

House of Commons
Environment, Food and Rural Affairs
Committee

**THE FUTURE OF UK
AGRICULTURE IN A
CHANGING WORLD**

**GOVERNMENT REPLY
to the Ninth Report of Session 2001-02
from the Environment, Food and Rural
Affairs Committee**

Second Special Report
of Session 2002–03

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SECOND SPECIAL REPORT

The Environment, Food and Rural Affairs Committee has agreed to the following Special Report:

THE FUTURE OF UK AGRICULTURE IN A CHANGING WORLD: GOVERNMENT'S REPLY TO THE COMMITTEE'S NINTH REPORT OF SESSION 2001-02

The Environment, Food and Rural Affairs Committee reported to the House on *The Future of UK Agriculture in a Changing World* in its Ninth Report of Session 2001-02, published on 6 November 2002 as HC 550-I. The Government's Reply to the Report was received on 27 January 2003 and is appended.

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APPENDIX

INTRODUCTION

The Government welcomes this report, which adds to the public debate about the future of farming and food, which the Government initiated with the establishment of the Policy Commission in August 2001. The Government agrees with many of the conclusions and recommendations in the report. These are set out below in bold, with the Government response following. The majority of the response relates to England but where recommendations relate to the UK as a whole, the response sets out UK Government policy. On 12 December the Government published a new Strategy for Sustainable Farming and Food in England and published its response to the report of the Policy Commission. Many of the issues covered in this response are addressed in detail in the strategy.

Copies of the strategy and associated documents have been placed in the libraries of the House and are available on the Defra web-site at:

<http://defraweb/farm/sustain/default.htm>.

Main Lessons of our Inquiry

Recommendation (a): (paragraph 9)

It is evident that production subsidies and direct payments to farmers – in other words, support for farmers for being farmers – will be reduced over a period of years, even if they do not disappear with the inevitability some have predicted and that export subsidies will ultimately have to go. We strongly welcome that development.

The Government welcomes the views expressed by the inquiry on future developments in agricultural subsidies which can only come about through reform of the Common Agricultural Policy (CAP). The Committee will be aware that the Commission tabled proposals on 10 July 2002, outlining the broad shape of their ideas on the future direction of the Common Agricultural Policy and that these were discussed by the Agriculture Council on a number of occasions last year. The Commission's formal legislative proposals, published on 22 January 2003, set out in more detail the way forward on these elements. The Government is strongly committed to delivering real change to the Common Agricultural Policy and will be working hard to secure a successful outcome to these negotiations. In particular we recognise and share the view of the Committee that it is important to reconnect farmers to the market and in that context we support in principle the Commission's proposals on decoupling direct subsidies.

We accept the view of the Committee that farmers need time to adjust to changes. Our view is that the Commission proposals should go further and faster but we do fully accept the need to help the industry and have supported the proposal to redirect support to the second pillar to deliver environmental objectives and to give help to the rural economy to adjust to the changes in agricultural subsidy regimes.

Recommendation (b): (paragraph 9)

The main lesson of our inquiry is that it is the primary role of farmers to produce food that consumers want, and to do so in a competitive and open marketplace free from production- or trade-distorting subsidises, and without undue restrictions on their freedom to operate. We believe that such a situation presents the best way for farmers to reconnect with their market, and to become competitive, profitable and confident.

The Government shares the view of both the Efra committee and the Policy Commission on the Future of Farming and Food that farming needs to reconnect with its customers. This is a central theme of the Strategy for Sustainable Farming and Food, launched on 12 December 2002. The strategy also makes clear the Government's view that agriculture has a unique part to play not just in terms of food supply, but in protecting the environment, including rural landscapes, and in its contribution to the wider rural economy.

Production-linked payments serve to distort markets and restrict industry from reacting positively to market developments. The Government is pressing for substantial reform of the Common Agricultural Policy to shift resources away from direct subsidies towards agri-environment and wider rural development measures. Such reform will be necessary to secure a satisfactory outcome to the present WTO trade negotiations and the Government continues to encourage the EU to take a forward-looking and liberalising position in those negotiations. The Government is also committed to better regulation - legislating only where necessary, doing so in a light touch way and deregulating and simplifying existing legislation wherever possible.

Recommendation (c): (paragraph 10)

We therefore strongly support moves towards reducing restriction and cutting subsidies. The more the market place for farmers can be liberalised, the better able they will be to respond properly to signals from it, as is already the case for pig, poultry and horticultural producers who currently have no support from a subsidy regime.

See response to recommendation (a).

Recommendation (d): (paragraph 11)

As a rule, we would expect new policies to be phased in or support for agricultural production to be phased out in a manner that had been announced well in advance of any change. In general we believe that any further assistance would be unnecessary. If, for any reason, adequate notice is not given or new developments cannot be phased in, we believe that the case for short-term degressive transitional aid should be examined.

See response to recommendation (a).

Recommendation (e): (paragraph 12)

In our view, interventions in agricultural markets, whether in the food or non-food sectors, in the future should be made within the following framework:

- an assessment of the problems the intervention is addressing should be made, whether or not a short term problem or structural issue is being tackled should be made clear;
- the desired outcome of the intervention should be made known and clear approaches detailed to allow an assessment of the effectiveness of the intervention;

- **if financial support is made available, clear indications must be given about the length of time for which support will be available;**
- **there must also be absolute confidence that reform is consistent with our international obligations;**
- **while it is unrealistic to expect every policy instrument to be mirrored elsewhere in the European Union, reform should allow for the international competitive environment within which much of United Kingdom agriculture operates;**
- **any interventions should, as far as possible, be consistent with fostering an entrepreneurial culture - competition for support and rewards for effectiveness are legitimate features of programmes; and**
- **There needs to be an appreciation of the impact on the wider rural economy.**

The Government accepts this recommendation.

Recommendation (f): (paragraph 44)

In the light of the economic and other factors affecting the future of farming the Government should commission an annual financial assessment of the state of British farming which goes beyond simply looking at farm incomes. Its production should involve representative bodies from across the food chain, as well as the industry's bankers. Such a document could form an objective basis against which to judge and assess the possible effects of future policy proposals.

The Government accepts this recommendation to enhance the evidence base on the farming sector. It is proposed that we will enhance the work and analysis already undertaken and published within Agriculture in the United Kingdom to monitor the trends in economic, environmental and social aspects of farming, and that we shall undertake analysis of current and future prospects for the industry in consultation with external representative bodies on the technical aspects of the analysis. In order to meet the obligations of National Statistics on the release of statistics, discussions would take place following the publication of the main headline income figures at the end of January each year. An open invitation to attend the technical discussions would be made in the Statistics Notice published at this time. The discussions would then inform the more detailed analysis and interpretation published in Agriculture in the United Kingdom that would be used to judge the possible effects of current and future policy proposals. As a first step, discussions will be arranged with stakeholders to identify the additional analysis to be developed and published within Agriculture in the United Kingdom and to agree the process by which their input would be provided on a regular annual basis.

Recommendation (g): (paragraph 110)

We believe that the Government should underpin its objectives with a commitment to ensure that its actions do not undermine British farmers within the European market place and policy environment in which they operate; and also that entrepreneurial farmers are not penalised by bureaucracy and regulation not faced by other businesses.

The Government agrees with this recommendation. An important principle in all our policy negotiations in the European Union is to secure measures which do not undermine the position of British farmers. This will be particularly important in negotiations on reform of the Common Agricultural Policy during 2003. We have already made clear to Commissioner Fischler that the UK Government will strongly oppose any proposals that discriminate unfairly against UK producers. Our support for reform of the CAP is also based - amongst other things - around the need for a simpler, more market-orientated system of support which encourages producers to respond to the demands of the 'real' market, means that they are not hampered by excessive bureaucracy and regulation and which allows the entrepreneurial spirit to flourish.

Domestic matters

Recommendation (h): (paragraph 105)

The Government should outline the progress that has been made on all the recommendations of the Red Tape Working Groups, particularly in respect of those which required negotiations at European level. It should now offer the Working Groups a further opportunity to comment on progress against their recommendations.

