirement. It is for the person in Defra on livestock movements saying, “I think I want this technical spec or requirement” to then have that negotiation with the assurance schemes, and to then have the support of the farming community to do that. Quite often, that does not come because—you will be as familiar as I—asking farmers to add additional measures into assurance schemes does not go down well.

**Q374 Neil Parish:** If you traded that for an inspection, it would.

**Richard Macdonald:** I totally agree but it is a pretty long discussion before you get there, and some of those things do take time.

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**Chair:** May we move on, because there may be a vote?

**Q375 Richard Drax:** Is the use of a risk profile to determine inspections being linked with the IT system that the RPA are developing for managing the new CAP?

**Richard Macdonald:** No, it has not, and it is a really good and interesting question as to whether it should. So far, there is not a central IT system that identifies the good, the better, the not-so-good and the poor. It would be quite a task to do so. The general feeling so far has been that to put it in one place is difficult, but it is a very, very interesting point.

**Q376 Richard Drax:** Can I move on now to tenancy reforms? The taskforce recommended that there should be the option for disputes within agricultural tenancies to be settled by an independent expert where the matter does not relate to a notice to quit. What progress has been made on this recommendation?

**Richard Macdonald:** There is a group called Tenancy Reform Industry Group or TRIG. I asked them to go through this, to discuss it with Defra and to put it into a state where the statutory instruments could be changed. Recommendations are with Ministers at the moment on that. Fingers crossed, I would hope that could be implemented and see no reason why not.

**Q377 Chair:** We have just a couple of questions at the end, if we may. Fly-tipping is a tremendous problem on private land and, obviously, it is the responsibility of landowners to remove it. Have you made any progress in that regard?

**Richard Macdonald:** Limited. Defra have taken a reasonably high profile on this. They have had a summit on fly-tipping, have engaged with the LGA, and have identified and sponsored some pilots in a number of district councils on good practice. I think there is an overall wish, and there are some good individual improvements. I doubt that fly-tipping across the country has significantly reduced on the back of all of that. One of the difficulties on this is it is a very individual thing—by “individual”, I mean individual district councils and unitary authorities—and all central Government can do is increase the penalties and get tough about the general message. Ultimately, my view is that a lot of it is done at local authority level.

**Q378 Chair:** You alluded to the regulation from Europe, certainly in terms of the water framework directive and the urban waste water treatment directive. Do you think there is scope for us to be more questioning before we sign up to these, and should Defra be taking more of a lead? Should they have a little group that are focussing on early engagement with these regulations at the earliest possible stage before we sign up to them?

**Richard Macdonald:** You raise two questions there. One is on water. There is a water framework directive, so a lot of it is persuading the Commission and Europe that we are doing enough and would do enough under the water framework directive to remove the nitrates directive. That is about agenda-setting. It is about

being good at what we are doing. I hope that is happening; I would be very disappointed if it is not. If I am speaking to Ministers, I say to them, “This should be one of your high-priority issues.”

In terms of engagement with Europe, one of the things the taskforce said and which I believe very strongly is that we are very good at reacting in this country and we are great at doing the detail and all that, but we are not proactive enough about agenda-setting. I do not think we do that enough in partnership with the industry, because, again, the industry can do things that Defra cannot—for example, the European Parliament—and I still think there is work to be done on that.

**Q379 Chair:** In terms of your recommendation on GAEC 1 and the Soil Protection Review, have you made any progress in that regard?

**Richard Macdonald:** As I understand it, the soil framework directive is not going to happen, so I think that is a big green tick.

**Q380 Sheryll Murray:** Just very quickly on the European scrutiny, do you think we should be more proactive in looking at proposed regulations and proposals, and consulting with the industry, in a different way? I know we do, but it does not seem to generate the results. Should we be doing that as a Parliament more?

**Richard Macdonald:** My personal view—and, I think, the view expressed by the taskforce—is that it goes a step before that. Generally speaking, once you get a proposal you are in difficult territory.

**Sheryll Murray:** Yes, it is hard to change it.

**Richard Macdonald:** You are negotiating around the edges.

**Q381 Chair:** You were agreeing with the question earlier.

**Richard Macdonald:** Part of the view that I expressed about the industry and Defra needing to work together is that it should be about going in and, for example, talking to Barroso’s cabinet about smart regulation and setting out a whole load of proposals. If you set the proposals out and you do it before anybody has thought about it, you drive the agenda.

**Q382 Chair:** Are you confident that you will have made, in your report, good progress when it comes to January/February?

**Richard Macdonald:** If I could choose my own words—forgive me—I think we have made progress. What I have to do in the next couple of months is just try and write all of that down. Sadly, it is not just a simple bonfire and, sadly, it is not three silver bullets. By definition, the report had getting on for 200 recommendations, so it is lots of bits. Am I confident that we have made progress on lots of those bits? Yes. Is there a huge amount still to do? Yes. What I see as my end report as I ride off into the sunset is to comment on, in total, what it looks like and, individually, what it looks like, recommendation by recommendation, and then what I am hoping to do is set some views about what should happen in the months and years afterwards. Even though I have been



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5 November 2013 Richard Macdonald

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doing this for three years, to turn this around is probably a six-to-seven-year agenda.

**Chair:** We thank you for what you do and we are particularly grateful to you for being with us and being so generous with your time and the way you

have answered our questions this afternoon. Thank you very much indeed.

**Richard Macdonald:** It is always a pleasure.

**Chair:** We wish you every continued success.

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# Written evidence

## Written evidence submitted by The Country Land and Business Association (CLA)

### FAIRNESS

*Whether the UK's implementation of CAP might put English farmers at a competitive disadvantage to their regional and European counterparts.*

1. The greening measures have been described as conflicting with businesses. Defra should seek to ensure they do not have a greater adverse effect on agricultural enterprises and particularly those promoting growth, such as those carrying out arable contracts. Defra should carry out an impact assessment of greening implementation ahead of deciding specific measures

2. It is vital that English famers have access to all the measures permitted by the EU in order to ensure a level playing field. This does not close the door to a National Certification Scheme (NCS) which could also contain a wider range of options.

3. If considering the implementation of an NCS all exemptions to greening allowed at a European level must apply in England. Defra must not use a different interpretation of the term “exempt” and what it means for those to whom it applies.

4. Moreover, if the Government makes use of the maximum rate of voluntary modulation (15%) in England, it will have an inevitable detrimental impact on English farmers. This is not just because of the loss of funds itself from Pillar 1 to Pillar 2; other Member States will be given the option to transfer funds from Pillar 2 to Pillar 1—a move that is entirely counterproductive to the aims of the CAP. In addition, other Member States will still be operating under a historic basis of payments, with some average payments well in advance of the EU average. Furthermore, other member states will still maximise their use of coupled support for certain sectors, whilst maximising the Small Farmers Scheme and 54Ha top up scheme.

5. Any funds which are modulated must remain accessible to the farming sector. If they were to leave the industry altogether, the detrimental impact would be all the greater.

*What steps the Government might take in implementing CAP to help tenant farmers and farmers in upland areas, and to take account of issues pertaining to common land.*

6. **Tenants**—The function of the CAP is to support agriculture in all its forms (and to provide a range of public goods closely allied to agriculture.) The particular forms that individual farmers chose to adopt are a matter for them, not the CAP. We do not think it appropriate for the CAP to aim to support a particular form of farming. Preference should not be given to the landlord and tenant system in favour of other forms of farming such as owner occupiers, share famers and contract farmers.

7. A significant issue for Defra to consider will be that of “Dual Use” (where one party claims an Agri-Environment Scheme and another party claims the Single Payment Scheme on the same holding). This is because there are clearly issues to be resolved in terms of greening and double funding, and those parties in a dual use situation will need some clarity on what they can expect in relation to their agreements—if any. The CLA welcomes the Government’s approach to Dual Use, and supports its use where possible under the new CAP.

8. **Uplands** —England has three regions for SPS:

9. Land in non-severely disadvantaged areas (SDAs) land (*ie* the lowlands outside the SDA);

10. Land in SDAs other than moorland (*ie* the uplands below the moorland line); and

11. Moorland (land above the moorland line).

12. Under SPS, the proportion of funds allocated to each region is broadly consistent with the historic distribution of payments. This means that, because farming is less productive in upland areas owing to poor climate, soils and terrain, upland farms receive a lower SPS payment per hectare than lowland farms

13. Existing regions and rates:

14. English Region	15. Claimed Area (2010)	16. Current Rate (£)
17. Non SDA	18. 6,717,520	19. 257
20. SDA	21. 503,835	22. 208
23. Moorland	24. 406,443	25. 36

Current figures—Re-modulation

26. Moorland areas have historically received a substantially lower basic payment and as a result have received supplementary payments through the Hill Farm Allowance followed by the Uplands Transitional Payment and most recently Uplands Entry Level Stewardship (UELS) Pillar 2 agri-environment payments.

This created a huge reliance and therefore spending of agri-environment funds in the uplands, which could be mitigated through providing a top up under Pillar 1. Through adopting such an approach high priority environmental sites could be managed under the new suite of agri-environment and the lower dependency on UELS by other moorland areas would mean more resource availability elsewhere.

27. Merge SDA and non-SDA but provide an increased payment to Moorland (partial convergence):

<i>English Region</i>	<i>Claimed Area (2010)</i>	<i>Current Rate (£)</i>	<i>2 regions (£)</i>	<i>% Change</i>	<i>Proportion of original rate</i>
Non SDA	6,717,520	257	250	-2.7	0.97
SDA	503,835	208		+16.8	1.20
Moorland	406,443	36	89	+147	2.47

28. It is not realistic to merge to equalize payments across all the regions. An increase of almost 600% in the moorland areas would be too big a change to be acceptable.

29. Merging SDA and non-SDA payment rates, as per option c, would bring significant benefits to those in the SDA, with a relatively minor impact on those in the non-SDA areas.

30. Subsequently by deducting a small percentage from the amounts payable in the SDA and non-SDA areas would then allow a an increase in the rates payable above the moorland line. This could make up for the impact of the loss of UELS.

31. **Commons**—The legal rules for direct payments on common land will be set out in EU legislation. It is not possible to determine how payments should be made until that has been published.

32. We are pleased to see that Defra are actively considering the needs of common land and individuals exercising commoners' rights in England as part of this CAP. These were not given sufficient attention under the current CAP

33. A key concern on the implementation of SPS for common land is that many available entitlements have not been claimed on—simply because some common rights holders do not engage in agricultural activity and therefore see no need to claim SPS. It is appropriate that those available entitlements are directed towards those who do engage in agricultural activity.

#### BUREAUCRACY

*What steps does the Government need to take to ensure the reformed CAP will be less bureaucratic than its predecessor and what might prevent this ambition from being achieved?*

34. The current Single Payment Scheme has seen many difficulties under the interpretation and implementation of “minimum activity” criteria. For many years, the CLA has been working with the RPA to try and provide greater clarity on this.

35. Under this CAP reform period, the CLA believes that the current definition criteria, that uses the “land at disposal” definition remains fit for purpose—and should be continued under the next CAP. It clearly defines to what extent an individual can legitimately claim SPS, by demonstrating their management of land they are keeping in Good Agricultural and Environmental Condition.

36. The CLA believes that if a prescriptive approach to minimum activity criteria is taken, this will only add to the already extensive list of complicated eligibility checks that the RPA will be mandated to undertake. The current definition has taken many years to arrive at, and the industry is now in a position where it is finally clear on its interpretation in England.

37. The CLA would also add that prescriptive definitions of minimum activity (stocking density, crop types grown etc) remain subjective for landowners, farmers and bodies such as the RPA. We do believe that there is scope to focus on certain areas such as salt marshes, grazed woodland and areas of mixed scrub—however these should be taken on a case by case basis with those affected and the RPA.

38. The CLA believes that the Single Payment Scheme is there to encourage and reward the maintenance of the countryside. Any decision made to cultivate or rear animals is a commercial one, and not one that should be set centrally through arbitrary criteria

*How might the Government define the minimum activity required for qualification as an “active farmer”?*

39. We support the exclusion of waterworks, railway companies and airports. However we are concerned by the references to sports and recreation grounds and more significantly real estate services.

40. If this latter phrase is interpreted as covering landowners who let domestic and non-domestic properties it would apply to tens of thousands of claimants. The bureaucratic burden this could place on both farmers and the RPA would be significant.

41. We also have concerns over the definition of “significant” would be in terms of income from agriculture, it is rather subjective.

#### GREENING

*How should the Government ensure that CAP delivers the best environmental benefits while supporting food production?*

42. **General Considerations**—Greening requirements must go beyond current cross compliance if they are to make a difference. Individual measures should be those proven to make a difference to the landscape, habitats and species. They should not stray too far into the types of measures found in current agri-environment schemes because this would go over and above what other member states are doing. Also without funding to carry out such measures it will be less economically viable for farmers to continue to manage other areas on the farm for the environment.

43. Defra should carry out an impact assessment of the extent to which greening would make it unviable to continue with environmental management measures elsewhere on the farm (these may or may not be managed under a scheme), and the level at which certain greening requirements would challenge the viability of the business.

44. In order for implementation to be fair it is important to rank measures, both under EFA and crop diversification measures, according to their environmental output. This will ensure that the level of additional implementation per farm is fair and those who have been carrying out good environmental management to date are not penalised and each farm yields significant environmental results.

45. The selection of EFA measures should allow choice and flexibility in order to suit different businesses, enterprises, soil types, stocking requirements and farm sizes etc. Farmers should be able to choose from a range of options and which elements of the greening package to carry out, for example it should be possible to provide double EFA in place of crop diversification.

46. **Permanent Grassland**—The public briefing states that we have the option to designate additional areas of valuable permanent grassland which cannot be ploughed up. Defra have informally noted that they would not make use of this option. We agree; grassland is sufficiently well protected under the EIA Regulations. We agree with Defra that this element should be implemented at a National Level.

47. **Crop diversification**—Is the option which is likely to cause the most concern to members as the threshold is still low. For example farms of 30ha arable land may have two crops and an abundance of supported wildlife due to environmental features surrounding those crops. As an alternative it could therefore be viable to set a new parameter, for example those with an arable area of 30–50ha carrying 1 or 2 crops receive a choice of whether to implement double EFA or crop diversification. Growing separate crops is after all expensive an arguably goes against the principles of greening.

48. **Ecological Focus Areas**—All landscape features, such as hedgerows, hedge banks, stone walls and other historically important boundaries, ditches and ponds should all be included in the measurements of the EFA area. Without such features greening measures in England would be gold plated.

49. Small blocks of woodland, such as copses, have traditionally been ineligible for funding under both ES and SPS. They are an integral part of the farm ecosystem, providing valuable habitat and connectivity. It would therefore seem sensible to include a more basic level of woodland management in NELMS than is currently the case in HLS. This does not require a detailed expert driven management plan, but allow small copses and spinneys not included in NELMS to be included in EFA.

50. Given the example of pollen and nectar given under AES is completely shifted to Pillar 1 under EFAs there will be no incentive available to carry out such an option through a scheme. Therefore those farmers exempt from EFA will be much less likely to implement that measure.

51. It would be more useful to allow the individual to decide whether to include an option under the Pillar 1 EFA or under Pillar 2, rather than carrying out an automatic transfer. This means that if it is an option under EFA, it will be unavailable to all under the schemes.

52. Holdings which are more diverse and include areas of permanent pasture, small woodland areas, ponds and other environmentally important areas should have these features taken into account.

53. It is important to note the difference between maintenance and management, for example it may be that EFA requires the farmer to have a hedgerow and ELS requires you to manage it and therefore this would not be classed as double funding.

54. **Certification**—There is still insufficient information to provide a final decision on certification, as we do not have confirmation on which options would be included as equivalents under a certification scheme.

55. Overall the introduction of a certification scheme would seem to offer a more robust measure of what greening achieves and therefore there would be value in introducing it. It will also provide the necessary flexibility, in particular to the EFA and crop diversification requirements.

56. The Council regulation measures should be included to avoid farmers being further restricted than their EU counterparts. Equivalent options should provide environmental measures which yield significant environmental results, but are ranked according to their environmental gain. This will ensure farmers are able to go a step further for greening if it is viable for their business.

57. **Relations with agri environment schemes**—We do not believe that if an option goes towards greening, that it should be completely removed from agri-environment schemes, due to the knock on effects of implementation of such an option at landscape scale.

58. We believe that the most straight forward way of allowing a smooth transition into greening where agri-environment schemes are already in place would be to carry out a deduction from the total scheme. Eg 100ha with a 5ha EFA, currently being paid £30/ha would see an annual deduction of £150 (5ha x £30).

59. We agree with the ladder approach to NELMS which would allow farmers to build on their greening requirements through a straight forward approach.

60. There are many factors to take into consideration when designing the new schemes, all of which point towards a reduction in their availability in the future. These factors include existing commitments to carry over from current schemes (in the region of 45,000 agreements), resource constraints on the CAP budget and also Defra itself following the spending review.

61. We do not believe Defra has done enough to make farmers aware of this. The extent to which farmers appreciate the current structure will change is negligible.

62. NELMS must be designed in a way which makes the most of synergies, in order to provide for multiple outcomes at a time when budgets will be restrictive. Strong drivers include Biodiversity 2020, the Water Framework Directive and the Lawton approach, which are compatible for targeting due to their complimentary nature. However we believe other important elements currently covered by agri environment schemes should not be lost, such as permissive and educational access and options for the historic environment.

63. The proposed middle tier would be pitched between the current ELS and HLS, which in effect means that certain options would be. The impact of removing specific options should be explored before such decisions are taken in order to avoid an overall reduction in quality environmental land management across the agricultural landscape.

64. Options in NELMS should be directed in a way which makes them most relevant to that particular farm. This should therefore involve an assessment of the relevant issues affecting each individual farm. Features of interest will be found at different scales from county, to catchment, to landscape feature, to farm, and NELMS must make the most of all interacting features. Often a farmer may be encouraged to implement a certain option on their farm as they are told it is a hotspot for that feature/species, knowing that success is unlikely? We would therefore only agree with a directed approach, as long as it was still allowed farms to be considered individually and allows the landowner to add their own knowledge of the farm, landscape and species/habitats which it supports and could potentially encourage.

65. Discussions around targeting can also tend to immediately jump to geographical targeting because this is the way the budget has been managed in the past and it is a straightforward approach. Targeting must deliver the right agreements, in the right places, with the right combination of options, but geographical targeting in blocks causes animosity between farmers and can also mean that valuable farms are overlooked.

66. **Voluntary Measures/CFE** The CFE can help fill the gap between greening and AES through adding value to both, but that this should not become a reason to allow white space, ie farmers not eligible to carry out any incentivised management.

67. The CFE can add value through providing advice to farmers on which greening measures would be suited to their farm. Ie right measures, right place, in the right way.

68. The Campaign for the Farmed Environment is currently entering a new phase where it will provide advice for all English counties, excluding those which are predominantly upland counties. One of the first tasks for the Local Liaison Groups is to provide a local priority document for each county which draws on information given from Natural England, CSF advisers, EA, RSPB, wildlife trusts etc, in order to make sure advice is as relevant as possible to each county.

69. We believe that this county priority document will help focus targeting of NELMS and that CFE will be promoting the most valuable agri-environment and voluntary measures for that area.

70. As discussed we do not believe that greening should be used as a tool to address a certain issues such as pollinators. This may mean that the option is no longer available in an incentivised manner, which could see an overall reduction. We would therefore prefer a combination/choice approach, which includes incentivised paid alternatives, if the option is not implemented through greening.

71. This approach would also mean that greening is in no way targeting to where the environmental management options will be most effective.

## LESSONS LEARNT

*What are the principal lessons the Government should learn from the implementation of the previous CAP?*

72. The problems with the introduction of the previous CAP have been much debated and we do not think much is to be gained by setting them out in detail here. The details concerning the complexity of the so called “dynamic hybrid”, the inadequacy of the IT system and the administrative systems, the lack of communication between the RPA and Defra will be well known by everybody with an interest in the issue.

73. A particular concern for us at the time was the lack of any political or managerial will to put things right. The attitude was incredibly defensive. It was not until Jane Kennedy joined Defra in late 2008 that we felt we had a minister who openly accepted things had gone very wrong and who showed a genuine enthusiasm to resolve matters.

74. Moreover, whilst we are sure that within Defra and the RPA there are numerous records of the administrative chaos and the EU disallowances, from our perspective the overriding issues were the human costs. Our Advisory Services Team was almost overwhelmed by farmers distraught at being paid late, sometimes very late which caused immense cash flow problems. There were frequent errors in the amounts paid, both overpayments and underpayments, and it was almost impossible to get through to anyone at the RPA who was able to do anything.

75. We still remain cautious but we are much more confident that things will be considerably better this time. Defra and the RPA are not faced with a challenge of anything like the complexity of last time and have clearly learned from past mistakes. Officials are much more willing to discuss their intentions and bring stakeholders into the decision making, which we welcome. Determined efforts are being made to ensure that both the IT and the administrative systems will be capable of doing what is required, however Defra must continue to work with stakeholders until the final package is produced.

76. Any new IT operating system must exist to improve the delivery of CAP, rather than stifle it. The new CAP provides many challenges to build into a new system, and the ongoing input from all relevant stakeholders is vital to ensure a successful outcome, and not repeat of the previous implementation programme.

*October 2013*

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### **Written evidence from the Department from Environment Food and Rural Affairs**

This memorandum provides the Committee with background information relating to the Common Agricultural Policy (CAP) and the Government’s approach to implementation in England.

#### EXECUTIVE SUMMARY

- A new European Union (EU) CAP deal has been almost finalised, but negotiations on the detailed Implementing and Delegated Acts continue, to be completed in 2014.
- Implementation in the UK is a devolved matter. In England we plan to implement the new CAP as in ways which are simple, affordable and effective as possible. We have learned the lessons of previous rounds of CAP reform.
- We are working closely with those interested in the new CAP to implement it in England, in line with the principles identified by the Farming Regulation Task Force.
- We are developing a new IT system to support the implementation of the new CAP. Progress to date has been good and we are engaging with users of the system to develop a system that is intuitive and easy to use.
- Many factors affect the competitiveness of English farmers not just the level of Pillar 1 Direct Payment.
- We are planning to submit our proposals for the new Rural Development Programme to the European Commission in the first quarter of 2014.
- We have already published Status Reports on Direct Payments and the next Rural development Programme in England.

#### INTRODUCTION

2.1 Defra led for the UK on the EU negotiations on the new CAP, working closely with all Devolved Administrations. As EU negotiations draw to a conclusion, Defra is increasing the emphasis on how the new CAP is implemented in England. The Devolved Administrations are similarly looking at how they will implement the new CAP.

2.2 Defra is responsible for negotiations at UK level, for the development of implementing policies and regulations in England and for the development of the supporting delivery mechanisms including the necessary IT systems, administrative and inspection functions.

2.3 The outcome of negotiations did not move the CAP anything like as far as the UK wanted in the direction of reform. From a UK perspective, the CAP should be about helping the EU agriculture sector to become more competitive and market-oriented whilst providing environmental public goods that the market does not reward. Nevertheless, Defra is aiming to implement the deal in a way which is as simple, affordable and effective as possible.

2.4 In August we published two Status Reports, one on the new Rural Development Programme in England<sup>1</sup> and one on Direct Payments.<sup>2</sup> The former presented an update on developments with some factual background on Rural Development Programme (RDP), whilst the latter we provided a summary of what has been agreed about the new direct payments system and set out our approach to implementation in England.

2.5 Defra wants to see a competitive farming industry that faces less red tape, takes advantage of export opportunities and is less reliant on public subsidy. Over the next seven years the UK is expected to receive about £17.8 billion under Pillar 1 on direct subsidies and £1.84 billion under Pillar 2 on the environment and rural development (subject to confirmation, both figures are 2011 prices). Where Defra has greater discretion on how CAP money is spent, we need to make sure it is spent efficiently, in the right places and where it adds greatest public value. Whatever decisions are taken on the implementation of the CAP, and specifically in relation to the potential transfer of money from Pillar 1 to Pillar 2, the majority of CAP payments will still be to farmers through the Pillar 1 Direct Payment Scheme.

2.6 The next CAP can make a significant contribution through rural development funding to improving the environment, investing in farming competitiveness and growing the wider rural economy in England.

## NEGOTIATIONS ON THE NEW EU CAP

### *UK Reaction to the European Commission's original proposals*

3.1 While Defra felt the Commission had identified the right challenges in its Communication of 2010—the need to increase agricultural productivity to meet growing world demand for food and at the same time reduce environmental impact—we were disappointed at the lack of ambition the Commission showed in the package of CAP proposals published on 12 October 2011. The UK did not see how the initial proposals would address the objectives the Commission had identified.

### *The outcome to date from CAP negotiations and remaining stages*

3.2 This was the first CAP Reform to be co-decided with the European Parliament (EP), following the entry into force of the Treaty on the Functioning of the European Union (Lisbon Treaty).

3.3 After months of detailed negotiations, the Council of Ministers, European Parliament (EP) and European Commission agreed a new CAP deal in principle in June 2013.

3.4 At the time of the June deal, MEPs had insisted that agreement was still outstanding on elements of the CAP package linked to the EU Budget agreement in February 2013. These outstanding issues were discussed and resolved with minimal changes to the CAP package in September 2013. The EP is now expected to vote on the CAP package in mid-November followed by final approval from the Council of Ministers in December 2013.

3.5 CAP implementing legislation will follow from the European Commission; to be agreed by in the first half of 2014. This legislation will provide the detail to the main CAP regulations agreed this year. The full CAP package will take effect from 2015 with the sCMO coming fully into effect before then in 2014. A transitional regulation for 2014 is being agreed in parallel with the main CAP regulations and will also be subject to final approval in December 2013.

3.6 The UK negotiated hard to secure a final outcome on the CAP regulations that overall was a significant improvement on the Commission's original proposals. However, it is still very disappointing and does not move CAP anything like as far as we'd have wanted in the direction of reform.

## APPROACH TO IMPLEMENTATION

4.1 Many scheme rules are set out in the EU regulations and we have no choice other than to follow them. However there are aspects where we have options on how we implement elements of CAP. Where there is scope to do so, Defra is aiming to implement the new CAP in England in ways which are simple, affordable and effective. Simplicity for those applying for CAP funding as well as for our delivery bodies administering the systems will not only be more efficient but will also help reduce the risk of disallowance. Defra's approach to implementing the revised CAP is intended to meet wider government better regulation commitments and to minimise as much as possible the potential burdens on CAP customers.

<sup>1</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/230280/pb14018-cap-reform-rdpe-status-report-20130819.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/230280/pb14018-cap-reform-rdpe-status-report-20130819.pdf)

<sup>2</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/230284/pb14016-cap-reform-direct-payments-20130819.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/230284/pb14016-cap-reform-direct-payments-20130819.pdf)

### *Lessons learned*

4.2 Defra is determined to learn from and avoid repeating the mistakes of 2005, when policy choices were made that did not work well on the ground. This caused unnecessary uncertainty and delayed payments to a significant number of farmers and ultimately cost the taxpayer dearly in EU fines.

4.3 We have reviewed the recommendations from the multiple reports that looked in detail at the 2005 implementation to make sure we understand what went wrong then and to ensure it does not happen again. We have identified six themes that run through the problems in 2005 that we continuously monitor. These are:

- (a) Ensuring policy is deliverable on the ground and striving for early certainty where it is possible to minimise the effect of policy uncertainty;
- (b) Ensure shared understanding of requirements and new policies from the outset between policy makers and delivery bodies;
- (c) Maintaining continuity of key people and expertise;
- (d) Introduce clearer accountabilities and responsibilities between Defra, RPA and other delivery partners;
- (e) Better use of programme risk management to ensure all risks and issues can be monitored, managed and correctly reported on; and,
- (f) Ensure that lines of communication between Defra, agencies and Stakeholders are clear.

### *Timeline*

4.4 Key stages in the coming months include the following, which may be subject to change:

- Autumn 2013—formal consultation on the overall shape of CAP implementation, inter-pillar transfer, etc.
- 31 December 2013—notify the European Commission of the level of Pillar 1 to Pillar 2 transfer we propose.
- January 1, 2014—revised Single Common Market (sCMO) regulation will come into force.
- Quarter 1 2014—submit Rural Development Programme (RDP) programme document to the European Commission.
- Quarter 2 2014—European implementing regulations finalised.
- Summer 2014—release 1 of IT system.
- Autumn 2014—European Commission approve the RDP programme document.
- December 2014—domestic Statutory Instruments in place.
- January 2015—bulk of new CAP implemented.

4.5 Beyond January 2015, we will be looking ahead to the next round of CAP negotiations; in particular, what can be done to help ensure a better set of Commission proposals for the next CAP regulations that will take effect after 2020.

## STAKEHOLDER ENGAGEMENT AND CONSULTATION

5.1 We are committed to the principles of co-design and early involvement by working with the interested parties on the best ways to implement the various elements of CAP. Consulting widely and engaging openly with the farming industry and other interested groups will help ensure we make the right decisions for customers and the public purse. This will also help us ensure we don't repeat the mistakes of 2005. We have sought to listen to the widest variety of views on CAP Reform during EU negotiations and have maintained this approach as we prepare for implementation in England.

5.2 Our approach addresses recommendations from the Farm Regulation Task Force. For example, we have been working closely with the farming organisations, our delivery bodies and other interested parties on the development of proposals on the implementation of the Direct Payment Schemes and the new environmental land management schemes.

5.3 The openness of our approach does not mean everyone with an interest in the new CAP will agree on everything. There will undoubtedly be strong and divergent views, as there were during the negotiations. There will be difficult decisions. Some elements of the new CAP will increase complexity and it is important that we minimise these where we can.

5.4 The Secretary of State, other Ministers, and officials have engaged directly and frequently with the farming industry and other interested groups. Defra has held several events in recent months, attended by Ministers, to hear first-hand from a broad range of interested groups on their thoughts about CAP implementation. These events have been informative and have helped to shape the formal public consultation. For example, Ministers took account of views expressed in deciding to consult on as much of the CAP package as possible at this stage, and in framing the consultation questions.



5.5 CAP touches a wide range of agricultural, rural, environmental and other interests. Defra and its delivery bodies are working closely together to ensure a coherent and consistent approach to engaging with this wide range of interested groups and individuals, drawing on the expertise and understanding shared between the organisations. At a practical level, the relevant teams meet monthly to plan activity.

#### *Consultation on the implementation of CAP reform in England*

5.6 We will consult formally on the implementation of CAP shortly. Our intention is to make the consultation as comprehensive as possible to help interested parties to reach an informed view on interrelated issues. In some cases the Government already has a clear view on the way forward, or has already had to make decisions due to the long lead time for implementing aspects of the schemes or the need for farmers to have certainty. In these cases the consultation document will set out what we have decided. In other areas we will be seeking views in order to make the best informed choices.

5.7 There are some constraints that affect the timetable for consultation. We need to notify the Commission formally by 31 December 2013 on whether and to what extent we wish to transfer funds from the CAP budget for direct payments (Pillar 1) to fund rural development (Pillar 2), which is part of this consultation.

5.8 There are some detailed issues on which it would not be sensible to reach a view until we have more information from the European Commission about the application of the rules. We plan to engage closely with stakeholders on these issues as the details from the EU processes emerge.

5.9 The consultation is part of a much broader approach to engagement with interested parties.

5.10 With the consultation we propose to publish an analysis of the main impacts of the new CAP. This will include evidence on the impact of the decisions to be taken, but also considers the value for money for tax payers, and the costs to consumers of CAP as a whole.

#### PROGRESS WITH DEVELOPING THE CAP IT SYSTEM

6.1 Defra is aiming to improve customer service and value for money and reduce disallowance risk through developing a new single online CAP application and payment system, ready for scheme year 2015. While the CAP negotiations have been underway the CAP Delivery programme has been able to continue development of the system as it is being built in a flexible way that will allow us to integrate any changes in implementation as they occur.

6.2 The programme has been consulting with interest groups from to understand user needs and inform the development of a system which is easy to use and intuitive. Fortnightly user research is carried out with farmers, land managers, agents and future applicants, who provide feedback on iterations of the system as part of continuous improvement to the design and functionality. The programme is also more broadly engaging stakeholders, individually and via established consultative groups, customers and staff to get ready for the shift to both this new system and new schemes.

#### *A digital service*

6.3 In line with the government's digital agenda, the new CAP service is designed to be "digital by design". The programme recognises in the early days of the new service, customers will require support to cope with a lot of change and some may have a "genuine need" to assisted digital entry. The programme is listening to stakeholders' concerns about the digital by design approach given shortfalls in rural broadband coverage and is working with them and the Government Digital Service to encourage digital uptake and to formulate options for those who genuinely can't access the new system; these may include a role for telephone channels and utilising delivery body advisers. The Secretary of State will take the final decision on which options are available.

#### *Developing the new system*

6.4 The programme has reduced delivery risks and the costs of development by integrating existing tried and tested CAP software where available with bespoke development where needed. This includes the procurement of a system which is used across three European countries and manages 2 million farmers' CAP payments. This system will meet some of the development needs, is compliant with the requirements of the current CAP regulations and has not resulted in any disallowance costs. The contract for the Scheme Accounting and Payment function has been awarded to Hitachi.

6.5 The first piece of completed development is a Rural Land Registry (RLR) map viewer, due to be released to RPA customers in November. This is aimed to encourage customers to make the transition to online systems. The build is now focusing on development of the CAP services screens and the process for customer registration which will be ready for release in summer 2014. Other workstreams are delivering the migration of customer data, business transition and integration with existing systems that will be required.

#### PILLAR 1—MARKET MEASURES

7.1 The Single Common Market Organisation (sCMO) regulation lays down rules for the common organisation of agricultural markets. Market measures set out in the sCMO regulation include the tools used to provide a safety net at times of market crisis inside the EU, trade and competition rules, quota systems, specific marketing standards that apply to certain sectors and/or products, individual aid schemes and the promotion of producer organisations (POs) and inter-branch organisations (IBOs) that operate more widely than POs by working along the supply chain. The safety net includes intervention, export refunds, private storage aid and the provision of a new crisis reserve. The quota systems in the sugar and wine sectors will now be in place for extended periods.

7.2 In most cases, the new sCMO regulation updates existing provisions rather than representing a radical reform, however several of the changes that have been made rollback previous CAP reforms and went against the Lisbon Treaty in transferring additional powers to the EP. At Agriculture Council in June 2013 the UK and Germany could not support the sCMO regulation due to the amendments that had been made in order to reach a compromise with the European Parliament. The UK and Germany therefore abstained in the sCMO vote to enable agreement on the overall CAP package.

7.3 The revised sCMO regulation will:

- Maintain an effective safety net for EU farmers, by simplifying and updating existing systems of public intervention and private storage aid.
- Bring an end to the EU sugar quota regime on 30 September 2017.
- Introduce new crisis management tools, including the provision of a crisis reserve.
- Largely maintain existing trade and competition rules.
- Provide Member States with the option to extend the formation of POs and IBOs in all sectors, including an additional facility for POs to collectively negotiate contract terms in the olive oil, arable crops and beef and veal sectors only.
- Maintain the current approach to marketing standards (although the Commission now has delegated powers to adopt additional marketing standards in future subject to an impact assessment).
- Introduce, as from 2016, a new planting-authorisation management mechanism in the wine sector with a fixed planting limit of 1% for vines per year (although the UK will continue to be excluded from these restrictions).

7.4 The sCMO regulation is directly applicable in the UK. However, there are 2 key provisions in the regulation where Member States can decide what approach they wish to take: whether to extend formal recognition of POs to all sectors, and whether or not to make it compulsory for farmers to have written contracts with processors or distributors. At this stage the Government is yet to be convinced that choosing to implement either of these options would add significant value, as other forms of co-operation are already available to producers that do not necessitate them meeting requirements set by Europe, and the vast majority of domestic farmers already have a written contract with the processing company or distributor that buys their produce.

7.5 The sCMO regulation will come into force from January 1, 2014.

#### PILLAR 1—DIRECT PAYMENTS SCHEME

8.1 The current Single Payments Scheme (SPS) will be replaced under CAP reform from 2015 with a new system of Direct Payments.

8.2 The Status Report on Direct Payments, referred to above, describes in detail what has been agreed in the EU, although we still await the final text of the European Direct Payments regulation which is likely to be agreed only in November. Many of the main parameters of the scheme will be defined in that regulation and in the Commission implementing regulations which will be agreed in Brussels over the coming months. This section therefore gives only an overview of the Direct Payments system, and reference may be made to the Status Report for further information.

8.3 We expect the Autumn 2013 consultation on CAP reform to include our proposals for implementation of Direct Payments, insofar as the European Direct Payments regulation affords discretion to Member States. The consultation paper will (among other things) invite views on a series of strategic Direct Payments implementation issues, including:

- the distribution of Direct Payments between the lowland, uplands, and moorland regions;
- how reductions should apply to the largest payments;
- whether to extend the “negative list” of business types which will be ineligible to apply for direct payment; and
- how to operate the young farmers scheme.

8.4 Many features of the Single Payment Scheme (SPS) will continue, but there are significant changes too. Farmers will continue to qualify to receive an annual payment if they meet the conditions defined in the EU regulations. As under SPS, the key conditions will be that the farmer holds entitlements and has eligible land at their disposal for the relevant scheme year. In the case of tenanted land in England, it will be the tenant who has the land at his disposal and therefore qualifies for the direct payment.

8.5 The amount of the payment will depend on the number, and value, of entitlements supported by eligible land. Farmers will not have to grow crops or keep livestock to be eligible for payment but will continue to have to meet the rules on cross compliance,<sup>3</sup> which will be subject to some amendments. In addition, farmers will have to meet a new “active farmer test”, and 30% of the payment will depend on implementing greening measures (covered in the next section). There will be a system under which large payments are subject to a reduction. There is also a new scheme for young farmers.

8.6 The consultation will not cover the question of whether entitlements should be carried forward from the current scheme or reissued at the start of the new scheme, as stakeholder organisations have stressed to us importance of giving farmers a decision as soon as possible to help with business planning. We therefore plan to announce a decision on this as soon as possible.

8.7 There are a number of other issues where it would not be sensible to decide how we should implement the scheme in England until we have clarity about the detailed rules which will be defined in the implementing regulations. The Commission will be publishing their proposals for these rules in stages over the coming weeks, and we expect the implementing regulations to be agreed by Easter 2014. We will be discussing the detailed aspects of scheme design with stakeholder organisations in the first half of 2014.

8.8 These issues include a number of detailed aspects of scheme design albeit ones which will be important to the farmers concerned. They include:

- Aspects of the active farmer test, particularly the definition of a minimum level of activity required on land which is “naturally kept in a state suitable for grazing or cultivation”, and the criteria by which farmers who may initially be excluded from payments by the “negative list” of activities, may prove that their farming activity is significant and hence may be readmitted to a payment.
- The basis on which payments are calculated for common land.

8.9 In addition to the formal consultation in Autumn, we will continue to discuss Direct Payments implementation issues with key stakeholders in the Direct Payments Consultative Group, which meets at approximately monthly intervals.

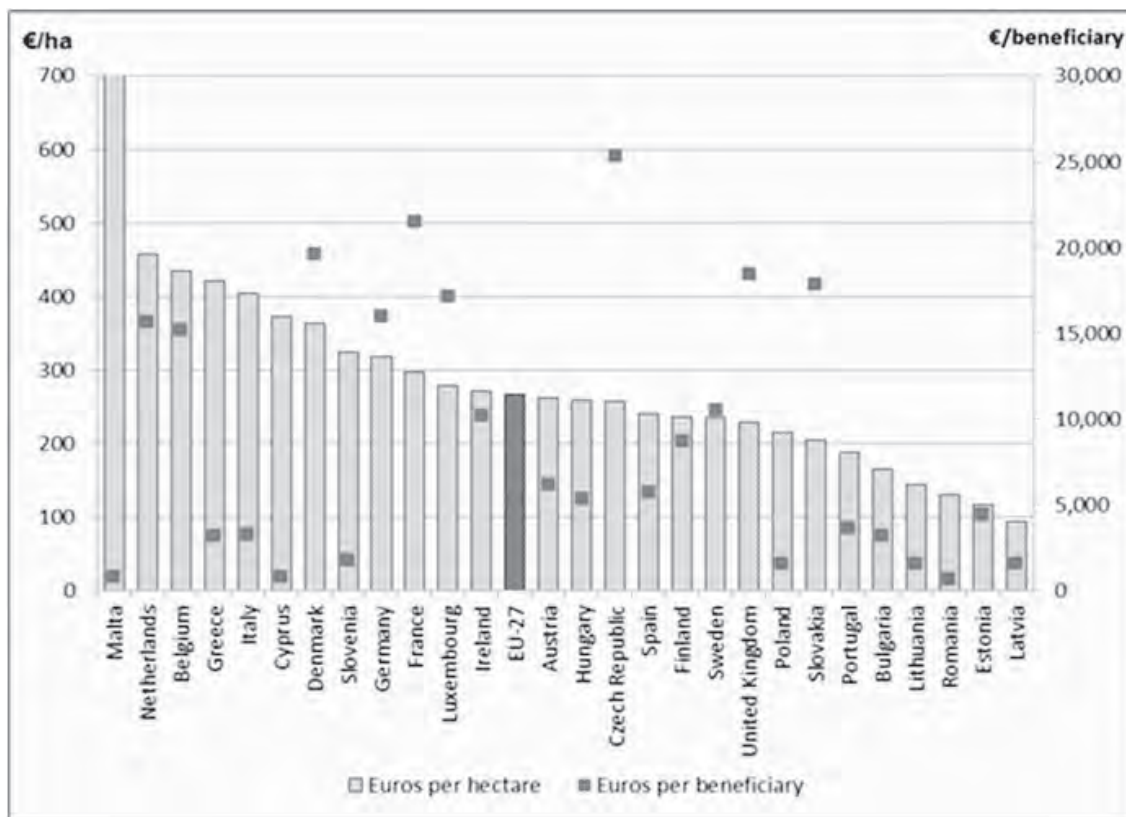
#### *Comparison with other Member States*

8.10 As Figure 1 shows, UK farmers may receive less per hectare than some other EU Member States but they receive more per farmer than most. However, there are many factors which affect competitiveness in agriculture within the EU and the impact of differing levels of direct payments in Pillar 1 between Member States has limited effect. The factors which have a greater impact on competitiveness include natural resources, wage levels, tax and regulatory policies, and investment in innovation and training.