The Government recognises the value of the red tape exercises in identifying specific burdens faced by the industry in 1999 and identifying possible solutions. In the case of the Integrated Administration and Control System (IACS) and Inspections the Working Group reviewed progress in December 2001 and was very pleased with the progress made in implementing recommendations. Twenty-five of the twenty-nine recommendations were regarded as having been completed. Of the remainder, which are of a longer-term nature, they considered that satisfactory progress was being made. None of these required negotiation at European level. The Chairman was satisfied that the working group had concluded its duties. A copy of the final progress report <http://defraweb/corporate/regulat/redtape/final.pdf> is on the Defra website. On Intervention although it was intended that there should be a review by the group this was not held since other priorities such as the Foot and Mouth epidemic intervened. However an internal review of progress in October 2001 showed that 41 of the 43 recommendations were completed/had been implemented or could not be progressed further. A copy of the report is on the RPA website at

<http://www.rpa.gov.uk>.

In September 1999 Defra and the National Farmers Union set up a joint review of the regulatory burdens on the meat industry, including slaughterhouse regulation and meat hygiene rules. The Meat Industry Red Tape Working Group, chaired by Robin Pooley, reported in December 1999 and made 35 recommendations. The Government's response was published on 2nd February 2000. 28 recommendations were accepted, while four required further consideration. Three recommendations were rejected.

There were originally 29 recommendations in the Pooley Report for the Food Standards Agency to take forward, including those relating to Meat Inspection and the work of the Meat Hygiene Service. One of these recommendations was subsequently transferred by agreement to Defra. Of the remaining 28 recommendations for the FSA, six require EU approval and we are working on these, 15 have been completed, six are being acted on, and one requires action this year.

The Government believes the time has come to draw a line under the red tape exercises. They served their purpose at their time in identifying real problems faced by the industry and we have taken action where we could. However we see little point in going over the old ground to see what further progress could be made. We need to concentrate our efforts in pursuing other aspects of the Government's better regulation agenda. In particular our contributions to the Government's Regulatory Reform Action Plan, which carried forward some of the few outstanding issues from the IACS and Inspection red tape reviews, and our ambitious programme of work designed to develop a smarter approach to regulation that concentrates upon outcomes rather than processes, and embeds good practice into everyday farming activities. This approach was outlined in the Strategy for Sustainable Farming and Food and the recent response to the Committee on follow up questions to outstanding recommendations arising from the MAFF/Intervention Board Departmental Report 2000.

Recommendation (i): (paragraph 106)

We recommend that the Government indicate how, if at all, it intends to take forward the recommendations of the Hills and Inputs Task Forces.

The Government has welcomed the Hills Task Force report as a valuable contribution to the ongoing debate about how we can best secure an economically, socially and environmentally sustainable future for upland areas of England.

The Government is taking forward many of the Task Force's recommendations. For example, as a key part of its review of agri-environment schemes, the Government is developing a new entry-level agri-environment scheme. This scheme – which will apply to both upland and lowland areas – is in line with a key recommendation of the Task Force, namely a new scheme designed to reflect the benefits and costs of maintaining and managing important landscape and wildlife features.

The Government will also be taking the Task Force's recommendations into account in its review of the Hill Farm Allowance (HFA) which, in turn, will feed into the mid-term evaluation of the England Rural Development Programme (ERDP). As well as formal public consultation on the review, the Government has set up a new consultative forum, the Uplands Land Management Advisory Panel. The Government has given the Panel the task of advising on the review of the HFA and its links with other relevant measures, including the entry-level scheme. The Panel includes representatives of farming and management organisations, conservation interests, relevant statutory agencies as well as Defra officials. It is again in line with the thinking of the Hills Task Force that wished to see existing consultation arrangements reviewed in order to ensure effective integration of policy affecting less favoured areas.

The Government also welcomed the report of the Inputs Task Force, which was set up to examine the scope for reducing input costs and improving efficiency of input use. The Task Force found that, across the board, UK farmers did not pay more for their inputs than their competitors in Europe, but that competitive trade could be frustrated by a lack of transparency in the market, commercial arrangements and differing regulatory requirements for some inputs across EU Member States. They also found that, within the farming industry, there was a wide range of efficiency of input use and substantial scope for improvement. The report and its recommendations were taken into account by the Policy Commission on the Future of Farming and Food in framing their report. The Government response includes action to promote collaborative activities within the industry, which is consistent with the report of the Task Force.

Agri-environment

Recommendation (j): (paragraph 153)

The phrase 'public good' tends to be used as if its meaning were self-evident. Politicians speak of what 'the public' or 'the consumer' will or will not put up with. The fact is that 'public goods' are, in practice, defined by pressure groups which each have their own definition of what the public good is. They are not necessarily compatible with each other. Nor is it easy to set a price on a public good and to establish mechanisms for the delivery of such goods, which permit both a light-touch management and meaningful measurement. We are extremely sceptical about the way in which the term 'public good' is used to justify public support for an array of different schemes and projects.

Although the term 'Public Good' might be used in everyday language with a variety of meanings, in economic terms it does represent a specific concept. A public good is characterised by being 'non-rival', such that one person's consumption does not diminish the amount available for others to consume, and 'non-excludable', such that if it is made available to anybody it becomes available to everybody to consume. Public goods tend to be under-provided in a free market as their non-excludability means that people cannot be charged directly for their consumption (nor would it be efficient to do so) and there is therefore no market to reveal the value that people attach to them.

Many of the Department's environmental and welfare goals maintain or generate such public goods. Related to the concept of public goods are externalities which are spillover effects associated with the production or consumption of a good or a service that result in costs or benefits to a third party which are not reflected in any market transaction. In particular, agricultural production affects natural resources (air, water and soil), ecosystems and biodiversity, rural landscapes and historic/archaeological features in a number of ways which impact upon society more widely. This means that the net effects for society, particularly under the CAP's production-oriented support system, are too much environmental degradation and inadequate provision of environmental benefits.

A number of economic valuation studies have been carried out on agri-environment schemes, commonly using the Contingent Valuation method. Although there is continuing academic debate about the merits of this and other methodologies for estimating public benefit, the evidence from these studies has consistently shown that the agri-environment schemes have generally had positive effects and that these are valued by the public, with the value of benefits greatly exceeding costs in most cases.

Defra has also commissioned research on the development of an appropriate framework which will enable a cost-effective and robust valuation of the Total Economic Value (TEV) of changes in biodiversity. This will be based on the latest and most appropriate economic and scientific knowledge on the identification, measurement and valuation of changes in biodiversity, including any new methods developed in this project.

Recommendation (k): (paragraph 154)

We do not accept the arguments of those who argue that losing farms and farmland is inherently bad: the cost to the public of continued financial support must be balanced against the loss of whatever 'public goods' the farm may provide and the benefits that alternative use might bring.

The Government broadly accepts this point and agrees that decisions should be taken on a case by case basis, taking account of relevant social, economic and environmental factors.

Recommendation (l): (paragraph 140)

We support payments to farmers to convert to organic farming provided that the payments made are 'one-off' or for a very short period of time, and provided that the decision to switch to organic methods is justified by a strong business case. Any ongoing payments should be related to a farmer's participation in other schemes linked to specific outputs and not to being an organic producer. Although opportunities remain for farmers in the organic sector, conversion payments should not be used to permit inefficient and unprofitable enterprises to stay solvent. Above all, organic production should not be seen as a panacea for the ills of British farming.

The Government notes the Committee's support for aid to farmers to convert to organic farming. As regards ongoing payments to organic farmers, it was announced in the Action Plan to Develop Organic Food and Farming in England (published in July 2002) that such payments should be delivered through a strand in the new structure of agri-environment support to be developed over the period 2002 to 2004. The organic strand will be designed to reflect and reward the environmental public goods delivered by organic production methods. In the meantime such support is to be provided through an extended Organic Farming Scheme in return for compliance with a number of environmental prescriptions. It is not envisaged that the payments should be conditional on a specific business case, but the Action Plan sets out a strategy, with specific commitments, for development of organic food and farming in order to enhance the business performance of the sector and its development in line with market demand.