<sup>3</sup> Cross-Compliance is a set of rules that farmers claiming Direct Payments will have to comply with, as those claiming SPS currently do. Cross-Compliance comprises the need to comply with Statutory Management Requirements (SMRs) and to keep land in Good Agricultural and Environmental Condition (GAEC). Some changes to Cross-Compliance will result from the new CAP.

Figure 1

AVERAGE DIRECT PAYMENTS PER BENEFICIARY AND PER HECTARE IN EACH MEMBER STATE



(Source: European Commission)

### Greening

8.11 The new CAP includes a provision that 30% of a farmer's Direct Payment should be conditional on them meeting certain criteria intended to be beneficial to the wider environment. This is referred to as "greening". Ministers have decided that the broad approach to greening in England should be to adhere to the agricultural practices set out in the Direct Payments Regulation and is announced as part of the consultation package.

8.12 There has been an appetite from stakeholders for early clarity on the approach to greening. Arable farmers need the information as early as possible so that they can begin to make crop plans for the 2015 calendar year. Stakeholder organisations wished for clarity to help put into context their views on such issues as the level of financial transfer between pillars of the CAP and the approach that should be taken to successor agri-environment schemes.

8.13 Two broad approaches to greening are realistically possible: the one where we adhere to the specified agricultural practices, or another based on the option to implement greening through a National Certification Scheme that includes additional measures that are equivalent to the specified agricultural practices. Ministers are minded not to choose the second approach because, although it has the potential to bring enhanced environmental benefit, we could only do this at increased cost and increased risk. There would be increased costs to farmers who chose the equivalent measures, increased implementation costs and delivery risk to delivery agencies and increased risk of disallowance as we moved away from the basic model which we expect to be implemented elsewhere in the EU. Set against this we consider that the additional environmental benefits might be small in the context of a Certification Scheme in which farmers were able to choose simpler and cheaper alternatives and so where uptake of the more beneficial options might be low.

8.14 This approach is consistent with the Government's view that it is Pillar II of the CAP, not Pillar I initiatives such as greening, which provides the optimum mechanism to deliver the majority of environmental outcomes from English farmland.

### PILLAR 2—RURAL DEVELOPMENT PROGRAMME

9.1 The Status Report on the New Rural Development Programme in England (RDP) referred to above, set out our understanding of many aspects of the RDP at that time. The new RDP provides a major opportunity

to invest in the rural economy and environment. Our plan is for the new programme to begin formally on 1 January 2015. The Government's objectives for the next programme in England are to:

- Promote strong rural economic growth.
- Improve the environment, including helping to ensure that by 2021 the natural environment is improved as set out in the Natural Environment White Paper.
- Increase the productivity and efficiency of farming and forestry businesses, in order to improve their competitiveness and reduce the reliance of farmers and land managers on subsidies.

9.2 The new programme will be governed by a new EU Rural Development Regulation, which forms part of the new CAP package being agreed.

9.3 The Regulation outlines six broad "priorities" for the EU for rural development. Member States must aim to meet at least four of the priorities in the design of their programmes. These priorities are broken down into a number of "focus areas" under which Member States are required to identify activity for funding through their programmes. The six priorities are:

- Fostering knowledge transfer and innovation in agriculture, forestry and rural areas.
- Enhancing farm viability and competitiveness of all types of agriculture in all regions and promoting innovative farm technologies and sustainable management of forests.
- Promoting food chain organisation, including processing and marketing of agricultural products, animal welfare and risk management in agriculture.
- Restoring, preserving and enhancing ecosystems related to agriculture and forestry.
- Promoting resource efficiency and supporting the shift towards a low carbon and climate resilient economy in agriculture, food and forestry sectors.
- Promoting social inclusion, poverty reduction and economic development in rural areas.

9.4 The RDP must include at least 30% of EU funding on measures to protect and enhance the environment and at least 5% through the local delivery mechanism known as the LEADER approach.

9.5 Defra will manage the next RDP. A proportion of RDP funds in England will be channelled through an EU growth programme along with the EU structural funds, with Local Enterprise Partnerships determining how that funding is used. This element of RDP funding will be used specifically in rural areas for building knowledge and skills; funding new and developing micro, small and medium sized business; funding small scale renewable and broadband Investments; and support for tourism activities.

9.6 We believe that rural development offers the best use of taxpayers' money under the CAP. It provides crucial funding that helps improve the environment, improve farmers' competitiveness and grow the rural economy. We are already committed to spend over £2bn in the next RDP on multi-annual agri-environment and forestry agreements signed up under the current programme.

9.7 The Government believes that rewarding farmers for the environmental goods they provide is a much better use of taxpayers' money than providing direct income support. Transferring funding to rural development would also increase the ability to deliver improvements in the productivity and longer term competitiveness of UK agriculture and to help grow the rural economy in England. We therefore welcome the flexibility to transfer up to 15% of funds from Pillar 1 to Pillar 2. This is one of the key issues that we will be formally consulting on. It is one of the factors that will determine the available budget in England, along with the allocation of CAP funds between England, Northern Ireland, Scotland and Wales.

9.8 Whatever the final budget for the next RDP we expect farmers and land-based industries will continue to receive by far the majority share of funding.

9.9 We want to improve value for money from RDP and to look for opportunities to achieve multiple objectives. We will be looking for views on how to focus the available budget. More specifically we will be seeking views on:

- a new more focused and targeted environmental land management scheme. This includes the potential to integrate agri-environment and forestry offers, help meet water, biodiversity and soil objectives, and to produce more connected habitats;
- how best to improve farming and forestry productivity. This includes the potential to encourage innovation, knowledge transfer, cooperation, to improve business performance and practice and improve environmental practice and efficiency; and
- how to improve the effectiveness of the LEADER approach, particularly in delivering jobs and growth in rural areas.

9.10 Much of the new programme will therefore be invested in environmental schemes that deliver multiple benefits and will be supported by investment in help to farmers to be more competitive and less reliant on subsidies and investment in long term.

9.11 We plan to submit our proposals for the RDP to the Commission in the first quarter of 2014.

October 2013

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### Written evidence submitted by National Farmers' Union of England & Wales (NFU)

#### EXECUTIVE SUMMARY

- The NFU remains disappointed with this round of CAP reform and the lack of strategic vision the policy will provide farmers in facing the significant global challenges and opportunities that lie ahead for the sector.
- The NFU wholeheartedly supports the findings of the Efra select committee which in July 2012 concluded that *“the competitiveness of UK farmers will be reduced if they are exposed to higher modulation rates than their European counterparts. We therefore recommend that Defra does not set modulation rates higher than other Member States that receive similar single farm payment rates.”*
- English farmers very much welcome reassurances from the Secretary of State that he does not intend to put them at a disadvantage by gold plating the greening rules. In our opinion, “no gold plating” fundamentally means that English farmers should not be put at a disadvantage to our competitors. English farmers should not face more costly or burdensome conditions to unlock the 30% greening aid than farmers in other parts of the UK or across the EU.
- We believe that the combination of the new greening rules, cross compliance, pillar 2 measures and voluntary measures will together produce environmental benefits. The introduction of the new greening requirements as a condition of the pillar 1 payments significantly reduces the need to transfer money from pillar 1 to pillar 2 for further environmental works.
- We want to see the new “greening” rules implemented simply, but fairly. Defra should work with the Commission to come up with alternative choices for farmers that not only reduce the commercial impact of the new three-crop rule but will also deliver greater environmental outcomes.
- Defra should find a way to share the CAP budgetary pressures which lie ahead in a fair and proportionate manner across all farmers. Given the vulnerability and disproportionate reliance that upland farmers have on CAP support it is clear that significant quantities of future CAP resource will need to continue to be targeted to active farmers in the uplands.
- Defra should provide stakeholders a holistic analysis across the suite of CAP measures, which considers the impact of the new greening rules, the impact of likely targeting of future agri-environment support and the degree of transfers from pillar 1 to pillar 2 on farm incomes across all farm types.
- The NFU believes that the outcome of the EU Budget negotiations 2014–2020, most specifically the reduced UK pillar 2 envelope, means that there must be a radical rethink of Government policy, matching the ambition of the next rural development programme with the level of funds available.
- All farmers want to avoid the problems of the previous CAP reform recurring and the stress and anxiety that was caused. Support and guidance to farmers will be required in all its forms and will be required from mid-2014 onwards to ensure that the industry is fully briefed ahead of the expected 2015 changeover of schemes.

#### INTRODUCTION

1. The NFU represents 55,000 farm businesses in England and Wales. In addition we have 41,000 countryside members with an interest in farming and the countryside. The NFU welcomes the opportunity to submit written evidence to the Efra select committee’s inquiry. CAP is a policy which affects almost every farmer in the country. It is hugely important that Defra and RPA work hard to implement the reform effectively and unambiguously.

2. Over the course of successive CAP reforms the NFU has played a key role in supporting progressive reform of the policy. In May 2011, the NFU published a policy document for the future CAP which outlined our preferred strategy. As an organisation, we have consistently advocated policies that increase farming’s market orientation, increase farmers’ competitiveness in the global market, strengthen the position of farmers in the supply chain and remain as common and simple as possible.

3. The NFU believed from the outset that the European Commission’s proposals to reform the CAP post 2014 were a missed opportunity. Despite this, the NFU has worked and engaged tirelessly with all the European political institutions and farming organisations to ensure strong representation of our members and to take every opportunity to put the next CAP back on a path that delivers more closely on our ideals. The NFU remains disappointed with the lack of a strategic vision of the CAP which would place farmers in a more competitive position.

4. The future CAP framework has now been agreed at the European level, but within the framework there are many areas where Defra has policy choices. Government must work through these options and find a way to implement them as simply and fairly as possible. English farmers take their environmental obligations seriously, but must also be able to compete with their competitors on the EU common market. That's why "fairness", by which the NFU means the opportunity to compete on even terms with our competitors in other parts of the single market which constitutes 63.5%<sup>4</sup> of the UK farm exports (by value), is at the heart of our policy on CAP.

5. The NFU fully endorses the Government's own guiding principles<sup>5</sup> issued by the Department for Business Innovation and Skills earlier this year on the implementation of European legislation. In particular, the guidance that **officials should not go beyond the minimum requirements of the agreed EU regulations; they should seek alternatives to regulation, endeavour to ensure that UK businesses are not put at a competitive disadvantage compared with their European counterparts** and ensure that there is future ministerial review.

*Q.1 Views on whether the UK's implementation of CAP might put English farmers at a competitive disadvantage to their regional and European counterparts:*

6. Farmers want to get to a place where they can depend significantly less on direct support, but this requires two conditions to be met:

- Functioning market and food supply chain.
- Reform to be pursued equally across the EU and by major global players like the USA.

As long as British farmers continue to compete within the European single market, it is important that we remain part of a common policy framework for agriculture and that English farmers are treated fairly within that framework.

7. It is worth reiterating that the last set of reforms saw farmers in England experience more radical reform of the CAP than farmers in other parts of the UK and EU, and which saw English farmers face the largest deductions in direct payments of all EU farmers. This was due to:

- full decoupling of direct support payments;
- the move towards the area based payments system; and
- Government's use of national modulation.

8. Driven by our members' concerns and the degree of implementation flexibility that was likely to be conferred on Defra, the NFU, along with TFA and CLA has formed the "Fair Deal for English farmers" coalition which brings together over 30 organisations representing the interests of farming and the rural economy in England. Specifically, the objective of the coalition has been to raise shared concerns on two central elements of the CAP reform which we believe threaten a fair outcome for English farmers, namely transfers from pillar 1 to pillar 2 and the potential for gold plating of the new environmental conditionality rules known as "greening."

Transfers from Pillar 1 to Pillar 2

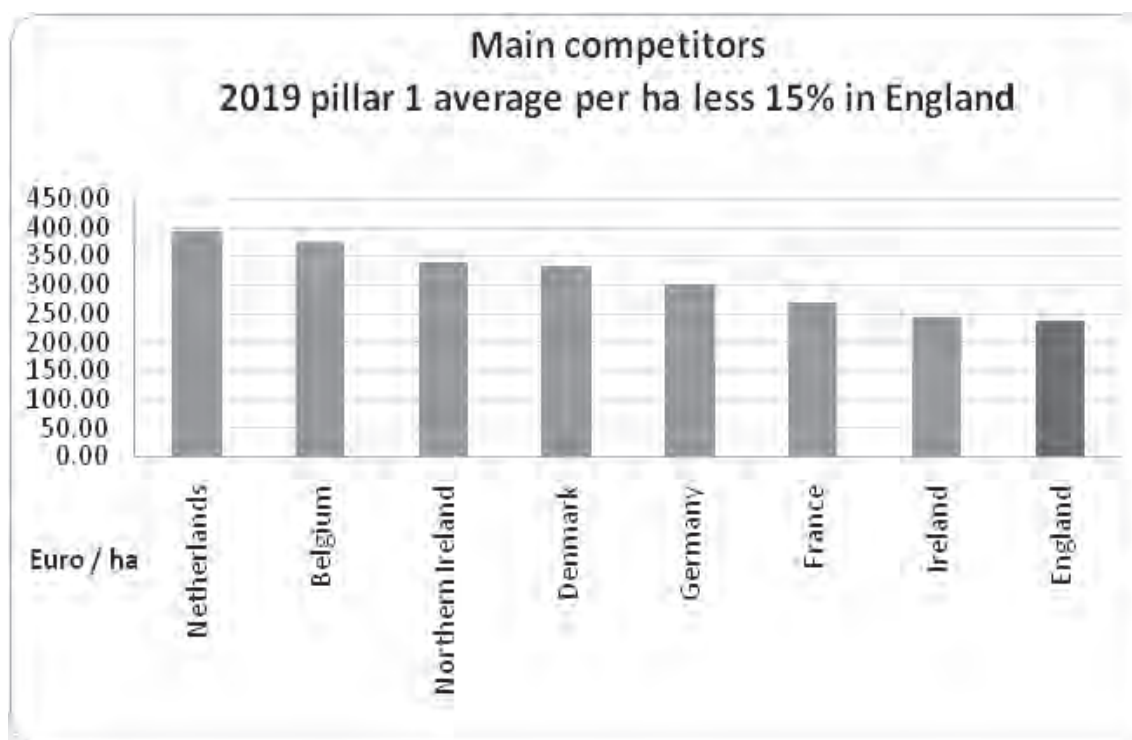
9. The recent EU budget negotiations already places English farm payments lower than the average payment of many of our main competitors (graph 1).

10. If Defra uses the powers to reduce the pillar 1 envelope by 15%, then the impact would be to move the average payment received by English farmers below all of their main competitors (see graph1).

<sup>4</sup> Defra Annual statistics on the value and quantity of overseas trade in food, feed and drink

<sup>5</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/229763/bis-13-775-transposition-guidance-how-to-implement-european-directives-effectively-revised.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/229763/bis-13-775-transposition-guidance-how-to-implement-european-directives-effectively-revised.pdf)

Graph 1



11. However, the average payments in member states and regions mask the important fact that actual payments to farmers differ greatly across Europe. All our main competitors, with the exception of Germany, continue to make payments to farmers on the basis of the “historical payment model.” This means that more productive farmers are paid higher amounts by virtue of the level of activity they undertook back in 2000, 2001 and 2002. Whilst there will be limited attempts in other member states to move away from this model towards the “area based payment model”, the majority of member states have sought to minimise the number of winners and losers arising as a result of this shift in approaches. This means that farmers in other countries, with comparable levels of output will continue to receive much higher levels of support per hectare than English farmers, whose payments have been spread across land as opposed to targeted on past activity.

12. Proponents of transfers from pillar 1 to pillar 2 often downplay the extent of the current and future differences these transfers create. They are not trivial. Already a Dutch dairy farmer who continues to receive payments based on historical activity receives a payment per hectare in the order of €500/ha, a Danish dairy farmer €447/ha and even in Germany where the Government has implemented the area based approach, an arable farmer in an area such as Schleswig Holstein receives €359/ha. An English farmer currently receives €265/ha and will receive significantly less if Defra transfers up to 15% of the pillar 1 envelope to pillar 2 in the future.

13. **English farmers are competing in a single market.** In a year of exceptionally poor weather the single farm payment is an important element in the resilience of farming businesses. Other governments see the SFP as in part a mitigation of the more stringent environmental regulations which apply in Europe and the restrictions, ever more costly, in our use of plant protection products and other technology. Higher payment rates allow our competitors to invest in their farming operations and to enhance their competitiveness. Cutting English payments by more than our competitors will not leave us in a better position to compete. It will leave English farmers more vulnerable to the volatility we have seen in markets and weather in recent years and make businesses less resilient compared to European competitors. The impact of transferring money from pillar 1 to pillar 2 would be further exacerbated given that other member states have been granted powers to do the reverse and potentially increase the value of direct payments made to farmers.

14. Utilising data from Defra’s Farm Business Survey over the period 2005–2012 the NFU is able to show the impact on net farm incomes of South West livestock farms if voluntary modulation was increased by 6 percentage points from 9% to 15%. In low income years the effect of increased modulation has a disproportionately negative impact on the bottom line of farming businesses. The table shows that in the most recent year, based on Defra net farm income estimates, such a move would result in a decrease in farm income of 12%.



Table 1

		2005	2006	2007	2008	2009	2010	2011	2012 (f)
Lowland grazing livestock	Revised NFI % change	2,111	4,043	5,667	8,146	10,136	8,683	18,552	9,607
	NFI	-38.6%	-24.7%	-19.0%	-14.0%	-11.6%	-13.2%	-6.7%	-12.1%

#### Reduced Pillar 2 Budget

15. It is unrealistic to expect the CAP to be exempt from the austerity measures which have affected all public spending throughout Europe. The EU budget agreement earlier this year confirms that the UK is facing a significant budget reduction in its pillar 2 rural development allocation and will retain the unenviable position of having the lowest share of European rural development funds of all member states on a per hectare basis.

16. Defra has not provided stakeholders with this analysis despite repeated requests and therefore we rely on our own analysis drawn on various well-documented data sources to assess the impact.

17. In the first year of the new rural development programme, the UK will see its share of the available European funds cut by 16% compared to the 2013 budget, rising to cuts of 27% in the final year. That's 22% less over seven years compared to the 2013 budget over that same period. By 2020, UK farmers will see less money coming back to the UK than they contributed by way of the compulsory EU modulation transfers in 2013.

18. Defra's initial response appeared not to be scaling back its policy ambition but to compensate for these losses by further cutting English farmers' direct payments by up to 15% and transferring this money across to the pillar 2 budget. The effect of which would be to save Treasury money, but also greatly exaggerate the difference in payment levels between us and competitors.

19. The NFU believes that Defra Ministers should be re-prioritising rural development spending with the aim of running measures only where they make a real difference to the productivity and profitability of agriculture. This is not the time to maintain rural development spending by reducing farm resilience to market and weather shocks with a substantial transfer from pillar 1 to pillar 2. Costly and complex schemes to deliver money back to the very same people Defra have taken the money from in the first place appears a perverse outcome.