Recommendation (m): (paragraph 143)

The Government should publish an annual report [about agri-environmental schemes] detailing their take up and evaluating their effectiveness.

The Government agrees with the principle of regular reporting on the performance of agri-environment schemes. Annual reporting of uptake and other statistics is practical and will be initiated. Evaluation of effectiveness has to be done on a longer cycle. Several evaluations have been commissioned recently including an economic evaluation by Cambridge University, published earlier this year and an evaluation of environmental effectiveness by Ecoscope Ltd., which is due for publication shortly. Both of these evaluations have been used to inform the current review of

agri-environment schemes. A continuing programme of evaluation has been commissioned, and further reports will be published when available.

Recommendation (n): (paragraph 169)

We recommend that existing agri-environmental schemes are simplified, making it as easy as possible for farmers to benefit from them.

The Government accepts that agri-environment schemes should be made as simple as is possible without compromising either their effectiveness or the necessary checks on the expenditure of public money. One of the aims of the current review of agri-environment schemes is to look for ways of simplifying schemes and this is being taken forward in the draft framework document which has just been issued for public consultation.

Recommendation (o): (paragraph 175)

Animal welfare concerns can rightly be addressed through policy mechanisms; but, if society is really concerned about the issues there will also be responses in the marketplace. These are best facilitated through obligations to provide better consumer information in-store and on labels.

The Government agrees that, in addition to the "push" provided by animal welfare legislation and codes of practice, there needs to be a "pull" from consumers facilitated by the buying policies of retailers and caterers and accurate labelling about production systems. For example, this already works well in the case of shell eggs.

Recommendation (p): (paragraph 96)

Agriculture has the potential to assist society in terms of reducing carbon dioxide emissions, for example, through the production of 'green' bio-fuels. The issue is whether this can be done at a reasonable cost. The Government should consider the role that agricultural production can play in reducing carbon emissions in the Energy White Paper.

We agree that agriculture has an important contribution to make to reductions in greenhouse gas emissions though the production of both liquid biofuels and the use of biomass, energy crops and forest material, in the generation of renewable energy. The Government has announced duty reductions to stimulate production of biodiesel and bioethanol and has put in place support to develop the biomass sector.

The UK's Climate Change Programme explains that emissions of greenhouse gases from agriculture are falling and are forecast to continue to do so. Measures that are delivering reductions include better countryside management, reductions in fertiliser use, protection and enhancement of carbon sinks, Integrated Pollution Prevention and Control regulation and better energy efficiency.

The potential of agriculture in reducing carbon emissions will be considered further in the Energy White Paper.

The Policy Commission

Recommendation (q): (paragraph 164)

We need particular reassurance that the introduction of a 'broad and shallow scheme', open to all farmers, will not mean that farming ends up no more able to respond to its marketplace than it is now. The introduction of a broader definition of the role of agriculture in the rural economy should not blur the continuing need for farmers to produce food and other crops which consumers want.

The Strategy for Sustainable Farming and Food makes it clear that the Government favours an approach to farming which encourages farmers to become less dependent on subsidy and to

improve profitability by re-connecting with current and future markets. However, the Government recognises that conservation of the rural environment is a genuine and widely appreciated public good that people want farmers to maintain, but for which there is no effective market mechanism for rewarding farmers. The Entry-Level Scheme is intended to help fill this gap, but its measures are specifically designed to fit around and be compatible with a wide range of possible farming systems and diversified activities.

Recommendation (r): (paragraph 164)

Given the widespread support for Pillar II measures from non-agricultural non-governmental organisations, and the increasing support from within the farming industry, we fear that Pillar II could over time become as insensitive to the need for change as Pillar I. Pillar II measures must be constructed in such a way as to be consistent with and support, if possible, entrepreneurial farming (paragraph 164).

The Government agrees that Pillar 2 should reflect changing rural development needs as far as possible, and should develop in a way which encourages entrepreneurial farming. A key advantage of Pillar 2 expenditure is that it is spent through time-limited multi-annual programmes, which Member States have to reconsider at the beginning of each programming period. This should help ensure that Pillar 2 remains responsive to the need for change. In addition, the Rural Development Regulation (Reg. 1257/1999) allows modifications to be made to Member State Rural Development Programmes during the current programming period. This provides a mechanism to respond to more localised changes over a shorter timescale.

The current programming period ends in 2006. Member States will need to put in place revised programmes for the period from 2007 onwards (and, depending on the changes to the Rural Development Regulation are agreed as part of the Mid-Term Review, may need to modify their current programmes even sooner). As with existing UK rural development programmes, future programmes will be designed following assessments of the current schemes as well as a full consultation exercise. This will ensure that the prevailing rural development needs continue to be prioritised and targeted.

The Government agrees on the need to support an entrepreneurial approach to farming. Pillar 2 support should target wider rural development, including farm diversification, rather being solely focused on improvements to traditional farming activities. Such support is currently available in the England Rural Development Programme for example through the Rural Enterprise Scheme, Energy Crops Scheme and Processing and Marketing Grant.

Recommendation (s): (paragraph 165)

The Policy Commission set out to make recommendations on the basis of the current level of public support going to farmers. Given the relatively brief time it was given to report in this was perhaps inevitable. However, it is not clear that the cost of providing agri-environmental 'goods' will, or should, be exactly the same as the existing costs of supporting agriculture. In shaping its response to the Policy Commission we wish to see the Government set out clearly what it means by 'public goods' and how it assesses the demand for them, and their costs, as well as the role that the marketplace and regulation should play in their delivery.

The Government agrees that the cost of providing agri-environment goods need not be exactly the same as the existing levels of support to agriculture.

The meaning of public goods is discussed in the response to recommendation (j) above. In terms of assessing demand for them, the most recent survey of public attitudes to quality of life and the environment, published by National Statistical Office in 2001, gives some indication of what the public as a whole values in the rural environment. There is very widespread use of the countryside, with over 80% of those questioned saying that they had visited the countryside for pleasure at least once during the year prior to the survey. Three of the features that respondents most commonly identified as making the countryside a pleasant place to live - scenery, open space, and plants and wildlife - are features that agri-environment schemes directly seek to benefit.

Furthermore, 69% of respondents strongly or slightly supported a policy of paying farmers to protect and regenerate threatened landscapes and habitats. This percentage has increased over time from 58% in 1993 and 62% in 1996/7.

In the specific context of agri-environment schemes efforts have been made to define and validate what the public want. In two public consultations last year the views of over 200 organisations and individuals were sought on a wide range of questions, including what objectives they felt agri-environment schemes should be trying to achieve. The responses to both consultations showed virtually unanimous support for the schemes and their current objectives, together with varying degrees of support for adding new objectives. On 16 December 2002 Defra issued a Framework Document on the future of agri-environment schemes, which set out in more detail how we intend to take matters forward in the light of those earlier consultations. This document is available at

<http://www.defra.gov.uk/corporate/consult/agri-envrev/framework.pdf>

Copies of the detailed analyses of responses to the consultations are available at:

<http://www.defra.gov.uk/corporate/consult/agri-env/aeanalysis.pdf> and
<http://www.defra.gov.uk/corporate/consult/sustainworking/responses.pdf>

Recommendation (t): (paragraph 170)

The Government has said that it will conduct trials of the ‘broad and shallow scheme’ before the full project is ‘rolled out’. These trials really must be attempts to see if the project delivers value for money, environmental gains, easier administration, and the ability to be flexible as circumstances change. The Government must make clear that one of the consequences of the trials could be to abandon the project as failing on the above counts.

The Government has already made it clear that roll-out of an Entry-Level Scheme will be conditional on the success of the pilots. An evaluation strategy for these pilots, including success criteria, is currently being developed in discussion with stakeholders. There will be a rapid evaluation of each stage of the pilot, with consultation on the results and on their implications for the development of the main scheme.

Recommendation (u): (paragraph 250)

We recommend that during the pilot of the ‘broad and shallow scheme’ the Government regularly analyse and publish the results of the scheme. It should set out at an early stage the criteria against which its success or otherwise can be measured. ‘Rolling out’ the scheme should not be automatic, but should instead be determined by whether or not it has proved to be good value for money.

See response to recommendation (t).

Recommendation (v): (paragraph 166)

If the ‘broad and shallow scheme’ is supposed to save agriculture then it is in danger of providing support which substitutes itself, in part, for the marketplace. If it is set at a minimalist level it is difficult to see how it will represent real ‘public good’ value for money or make a real difference to farm income. We therefore believe that the approach to achieving good farming practice suggested by the Environment Agency – one-off or short-term payments in order to obtain particular improvements which are then maintained through regulation – be thoroughly evaluated alongside the proposed ‘broad and shallow scheme’. However, we recognise that increased permanent regulation can be as much a barrier to market concentration as subsidies. Such an approach is, we believe, entirely compatible with the proposals relating to cross-compliance made by Commissioner Fischler in the Mid-Term Review.

The Government accepts that one-off payments such as Farm Waste Grants may have a role to play. The Government also recognises that higher levels of regulation, or new cross-compliance

rules which might emerge from the Mid-Term Review of the CAP, might in the future require certain practices which at present are paid for through schemes. If that happens, the schemes would need to be adjusted accordingly. It also worth pointing out that, regulation and cross-compliance almost always entail costs both for farmers and for enforcement agencies. The Government's general approach to the choice of appropriate instruments for addressing environmental problems is set out in more detail in the full response to the Policy Commission.

Recommendation (w): (paragraph 168)

Cross-compliance rules could form the bottom tier of an environmental scheme without the costs and whole-farm audit requirements of the 'broad and shallow scheme'.

See response to recommendation (v).

International trade issues

Recommendation (x): (paragraph 93)

Protecting trade on the grounds of ensuring self-sufficiency in food production is an outmoded concept in a globalised world. The Secretary of State should continue to assert within the European Union that the best way of ensuring food security is through improved trading relationships.

Government agrees that the best way of ensuring food security is through improved trading relations. Accordingly, the Government has continued to pursue a strongly liberalising agenda in discussions with our trading partners both within and without the European Union.

Recommendation (y): (paragraph 120)

The European Union should reaffirm its commitment to maintain the Doha timetable for liberalisation of world trade in agricultural products.

The Doha Trade Round has set a very tight timetable for completion of negotiations leading to further liberalisation in world trade. Negotiations on agriculture are critical to this process. The EU re-affirmed its commitment to the promises entered into at Doha, including the timetable, as recently as September this year during the World Summit on Sustainable Development in Johannesburg.

Recommendation (z): (paragraph 115)

We condemn the passage of the United States Farm Security and Rural Investment Act as making the liberalisation of farm trade more difficult. It represents a clear policy of providing production subsidies, moving in precisely the opposite direction to the way we want the world to go and the way the European Union is proposing in the Mid-Term review proposals. The Act will give comfort to those within the European Union who oppose serious CAP reforms and will dismay developing countries who have a vital stake in world trade liberalisation in agricultural production. We urge the Government to continue its representations to the United States setting out concerns about the Farm act in the most unequivocal terms. Equally we urge the Commission to continue to argue that developments in the United States give the European Union an opportunity to set the agenda for liberalisation for the first time in an international forum rather than be dragged into accepting the need for change as happened in the Uruguay Round.

Government agrees United States Farm Security and Rural Investment Act 2002 was very unhelpful. By entrenching the 'emergency aid' granted to US farmers in recent years and reversing the trend away from trade distorting support, it goes in exactly the wrong direction to that we all promised at Doha. Government has taken every opportunity to stress to US authorities the damage caused, particularly to the developing world, and in terms of ammunition provided to those who oppose genuine CAP reform.

The Government agrees that the recent US proposals on trade liberalisation are a more welcome step in the right direction, although, when studied in detail, they are clearly a negotiating bid, requiring little from the US and much more from others. Nevertheless, they have enabled the US to re-inject a liberalising momentum into the process. The Government will continue to press for a balanced outcome to the current world trade negotiations.

Recommendation (aa): (Paragraph 117)

We cautiously welcome more recent proposals by the United States Government which appear to recognise the damage done by the Farm Act and to position the United States again on the side of reform. These proposals warrant close inspection, however, to ensure that they will lead to the level playing field sought by all sides in the World Trade Organisation negotiations, since crude comparisons of levels of support do not necessarily give a clear idea of the degree and quality of state backing for farming.

See response to recommendation z.

The marketplace

Recommendation (bb): (paragraph 201)

The world market for agricultural products has changed, and is increasingly volatile. But there will be opportunities for British farmers in the future if they adapt to the needs of the marketplace ... It is for Britain's farmers to develop a closer knowledge of developments in their marketplace - particularly in the European market of 375 million consumers.

The Government agrees that farmers need to pay close attention to changes in the marketplace. The Strategy for Sustainable Farming and Food sets out a range of measures to improve farmers competitiveness and help them reconnect with consumers. These include more money to support marketing, processing and regional foods; increased investment in skills, training and benchmarking and demonstration farms; and support from Government and industry to improve farmer co-operation and strengthen assurance schemes.

Recommendation (cc): (paragraph 205)

The key question then is how British farmers can become more intimately involved in the food chain and ultimately secure more value for the product they produce as a result of better integration within the food chain.

The Government agrees that there are benefits to be had in streamlining the food chain and improving the extent to which market signals are fed back to farmers. It also agrees that local food initiatives, increased co-operation and collaboration between farmers, the Food Chain Centre and assurance schemes can all contribute to these aims. The Government is already supporting initiatives in relation to all of these with a view to improving competitiveness and profitability of farmers and the food chain.

Recommendation (dd): (paragraph 242)

It is a mistake to argue that the United Kingdom can never compete in a free marketplace with North American producers: Kansas cannot feed the world, and there is room for efficient European producers in the world market – although the success of British farmers will be affected by the regulatory regime in which they operate, and their adoption of new technologies in an increasingly competitive market success requires innovation, flexibility and fleetness of foot, not the inertias and rigidities of a production system distorted by subsidies.

The Government agrees with this recommendation. The Government's objective for CAP Reform is to ensure a sustainable and competitive agricultural industry in the UK and give a policy framework which will provide farmers with the market signals to produce what consumers want.

Recommendation (ee): (paragraph 244)

We believe it is essential that links and trust between farmers and those intermediaries, particularly retailers, are restored and reinforced. Messages to farmers are delivered mainly by the supermarket chains which need to respond rapidly to the preferences of consumers. We saw for ourselves, both in New Zealand and more importantly in East Anglia, that even though it is not possible for farmers to control the market for food it is possible for them to gain a good understanding of what consumers want, to respond to that and be rewarded for it, although this necessarily involves taking risks.

The Government agrees that it is important for farmers to be able to understand and respond to changing market and consumer demands. The policies that it is now pursuing are designed to help farmers do so.

Adding value and communication

Recommendation (ff): (Paragraph 210)

The Rural Enterprise Scheme has a role to play in the development of local food initiatives, but it remains the case that the true basis for success is producing something that the consumer wants. Creating regional or national food brands may be a more fruitful way of exploiting local identity, though producer organisations like co-operatives have traditionally lacked the financial muscle to be able to develop and promote new national brands.

The Government agrees that businesses must respond to what consumers want if they are to succeed. There is evidence of increasing demand from consumers for high quality food with a clear regional identity. Regional food offers an opportunity for farmers and other rural businesses to diversify into added-value products that provide a more reliable source of income less dependent on commodity price or exchange rate fluctuations. The promotion of regional food can also assist the development of feelings of local identity and make consumers more aware of and interested in the origin of food, helping to improve their links with and understanding of the rural economy and food production, and contribute to the success of tourism businesses.