20. The NFU wholeheartedly supports the findings of the Defra select committee which in July 2012 concluded that *"the competitiveness of UK farmers will be reduced if they are exposed to higher modulation rates than their European counterparts. We therefore recommend that Defra does not set modulation rates higher than other Member States that receive similar single farm payment rates."*

21. **The NFU believes that the outcome of the EU Budget negotiations 2014–2020 means that there must be a radical rethink of Government policy, matching the ambition of the next rural development programme with the level of funds available.**

#### Greening

22. The new CAP will include mandatory environmental conditions which farmers claiming direct support payments in the future will have to undertake (so called "greening" rules). The "Fair Deal" coalition partners' second concern is the potential risk of Defra gold plating these new environmental rules.

23. English farmers very much welcome reassurances from the Secretary of State that he does not intend to put them at a disadvantage by gold plating the greening rules. The NFU is also pleased that Defra Ministers and officials have pledged to work with agriculture to implement the new rules in a way that works for farmers, the environment and taxpayers. They have adopted the principles of the Macdonald Task Force findings for co-design. In this spirit of co-operation the NFU is working closely with Defra officials to provide input on the design of the future rules to ensure no "gold plating".

24. **In our opinion, "no gold plating" fundamentally means that English farmers should not be put at a disadvantage to our competitors. English farmers should not face more costly or burdensome conditions to unlock the 30% greening aid than farmers in other parts of the UK or across the EU.** This is irrespective of whether there is a choice in the regulation for Defra to undertake alternative options or flexibilities offered. If Defra were to go beyond the minimum requirements as a condition of unlocking the 30% greening, we believe that this would clearly be contrary to the Government's principles for transposition of EU legislation.

25. "No gold plating" specifically means to us that:

- Farmers should have choice including access to the 3 European measures, with all of the options and exemptions offered within the Council regulation.
- Farmers with more than 75% grassland and small areas of arable (less than 30ha) should be exempted from the ecological focus area and crop diversification requirements.

- Where the requirements can be fulfilled at the national level (for example relating to the permanent grassland measure), this approach should be taken to avoid unnecessary costs on individual businesses (and farm-scale verification by the RPA).

We expect the implementation rules associated with the ecological focus areas measure to respect the European Council declaration of the 8 February 2013: “*The requirement to have an ecological focus area (EFA) on each agricultural holding will be implemented in ways that do not require the land in question to be taken out of production and that avoids unjustified losses in the income of farmers*”.

26. Defra can decide what counts as “ecological focus areas” on arable farms. A number of member states argued to include features such as hedges, ditches and trees as well as areas of nitrogen fixing crops. We want to see the new rules implemented simply, but fairly. **This means that English farmers must have access to the same types of ecological focus areas as farmers in other countries.** For example, if a French farmer was able to count his peas or beans towards the 5% ecological focus area requirement, then so must English farmers.

27. For Defra to make full potential of these greening requirements, then Ministers must also lobby for and make available additional EFA options with appropriate coefficients reflecting their environmental value to those already listed in Annex VIb to the agreed Council text. For example options could include pollen-rich margins and water protection buffers within priority catchments. Industry-led initiatives like the Campaign for the Farmed Environment could promote targeted uptake of these options. **Well-judged coefficients would reduce land take while also increasing environmental benefit provided by EFA options.** The Secretary of State is on record as saying he wants to introduce measures which benefit pollinators. In our view, this is the way to achieve that ambition.

28. Set against EFA-based greening we see no merit in the Commission’s crop diversification requirement. It will cause significant business disruption for some specialist growers and mixed farms. It also creates administrative burdens for farm business and RPA alike. **Defra should work with the Commission to come up with alternative choices for farmers that not only reduce the commercial impact of the new three-crop rule but will also deliver greater environmental outcomes.** One option may be to substitute the crop diversification requirement with an additional EFA commitment. We recognise it will be a challenge to persuade the Commission to introduce this possibility, and are ready to lobby jointly with Defra on this point.

Q.2 *What steps the Government might take in implementing CAP to help tenant farmers and farmers in upland areas, and to take account of issues pertaining to common land?*

Tenant farmers

29. The original CAP reform proposals raised concerns that agents of landowners could seek to maximise the in-hand land holdings of their clients. The rules on who can be allocated payment entitlements have now moved on and Defra has the option to minimise potential speculation in land holding by rolling on the existing payment entitlements. **We fully support the rolling on of existing entitlements.**

30. Many tenant farmers and their landowners operate “dual use” whereby the two different parties claim distinct elements of CAP support on the same parcel of land. The rules have permitted this to occur in the past and we would wish to see this approach remain permissible. Whilst the introduction of the new greening rules and the demise of the broad and shallow “ELS” may mean that these types of agreements become more difficult to operate in the future, but we believe that the flexibility should remain.

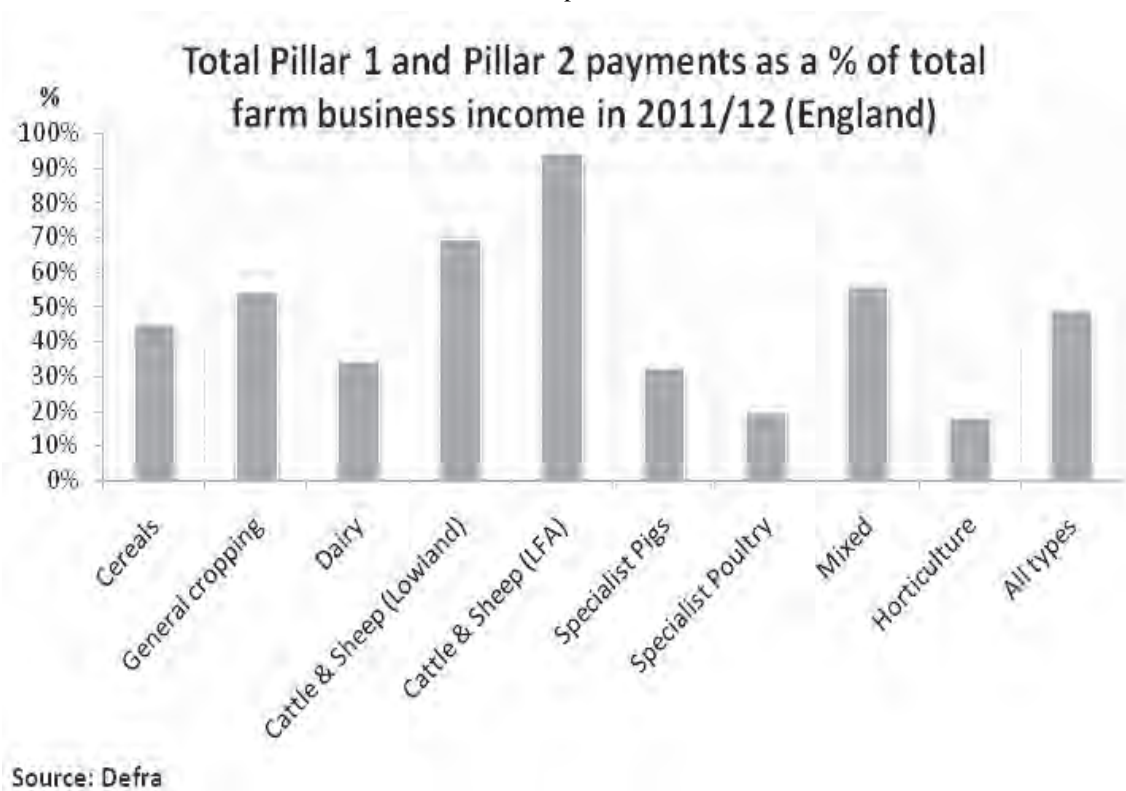
Upland farmers

31. The NFU Hill and Farming Group outlined farmers’ commitment to the hills and uplands earlier this year.<sup>6</sup> This commitment sets out our members’ concerns and aspirations for CAP reform. Upland farmers share a long-term vision held by all farmers, to reduce their dependency on direct support payments and secure more of their income from the market. This can only be achieved through a long-term strategy that rewards farmers properly for the public benefits they deliver and through fair market returns for their agricultural products. Until these conditions can be met, substantial CAP support cannot be removed without serious damage to hill farming.

32. In 2010–11 over half of LFA grazing livestock farmers depended on the single farm payment to remain profitable, and while this reduced to 32% in 2011/12, the vital role of this basic payment is clear. Analysis of upland incomes 2011–12 by cost centre identifies that farmers in the uplands derive almost 95% of their total income from CAP payments (graph 2).

<sup>6</sup> <http://www.nfuonline.com/assets/4815>

Graph 2



33. We understand that it is Defra Ministers' ambition to "move more CAP money up the hill".<sup>7</sup> NFU Council has discussed this ambition on a number of occasions and has agreed that Defra should find a way to share the budgetary pressures in a fair and proportionate manner across all farmers. Given the vulnerability and disproportionate reliance that upland farmers have on CAP support it is clear that significant quantities of future CAP resource will need to continue to be targeted to active farmers in the uplands. **We call on Defra to provide a holistic analysis across the suite of CAP measures, which considers the impact of the new greening rules, the impact of likely targeting of future agri-environment support and the degree of transfers from pillar 1 to pillar 2 on farm incomes across all farm types.**

#### Common land

34. The implementation of the current SPS in relation to common land has caused significant problems for some farmers in the hills and uplands. Some were not allocated the correct amount of entitlements for the common, others were told they could not claim at all and, on some commons, areas have gone "unclaimed" because rights recorded on the common land register do not sit with active graziers. All of this means that farmers actively involved in the management and grazing of upland commons may not currently receive their fair share of the SPS. We believe that Defra should consider ways in which the future national reserve can be used to allocate additional payment entitlements to farmers affected by these problems, thereby avoiding the legacy of past discrepancies prevailing in the future CAP.

*Q.3 What steps does the Government need to take to ensure the reformed CAP will be less bureaucratic than its predecessor and what might prevent this ambition from being achieved?*

35. It is in everyone's interest to keep the new CAP rules as simple as possible, both for farmers but also for the RPA to reduce the risk of disallowance. As reported to us, Defra Ministers are being urged to remove all risk of disallowance from their implementation plans. While this is a laudable aim, we are concerned that strictly interpreted this may result in direct read across of Council or implementing regulations without intelligent application to the detriment of farm businesses, or indeed the environment. Defra must explore implementation choices with the NFU and other stakeholders.

36. With this in mind the NFU's view on specific implementation choices for pillar 1 is:

- **Entitlements** — Defra should "roll on" the existing payment entitlements. This will reduce the upheaval of having existing entitlements expire and the RPA having to reallocate new payment entitlements on the basis of land declared in 2015.

<sup>7</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/230284/pb14016-cap-reform-direct-payments-20130819.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/230284/pb14016-cap-reform-direct-payments-20130819.pdf)

- **Minimum claim size** —The minimum claim size should be set at 5ha. Defra analysis estimates that 16,000 direct payment claimants could be removed from the regime, reducing administrative costs and transactions for the RPA. Defra indicates that 60% of those excluded would not be commercial farms.
- **Active farmer** —A list of entities that the EU deems not to be active farmers has been agreed. This is known as the “negative list.” The list comprises operators of certain legal entities. We are concerned that genuinely active farmers who have diversified business interests will be caught by this negative list, for example we must guard against the “operators of real estate” being interpreted to include things like farmers letting out farm buildings or cottages. We believe that the EU’s negative list should be implemented in England in a pragmatic way which causes the least disruption to genuinely active farmers.
- **Optional aid schemes** —Defra should not make use of any of the optional aid schemes available to it. Our preference is to keep the pillar 1 direct payments regime as simple and streamlined as possible.
- **Young farmers’ aid** —Defra should not add additional requirements to the eligibility criteria for the young farmers aid scheme.

#### Agri-environment Schemes

37. Agri-environment schemes form a major part of Pillar 2 activity. Currently, 83% of Pillar 2 budget is spent on agri-environment. There are real challenges in designing a new scheme that builds on current successful agri-environmental schemes with a reduced budget. The new scheme design must be clear and simple at the point of delivery. This will allow the farmer, as the potential agreement holder, to understand what is required of the scheme, know if they are eligible and be able to enter without requiring specialist support. There is a danger that scheme complexity will lead to “bid writers” to develop a successful application, without delivering additional environmental gains.

#### *Q.4 How might the Government define the minimum activity required for qualification as an “active farmer”?*

38. It is difficult to say precisely how this new rule should be implemented until we see more details in the implementing acts. In England, we believe that this rule should only apply in heather moorland areas, and even then it is questionable whether that land is naturally kept, or whether it is land that is kept in a condition by virtue of there being an agricultural activity on that land.

39. Our preference is that if it is necessary to implement this rule in England, then the requirements are kept as simple as possible. We think that this may be achieved for example by setting a minimum stocking density, but this would have to be consistent with any agri-environment obligations attached to that land.

#### *Q.5 How should the Government ensure that CAP delivers the best environmental benefits while supporting food production?*

40. The combination of the new greening rules, cross compliance, pillar 2 measures and voluntary measures will together produce environmental benefits. We estimate that the current transfer rate of around 9% would buy the equivalent of half of the expenditure under the current Entry Level Scheme and Organic Level Scheme and would retain the same level of resources for the other agri-environment schemes and elements of the rural development programme in England.

41. In accordance with the Government’s own guiding principles<sup>8</sup> on transposing EU legislation which encourages implementers to seek alternatives to regulation, we believe that harnessing industry led action, for example in the Campaign for the Farmed Environment (CFE) and Voluntary Initiative, will maximise the environmental value of the greening efforts by promoting informed location and management of these features and signposting to more targeted pillar 2 agri-environment commitments, especially if Defra successfully introduces farmer choice for higher value greening options alongside the basic requirements defined in the Council Regulation.

#### *Q.6 What are the principal lessons the Government should learn from the implementation of the previous CAP?*

42. All farmers want to avoid the problems of the previous CAP reform recurring and the stress and anxiety that was caused. The reality is that CAP receipts are an integral revenue stream for many farming businesses, with cash flow implications resulting from any inaccurate or delayed payments. Accurate communication and certainty of payment is most sought after by farmers.

43. The impact of change, for example the introduction of greening and the move to “digital by default” should not be underestimated. The Government should seek efficiency savings in delivery of the future CAP,

<sup>8</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/229763/bis-13-775-transposition-guidance-how-to-implement-european-directives-effectively-revised.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/229763/bis-13-775-transposition-guidance-how-to-implement-european-directives-effectively-revised.pdf)

but changes should not risk the validation and delivery of payments going forward and not undo the progress that has been made in recent years to rectify the problems of SPS implementation.

44. The concerns with the implementation of the previous CAP reform have been captured in the various reports published since 2006 by National Audit Office, Committee of Public Accounts, and Parliamentary and Health Service Ombudsman. Some lessons learnt are outlined in more detail in an enclosed appendix. In summary, the following issues are critical:

- Develop a new IT system and processes only when the specification of the new schemes are finalised.
- Understand how farmers will react to the introduction of new policies.
- Be aware of how reduced resources offered by other departments shape CAP implementation and support.
- Ensure the drive to digital by default does not make scheme application inaccessible.
- Develop effective claim validation mechanisms that minimises duplication.
- Ensure farmers have adequate support and guidance from an early stage.
- Develop scheme rules appropriate to the lifespan of agreements rather than frequent reviews.

#### APPENDIX TO THE WRITTEN EVIDENCE SUBMITTED BY NATIONAL FARMERS' UNION OF ENGLAND & WALES (NFU)

- Implementation of the reformed Common Agricultural Policy in England 2014–2020.
- Lessons Learnt from implementation of the previous CAP.

As stated in the full EFRA submission, the NFU believes that all farmers want to avoid the problems of the previous CAP reform recurring. The reality is that CAP receipts are an integral revenue stream for many farming businesses, with cash flow implications resulting from any inaccurate or delayed payments. The challenges faced by the industry back in 2005 are still recalled by many, with accurate communication and certainty of payment particularly sought after by farmers.

Progress has been made in recent years to rectify the problems of SPS implementation. However, as new policy measures are introduced alongside shifts in delivery (eg digital by default), it is essential that changes do not undermine the validation and delivery of payments going forward. The below text elaborates on the issues flagged in the EFRA submission.

##### *1. Develop a new IT system and processes only when the specification of the new schemes are finalised*

Currently there are no EU Commission implementing rules communicated to member states, yet we are aware DEFRA is now in the process of building their IT solution. Ideally, a new system would not be constructed until its requirements are fully known. In practice, the timeframe for implementation and delivery of CAP is tight. It is therefore important that the system is flexible enough to adapt to last-minute changes.

##### *2. Understand how farmers will react to the introduction of new policies and processes*

An increasing number of SPS applications have been undertaken online in the current programme period (currently approximately 55,000). This means that a relevant risk of the new IT system is how farmers and agents will adapt to any changes to the online application process alongside the new policy measures. A farmer friendly application process is integral to the success of implementing the new CAP.

##### *3. Be aware of how reduced resources offered by other departments shapes CAP implementation and support*

Clearly the next CAP must be delivered by a government department and its agencies that are required to contribute to efficiency savings. As a result, reductions in resource levels may coincide with a change in CAP policy that actually triggers increased demand for support. Online resources offer channels for more effective support, and it is critical that the operational knowledge gained through the current CAP is not lost as any resource efficiencies are implemented. Help with the completion of claims in the first year is likely to be vital for those seeking assistance. Delivery bodies need to offer multiple ways of engaging with farmers, road show events, etc., stakeholders have a key role in facilitating this farmer engagement.

##### *4. Ensure the drive to digital by default does not make scheme application inaccessible*

The online approach to applications has many benefits (reduced costs of administration, reduced errors, enhanced checking). However, some rural areas still find it difficult to apply online with the current rural broadband provision. It remains unlikely that the rural broadband situation will be resolved in the next 18 months. We must ensure that connectivity restrictions do not make CAP schemes inaccessible.

*5. Develop effective claim validation mechanisms that minimises duplication*

In conjunction with the IT systems, it is essential that validation processes are tested thoroughly prior to implementation. In addition, based on previous experience, in-house expertise is preferable to a reliance on external developers to support IT and checking systems once they are operating. Whole claim validation carried out by as few staff as possible would be the preference. Task based working created many challenges in the run up to 2005 payments being made. There remains scope to further integrate Pillar 1 and 2 validation. Mapping issues have been well documented in the current programme, so factoring in appropriate resource to deal with the recording of greening is vital.

*6. Ensure farmers have adequate support and guidance from an early stage*

This will be required in all its forms and will be required from mid-2014 onwards to ensure that the industry is fully briefed ahead of the expected 2015 changeover of schemes, particularly in relation to greening. All potential claimants will need a core base level of clear and user friendly information in 2015 and such information would ideally be provided in paper form in the run up to the first year of the new scheme. There is a need to invest in the transition to the new schemes, which can be a platform to build on over time, in terms of value for money delivery—if farmers understand the new schemes from the outset then there are likely to be fewer compliance issues, which helps minimise costs of validation, inspections, etc.

*7. Develop scheme rules appropriate to the lifespan of agreements rather than frequent reviews*

Agri-environment schemes have been well received by farmers, as demonstrated by the uptake. Yet as the scheme has developed, the detail has been refined either to clarify rules or ratchet up scheme requirements. For example, since 2007 there have been three scheme handbooks issued capturing these changes. This has led to different rules applying depending on which date the agreement started. Going forward there should be a clear ambition to get the scheme rules right from the outset and reduce the number of changes made through the lifespan of the agreements.