In recognition of these benefits, the Government, Food from Britain (FFB), the Regional Development Agencies (RDAs) and the Countryside Agency have jointly prepared a new structure for support of regional food initiatives, covering trade development and measures to increase competitiveness and raise consumer awareness. This will complement the assistance given to the sector through the England Rural Development Programme, and also by the Regional Development Agencies who within their regional food strategies are addressing issues relating to the availability of processing facilities and problems of distribution. Government officials have also written to a large number of trade associations and individual producers drawing their attention to the benefits of the EU Protected Food Names Scheme (similar to the French *Appellation Contrôlée* system for wine). We are also planning to explore the opportunities to promote those UK products already registered under the scheme with retailers and the food service sector.

The Government also agrees with the Committee that to maximise the benefits of regional branding, producers of regional foods should not confine themselves to local markets. The definition for regional food that we have adopted is: "food that is produced within a particular geographical area and is marketed as coming from that area but that may be sold within or outside that area. Regional food is also perceived to have a distinctive quality because of the area in or the method by which it is produced". Thus Food from Britain, as well as supporting the regional food sector in Britain, has encouraged it to look at international markets too. At the October 2002 'Slow Food' Salone del Gusto exhibition in Turin, Food from Britain, accompanied by 46 British producers, mounted the second biggest display of quality regional food after the Italians and were praised for the quality of their products. FFB will mount more initiatives of this kind.

Recommendation (gg): (Paragraph 245)

Selling local products either to retailers or directly at farmers' markets will benefit farmers. But local food initiatives are not a universal panacea.

See response to recommendation ff.

Recommendation (hh): (Paragraph 245)

There may also be considerable merit in building up regional or even national brands. Doing so may allow more value to be passed to the farmer. Such projects are likely to be easier to pursue if a more sensible attitude is taken to collaboration and co-operation between farmers. Too often a regional product is defined as one with a purely local circulation. The real meaning should be a product on national (or international) sale which has a clear regional identity which earns a premium – a high proportion of home-produced foodstuffs in fact have a national sale on the basis of a strong regional identity, including many cheeses, and some meat.

See response to recommendation ff.

Recommendation (ii): (paragraph 225)

We hope that the Food Chain Centre will find a way of communicating information fully and in a useful way to farmers and to all other participants in the food supply chain.

The Government welcomes the Committee's support for the Food Chain Centre.

The establishment of the Food Chain Centre was recommended by the Policy Commission on the Future of Farming and Food. It set out very clearly what it thought the Centre's priorities should be and these are reflected in the Centre's objectives and work programme. These have been agreed by the Centre's Steering Group which is made up of representatives of all parts of the food chain, and are supported by the Government.

The Food Chain Centre will compete for Government funding through grant schemes such as the Agriculture Development Scheme and the DTI Industry Adaptation Forum Scheme. Their applications will be assessed against the selection criteria for these schemes including the overall value for money offered by the proposals.

One of the Centre's objectives is to promote a clear understanding of consumer trends and market requirements throughout the food chain. The dissemination of information will form an integral part of its work programme. It has already established a website on which information will be made available, but it will also be seeking to establish other channels of communication.

Recommendation (jj): (paragraph 226)

We accept that the Food Chain Centre needs to get off the ground but believe that would be far easier if the all those involved in establishing, steering and running it knew what the Government wanted it to achieve. It is also important that the Department for Environment, Food and Rural Affairs has a clear system in place to assess whether it is getting good value for the public money it is investing. Therefore the Department should set out how it will judge the success of the Food Chain Centre and what criteria it will use to decide whether or not to continue funding the Food Chain Centre, if it is permitted to do so by the European Commission.

See response to recommendation ii.

Recommendation (kk): (paragraph 227)

If robust systems for traceability continue to be put in place in this country the United Kingdom will enjoy a competitive advantage over countries which are slower to ensure that traceability is of central importance.

The EU General Food Law (Regulation 178/2002) will introduce basic statutory traceability requirements for all food businesses in the EU. The Food Standards Agency is also currently exploring with all sectors of the food chain the scope for strengthening current arrangements for traceability in a proportionate way to satisfy both business and consumer interests. In particular, the Government fully supports the aim of moving towards better traceability systems for production animals. This would have benefits on several fronts, including animal health and disease control as well as improving competitive advantage through increased consumer confidence in the meat they purchase. Plans for building on existing traceability schemes are being considered and will need to take account of, as yet undefined, EU proposals in this area.

Recommendation (ll): (paragraph 228)

It is quite possible that United Kingdom agriculture is better equipped to ensure reliability of supply than competing industries in other countries. This may provide an opportunity for British farming to exploit in partnership with customers and other suppliers.

The Government agrees with this recommendation. Government policy is aimed at ensuring a sustainable and competitive agricultural sector in the UK.

Recommendation (mm): (paragraph 230)

Assurance schemes offer another opportunity to British farmers. If properly promoted they can be very effective as marketing devices, allowing consumers to understand better the products that they buy. However, it would be helpful if there were common standards to the various elements to aid both transparency and compliance.

The introduction of the Red Tractor logo provided consumers with a single logo which denotes food produced in accordance with standards of the main British assurance schemes. Assured Food Standards (AFS), which administers the logo, has been developing a consistent set of baseline environmental standards for member schemes. It is also planning to review animal welfare standards.

On 12 November 2002 AFS announced at a conference organised by the NFU plans to restructure the governance arrangements for the Red Tractor. The plans have been developed in consultation with producer, retail and consumer interests and take account of the findings of the Food Standards Agency's recent review of assurance schemes which made a number of recommendations on governance and transparency. They envisage ownership of the standards transferring from member schemes to a new body which would also own and administer the Red Tractor logo. The plans represent an important step towards the achievement of the Policy Commission's vision of the Red Tractor as a baseline standard owned by the whole food chain.

The Government is actively encouraging these initiatives.

Membership of assurance schemes is voluntary, though it may be a particular requirement for access to a particular market. Most schemes are run with considerable producer involvement and the transparency of the standards and costs has been increasing. The Government believes that this is the best way to help farmers decide on memberships.

Recommendation (nn): (paragraph 248)

Some rationalisation of the number of farm assurance schemes would be welcome. Farmers themselves will need to reach decisions on how many and which assurance schemes they want to participate in, but to do so they will need adequate information about the costs and benefits and consumer perceptions of such schemes. We believe the provision of such

information is something that either the Food Chain Centre or the English Collaborative Board could undertake and suggest that the whole food chain initiates such a study.

See response to recommendation mm.

Collaboration

Recommendation (oo): (paragraph 215)

It seems to us that both the CAP and the European single market mean that decisions about competition issues should at least take account of the wider European market rather than just the domestic market.

Responsibility for assessing competition issues rests with the competition authorities. As part of their assessment they always consider the wider market context, including the scope for competition from abroad. They are required to treat each case fairly and on its individual merits. Their judgements must be justified, and competition legislation provides means for legal challenge to their decisions.

The Government believes the competition machinery deals fairly with cases involving co-operative ventures. As the Committee notes, since the break up of Milk Marque there have been a number of successful mergers involving co-operatives. Because of their scale a number of these have had to be considered, and have been cleared, by the competition authorities. But the Government recognises that there is a perception in some quarters that the activities of the competition authorities present an obstacle to the development of co-operatives in the UK. The Office of Fair Trading (OFT) is seeking to address this perception. It has been meeting with farming interests to explain how the competition machinery works and how it relates to them. It is also planning to post answers to frequently-asked questions on this subject on its website.

The OFT has made it clear that it is willing to provide informal guidance, often at an early stage, to parties to a merger. This may assist the parties to prepare proposals that will avoid competition problems.

Recommendation (pp): (paragraph 221)

It is important that Government look at farming co-operatives in the light of global rather than domestic circumstances, and in particular on the basis of the resources and capabilities of other European co-operatives.

See recommendation oo.

Recommendation (qq): (paragraph 246)

The Government should clarify what it considers to be the marketplace for British farmers. It must then address the nervousness felt by farmers about the attitude of the competition authorities towards co-operative enterprises, making clear that it looks at farming co-operatives in the light of global rather than domestic circumstances.