October 2013

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**Submission by Natural England**

**EXECUTIVE SUMMARY**

- Natural England is the Government's statutory adviser on the natural environment. Natural England's purpose is to ensure that the natural environment is conserved, enhanced and managed for the benefit of present and future generations, thereby contributing to sustainable development.
- Natural England is responsible for delivering, on behalf of the Department for the Environment, Food and Rural Affairs (Defra), Environmental Stewardship and other schemes which offer payments to farmers and land managers in England for undertaking land management practices, which go beyond minimal regulatory compliance, to protect and enhance the environment and wildlife. These schemes form part of the current Rural Development Programme for England (RDPE) (2007–2013).
- Natural England has overseen the ongoing evolution and development of Pillar 2 agri-environment schemes during the current programme. We have successfully delivered improvements to scheme design intended to improve environmental effectiveness alongside improved customer satisfaction (currently 84% customer satisfaction) and significant efficiency savings. We also have experience of online scheme delivery (89% of customers rated the overall quality of ELS online as good or excellent). Our strong customer focus and delivery has recently been recognised via Customer Service Excellence (CSE) accreditation. Natural England is the first Defra network organisation to achieve this.
- Natural England is working closely with Defra, the Rural Payments Agency, Forestry Commission, Environment Agency and stakeholders to ensure that the transition to and implementation of the future environmental land management scheme under the next RDPE is as smooth as possible. We are also working hard to simplify the design of the scheme and simultaneously improve its environmental effectiveness. However, there remain considerable implementation challenges that can only be fully addressed when there is greater clarity about the European Union (EU) legal framework and domestic policy decisions have been confirmed.
- The limited core Pillar 2 budget that is likely to be available in England, coupled with the scale of environmental need, means that it will be important that domestic implementation decisions, such as modulation from Pillar 1 to Pillar 2 and the design of greening in Pillar 1, represent the best overall balance between minimising the public and private costs of delivery, minimising the risk of disallowance and maximising the delivery of public goods for society from public funding.

## 1. INTRODUCTION

1.1 Natural England is the Government's statutory adviser on the natural environment. Natural England's purpose is to ensure that the natural environment is conserved, enhanced and managed for the benefit of present and future generations, thereby contributing to sustainable development.

1.2 Natural England is responsible for delivering, on behalf of the Department for the Environment, Food and Rural Affairs (Defra), Environmental Stewardship and other schemes which offer payments to farmers and other land managers in England for undertaking land management practices, which go beyond minimal regulatory compliance, to protect and enhance the environment and wildlife. These schemes form part of the current Rural Development Programme for England (RDPE) (2007–2013). Natural England delivers over 51,000 agri-environment agreements, covering about 70% of English agricultural land, which provide over £400 million support each year for environmental land management by farmers and land managers.

1.3 Natural England is also Defra's largest deliverer of on-farm advice. Our advisers deliver around 13,000 farm visits each year advising on a range of environmental, ecological, agronomic and management issues, specialising in helping farmers access funding streams for environmental land management and assessing the outcomes they deliver. We deliver our advice through face to face visits; to groups; through farm walks, demonstrations, farmer meetings and conferences. In addition, we provide telephone support and on line services to farmers to support their delivery of our agri-environment programmes. As well as delivering advice, we work closely with farmers to monitor the effectiveness of agri-environment schemes and the contribution they make to environmental outcomes. These include the impacts on individual habitats and species; landscapes such as Areas of Outstanding Natural Beauty (AONBs) and National Parks; and Sites of Special Scientific Interest (SSSIs), our most important sites for biodiversity. For example RDPE underpins 60% of our terrestrial SSSI's managed under HLS and 67% of priority biodiversity action plan (BAP) habitat.

1.4 The latest thinking on the design of future agri-environment schemes signals a move away from the existing open-to-all entry level stewardship (ELS) offer which is currently taken up on the majority of the 70% of agricultural land that is under agri-environment agreements, (within this 28% has HLS (in addition to ELS) agreements or older Environmentally Sensitive Area (ESA) or Countryside Stewardship (CS) agreements)<sup>9</sup> to a more focused approach designed to achieve more concentrated and coordinated management change in specific areas. A highly targeted site-specific offer for high priority sites on farmed land (eg statutory designations such as SSSIs), broadly analogous to the existing higher level stewardship (HLS), is anticipated to remain. A more widely available element supporting simple one-off investments designed to deliver environmental benefits is also being explored by Defra. The successor scheme is anticipated to launch during 2015 with the first agreements starting on the 1 January 2016.

1.5 The scale of the environmental challenge is significant. Delivering the Department's Biodiversity 2020 strategy (including EU level commitments under the Habitats and Birds Directives) and requirements under the Water Framework Directive have recently been estimated to cost approximately £1 billion/yr.<sup>10</sup> Similar estimates have also been generated by previous work.<sup>11</sup> This requirement is in excess of twice the funding available under the current programme and, although some alternative funding sources exist, they are currently small scale. The future RDPE will remain the main source of funding to deliver these policy objectives for the foreseeable future. Consequently there will be a need for clear and transparent prioritisation between different policy objectives and also scheme targeting processes that seek to exploit the maximum synergy across the delivery of policy objectives wherever possible.

1.6 The framework of EU legislation that will govern the future CAP is becoming clearer. However, there are many outstanding issues that will be significant considerations for implementation and which remain to be clarified as part of the Implementing Regulations and Delegated Acts. Many domestic policy decisions that will impact on the implementation of the future CAP also remain to be taken. Without this detail the scope to finalise implementation planning is limited at this stage. It is also important to note that Defra is leading work to develop the new digitalised CAP services to support delivery of the future CAP and has yet to confirm the detailed release and delivery arrangements for the future service. It is within this context that our evidence is provided.

## 2. FAIRNESS

2.1 Ultimately fairness can be considered at many different scales and levels and is a function of policy decisions. Throughout the whole process of negotiations, Defra Ministers have been at pains to stress that the CAP reform must be "fair" for the environment, taxpayers and consumers, as well as farmers.<sup>12</sup> The implementation of the reforms clearly must retain this broad perspective, balancing any conflicting pressures among these different actors to ensure the most effective attainment of explicit Government policy priorities. In the context of future CAP implementation two broad types of issue arise:

<sup>9</sup> Natural England Land Management Update July 2013 [http://www.naturalengland.org.uk/Images/lmupdate12\\_tcm6-36362.pdf](http://www.naturalengland.org.uk/Images/lmupdate12_tcm6-36362.pdf)

<sup>10</sup> Natural England (2013) Advice to Defra, unpublished.

<sup>11</sup> Cao, Y., Elliott, J., McCracken, D., Rowe, K., Whitehead, J. and Wilson L. (2009) Estimating the Scale of Future Environmental Land Management Requirements for the UK <http://www.snh.gov.uk/docs/A931060.pdf>

<sup>12</sup> Defra press release, 28th June 2013. UK votes on Common Agricultural Policy Reform <https://www.gov.uk/government/news/uk-votes-on-common-agricultural-policy-reform>

- Decisions about how flexibilities in the EU legal framework are translated into implementation in England, compared to elsewhere in the UK and EU, especially:
  - The impact of any transfer (modulation) from Pillar 1 to Pillar 2.
  - The level of environmental ambition adopted for the implementation of greening in Pillar 1.
- Decisions about future environmental land management scheme design and transitional arrangements that differentially affect farmers within England, notably:
  - Scheme access during transition.
  - Future scheme targeting.
  - Future digital delivery.

### *Modulation*

2.3 Any consideration of fairness in this context also needs to take into account the underlying distribution of Pillar 2 funds between Member States. This continues to be based on “historic” patterns of spend pre-2000, rather than any objective criteria that reflect the need for spending to achieve defined policy objectives through Pillar 2 support, and results in an extremely low UK Pillar 2 allocation. Conversely, the UK Pillar 1 allocation is close to the EU average (although there are significant differences both within the UK and between EU countries and indeed, between the payment regions within England). These distributional issues have been subject to extensive analysis<sup>13</sup>. Therefore, any transfer from Pillar 1 to Pillar 2 needs to be considered in this context—as utilising the flexibility of EU-level regulation to better reflect domestic circumstances and priorities. A reduction in the level of modulation resulting in reduced Pillar 2 budgets could effectively penalise those already doing the right thing by the environment and their expectations regarding ongoing access to Pillar 2 funding.

2.4 Regardless of the underlying position there is no evidence that modulation during the current period has resulted in any competitive disadvantage, as a study for the European Commission has demonstrated<sup>14</sup>. There are many factors, such as exchange rate fluctuations and national taxation policies, which drive the relative competitiveness of farming in different countries. Furthermore there is also good evidence that spending on Pillar 2 delivers both agronomic and economic benefits in addition to environmental ones.<sup>15 16</sup> For example £1 million of HLS expenditure generates 2.3 FTE additional jobs and £1.72 million additional spending in the local economy (compared to no-scheme). Based on anticipated annual scheme spend in 2013 ES will sustain 778 jobs and generate £415 million of spending in the local economy. The majority of these income and employment benefits are retained within the local economy (80%).

### *Environmental ambition of greening*

2.5 The context for considering the most appropriate domestic implementation of the greening provisions can be usefully framed in the Government response to the EFRA Committee’s previous “Greening the CAP” inquiry. In its response, the Government agreed with the Committee’s assertion that the Commission’s “one size fits all” approach was too rigid and that it did not take into account variations in environmental circumstances or agronomic conditions. The response also allowed the Government to reaffirm its commitment to “ensure a better balance of benefits to costs from greening” and to continue to work to “secure greater flexibility in recognition of Member State’s agricultural and agronomic diversity”.<sup>17</sup>

2.6 The provisions for greening, agreed as part of the consolidated legislative text,<sup>18</sup> provide considerable scope for a wide-range of implementation options from the basic practices through a range of specified “equivalent” options or the alternative of a more flexible certification scheme approach. In this respect Defra negotiators deserve praise for securing the ability to use a more flexible national certification scheme approach as the sole route to farmers meeting their greening obligations. However, it looks increasingly likely that the implementation of greening in England will be based solely on the three basic greening practices. Our analysis suggests that, under this scenario, the overwhelming majority of farms will have to do little, if anything, to comply with the basic greening requirements and that greening in this form is unlikely to deliver measurable environmental benefits. We elaborate on the other potential implications of such an implementation decision in Section 4 of this submission.

<sup>13</sup> Cao, Y., Elliott, J., Moxey, A. and Zahrt V. (2010) Alternative Allocation Keys for EU CAP Funding Report for LUPG <http://www.snh.gov.uk/docs/A931061.pdf>

<sup>14</sup> [http://ec.europa.eu/agriculture/analysis/external/modulation/index\\_en.htm](http://ec.europa.eu/agriculture/analysis/external/modulation/index_en.htm)

<sup>15</sup> Food and Environment Research Agency (2012). Ecosystem services from Environmental Stewardship that benefit agricultural production Natural England Commissioned Report 102 <http://publications.naturalengland.org.uk/publication/2322452>

<sup>16</sup> Courtney, P., Jane Mills, J., Peter Gaskell, P. And Chaplin, S.Chaplin, Investigating the incidental benefits of Environmental Stewardship schemes in England, Land Use Policy, Volume 31, March 2013, Pages 26–37

<sup>17</sup> House of Commons, Environment, Food and Rural Affairs Committee, ‘Greening the Common Agricultural Policy: Government Response to the Committee’s First Report of Session 2012–13, Fourth Special Report of Session 2012–13, HC 654, p. 2

<sup>18</sup> <http://register.consilium.europa.eu/pdf/en/13/st13/st13294-re01.en13.pdf>



### *Scheme Access during transition*

2.7 We are doing all that we can to ensure that the transition from the current programme to the new one is as smooth as possible for existing agreement holders, within the context of changing scheme rules and changing budgets. Transition policies, announced by Defra in July, aim to provide support for new agreements during 2014 (subject to the final agreement of the necessary EU legislation). These new agreements will be available for farmers with old ESA or CS agreements that are coming to an end (2,808 such agreements end in 2014); for farmers with Organic ELS agreements that end in 2014 (170 OELS agreements end in 2014); for brand new Organic and Upland ELS applications; and for new HLS agreements that are necessary to address specific policy objectives before the start of the new Rural Development Programme (especially, but not exclusively, for the Water Framework Directive and for SSSIs). A draft annual budget of £30 million has been set aside for these 2014 agreements. The latest position is detailed on the Natural England website.<sup>19</sup>

2.8 Until now, the agri-environment programme has operated with flexible, monthly start dates. However, the new programme rules will require a single common annual start date for all new multi-annual agri-environment commitments, to match the procedure adopted for SPS. Given that the secondary EU legislation (Implementing Regulations and Delegated Acts) is unlikely to be finalised before mid-2014 and that the next Rural Development Programme is unlikely to be approved by the European Commission until mid-2014 at the earliest, it is not going to be practicable to establish new multi-annual agreements in time for a 1 January 2015 start. New multi-annual agreements under the future programme will not be available until 1 January 2016. No existing higher level (or ESA or CS) agreements expire in 2015, so the new scheme will be ready when those agreements expire. 11,361 Entry Level Scheme agreements are due to expire during 2015, mostly in the later half of the year. It is important to remember that multi-annual agreements are only one part of the future programme and that, subject to programme approval and policy decisions, it should be possible to offer payments for capital works, advice and training to support the delivery of environmental objectives (and wider schemes supporting economic/social objectives) during 2015.

### *Future scheme targeting*

2.9 An inevitable consequence of a move away towards a more focused and targeted scheme is that agreements under the landscape scale element of the future scheme will be more concentrated in certain geographical areas (reflecting the policy objective being addressed). Agreements under the site-specific element will largely be focused on existing high value sites. This is a necessary consequence of improving the environmental effectiveness of the scheme. However, the other elements of the Programme such as advice, training and capital works should, subject to policy decisions, be more universally available.

### *Future digital delivery*

2.10 Defra has taken the decision that access to all future CAP schemes will be through digital channels. Natural England already has extensive experience of operating a voluntary online application process for ELS, with 16,791 applications submitted via ELS online to date. In 2012/13, 42% of applications were submitted online and 89% of customers providing feedback rated the overall quality of ELS online as good or excellent.<sup>20</sup> However, a mandated digital approach raises further implementation issues which are yet to be resolved, including:

- The period over which digital by default is introduced.
- The qualifying criteria for assistance (assisted digital) for those with a genuine need.

## 3. BUREAUCRACY

*What steps does the Government need to take to ensure the reformed CAP will be less bureaucratic than its predecessor and what might prevent this ambition from being achieved?*

3.1 It is important to note that a narrow comparison of the public and private administrative burden of different elements of the CAP fails to recognise the value to society of the public goods that are being delivered. This is especially true for Pillar 2 where a narrow focus on simplification/reducing delivery cost risks being detrimental to the delivery of environmental outcomes. On this point we note the useful guiding principle provided in the March 2011 Agriculture Council paper on simplification, which was roundly supported by the UK and around three-quarters of EU Member States. It reads: “*An acceptable justification for increased cost might include better targeting of funding towards the provision of public goods, or a reduction in risk to EU funds—providing these benefits exceed the costs of achieving that*”<sup>21</sup>

<sup>19</sup> <http://www.naturalengland.org.uk/ourwork/farming/funding/transition2014-2020.aspx>

<sup>20</sup> Source: Natural England management information.

<sup>21</sup> Note submitted by the Netherlands and Danish delegations to the Special Committee on Agriculture on 7 March 2011 entitled ‘Simplification of the Common Agricultural Policy beyond 2013’, 7206/11, AGRI 181, p.3, <http://register.consilium.europa.eu/pdf/en/11/st07/st07206.en11.pdf>

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*Interface between Pillar 1 and Pillar 2*

3.2 The addition of greening in Pillar 1 is almost certain to add to, rather than reduce, the overall level of complexity and administrative burden (for applicants and delivery bodies alike). From a Pillar 2 delivery body perspective this is likely to add complexity in the following ways:

- Delivering environmental management through a combination of annual Pillar 1 commitments and multi-annual agreements in Pillar 2, with the attendant cross-checks necessary to ensure consistency between these.
- Managing the transition from the current programme (especially any changes required to existing Pillar 2 agreements to align to greening)
- Monitoring Pillar 1 and Pillar 2 compliance.
- Monitoring the environmental performance of greening.

*Pillar 2*

3.3 The design of the new environmental land management scheme is intended to both improve environmental effectiveness and reduce public and private administrative burden. Specific design decisions that address these issues include:

- The integration of the existing English Woodland Grants Scheme (EWGS) into the new scheme.
- The removal of the current arrangement where an ELS agreement is required to underpin an HLS agreement.
- The removal of separate uplands and organic scheme strands.
- A reduction in the number of individual scheme management options.

3.4 Natural England and Defra are adhering to the principles laid down by the Macdonald review by being open and transparent and we are working very closely with customers and stakeholders on the design and development of the new environmental land management scheme. We have a customer panel which is made up of 12 ES agreement holders who have been nominated by NFU, CLA and TFA and we have consulted extensively with stakeholder organisations on the review of scheme management options.

3.5 Natural England has already made significant improvements in delivery efficiency and customer focus during the current programme and has also gained Customer Service Excellence (CSE) accreditation. Our current average customer satisfaction rating is 84%.<sup>22</sup> Natural England has considerably improved the way in which we offer HLS agreements to farmers over the past few years. We have gone from a reactive stance at the start of HLS in 2006, providing only broad-brush targeting advice, to a much more proactive approach. We have published detailed advice on the HLS opportunities in local areas. We now discuss opportunities for potential HLS agreements with farmers and agents at local “clinics” before they have to embark on detailed applications. This is followed-up with detailed, on-farm advice when the suggested HLS applications are taken forward.

3.6 In 2013–14 the RDPE delivered by Natural England will be £477 million. The total staff cost which comes from our Grant in Aid for delivering this is approximately £9 million (549 FTE) without IT costs which are £10.2 million. This represents less than 2% without IT costs and less than 4% when IT costs are included. Improvements in delivery efficiency since 2007–08 are presented in Table 1.

<i>Unit</i>	<i>Costs</i>	<i>£ per</i>	<i>2007/08</i>	<i>2012/13</i>	<i>£ Reduction</i>	<i>% Reduction from</i>
<i>agreement</i>						<i>07/08</i>
ELS—Excl IT			129	71	58	45%
ELS with IT			556	198	358	64%
HLS—Excl IT			2,400	1,134	1,266	53%
HLS with IT			7,603	2,609	4,994	66%

*Table 1. Efficiency savings in terms of unit costs of Entry Level Stewardship (ELS) (including Organic ELS (OELS)) and Higher Level Stewardship (HLS) Agreements (12/13 figures are a forecast). The costs include all applications processed, agreements managed and indicators of success visits, expressed as cost per live agreement).*<sup>23</sup>

#### 4. GREENING

*How should the Government ensure that CAP delivers the best environmental benefits while supporting food production?*

4.1 We fully appreciate the considerable delivery challenge and disallowance risk that implementing greening (in any form) by 2015 represents and that this favours an implementation based on the basic greening measures, at least in the short-term (see Defra’s forthcoming consultation). Indeed we face challenges handling the

<sup>22</sup> Natural England 2013 customer satisfaction survey : Land Management customers , Ipsos MORI  
[http://www.naturalengland.org.uk/about\\_us/contact\\_us/customerservice/customerserviceperformance/default.aspx#surveys](http://www.naturalengland.org.uk/about_us/contact_us/customerservice/customerserviceperformance/default.aspx#surveys)

<sup>23</sup> Source: Natural England management information.

interface between existing agri-environment agreements and greening to ensure that there is no double funding between greening and agri-environment payments. However, such an implementation of greening is unlikely to generate measurable environmental benefits. In this context it will be critical that implementation decisions across the whole of the future CAP represent the best overall balance between minimising the public and private costs of delivery, minimising the risk of disallowance and maximising the delivery of environmental public goods for society from public funding. A comprehensive programme of environmental monitoring and evaluation of greening, to enable an accurate assessment of the environmental benefits of the policy, will also be important.

4.2 The relationship between sustainability and agricultural production is sometimes referred to as a balance or trade-off<sup>24</sup>: there is an assumption that actions taken to improve environmental performance decrease production and *vice versa*. Sometimes this is the case, but often production is only increased in the short term or requires significant additional inputs. Integrated actions resulting in win-win outcomes are possible, enhancing both farming's sustainability and its productivity. In addition, the services provided by the natural environment are vital to production. Sustainability, by definition, is a necessary pre-requisite of ongoing agricultural productivity. Evidence demonstrates that the longer-term sustainability of food production is inherently linked to the integration of environmental and agronomic priorities.<sup>25</sup>

4.3 Experience from current delivery has demonstrated that delivering the majority of environmental objectives effectively is inherently complex and that Pillar 2 is generally the best tool for supporting this. There is no evidence that voluntary environmental land management agreements under Pillar 2 have any significant negative impact on levels of food production or productivity—the majority of evidence indicates that they actually contribute to sustainable production eg floristic margins supporting pollinators.

## 5. LESSONS LEARNT

*What are the principal lessons the Government should learn from the implementation of the previous CAP?*

5.1 A range of lessons learned reviews were undertaken, principally of Pillar 1 implementation, following the previous reform.<sup>26</sup> The delivery of activity under Pillar 2 of the CAP, especially Environmental Stewardship, has typically been less problematic. The mid-term evaluation (MTE) of the current rural development programme<sup>27</sup> concluded that “Axis 2 Measures [Improving the environment and countryside] have generally performed well, with outputs and results in line with targets and broadly positive feedback from beneficiaries and stakeholders”.

## 6. CONCLUSION

6.1 The limited core Pillar 2 budget that is likely to be available in England coupled with the scale of environmental need means that it will be important that domestic implementation decisions, such as the transfer of funds from Pillar 1 to Pillar 2 and the design of greening in Pillar 1, represent the best overall balance between minimising the public and private costs of delivery, minimising the risk of disallowance and maximising the environmental benefits for society from public funding.

6.2 Agri-environment schemes in Pillar 2 have a proven track record of delivering environmental benefits and help to support the long-term sustainability of agricultural systems. However, even with the maximum permitted rate of transfer from Pillar 1 to Pillar 2 and a future RDPE focused on the delivery of environmental objectives it will not be possible for the future programme to satisfy all environmental policy objectives and there will be a need for clear and transparent prioritisation between objectives.

6.3 Natural England has overseen the ongoing evolution and development of agri-environment schemes during the current programme. We have successfully delivered improvements to scheme design intended to improve environmental effectiveness alongside improved customer satisfaction and significant efficiency savings.

6.4 Natural England is working closely with Defra, the Rural Payments Agency, Forestry Commission, Environment Agency and stakeholders to ensure that the transition to and implementation of the future environmental land management scheme under the next RDPE is as smooth as possible. We are also working hard to simplify the design of the scheme and simultaneously improve its environmental effectiveness. However, there remain considerable implementation challenges that can only be fully addressed when there is greater clarity about the EU legal framework and domestic policy decisions have been confirmed.

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<sup>24</sup> See, for example, the EFRACOM inquiry on the impact of CAP reform on UK agriculture, which includes the question “Will the proposals achieve the correct balance between productivity and sustainability?”

<sup>25</sup> [http://www.ieep.eu/assets/949/IEEP\\_2012\\_Delivering\\_environmental\\_benefits\\_through\\_ecological\\_focus\\_areas.pdf](http://www.ieep.eu/assets/949/IEEP_2012_Delivering_environmental_benefits_through_ecological_focus_areas.pdf)

<sup>26</sup> House of Commons, Environment, Food and Rural Affairs Committee 2006–07, The Rural Payments Agency and the implementation of the Single Payment Scheme <http://www.publications.parliament.uk/pa/cm200607/cmselect/cmenvfru/107/107i.pdf>

<sup>27</sup> ADAS/Hyder (2010) Mid-term evaluation of the Rural Development Programme for England 2007–13. Report for Defra. [http://ec.europa.eu/agriculture/rurdev/countries/uk/mte-rep-uk-england\\_en.pdf](http://ec.europa.eu/agriculture/rurdev/countries/uk/mte-rep-uk-england_en.pdf)

## Submission by the Royal Society for the Protection of Birds

### SECTION 1: FAIRNESS

#### 1. *Whether the UK's implementation of CAP might put English farmers at a competitive disadvantage to their regional and European counterparts.*

1.1 Decisions on CAP implementation are still to be finalised across the UK countries however, there is no evidence to suggest that an approach which sought to maximise environmental delivery would put English farmers at a competitive disadvantage to their regional or continental counterparts. In fact, the evidence we have gathered highlights the added value that environmental measures can bring for farm competitiveness and local economies. Evidence based policy making and an intervention logic based on effectiveness, market failure and value for public money (all of which reflect principles which guided the Government through CAP reform negotiations) should logically lead to decisions to:

- Transfer the maximum amount of funding from Pillar 1 to Pillar 2.
- Implement an ambitious set of “greening” requirements.
- Continue to prioritise agri-environment schemes within the new Rural Development Programme for England (RDPE).
- Enhance the RDPE’s effectiveness by removing measures which are poor value for money and tightening up option choice.

#### *Transfer of funds between the Pillars*

1.2 It is important to recognise that the distribution of Pillar 1 payments has, and will continue to vary enormously across the EU. Whilst some stakeholders and decision makers claim that the CAP’s primary purpose is to ensure a “level playing field” for farmers, the reality is that the distribution of support across EU Member States is far from equal. Undistorted competition is a valid objective, however the way Pillar 1 payments are distributed results in widely different per hectare payments rates, both within the UK (including within England itself) and beyond. It is therefore an illusion that the CAP creates a level playing field and it is within this context that English farmers have operated, and many very successfully, for many years.

1.3 There is significant debate over what contribution Pillar 1 payments make to farmers’ competitiveness. Whilst there is limited agreement on how to define and measure “competitiveness” precisely (OECD, 2010),<sup>28</sup> many studies focus on productivity as a key determinant ie how efficiently inputs are converted into outputs. The literature generally finds mixed effects, although recent research has demonstrated that the impact of CAP subsidies on farm productivity in the EU-15 countries post-2005 has been small.<sup>29</sup> This should not come as a surprise. The Treasury has identified five drivers that are of particular importance for improving productivity: physical capital (investment); human capital (skills); innovation and technological progress; competition; and enterprise. Yet Pillar 1 payments are not distributed in a way which would support any of these.

1.4 Transferring funding to Pillar 2 rather than retaining it within Pillar 1 can help enhance competitiveness in a variety of ways. Firstly, several (if not all) of the “productivity drivers” identified above can be targeted (and have been in the 2007–13 RDPE) through Pillar 2 measures such as knowledge transfer and the dispersal of best practice, vocational training, on farm diversification and the development of new market opportunities.

1.5 These measures were not the primary focus of the 2007–13 RDPE because Defra took the appropriate decision that these types of activities should be largely market driven. Defra instead prioritised environmental Public Goods delivery, including biodiversity, historic environment and landscape character, through agri-environment schemes. Given the clear market failure to reward the provision of environmental Public Goods, and the continued and significant challenges facing the natural environment (as outlined in the “State of Nature”<sup>30</sup> report), the RSPB continues to strongly support such a focus

1.6 It must be noted that the production of agricultural goods is highly dependent on the services provided by natural ecosystems<sup>31</sup> and therefore, there is real potential for Pillar 2 schemes, particularly agri-environment schemes, to enhance a range of ecosystem services of benefit to agricultural production,<sup>32</sup> and in turn agricultural productivity and competitiveness.

1.7 Agri-environment schemes, in addition to their proven value for the natural environment (including preventing the localised extinction of species such as the ciril bunting and stone curlew) also have wider socio-economic benefits. A report by CCRI<sup>33</sup> identified that every £1 of Environmental Stewardship money generates a total output in the local economy of £1.42.

<sup>28</sup> Latruffe, L (2010), “Competitiveness, Productivity and Efficiency in the Agricultural and Agri-Food Sectors”, *OECD Food, Agriculture and Fisheries Papers*, No. 30, OECD Publishing.

<sup>29</sup> Rizov, M, Pokrivcak, J and Ciaian, P (2013), CAP Subsidies and Productivity of the EU Farms. *Journal of Agricultural Economics*, 64: 537–557

<sup>30</sup> [http://www.rspb.org.uk/Images/stateofnature\\_tcm9-345839.pdf](http://www.rspb.org.uk/Images/stateofnature_tcm9-345839.pdf)

<sup>31</sup> Firbank et al (2013) Delivering multiple ecosystem services from Enclosed Farmland in the UK.

<sup>32</sup> FERA (2012) Ecosystem services from Environmental Stewardship that benefit agricultural production

<sup>33</sup> Countryside and Community Research Institute (2010) Estimating the Incidental Socio-economic Benefits of Environmental Stewardship Schemes.

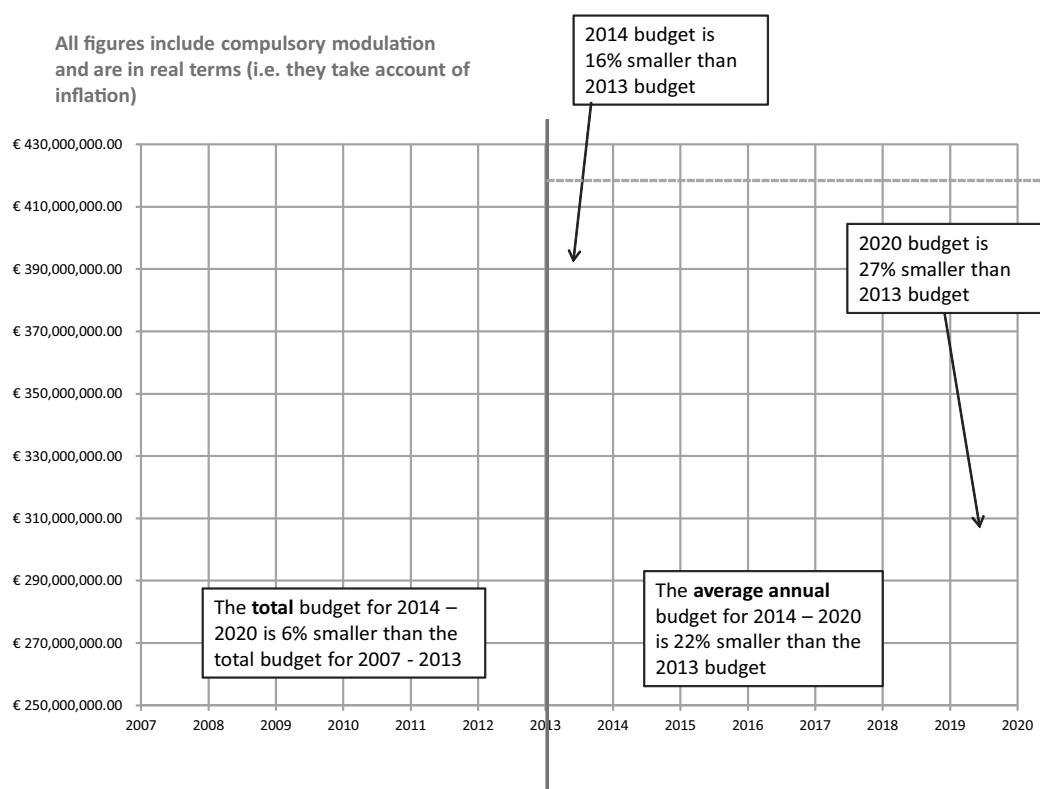
1.8 The Natural Capital Committee also identified the wider benefits of targeting CAP support towards the environment: “Improving the allocation of resources by redirecting this [direct income support] expenditure towards incentivising farmers to produce the things that the market will not provide on its own—the public and environmental goods—could increase wellbeing and potentially have knock-on impacts for the wider economy.”<sup>34</sup>

1.9 A report co-authored by IEEP<sup>35</sup> identified that transfers away from Pillar 1 would have a minimal impact on farm income and a negligible influence on agricultural commodity production and on the viability of farm businesses.

1.10 Therefore, transferring the maximum amount possible (15%) from Pillar 1 into Pillar 2, and prioritising environmental Public Goods delivery through RDPE measures works for, and not against, English farmers’ competitiveness.

1.11 Maximum transfers into Pillar 2 are also important to help rebalance the UK’s disproportionately low Pillar 2 allocation. Despite assurances from the European Commission that CAP allocations for 2014–2020 would be, at least in part, based on objective criteria and as such result in an improved Pillar II allocation for the UK, this failed to materialise. For 2014–2020, the UK has been allocated €2.293 billion for Pillar 2, compared to €22.148 billion for Pillar 1.<sup>36</sup> This equates to 90.6% for Pillar 1 and just 9.4% for Pillar 2. The average EU allocation for Pillar 2 is 24%.

1.12 The UK’s total Pillar 2 budget for 2014–2020 has also been reduced and is 5.5% less than for 2007–13 (Pillar 1 received just a 2.5% cut). However, given that Pillar II expenditure increased year on year in England during 2007–2013, and included modulation, it is worth analysing what the new Pillar 2 budget could mean for annual spend. Without modulation, annual Pillar 2 spend in England would be 16% less in 2014 than in 2013. By 2020 it would be 27% less (see Graphic below).



1.13 Perversely, cuts to the Pillar 2 budget (and the UK’s allocation within that) have taken place when the need for increased investment in the environment is clear and where there are few other mechanisms beyond Pillar 2 schemes to fund environmental commitments. According to a report produced by the UK’s statutory conservation, countryside and environment agencies,<sup>37</sup> the estimated cost of meeting publicly defined environmental objectives in the UK is just under £2 billion a year, but could vary from £1 billion to £3 billion.

<sup>34</sup> Natural Capital Committee (2013) The State of Natural Capital: Towards a framework for measurement and valuation (p. 48)

<sup>35</sup> LEI and IEEP (2009) Study on the economic, social and environmental impact of the modulation provided for in Article 10 of Council Regulation (EC) No 1782/2003. Directorate General for Agriculture and Rural Development Contract N° 30-CE-0162480/00–47

<sup>36</sup> European Parliament Policy Department B (2013) European Council Conclusions on the Multiannual Financial Framework 2014–2020 and the CAP

<sup>37</sup> Cao, Y et al (2009) Estimating the Scale of Future Environmental Land Management Requirements for the UK

The funding needed to meet the UK's Biodiversity Action Plan targets alone was estimated at £837 million per year.<sup>38</sup> The UK BAP has been succeeded by country strategies within the UK Biodiversity Framework but the aspirations contained within them, of halting biodiversity loss by 2020 and strengthening ecosystem services, are likely to equal or even exceed the scale of the BAP targets, equating to an annual economic scale of need that is more in line with the UK's entire Pillar 2 allocation, rather than its annual budget.

1.14 In addition, existing Pillar 2 commitments strongly support the case for maximum modulation. In England alone, the financial commitment of existing agri-environment agreements over the lifetime of the 2014–2020 CAP is £1.9 billion. When Defra's commitments for agreements offered in 2014 are included, this is likely to bring the total to between £2.1 and £2.2 billion. If the UK's Pillar 2 allocation is split between the four UK countries along similar lines to previous CAP rounds (where England received around 60% after compulsory modulation had been applied), England's Pillar 2 allocation will be just £1.38 billion.

1.15 England's share of the UK's Pillar 1 allocation has not yet been agreed but based on previous divisions this is expected to be around 65%. Applying 15% modulation would generate an additional £1.74 billion for Pillar 2 and would ensure that Pillar 2 expenditure remained broadly comparable to 2007–13. It would also bring England's Pillar 2 expenditure up to the EU average of 24%.

1.16 15% modulation would ensure existing commitments are honoured and new agreements can be offered during 2014–2020. This is vital to ensure England's most progressive farmers can continue to be supported through schemes which deliver clear environmental and wider benefits.

#### *New Environmental Land Management Schemes (NELMS)*

1.17 There is good evidence that prioritising biodiversity and the wider environment will benefit both the environment and the economic vitality of farming and rural areas. As such, the RSPB fully supports the continued prioritisation of agri-environment schemes, via NELMS, in the new RDPE

1.18 The RSPB welcomes Defra's intention to make NELMS more targeted, focused and ambitious relative to Environmental Stewardship. This is fully in keeping with the leadership role England has played in the development of agri-environment schemes over the last 25 years and is sensible given the shifting baseline offered by new greening requirements. This approach to implementation will also afford a competitive advantage to the most environmentally progressive farmers, including those who have already embraced agri-environment schemes as an integral part of their farm businesses.

#### *2. What steps the Government might take in implementing CAP to help tenant farmers in upland areas, and to take account of issues pertaining to common land*

2.1 In the UK, High Nature Value (HNV) farming systems and activities—those which make a particularly high contribution to the provision of environmental public goods—are associated with low-intensity and low/no input mixed beef/sheep livestock systems, largely found in upland farming and crofting communities, including many which are tenanted.

2.2 Upland landscapes can, when appropriately managed, provide a range of vital goods and services including clean drinking water, climate regulation, access and recreation, as well as provisioning services such as food, fibre and timber production. Many of the land managers on whom our priority species and habitats depend are tenant farmers and commoners.

2.3 Despite the benefits many such systems deliver, maintaining, or indeed even reaching, economic profitability remains a challenge due to a range of factors, including market access difficulties, competition from more intensive production systems, poor prices from supply chain, and the failure of the CAP and wider public policy to adequately reward environmental public good delivery. We also recognise that, while land owner/tenant relationships vary greatly, there can be real issues with tenants not being rewarded for positive changes in land management because they do not receive the associated additional income.

2.4 Due to these issues, the Pillar 1 income support payments that upland farmers receive often represent a significant proportion of their overall income, sometimes even subsidising unprofitable livestock production. There is therefore a clear argument for better rewarding those upland farmers whose systems of extensive management deliver environmental benefits.

2.5 Pillar 2 schemes, particularly agri-environment, play an important role in tackling the failure of the market to reward environmental Public Goods delivery and represent an extremely important income stream for many upland farmers.<sup>39</sup> However, it is clear that economic sustainability is still a long way off for many such farmers, not least because Pillar 2 support is based upon "income foregone". For tenant farmers who are positively managing their land through an agri-environment scheme, it is important that steps are taken to ensure landlords are not able to appropriate the associated funding through artificially inflated rents.

2.6 The RSPB is very open to changes in CAP Pillar 1 payment approaches that would see an uplift in financial support to upland farmers. The challenge is to make this sufficiently targeted to deliver the required economic, social and environmental outcomes. To ensure greater value for public money and the continued

<sup>38</sup> GHK (2011) Costs of Implementing the UK Biodiversity Action Plan—2010 Update. A report for Defra.

<sup>39</sup> E.g. RSPB case study on Tarnhouse Farm, a Cumbria upland farm.

ability of farmers to secure the environmental and cultural heritage of the uplands, and ecosystem services, we would support an uplift targeted towards the continued delivery of these environmental goods. What is needed is a package of support measures (from both Pillar 1 and 2), targeted at HNV farms, to reward the exceptional public benefits they provide. Payments to farmers in Less Favoured Areas have not always been successful in reaching the most disadvantaged farmers and those delivering most public goods. For example, the current Less Favoured Area Support Scheme (LFASS) in Scotland results in higher payments going to more productive, less disadvantaged areas in the LFA, rather than being targeted at the most vulnerable farming areas.<sup>40</sup> Defra should be commissioning research to fully understand the environmental and financial implications of such a shift in payments before any decisions are taken.

2.7 The scope for attaching environmental safeguards to Pillar 1 payments remains limited and the tools that are available are fairly blunt. However there is potential to secure them within the bounds of the final CAP deal. If Defra opted to implement greening through a National Certification Scheme (NCS) applicable to all farmers, it would provide the scope to include land management options that protected and enhanced upland landscapes. Given that many upland areas remain in unfavourable condition due to inappropriate grazing, it is vitally important that Defra develop and adequately enforce cross compliance requirements to secure a basic level of good environmental management of upland pastures.

## BUREAUCRACY

3. *What steps does the Government need to take to ensure the reformed CAP will be less bureaucratic than its predecessor and what might prevent this ambition from being achieved.*

3.1 The reformed CAP is far from simple. In fact, the Commission's muddled proposals and a co-decision process which added further complexity whilst watering down environmental requirements produced an unwieldy and, in parts, incoherent policy. Robust and cost-effective systems and processes for delivery will be critical to enhancing value for money for taxpayers.

3.2 The challenge for the UK's implementing authorities will be to implement the new CAP framework so that it adequately supports and drives farmers and land managers to address long standing environment problems. For complex environmental challenges complex responses are often required however this does not mean that the interface with farmers and land managers has to be complicated or unnecessarily bureaucratic. Indeed we would support a system which is as user-friendly as possible. But it is vital to recognise that in order to secure effectiveness in outcomes, intelligently designed and evidence based systems of delivery will be vital.

3.3 Experienced and knowledgeable advisers are also key to successful systems of delivery. Good advisers do not just provide technical advice, they are key to getting farmers to own the aims of their agreement and they make a huge difference to environmental outcomes. Such face to face advice has been instrumental in securing significant conservation gains from Higher Level Stewardship and is highly valued by agreement holders. It is therefore extremely important that an adequate field force of well trained conservation experts provide English farmers and land managers with the advice and support they need to implement NELMS properly. Given that the Defra family will be subject to budgetary cuts of 30%, it is vital that these do not impact the ability of Natural England advisors to provide expert advice through the lifetime of NELMS agreements. This should not be viewed as a "cost" but rather a key component of securing maximum benefit from NELMS.

3.4 For Pillar 1 implementation, improved environmental delivery and a reduction in unnecessary bureaucracy could be secured a National Certification Scheme (NCS) for greening which covered all farming systems (see section 5).