See recommendation oo.

Recommendation (rr): (paragraph 247)

The speed with which the farming industry has responded to the recommendation to take forward the English Collaborative Board is commendable. It is crucial that the industry has ownership of the solutions to its problems and believe that the positive but very limited involvement of the Government in this initiative is helpful.

See response to recommendation ss.

Recommendation (ss): (paragraph 221)

Should an English Collaborative Board be established it should have clear objectives and appropriate governance rules reflecting its industry accountability which can be monitored. It should analyse both best practice and failure (such as amelca) and disseminate its findings.

Proposals for the establishment of an English Collaborative Board (now to be called English Farming and Food Partnerships) were published by an industry led steering group on 27 September 2002, and the chairman announced on 12 December 2002. A detailed business plan has been produced, incorporating proposed objectives, activities and governance arrangements. The Government has given active support to this initiative and will work with the Chairman and the operating board to take it forward, taking account of the Committee's views.

Reducing risks

Recommendation (tt): (paragraph 233)

With appropriate attention to detail farmers could benefit from selling their livestock on a contract basis: doing so is likely to bring them far closer to the marketplace, and will reduce risks.

The Government is part-funding the Red Meat Industry Forum, which amongst its key objectives has the shortening of the red meat food chain and the introduction of greater efficiency at each link. It may well be that long-term contracts can contribute to greater efficiency and that a more diversified role may need to be played by livestock markets.

Recommendation (uu): (paragraph 254)

As we have said, the best way to reconnect farmers to their market is by reducing the number of links in the food chain. In such circumstances it is inevitable that livestock, for example, will be increasingly sold directly by farmers to retailers or processors in a long-term contractual relationship. The need to improve and maintain biosecurity through measures such as the 20-day standstill (which is heavily contested and subject to different approaches in Scotland and England which the Government has signally failed to explain) also suggests that fewer sales will be made at livestock markets.

See response to recommendation tt.

The purpose of a movement standstill is not to reduce the number of sales through livestock markets but rather to maximise the chance of detecting disease and slow down the rate at which undetected disease spreads. In most respects the application of the standstill has been the same in Scotland as in England and Wales: in all cases the standstill has been 20 days, but the different administrations had reached a differing view (as they are entitled to do under Devolution) on the precise conditions that had to be met by farmers who wished to use on-farm separation facilities. On 23 January 2003, Ministers in England and Wales announced an intention to reduce the standstill to 6 days from 4 March, subject to gaining the commitment of industry to a range of measures to improve disease detection and biosecurity, particularly at markets. This decision was informed by emerging findings from the risk assessment and cost benefit analysis commissioned in response to the recommendations made in July 2002 by the Lessons Learned and Royal Society Inquiries into FMD. The Scottish Executive is carrying out a detailed review of the rules and what evidence might support change in Scotland, with the aim of announcing future arrangements at the beginning of March.

Recommendation (vv): (paragraph 254)

The Meat and Livestock Commission should monitor total annual returns to livestock farmers selling on a contract basis with those selling at market.

Currently, other than for pig farmers, very few dead-weight sales are conducted under long term contracts due to the commercial difficulties of such arrangements. However, long-term contracts are one means of improving supply chain integration.

The Meat and Livestock Commission (MLC) will continue to monitor prices and returns obtained from both liveweight and dead-weight sales. In addition, through the work of the Red Meat Industry Forum it is exploring ways of improving efficiency throughout the supply chain so that all elements of the chain benefit.

Recommendation (ww): (Paragraph 256)

We therefore recommend that the Government explore, with the European Commission and other European Union Governments, whether the registering of keepers of livestock (for example, through imposing cross-compliance conditions on farmers and through the proposed audit of farms) could play a role in creating a new confidence between consumers and farmers (although we recognise that some keepers of livestock are not subsidised and that therefore not all aspects of these recommendations could be accommodated through cross-compliance).

The European Commission's proposals on cross-compliance are limited to maintaining land in good agricultural condition and to complying with EU statutory requirements. But this, like the proposed farm audit, does not apply to all livestock farmers, only those in receipt of certain subsidies, which would exclude most pig and poultry producers. We already have domestic and EU requirements for keepers of livestock to register with Defra. However, this is not designed to deliver enhanced consumer confidence, and legally could not be used for this purpose. In our view, this objective is best pursued through tailor-made instruments such as farm assurance schemes.

Recommendation (xx): (paragraph 256)

We further recommend that the agriculture industry is consulted about the design of assurance schemes which would incorporate the proposals of the Royal Society.

Assurance schemes are voluntary initiatives, which are generally owned and operated by the industry. The Government is already considering how such schemes might play a role in ensuring animal health is properly considered by livestock keepers. We have and will continue to discuss with scheme providers the role that health plans can play in the context of the development of the Government's Animal Health and Welfare Strategy.

Recommendation (yy): (paragraph 239)

We believe that discussions over insurance should move forward as quickly as possible, and that they should explore all possible routes of funding disease insurance packages, such as levies and fixed compensation payments (as is already the case for BSE, for example). There may be a legitimate role for some public sector contribution toward establishing a market in these products, reflecting the substantial human and animal health concerns of the public. In the case of changing market risks, which have arisen because of policy changes, we believe that ultimately it should be the responsibility of individual farmers to decide how to manage the market risk they face.

The Government is actively working on options for sharing the costs of future animal disease outbreaks with the livestock industry. This is in line with recommendations from both the Policy Commission and the Anderson Inquiry into Foot and Mouth. Government officials lead a working group with representatives from the insurance and livestock industries, which has been set up for this purpose, and which completed the initial phase of this work in May 2002.

We think that a combination of a levy and voluntary top-up insurance could provide a basis for a way forward. We continue to work on this with a view to launching a wide-ranging consultation exercise in the Summer of 2003, in the context of the GB Strategy for Animal Health and Welfare. We intend to consult at the same time on a fundamental review of compensation arrangements for animal disease control. The primary objective is to simplify and rationalise the currently

fragmented approach to compensation. The possibility of fixed compensation rates is under consideration.

It is a matter for individual farmers to decide how best to manage risks which may arise as the CAP shifts away from market support mechanisms to direct payments. Financial instruments for hedging on price and currency movements may assist the farmer in formulating risk management strategies. The financial services sector is best placed to devise and deliver suitable risk management financial products to farmers. These will need to be provided on commercial terms as no public funding will be available.

There may be a role for Government in facilitating the take-up of risk management products by farmers. In line with Policy Commission recommendations Defra, together with HM Treasury, established a working group in summer 2002 (separate from that considering animal disease insurance) with representatives drawn from farming and financial services. The group is addressing the possible informational deficiencies and other types of market failure that could be restricting the development of a wider market in risk management products for farmers and considering appropriate solutions. It is expected to report its findings and conclusions in early 2003.

Recommendation (zz): (paragraph 240)

We are cautious about endorsing the Policy Commission's call for a safety net, even at European Union level. If, as we envisage, marketing of agricultural production is increasingly to take place on the basis of long-term contracts between producers and processors or retailers, risk will be reduced. Furthermore, the intervention system that led to the build up of expensive stocks was originally designed with similar objectives.

The Government understands the concern of the Committee on this point about the safety net. This is an area where the Government has made it clear that its position needs to be reassessed in the light of the changes which are delivered to the Common Agricultural Policy (CAP).

At a general level farmers need to take more active responsibility for their own risk management and we have done work with financial institutions looking at ways which this can be delivered. These naturally are more advanced in areas which do not have a high degree of market management such as the potato market. There are also economic and environmental implications. It is arguable that one traditional form of risk management in agriculture has been the mixed farm and that the Common Agricultural Policy by removing a significant element of market risk has encouraged monoculture farms. There are therefore not only economic but also environmental aspects to this issue which need to be carefully examined. That is a process which we need to work through once we are clearer about the direction and extent of real reform of the CAP which can be delivered in the short to medium term.