4. *How might the Government define the minimum activity required for qualification as an "active farmer"?*

4.1 Many farming systems which are particularly beneficial for biodiversity and other environmental public goods are characterised by very low stocking rates. In a recent analysis by Scottish Natural Heritage on the impacts of varying stocking densities, it was found that 116 Scottish farming businesses would fail to meet even the lowest stocking density of 0.02 LU p/ha, despite still actively farming their land. The highest number of affected farm business were located in the North West "highlands and islands" of Scotland, which correlates with the highest density of HNV systems in the UK.<sup>41</sup>

4.2 Comparable analysis has not yet been undertaken in England but Defra's approach must ensure that the criteria are not set at a level which would exclude very extensive livestock producers—many of which would be found in the English uplands.

<sup>40</sup> For example, see Rural Analysis Associates (2011) Defining the Vulnerable Areas of Scotland. A report for the Highland and Island Councils.

<sup>41</sup> EEA (2009) High Nature Value Farmland in Europe: <http://www.eea.europa.eu/data-and-maps/figures/high-nature-value-farmland-in-europe>

## GREENING

*5. How should the Government ensure that CAP delivers the best environmental benefits while supporting food production*

5.1 Evidence shows that CAP payments are not required to maintain food production. The “Scenar” study<sup>42</sup> highlighted that food production in the EU would reduce by no more than 0.25% in the absence of direct payments. Therefore any argument that direct payments contribute to EU and global food security by underpinning farming is incorrect.

5.2 Where the CAP does have a clear role is to support farmers to produce food and other commodities in a sustainable way, protect the natural resource base upon which production relies, and to adequately reward the provision of environmental public goods where the market fails to do so.

5.3 We would have strongly preferred for this to be pursued through further transfers of funds into Pillar 2. However Pillar 1 greening will be the principle means to raise the environmental baseline across wider farmland. The greening payment will represent approximately £495 million in England each year alone<sup>43</sup> and whilst decisions in CAP negotiations significantly watered down the options available, greening does have the potential to buy significant environmental delivery if designed and implemented as well as it can be. Greening’s implementation will vary across the UK countries, but there are certain principles that should be adhered to:

- Rewards the provision of non-marketable environmental public goods.
- Is evidence based: each of the greening actions must deliver proven environmental benefits.
- Ensures a level playing field by requiring **all** farmers to play their part: there must be no exemptions from greening that are not justified on the basis of sound environmental evidence.
- Brings environmental improvements across all farming types. Wildlife declines have been just as severe in grassland farming as in arable systems and in some cases worse. Grassland farms must be fully included within greening’s scope.
- Raises the environmental baseline, freeing up agri-environment budgets to secure targeted and specialist environmental improvement. This means the greening payment must not pay for actions that are legal requirements and there must be no double funding whereby an action is paid for through agri-environment as well as through greening.

5.4 We believe that the best way to implement greening in England is via a National Certification Scheme (NCS), designed by Defra and delivered alongside agri-environment. One of the criticisms levelled at the Commission’s core greening requirements is that a “one size fits all” approach makes little sense when so many different systems exist across the EU. By adopting a NCS approach, Defra would avoid this problem by choosing the most effective measures for England’s farming systems and environmental challenges. Existing certification schemes and assurance standards should not be considered due to the risks they pose in terms of compliance and associated disallowance.

5.5 Some stakeholders have argued that a NCS would be “gold-plating” the EU’s greening requirements. However, we reject this phrase when applied to Pillar 1 greening. The greening payment is exactly that, a payment, and not a regulatory requirement and in this instance, Defra’s obligation is not to farmers, but to taxpayers by ensuring value for money through clear environmental effectiveness.

5.6 The European Council paper on the simplification of the CAP,<sup>44</sup> to which the UK was a signatory, clearly states that “*Any increased cost or complexity to specific measures can only be justified where the benefits outweigh the costs*” and that, “*An acceptable justification for increased cost might include better targeting of funding towards the provision of public goods...*” We feel that introducing a meaningful and effective approach to Pillar 1 greening meets both these criteria.

5.7 Given the range of exemptions available for core greening measures, varying thresholds and uneven geographical application, a NCS has the potential to simplify greening and make it fairer to English farmers, as it would require all Pillar 1 payment beneficiaries to undertake greening measures. Under the Commission’s measures, significant areas of the country would effectively be exempt from greening beyond retaining most of their permanent pasture, effectively putting arable systems at a disadvantage.

5.8 The greening payment should be viewed in the same way as Pillar 2 agri-environment schemes are: as the means to “buy” environmental public goods from farmers and land managers. Whilst the Pillar 1 payments are more restrictive than Pillar 2, they can be used to buy positive land management which in turn supports food security by protecting natural resources. A 2012 report from Natural England<sup>45</sup>, highlighted existing environmental stewardship options which benefit agricultural production by supporting pollinating insects, regulating pests and supporting soil formation. In turn therefore, greening requirements can be implemented in way which supports agricultural production but in order to be most effective, an ambitious approach is necessary.

<sup>42</sup> 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.

<sup>43</sup> Based on 30% of the anticipated Pillar 1 allocation for England

<sup>44</sup> Council of the European Union (2011) Simplification of the CAP beyond 2013. Brussels.

<sup>45</sup> Natural England (2012) Ecosystem Service from Environmental Stewardship that benefit agricultural production.



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## LESSONS LEARNT

### 6. *What are the principal lessons the Government should learn from the implementation of the previous CAP*

6.1 During the CAP Health Check in 2008, the UK government expended significant political capital to secure a set-aside mitigation measure in cross compliance. However, when it came to implementation, the Secretary of State chose to pursue a voluntary approach via the Campaign for the Farmed Environment (CFE). Whilst the CFE has raised awareness among farmers about the best way to optimise environmental benefit from land management options and in some regions has delivered greater uptake of more effective measures within agri-environment agreements, it did not succeed in its original core objective. We therefore urge the current government to learn from this experience. Defra fought hard for the ability to use a NCS to implement Pillar 1 greening and as this is the only vehicle which would allow Defra to offer only the most beneficial measures it is important they use it. It is also very important to acknowledge the evidence that voluntary approaches to securing widespread, positive land management decisions are limited in their effectiveness and can only usefully play a role alongside good regulation. The evidence base which led Defra to prioritise these objectives during negotiations has not changed therefore making full use of both is the only logical outcome.

6.2 There are also clear lessons to learn from the evidence and practical experience gained during the operation of Environmental Stewardship and these should inform NELMS design and implementation. These are:

- The importance of being evidence based: Not all aspects of current schemes are supported by a robust evidence base. ELS, which accounts for about half of current environmental stewardship expenditure, is dominated by poor value for money agreements. For example several of the [most popular] grassland options in Entry Level Stewardship (ELS) have insufficient evidence to support their effectiveness. It is only right that scheme architecture should evolve and improve to deliver more high quality agreements, therefore poorly evidenced measures should not be rolled forward under NELMS.
- Experienced and knowledgeable advisers are key to success: Given the clear added-value secured from expert advice to agreement holders, Defra must ensure that adequate funding is allocated to advice provision.
- Schemes need to be targeted and have a clear focus. The major agri-environment successes to date have been delivered by specific, targeted or focused schemes. Schemes and agreements need to be focused on a defined outcome or outcomes and targeted at the appropriate geographic scale. Experience with ELS in the current period has starkly revealed that when agreement holders have complete freedom over the options they choose they tend to select those which they are either already doing or which require minimal changes to their management practices, resulting in very little added environmental value. Therefore, whilst offering a degree of flexibility in option choice to farmers is important, there must be safeguards within the system to ensure that every agreement is high quality and deliver clear and demonstrable benefit.

October 2013

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## Evidence from the Tenant Farmers Association

### 1. INTRODUCTION

1.1 The Tenant Farmers Association (TFA) welcomes the opportunity of providing evidence to the Select Committee as part of its Inquiry into the implementation, in England, of the 2013 reform of the Common Agricultural Policy.

1.2 The TFA is the representative organisation for tenant farmers in England and Wales. As such it is the only organisation dedicated to the tenanted sector in England and Wales and is concerned to ensure that all new and amended policy respects the fact that there are individuals within the farming community who do not own the land that they farm. The TFA therefore seeks to ensure that all new policy takes into account the unique impact it may have on the tenanted sector of agriculture.

1.3 The TFA takes note that the questions upon which the Committee is seeking evidence are structured around the four headings of Fairness, Bureaucracy, Greening and Lessons Learnt. This written evidence will use that structure.

### 2. *Fairness: Whether the UK's implementation of CAP might put English farmers at a competitive disadvantage to their regional and European counterparts.*

2.1 Since the UK has devolved responsibility for implementation of CAP to each of the four countries within the UK, there is a major risk that the differentiation of priorities between each devolved administration could lead to the creation of competitive differences between farmers in the various parts of the Union. This will be most striking in relation to the extent to which each devolved administration decides to use its discretion in areas like Greening, use of coupled payments under pillar one, inter-pillar transfers of funding and the structure of agri-environment schemes under Pillar II.

2.2 It is right that the individual countries of the UK should have discretion to ensure that the implementation of this important policy reflects local need. However, the TFA is concerned that this responsibility is taken more seriously in Scotland, Wales and Northern Ireland, where the importance of the agricultural sector and the rural economy is better appreciated, than in England. Sadly, the English (DEFRA) attitude to the Common Agricultural Policy is coloured by an overarching desire to see the early dismantlement of the CAP and to have farming operating in an environment where it receives no support except where it is providing landscape, biodiversity or other eco-systems services. This leads DEFRA to characterise funding under Pillar I as being “bad” and funding under Pillar II as being “good”. The TFA would rather that DEFRA took a less evangelical, market orientated approach and ensured that best use was made of the Pillar I funding available and the flexibilities afforded to Member States in how that funding might be used.

2.3 At the European level, in the main, other Member States are more reasonably disposed towards the CAP than the UK and are more willing to ensure that it is used to support their agricultural sectors. There is the potential for this to be exacerbated in the context of this reform given the flexibility that Member States have to engage in “reverse modulation” which legitimises the movement of money from budgets earmarked for Pillar II type activity into the budgets for Pillar I expenditure. This is a real threat to the competitive position of farmers in England and more widely across the UK.

2.4 Whilst the TFA is not arguing that “reverse modulation” should be practised in the UK, it is important that DEFRA ensures that it does not create two wide a differential between English farmers and farmers in other Member States which could lead to a major competitive disadvantage for English farmers.

2.5 The TFA understands the concern of DEFRA about the extent to which it will have adequate funding within its Pillar II budget to meet its aspirations for agri-environment activity. However, the TFA has pointed out to DEFRA that it has the ability to augment its Pillar II budget by applying a high level of degressivity on the largest recipients of Pillar I funding. The CAP reform package will already require Member States to apply a 5% reduction to receipts, by individuals, of basic payments over and above €150,000. However, Member States have discretion to go further than this. The TFA has suggested that individuals receiving more than €300,000 (£255,000) should have payments over and above that level reduced by 100%; effectively capping the level of support available to individuals under Pillar I. The key benefit of this is the fact that all money saved can be moved from the Pillar I budget to the Pillar II budget.

2.6 To date, DEFRA has been resolutely opposed to the introduction of any form of limit on payments under Pillar I. This does seem odd from a number of perspectives, not least the culture within DEFRA, as referred to previously, which is to be fairly scathing of direct payments and more disposed to schemes under the second pillar. The argument against the use of enhanced degressivity is that the English farm structure is characterised by predominantly larger farms than in the rest of Europe and therefore any limit on payments based on farm size would impact disproportionately on British agriculture. However, in a recent answer given to a Parliamentary Question<sup>46</sup> in the House of Commons DEFRA confirmed that only 174 claimants in England under the current Single Payment Scheme are in receipt of payments in excess of €300,000. That represents just 0.01% of claimants. At the other end of the spectrum, over 80% of claimants receive less than €25,000 (£21,250).

2.7 Taking these figures, the savings from applying 100% degressivity above €300,000 on those 174 claimants would be at least £70 million. This would have the benefit of feeding through to lower levels of modulation for all direct payment recipients possibly by as much as four percentage points. The TFA accepts that as the degressivity under the new arrangements will only apply to the Basic Payment Scheme the savings will be lower but they will still be significant. The TFA believes it is time that DEFRA thought this one through again as it will make it easier to ensure that English farmers are not placed at a competitive disadvantage and yet continue to provide adequate funding for Pillar II activity.

### 3. *Fairness: What steps the Government might take in implementing CAP to help tenant farmers and farmers in upland areas and to take account of issues pertaining to common land?*

3.1 Turning first to the issues for tenant farmers, there are three principal areas for concern. Firstly, there is the initial allocation of entitlements for the new payments envisaged under Pillar I. The draft Regulations from the European Union contain the default position that new entitlements are allocated to claimants in relation to land declared in 2015 subject to the claimant having made an application on any land in 2013. The TFA has expressed concern that this provides an incentive for landlords, with tenants on short term Farm Business Tenancies, to bring those agreements to a conclusion in time for them to be able to use the land released to augment, artificially, their claims for initial allocations of entitlements. However, the Regulations will also provide Member States with the flexibility to roll forward existing entitlements into the new scheme for regions, like England, which already have a “flat rate” payment system. From the TFA’s discussions with DEFRA it seems clear that this option will be taken up in England which will minimise the ability for landlords to take a speculative approach. The TFA hopes that the Select Committee will also support that approach.

3.2 Secondly, the TFA is concerned to ensure that only active farmers are able to access funding through Pillar I and Pillar II. The TFA has been concerned about individuals who are not actively managing land themselves but who are still able to access Pillar I and Pillar II schemes even where they are allowing other

<sup>46</sup> Answer provided by David Heath MP to Question asked by Andrew George MP 16 July 2013: Column 633W

individuals to actively use the land upon which they are making their claims. The TFA has been a vocal advocate for the inclusion of a viable definition for active farmers in this round of reform.

3.3 The current draft of the direct payments Regulation published by the Presidency of the EU on 06 September states, at article 9 (1):

*No direct payments shall be granted to natural or legal persons, or to groups of natural or legal persons whose agricultural areas are mainly areas naturally kept in a state suitable for grazing or cultivation and who do not carry out on those areas the minimum activity established by Member States in accordance with Article 4(1)(c).*

Draft Article 9 (3) further says:

*In addition, Member States may decide, on the basis of objective and non-discriminatory criteria, that no direct payments shall be granted to natural or legal persons, or to groups of natural or legal persons:*

- (i) whose agricultural activities form only an insignificant part of their overall economic activities, and/or
- (ii) whose principal activity or company objects do not consist of exercising an agricultural activity.

3.4 The TFA believes that this provides DEFRA with sufficient flexibility to exclude those individuals who are unable to meet the following three -part eligibility criterion for being an active farmer:

- (i) they are in occupation of the land being used to support the claim; and
- (ii) they are in close management control of all of the activities taking place on the land being used to support their claim; and
- (iii) they are bearing the entrepreneurial risk of the agricultural activities taking place on all the land being used to support their claim.

3.5 In order to minimise the regulatory burden involved in applying this test, the TFA would see the active farmer test operating on a self-assessed (declaration) basis. Applicants would be required to ensure that they were able to meet the criteria for being defined as an active farmer on all the land used for their claim and to sign a declaration to that effect when making their applications. Other than that, at the point of application, applicants would not have to submit documents to support their declaration of active farmer status. However, the Rural Payments Agency should be then required to make compliance with the active farmer rules a point upon which applicants are inspected in the normal course of events. Only upon inspection would applicants be required to produce evidence which substantiated the declarations which they have made.

3.6 The TFA is aware that, in the same way as there has been an industry of advice in relation to assisting individuals to minimise their tax liabilities, there is also an industry of advice established around assisting individuals to maximise their subsidy take through CAP schemes. Whilst the TFA believes that individuals should be able to structure their businesses in a way which places them as advantageously as reasonably possible in relation to schemes being made available by Government, there is a point at which a line is crossed. For the TFA, we believe this point is where the individual concerned is unable to meet the three part eligibility criterion for being an active farmer set out above. The principal benefit of having this test would be reducing the extent to which advisors engage in creating the circumstances within which land owners can take unfair advantage of the rules for fear of being sued by their clients when an inspection leads to the imposition of a penalty or denial of payment.

3.7 Without an adequate active farmer test there will be an increasing temptation for landowners to abandon the use of tenancies in favour of shorter, less secure and riskier ventures for individuals such as contract farming, share farming, grazing licences and cropping licences where land owners create the appearance of being in occupation and have the advantages (both in terms of taxation and subsidy) from that but who are not actively engaged in the management of the land or taking any of the risk associated with that management. The TFA should put on record that it is not opposed to the use of other forms of land management beyond tenancies but these must be entered into for the right reasons rather than simply to avoid or evade tax or gain subsidy advantage for the land owner.

3.8 Thirdly, and linked to the issue of the definition of an active farmer, there is the issue of “dual use”. This is the practice of allowing two individuals to claim different subsidies on the same area of land. Typically it involves a tenant farmer being able to claim payments through the Single Payment Scheme (Pillar I) whilst their landlord claims payments for a separate agri-environment scheme but on the same land. This has arisen because of the subtly different eligibility criteria required for entry into these schemes. The Single Payment Scheme provides that applicants must have “land at their disposal” whereas agri-environment schemes require only that applicants have “management control” which may be expressed through the use of clauses in agreements with third parties such as tenant farmers.

3.9 Of course there are many cases where dual use operates on a fair and reasonable basis, however there are many cases where the TFA is aware that tenants are forced into having to comply with the terms of agri-environment schemes in the name of their landlord without adequate consideration to them either through a lower rent or management fee.

3.10 The TFA is aware that the European Court of Auditors has expressed concern about the ability for a sustainable argument to be maintained for dual use and the TFA would agree that the time has come, whenever the new CAP reform Pillar I and Pillar II schemes are implemented, for dual use to be prohibited.

3.11 For upland areas the TFA believes that there are two main policy options DEFRA could adopt to assist farming in these remote areas. The first is to align the payment rates between the current lowland and SDA regions used for the Single Payment Scheme. The TFA believes it was wrong in 2004 for the then Government to differentiate the payments between these two regions. However, the TFA still believes that there is merit in maintaining the moorland region at a separate, lower rate given the large amount of land that is utilised in sporting estates as opposed to land used for agriculture. Whilst the TFA would wish to see the retention of the moorland region, it would be on condition that DEFRA put in place a specific, agri-environment scheme targeted at encouraging and rewarding moorland livestock grazing given the clear environmental benefits, both in terms of landscape and biodiversity, provided by grazing livestock in upland areas.

3.12 Whilst the TFA does not have particular expertise in relation to common land, this clearly continues to be a major problem for DEFRA and the RPA in terms of administration. It is essential that in building new IT and scheme rules that the issues impacting common land are considered and “built-in” rather than looked at as an add-on. It will also be important when implementing CAP reform on common land to focus on those who are actively grazing rather than observing slavish adherence to common land registers which may or may not reflect what is really happening on the ground. For example, those registers will not record the use by tenant farmers of rights provided to them by their landlords through contracts of tenancy.

*4. Bureaucracy: What steps does the Government need to take to ensure the reformed CAP will be less bureaucratic than its predecessor and what might prevent this ambition from being achieved?*

4.1 The TFA believes that the biggest issue here is Central Government’s drive to move all communications online. Whilst the TFA is enthusiastic to work with the Government to achieve a greater take-up of digital communications between it and the farming community, the TFA believes that paper-based systems must be maintained for the foreseeable future for a significant minority of individuals. The TFA supports the expansion of digital capability and understands the major benefits which can arise from that both for farmers and the Government but we cannot accept the complete withdrawal, as is planned, of manual systems for those who lack the capability to interact with Government on a digital basis.

4.2 The TFA is aware of the considerable work that is being undertaken by both the CAP Delivery Team and the RPA on “assisted digital”. However, we fear that the phrase “assisted digital” can have many meanings. We would not support the idea that access to the new schemes will be online only either applied for directly or through agents and intermediaries. Instead, we would support the segmentation of those customers who currently do not use SPS online into those who could be helped, either with training, access to broadband or better equipment, to access online services and those, on the other hand, for whom the transition will be just too difficult. For this latter group, which we appreciate will have to be carefully identified, the ability to supply information on a manual basis must be maintained.

4.3 The TFA believes that the Rural Payments Agency would be placed at a disadvantage in terms of its ability to implement the new schemes if it were given only a digital platform to engage with the farming community. This also highlights the wider issue of ensuring that the Government does not allow its aspiration to cast a shadow over its ability to adequately implement the new schemes. It is vital that policymakers stay close to the needs and concerns of those charged with implementing the schemes they develop.