Scientific research

Recommendation (aaa): (paragraph 258)

We support the Royal Society's recommendation that an additional £250 million be spent on livestock research over the next ten years, and strongly endorse its call for a strategic review of how livestock disease research is managed. We believe that while Defra should play an important part in this review it should be led from outside the Department. We also support the proposal that research spending be directed towards possible future risks, many of which, it appears, currently are minimally researched.

The outcome of Spending Round 2002 has now been agreed by the Treasury and the Defra budgets for scientific research are ring-fenced for the coming three years. As a further addition Defra is committing funds to a new initiative involving the Higher Education Funding Council for England, The Scottish Higher Education Funding Council and with match-funding from the Wellcome Trust to invest in veterinary research and teaching. The details of this programme, involving a £25million investment by Government over the next 5 years, with a matching £25million from the Trust, were announced by Ministers on 23 July 2002. Concerning future risks, Defra has established a Horizon

Scanning programme to improve Defra's capability to anticipate and prepare for new science risks and opportunities.

Research to understand the nature of the pathogens, the response of the animal to infection, and the mechanisms that facilitate transmission of the diseases will continue to be a priority in the Science & Innovation Strategy 2003-2006, due to be published in Spring 2003. Ministers have also launched the Animal Health and Welfare Strategy consultation on 8 January 2003 which aims to build a shared vision with stakeholders and a commitment to develop a sustainable future for animal health and welfare. The Strategy will be published over the summer and set the context for the wide range of initiatives that the Government is driving forward.

Recommendation (bbb): (paragraph 259)

The Government should examine how it can improve the attractiveness of the State Veterinary Service, and particularly how it can better support education relating to the veterinary care of farm animals.

The Government accepts that it is essential that veterinary surgeons are encouraged to join the State Veterinary Service (SVS) and is seeking to provide an attractive career structure including a comprehensive framework of Continuing Professional Development including postgraduate and other training and development. In particular, a formalised career path and training strategy is being developed for the Veterinary Officer grade. In respect of veterinary education generally Defra is opening further discussions with DfES and other professional bodies to explore these issues.

Recommendation (ccc): (paragraph 260)

We welcome the establishment of the Chief Scientific Adviser's Group. Arrangements concerning the role of the group should form part of future contingency plans.

The Government's Chief Scientific Advisor (CSA) has established a Science Advisory Group. The inaugural meeting of the group took place in October 2002. The group will:

- review and advise the CSA on the scope, balance and application of the R&D and science programmes being undertaken by Defra in support of departmental aims and objectives, including foresight and horizon scanning;
- act as an important source of advice to the CSA on national emergencies in Defra's areas of responsibility, including acting as a conduit to specialists in the science community and providing independent review of Defra's scientific response;
- advise on specific questions referred to it by the CSA.

Papers relating to the function of the group to date can be found at:

<http://defraweb/research/SAG/default.htm>.

The Group will be replaced within 12 months by a Science Advisory Council which will be established as an advisory Non-Departmental Public Bodies (NDPB).

Recommendation (ddd): (paragraph 261)

It is important that we gather as much information from this mass of data as we can, and that the data is shared as rapidly as possible with the wider scientific community so that we can continue to learn from our experience. Government has not always had a satisfactory record in allowing access to its data. It is critical that this is not the experience of those seeking to research aspects of this outbreak. The Government should define, in partnership with both scientific and farming stakeholders, the data that would assist in the analysis and management of any future outbreak.

The Government agrees that as much information as possible should be gathered from the mass of data collected during the FMD epidemic so that lessons may be learnt from the outbreak. It has

already in place a data reconciliation project. Numerous databases used during the epidemic have been collected and collated by the Central Science Laboratory. Detailed datasets have been and will be made available to independent bona fide research workers, funded by recognised bodies, on signing a confidentiality clause. Analysis of those datasets by independent workers will help define whether further additional data need to be collected in any future outbreak. The practicality of collecting any additional data in the face of an outbreak, where speed of control is the primary objective, would need to be considered in conjunction with stakeholders.

Recommendation (eee): (paragraph 262)

It is important that the Government, as part of its planning for infectious disease control, has rapid access to a full range of potential models and to the expertise needed to make appropriate use of them, and that it invests in the development of these tools.

The Government agrees that disease modelling is a priority area requiring additional funds. Modelling was used to good effect during the 2001 epidemic and has a role in the development of disease control strategies and during epidemics. However, it can be limited as a predictive tool. On 23 May 2002 the Government held a workshop with leading modellers, following which a project to 'Review the use of epidemiological models in informing disease control policy' is about to start at Reading University. This is a short term project that will report within 6 months and should help guide Government in identifying areas where additional research is needed.

Spending Review

Recommendation (fff): (paragraph 250)

We note the money allocated to the Department for Environment, Food and Rural Affairs in the recent spending review. However, we are not clear that it is adequate to cover the cost of the Policy Commission proposals.

The Spending Review 2002 settlement includes extra investment of £500 million over three years for sustainable farming. This funding provides the necessary resources to deliver the vision identified by the Policy Commission, and implement its core recommendations, through the actions set out in the Strategy for Sustainable Farming and Food.

However, this is not the only money being directed towards delivery of the Policy Commission's vision. Significant amounts of the rest of Defra's existing annual budget of nearly £3 billion over the next 3 years will be used to promote sustainable farming and food industries (notably, but not exclusively, the England Rural Development Programme).

The Mid-term review

Recommendation (ggg): (paragraph 281)

The Mid-Term Review proposals will now be considered by member states. Discussions of them will continue until agreement is reached next year. Negotiations over the proposals will inevitably prove to be difficult. We have already begun our own analysis of the proposals, and we will report on them in due course. They are obviously of vital importance in shaping the future direction of farming in the United Kingdom.

The Government has given evidence to the Select Committee for its review of the proposals on the Mid-Term Review and is currently considering the Committee's analysis and report.

Recommendation (hhh): (paragraph 271)

The dairy regime will operate in its current form until 2006. We are disappointed by the failure of the Commission to make concrete proposals for its reform (although they were not obligated by Berlin until 2003), particularly in respect of milk quotas. We firmly believe that now is the ideal time to bring forward proposals to change the dairy sector policy so that

dairy farmers can operate in a marketplace unencumbered by quotas and have an adequate period of transition to a new regime.

The Government shares the Committee's disappointment that the European Commission has still made no firm proposals for a clear path towards the abolition of milk quotas when the current period of application runs out in 2008. Indeed, of the four scenarios originally put forward in the Commission's July discussion document, only one had abolition of quotas as the end point. The Government believes that milk producers deserve to have more certainty to underpin their businesses than the current temporary arrangement provides and will continue to work to obtain a firm date for abolition so that the process can proceed in an orderly way.

Recommendation (iii): (paragraph 272)

We are also disappointed that the sugar regime is not mentioned in the Mid-Term Review proposals. The implications for European farmers of the laudable Everything But Arms proposals, to allow greater access to European Union markets for sugar imports from developing countries, must be properly examined.

The Government strongly supports reform of the EU sugar regime, particularly in view of the need to take account of increased access for developing countries under the Everything But Arms agreement, which, as the Committee rightly says, will inevitably have consequences for the sustainability of the existing arrangements. The reason this is not directly addressed in the Commission's Mid-Term Review Proposals is that the Council decision in 2001 extending the current regime until 2006 already provides for a further review in the early part of 2003. The July 2002 Mid-Term Review Communication cross referred to this in the section on decoupling, where it noted that other sectors scheduled for reform, including sugar, could be integrated into the new scheme. We agree with the Commission's January proposals to use some of the money from modulation for budgetary savings to help fund future reform (e.g. sugar and dairy).