*5. Bureaucracy: How might the Government define the minimum activity required for qualification as an “Active Farmer”?*

5.1 This point has been answered in paragraphs 3.2 to 3.7.

*6. Greening: How should the Government ensure that CAP delivers the best environmental benefits while supporting food production?*

6.1 In July of this year the TFA issued a joint statement together with the Country Land and Business Association and the National Farmers Union setting out the principles that the Government should adhere to when implementing “Greening”. With the Select Committee’s indulgence the points raised in the joint statement bear repeating here:

- English farmers, like farmers in the rest of Europe, must have a choice of greening options, including access to all the applicable categories deemed “green by definition”, which recognise those already providing environmental benefit at least equivalent to the greening requirements in other ways.
- Greening should not impose higher standards, or compliance costs, on English farmers than those in other UK regions or Member States of the EU. Given food security and economic concerns greening must be implemented in a way that does not require the land in question to be taken out of production and avoids unjustifiable loss in farm income; a point endorsed by the EU Heads of Government.

- We, like Defra, believe that our current combination of statutory and voluntary measures produces levels of environmental protection and improvement that are well above the European average.
- English farmers recognise their obligation to the natural environment and as a result founded The Campaign for the Farmed Environment, which will play a central role in enhancing environmental outcomes from farmed land in England. We remain focused on actively promoting its message.
- The outcome of the EU Budget negotiations 2014–2020 means that there must be a strategic review of Government policy that ensures that the objectives of the next programme can be fulfilled with the monies that are made available.

*7. Lessons learnt: What are the principal lessons the government should learn from the implementation of the previous CAP?*

7.1 Two phrases, both uttered by a senior civil servant within DEFRA during meetings attended by stakeholders, characterise the debacle of the implementation of the last round of CAP reform:

“The RPA will do what the RPA is told it will do”

“Ministers have their own minds on these issues”

7.2 The fallout from the failure of the implementation of the last round of CAP reform left the RPA as DEFRA’s whipping boy. It was clear that the RPA was treated as a junior party whose concerns expressed over implementation were not welcomed. The TFA recalls many meetings where RPA staff highlighted concerns over the implementation of the Single Payment Scheme on the basis of a “dynamic hybrid” but found their concerns falling on deaf ears—even when they were repeated by members of the wider stakeholder community. DEFRA’s stance was further displayed when, in the House of Commons debate which followed the failure of the payment system in 2005, the Secretary of State at DEFRA was challenged as to whether she would take responsibility for the failure and answered that she had taken responsibility and had sacked the Chief Executive of the RPA. The RPA had, in that instance, been set up to fail. It is essential in implementing this round of CAP reform that the expertise and practical input of the RPA is sought, valued, listened to and fully embedded into the policy-making process.

7.3 As noted above, Ministers need to ensure that in having their own mind on an issue, they do not create policies which end up becoming an implementational nightmare. Genuine consultation with the stakeholder community and with other partners within Government will be essential to ensure we have good policies well implemented.

2 October 2013

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**Written evidence submitted by The Wildlife Trusts**

**EXECUTIVE SUMMARY**

- CAP implementation must take into account the long term health of the environment and the extent to which this determines the viability and future of farming and the incomes that farmers derive from land management.
- Farmers must be rewarded for the environmental public goods they provide.
- The concept of environmental land management should be mainstreamed, and embedded into all agricultural activity.
- The greening of Pillar I payments and Pillar II land management schemes have the potential to deliver important environmental benefits that will demonstrate to the public the role that farming plays in environmental public goods delivery.
- SMART design, identifying where and how a number effective environmental outcomes can be delivered in combination with agricultural outcomes will help reduce bureaucracy.
- In relation to “active farmer” the definition of minimum activity must not penalise low intensity land management systems, and should reflect the farming system that is appropriate to maintaining the habitats and other services provided by them. A ‘one size fits all’ method of defining appropriate levels of minimum activity should be avoided.
- The current Higher Level Stewardship scheme has demonstrated the added value that such longer term schemes can bring- for farmers, the environment and economies. Sustaining and indeed extending these schemes is essential, and this can only happen if the maximum amount (15%) is modulated from Pillar I to Pillar II.

1. *Whether the UK's implementation of CAP might put English farmers at a competitive disadvantage to their regional and European counterparts.*

1.1 A focus on short term competitive advantage/disadvantage masks the issue of the long term health of the environment and the extent to which this determines the viability and future of farming, and thus the incomes that farmers derive from land management. We want to see the concept of environmental land management 'mainstreamed', with management of the environment no longer culturally divided into activities described as 'farming' and those attributed to 'conservation'. For example, wildflower grasslands perform important functions across the agricultural landscape. The insects they support are crucial for the pollination of crops and this habitat provides food for all stages of their life cycle. Invertebrates in wildflower grasslands play an important role in dung removal and soil creation. Wildflower meadows provide food and breeding areas for predator species such as beetles, spiders and parasitic wasps, which carry out natural pest control of insects in arable crops. Grassland soils are a major carbon sink and many wildflower species sustainably fix atmospheric nitrogen. These grasslands perform all of those functions AND provide high quality food which is produced with low inputs—an economic and environmental benefit.

1.2 The way in which CAP is implemented must help farmers build ecological resilience and restore the environmental performance of the land—ensuring that it continues to provide food, but also that it delivers environmental public goods other than food. If farmers are adequately rewarded for the delivery of environmental public goods then this should help ensure that they are not placed at competitive disadvantage in the future. Indeed it will ensure that those farmers who currently do most to protect environmental public goods will not be disadvantaged. A research project that forms part of the UK National Ecosystem Assessment has concluded that spending CAP funds on improving access to attractive countryside, protecting wildlife and cutting greenhouse gases could produce annual benefits of over £18bn, for a loss of less than £0.5bn in UK agricultural production.<sup>47</sup>

1.3 An approach that takes account of the full range of goods and services farmers can provide, requires effective Pillar I Greening measures and a well funded Rural Development Programme that prioritises environmental land management schemes.

1.4 Embedding a value for environmental public goods in farm management via greening measures linked to direct payments, provides a justification for public money to be given to farmers. It provides to society and businesses a clear message about the important role that farmers play in protecting and enhancing the ecosystems that provide us with these goods and services.

1.5 It is also in the long term interest of the farming industry to have healthy soils, areas that support pollinating insects and predatory insects, and so on. The value of having nature side by side with farming are clear and in the longer term we believe can bring competitive advantage.

1.6 We recommend that Government:

- Adopts a National Certification Scheme (NCS) to deliver Pillar I Greening, thus enabling a scheme for England that is tailored to meet specific requirements—for example relating to grasslands, the development of ecological networks and enhanced biodiversity. The NCS should link effectively to the New Environmental Land Management Schemes of Pillar II (NELMS).
- Moves 15% of Pillar I monies to Pillar II (modulation) to support the Rural Development Programme for England (RDPE). Modulation is an important element of the current programme and in the context of a cut agreed in Europe of 12% to the Pillar II budget, the reasons why this level of modulation is needed are clear:
  - So that Government can honour existing commitments to current agri environment schemes that will run on beyond 2014. These are thought to amount to over £2bn, (£260m more than the entire UK allocation for Pillar II).
  - So that Government can offer farmers new agreements in the new CAP round and enable more land to be managed to deliver key outcomes for the environment. Effective agreements are a key mechanism for restoring habitats and bringing declining species back from the brink, but they also deliver a range of other public benefits.
  - So that Government can meet its own policy objectives, for example relating to Natura 2000 sites and the Water Framework Directive.
- Prioritises the spending in the RDPE to ensure high quality well-funded land management schemes.

1.7 We believe that the public want healthy food that is good value for money, the production of which does not damage the natural environment. Against this background, it is hard to argue against the value of spending taxpayers' money on programmes whose outcomes will benefit nature, the long term viability of farming, English farmers and the public.

<sup>47</sup> Bateman I J et al. (2013) "Bringing Ecosystem Services into Economic Decision-Making: Land Use in the United Kingdom", *Science*, 5 July 2013: Vol. 341 no. 6141, [www.sciencemag.org/content/341/6141/45](http://www.sciencemag.org/content/341/6141/45).

## 1.8 New Environmental Land Management Schemes

Agri environment schemes are a key mechanism for Government delivery of policy objectives. The added value that they can bring for society, the economy and rural communities is under-appreciated. We refer the committee to a series of ‘Farming for A Living Landscape’ case studies which we have produced <http://www.wildlifetrusts.org/living-landscape/farming>. These show how farmers’ entry into agri environment schemes, when supported by effective advice, can bring wider benefits. For example, Avon Wildlife Trust helps farmers to get into Higher Level Stewardship schemes, enabling them to manage their fields with low inputs. The lower input costs provide an economic benefit to the landowner as well as a positive benefit for ecosystem services. Combining gains for wildlife with potential commercial benefits for landowners is a high priority for this project. More generally, work undertaken by the Countryside and Community Research Institute (2010) has shown that every £1 of Environmental Stewardship money generates a total output in the local economy of £1.42.<sup>48</sup>

1.9 As mentioned above, appropriate advice and facilitation (which can for example bring farmers together to develop collaborative agreements across wider areas) is a key element in successful land management schemes. We welcome current discussions around the merits of a ‘facilitation fund’, which would ensure that farmers would have access to appropriate advice and help, and that the opportunities for added value were fully realised.

1.10 The movement of 15% monies from Pillar I to Pillar II can ensure that maximum benefit is derived from measures across the whole rural development programme. The strategic and SMART application of all measures within Pillar II when employed accordingly (including NELMS) can if effected properly secure the progress of RDP in delivering its objectives for farm competition across the EU.

### *2. The steps the Government might take in implementing CAP to help tenant farmers in upland areas, and to take account of issues pertaining to common land.*

2.1 Financial support for tenant farmers in upland areas should better reflect the scale of the ecosystem service benefits and the quality of the benefits upland farming can provide. The new CAP should be used to support farmers and tenant farmers who protect and enhance the value of upland catchments in retaining and slowing down water flow to reduce flooding impacts, providing clean drinking water, storing and sequestering carbon and providing special habitats for declining species.

2.2 Farmers in these areas can derive benefits from recreation and tourism or potentially could be paid directly by businesses such as water companies. But there is currently not a clear model or mechanism for the provision of income to farmers for ecosystem services other than food, especially in the more marginal farming systems. We must therefore look to the direct payments system, including via the Greening payment, and to the New Environmental Land Management Schemes of Pillar II to provide support for those marginal but environmentally valuable farms and farming systems—in upland areas and elsewhere.

2.3 The value of extensive grazing systems, where the level of grazing animals provides protection for important ecosystem services, but where income from livestock is relatively poor, must be recognised, with support provided for these farmers to market and sell what are often high quality products. We think that much can be learnt from existing good practice. For example in Worcestershire, The Wildlife Trust has teamed up with Old Yarr Estates, promoting the sale of beef from cattle that have been grazing on the Trust’s nature reserves. <http://www.worcswildlifetrust.co.uk/wildlife-friendly-beef-boxes>.

### *3. The steps Government needs to take to ensure the reformed CAP will be less bureaucratic than its predecessor and what might prevent this ambition from being achieved*

3.1 While it is recognised there are key principles such as simplicity of design and a desire not to ‘gold plate’ schemes, these should not constrain thinking on how to achieve potential gains. Simple delivery should not mean partial delivery and effective environmental benefits need not amount to “gold plating”. The key principle should be focused around SMART design identifying where and how a number effective environmental outcomes can be delivered in combination with agricultural outcomes. There should be no confusion between simplicity of design and ineffective delivery.

3.2 We believe that the importance of appropriate advice and facilitation is key to reducing time spent on paperwork and that a flexible and nuanced approach is needed to both this and inspection regimes. The delivery of Greening through a National Certification Scheme (NCS) would certainly provide a clearer and more straightforward process, and a single but tiered Environmental Land Management Scheme should introduce some further simplicity.

### *4. How the Government might define the minimum activity required for qualification as an “active farmer”*

4.1 As mentioned above, low stocking densities are vital for maintaining and enhancing the health of many ecosystem services, for example grassland systems that can slow down or store water, such as the culm grasslands of Devon or the maintenance of upland or lowland heath vegetation. It is vital that the minimum

<sup>48</sup> Countryside and Community Research Institute (2010) Estimating the Incidental Socio-economic Benefits of Environmental Stewardship Schemes.

activity required does not penalise those low intensity management systems and inadvertently lead to damage to habitats that are the source of farm incomes in themselves for example through tourism incomes. The level of minimum activity should therefore be able to reflect the farming system that is appropriate to maintaining such habitats and other services provided by them. A 'one size fits all' method of defining appropriate levels of minimum activity should thus be avoided. If implemented properly 'minimum activity' could confer its own sense of value to those habitats, farming systems and other services provided by such activity.

### *5. How Government can ensure that CAP delivers the best environmental benefits while supporting food production*

5.1 We believe that CAP payments should address areas where there are currently market failures—specifically, provide farmers with payments for the ecosystem goods and services they provide to the public. We are very concerned that marginal farm systems that provide society with high quality public goods will remain on the verge of, or will be tipped into, bankruptcy, whilst some farming systems that continue to damage the natural environment will continue to be rewarded with public money.

5.2 It is essential that the public perceive the outcomes from the money they provide to farmers. There must be a transparent way of the public seeing that the payments they make to farmers both via Pillar I and Pillar II deliver outcomes in addition to food. The 30% Greening payment of approximately £495 million per year to English farmers, must be made to work effectively to deliver perceptible environmental benefit. It should also be clear to the public that the bulk of the direct payment money (70%) should not be linked to damaging activities, with a robustly enforced cross compliance system.

5.3 We believe that the key ambitions for Greening should be to:

- Increase the environmental baseline through Pillar I -providing a sound environmental basis for applying New Environmental Land Management Schemes.
- Mainstream the concept of environmental land management. Greening offers the opportunity to embed the environment into all agricultural activity.
- Promote a multi-functional countryside in which synergies are recognised as a result of environmental management, whilst providing benefits to the agricultural industry as well.
- Embed a value for other public goods which farmers themselves should be keen to demonstrate they provide.

We have set out our key tests for Greening as follows:

- The concept of environmental land management will be 'mainstreamed'.
- A value for public goods other than food will be embedded in farm management via a combination of robust Pillar I greening measures and an increased Pillar II budget supporting effective land management schemes.
- There will be a coherent package of cross compliance, mandatory greening measures and agri-environment programmes, with all elements working together.
- Pillar I Greening will be implemented by all farmers across the farmed landscape. Greening measures will raise the baseline of environmental standards and facilitate more ambitious Pillar II measures.
- Basic Payments will have a clear link to the delivery of environmental public goods.
- All three elements of Pillar I greening will work together in a National Certification Scheme for Greening. They will be inter-linked to provide a flexible scheme allowing farmers the potential to add further benefits through voluntary action or through NELMS.
- Crop rotation will be a key element of Pillar I Greening. This will secure environmental, agronomic and economic benefit, increase soil organic matter and improve soil structure.
- Environmentally important grasslands will be protected and valuable grassland habitats will not be inadvertently damaged.
- Ecological Focus Areas will play a key role in protecting, expanding and linking areas of value for nature to create ecological networks and restore healthy and fully functioning ecosystems.
- Additional effective mechanisms will safeguard more marginal farming systems that are critical for protection and enhancement of biodiversity and wider ecosystem benefits.

5.4 The movement of the maximum 15% of Pillar I monies into Pillar II to support Rural Development measures and the high prioritisation of new environmental land management schemes are essential to ensure that CAP delivers the best environmental benefits. New Land Management Schemes that foster collaborative working by farmers across landscapes could, with the right facilitation and advice, deliver excellent environmental benefits and lead to opportunities to promote products derived from special local landscapes. A more transparent and public face to CAP payments which articulates how this public money helps to enhance local landscapes and production of quality local food which results in reduced transport costs, potentially reduced prices and reduced carbon emissions, would be helpful.



5.5 The success or otherwise of implementation of this round of CAP reform for the environment will be determined by the sum of *all* of the parts: cross compliance, Pillar I greening, additional voluntary measures and Pillar II land management schemes.

#### 6. *The principal lessons the Government should learn from the implementation of the previous CAP*

We would highlight the following key lessons at this stage, but may wish to expand on this section in our oral evidence:

- The value of the 10 year Higher Level Stewardship scheme.
- The way in which added value has been provided for farming and economies on the back of HLS schemes.
- That elements of the Entry Level Scheme that did provide environmental benefit (or could do with further advice, targeting and support) are not disregarded as irrelevant but explored for potential inclusion either through NELMS or greening.

10 October 2013

#### **Supplementary written evidence by George Winn-Darley**

1. At the EFRA Select Committee hearing on 30 October 2013, I was asked for some written evidence on the issue of common land and the distribution of Pillar 1 and Pillar 2 monies in respect of that. I have since had the benefit of the draft transcript to question 309 which refers. What I set out for you in that answer is to emphasise that every common is unique and different so I believe it is impossible to come up with a set of rules or procedures that can sensibly apply to all of them without causing injustices to one party or another or by compromising the objectives of the P1 or P2 money. Many people have worked hard, including DEFRA staff, to come up with a system that everyone has now got used to over the last 7 years and I would urge we stick with that as far as is possible. The negative impact on either applicants or on the schemes objectives are much more likely to be greater than any intended positive outcomes of any particular change.

2. Parties have come to terms with weaknesses and injustices in the current system which particularly affect them and often are able to effect changes by updating the register of common rights in order to minimise, mitigate or overcome the problems. However, the Select Committee should be aware that so far as P1 money is concerned that very often large parts of the notional hectareage available to a common are not paid out on at all and therefore that upland area does not get the fair share of the money that was intended for it. If there was some flexibility within the system to ensure that all the P1 money that is available for a particular common was distributed in some way amongst those applicants that claimed for it then it would overcome this difficulty. Perhaps it would help if I illustrated this in specific figures. Let's assume the common is 1,000 hectares and that actually 2,000 grazing rights are registered over it in total following the 1965 Act. However, not all of these have ever been exercised at once and the number of stock grazing the common has been broadly at its carrying capacity which is probably closer to half that number. As a result the owner of the freehold of the common has never exercised their right to graze any stock as they do not want to create (or make worse) an overgrazing situation.

3. In a particular year the common right holders who are actually exercising their sheep have claimed for their rights and they amount to 1,000 head. In addition some neighbouring farmers who own common rights but have never exercised them on the common also claim and these amount to 200. The RPA calculate an assumed stocking density for the moor and this is 1,500 head. They therefore payout to the 1,000 active graziers and the 200 non-active common right holders. They do not pay out on the next 300 because the total common rights registered to the common is 2,000. This seems a little bizarre and means that nobody in the community gets P1 money that is targeted at that proportion of the common. The owner of the freehold has also claimed but because he has no registered common rights and the total number of common rights registered exceeds the notional carrying capacity of the common, his claim is rejected entirely despite their being unclaimed rights.

4. In an HLS scheme (set out in my evidence note) I particularly refer you to question 304 as we need to look at what the scheme is demanding and who is responsible for delivering those multiple aspects. It is then up to the parties to then negotiate together and agree a basis on which they can all sign up to the agreement and be responsible for delivering their part of the bargain. As I pointed out in my reply to question and 75% of heather moorland which is designated as an SSSI (which is 60% of heather moorland in England) has successfully got into an HLS scheme. All parties should be congratulated on the hard work and compromise that they have all achieved for this to be the case.

5. I think if parties were allowed to negotiate in the same way to distribute the total P1 monies that a particular common is entitled to, then you would achieve the same or a higher percentage success rate. Although I do not believe any figure has been calculated for what it is under the current system, I would not be surprised if currently 20–30% of P1 monies that should be going to commons is not reaching them at all because of the way the system works. Building on the success and experience of all parties have gained as a result of

cooperating over P2 monies would ensure a much higher percentage success rate in getting more of the P1 monies to reach the commons they are aimed at.

6. In question 311 the Chair is slightly confused as to why we were talking about SSSI's when talking about common land. Perhaps it would help to explain that many commons have multiple designations on top of them. These include the following:

- Registered Common.
- SSSI.
- SPA.
- SAC.
- Wholly or partly within a National Park or AONB.
- Scheduled Ancient Monument.
- Listed Structure.
- Open Country under the CRoW Act.
- Public right of way (Byway Open to All Traffic (BOAT), public bridleway or public footpath).
- Tarmac Highway.

For instance, every common on the North York Moors carry virtually every one of these other designations. This perhaps emphasises why it is very complicated and there are no quick or easy solutions that are not likely to have a number of unintended consequences.

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