Recommendation (jjj): (paragraph 274)

The core of these proposals – commuting payments into a single sum – has a long pedigree, not least in ideas developed in the United Kingdom by agricultural economists such as Sir John Marsh and Professor David Harvey for a bond of entitlement to be issued to farmers. The idea of the cut-off point is also familiar terrain designed to address the complaint that the big farms get the big money. This ceiling is certainly negotiable. The degressivity is a welcome part of the proposals (it will be fiercely resisted by some European Union Governments) though the United Kingdom would like to see the possibility of more extensive reductions. The proposals are compatible with a pro-active stance in the WTO talks and will probably assist the process of enlargement where the European Union 'offer' to accession states is based on a single payment to farmers. The Commission dismisses somewhat unconvincingly the criticism that the payment will serve to buttress the inflation of land values above their inherent worth.

The Government shares the view of the Committee that decoupling of direct payments will be important in relation to WTO negotiations. We also share the view of the Committee that degressivity (the regular progressive reduction of direct payments over time) is an important element and we have made it clear that we support both elements. The Government agrees with the Commission's January proposal to use some of the money from modulation for budgetary savings to help fund future reform (e.g. dairy and sugar), but we need to find further savings to contain the overall size of the budget.

We note the Committee's view that the idea of a ceiling is negotiable. The Government has made its position clear that it opposes the imposition of an arbitrary ceiling on direct payments in principle because it acts to frustrate the modernisation and restructuring of the industry. In the Commission's January proposals the ceiling has been removed, but the proposed modulation still has a disproportionate and unfair impact on the UK and would also be complex to administer.

We see decoupling as an important part of proposals, partly because of the international trade aspects but also because of the internal economic effects. Decoupled payments which do not

require the farmer to produce a particular product at a particular level should help to reconnect farmers to the market and to encourage farmers to produce for genuine market demand and to think more creatively about their businesses. We also see the cross-compliance conditions as providing an important extra incentive to deliver societal benefits through these payments.

Modulation

Recommendation (kkk): (paragraph 277)

The proposals made by Commissioner Fischler in respect of modulation move in the same direction as the recommendations of the Policy Commission, although using different and more radical mechanisms. We are strongly in favour of compulsory modulation in order to maintain the framework of a common policy within the internal market.

The Government strongly supports a reduction in expenditure on production-linked payments to farmers and an increase in funding for rural development. Modulation is one means of achieving such a redirection of funds from Pillar 1 to Pillar 2 of the CAP.

However, modulation is not the Government's preferred method of transferring funds to Pillar 2; we favour degressivity, the progressive reduction of direct payments across the board, diverting some but not all of the savings to rural development. In addition, while the Government supports the European Commission's proposal to make modulation compulsory, the system put forward by the Commission is economically distortionary and unfavourable to the UK and UK producers. The Government favours a model based on the existing UK flat-rate modulation scheme.

Recommendation (lll): (paragraph 278)

The Government should study the impact of changing levels of direct payments on the attractiveness of enterprises which do not receive direct payments under various scenarios of modulation.

The Government agrees that any change in the current domestic modulation policy should be informed by appropriate analysis of the economic, social and environmental impacts of the options.

Initial economic assessment of the likely impact of the current flat rate of modulation was published in December 1999 as part of the New Direction for Agriculture following the Agenda 2000 CAP reforms. An Economic Evaluation of Agenda 2000, including the impact of domestic modulation, has been commissioned by Defra and the final report will shortly be available.

A Regulatory Impact Assessment (RIA) of the CAP Mid-Term Review communication released on 10 July 2002 has recently been completed and placed in the House of Commons and on the Defra Website. This RIA will be developed further as more detail on the Mid-Term Review proposals becomes available.

Recommendation (mmm): (paragraph 278)

The Government should strongly support the proposal for compulsory modulation across the European Union but not the centralisation of the Rural Development budget. If, at the end of the Mid-Term Review process, compulsory modulation is not agreed by member states, attention needs to be paid to the effect increasing modulation rates unilaterally will have, including differences of approach within the United Kingdom.

The Government agrees that the UK currently receives too small a share of EU receipts under Pillar 2 of the CAP. The UK has some 11 per cent of EU agricultural land but currently receives only about 3.5 per cent of Pillar 2 receipts, because of historically low levels of spending on rural development projects in the UK.

The Government recognises that the redistribution involved in the European Commission's modulation proposals would be likely to reduce the availability of modulation funding in the UK, and will fight for a fair package for the UK in forthcoming negotiations. The proposals on

reassigning 2nd pillar money between Member States take no account of the fact that the existing budget is not distributed on equitable basis. The Government would prefer a model based on the existing UK flat rate modulation scheme, which works successfully.

Any proposal to increase the rate of modulation unilaterally will be made after careful consideration by Government, looking critically at the fine details of how any revised system might operate and following discussion with all interested parties, including the Devolved Administrations.

Recommendation (nnn): (paragraph 278)

The Government should produce a clear indication of the redistributive impact of modulation within England and seek the same information from the devolved administrations elsewhere in the United Kingdom.

See response to recommendation (lll).

Recommendation (ooo): (paragraph 69)

The impact of such a development [increasing modulation] is something which the Government must consider, and it should produce a report showing who the 'winners' and 'losers' would be under the proposed modulation schemes.

See response to recommendation (lll).

Implications for the Policy Commission

Recommendation (ppp): (paragraph 279)

It would be difficult to proceed to a full implementation of the Policy Commission recommendations without a clear idea of their relationship with the policies which will emerge from the long and complex negotiations of the Mid-Term Review. However, the differences in timetables of the Mid-Term Review and the Policy Commission would give the Government the opportunity to conduct trials on the basis of the 'broad and shallow scheme'. It has already announced that it will pilot the 'broad and shallow scheme' over the next two years. We recommend that the pilot project be used to examine what the practical impact of the scheme would be, and whether it was value for money, with an aim to have derived preliminary conclusions before any European schemes are brought forward.

Although the Entry-Level Scheme pilots will be launched before the outcome of the Mid-Term Review is known, the Government accepts that any changes to CAP will need to be taken into account before final decisions are taken on the future shape of agri-environment schemes. The Government also agrees that operation of the pilots will provide potentially valuable lessons that could inform wider decisions on how to operate a reformed system of agricultural support payments

Prospects for Change

Recommendation (qqq): (paragraph 280)

We share the Government's view that CAP reform should be rapid and it should be radical. In order to open up for farming the full benefits of the market, however, CAP reform must go well beyond the reduction of subsidies. Restrictions and distortions caused by the CAP, such as quotas, the impact of 'set-aside' payments on land prices, and their effect on input prices, must also be addressed. We trust that the Government will put down markers on these issues in the Mid-Term Review process, although we accept that the Review itself is limited in scope and that Commissioner Fischler has already pushed it well beyond most expectations.

We welcome the general support of the Committee on the position the Government has taken on the Mid-Term Review. We also share the view that the Commission proposals should have gone further and that more radical economic reform is necessary. But nevertheless the Commission proposals do represent real change and we will be working hard to support and improve them.

Recommendation (rrr): (paragraph 121)

In 2006 there will be another – perhaps greater – opportunity for substantial reform of the CAP. That prospect makes it all the more important that the Government make clear to farmers what direction it envisages those reforms taking. Farmers themselves should be aware that the Mid-Term Review process will not be the end of reform of the CAP.

The Government notes the view of the Committee about the opportunity for further substantial reform of the CAP in 2006. The Government has already made it clear that it views Commission's proposals for the Mid-Term Review as not going far enough but generally moving in the right direction. Clearly until we know the outcome of the Mid-Term Review it is difficult to assess the extent to which further reform will be necessary but it is clear that 2006 would provide a further opportunity. However our objective now is to maximise the extent of the real change which we can deliver through the Mid-Term Review.

Recommendation (sss): (paragraph 275)

Any changes to the CAP should not lose sight of the need for Europe to have a cost efficient farming industry. In drawing up its reform proposals the Commission must show that it recognises that the size of a farm can have a marked effect on the cost of production and so schemes that might be biased against larger British farms may damage prospects for European agriculture as a whole.

The Government whole-heartedly supports the Committee's view on this point. CAP is primarily an economic and not a social policy and we should not distort the market to such an extent that we create terms of competition which positively discourage economic modernisation and make European agriculture uncompetitive in the world market. That is why we have argued against the Commission proposals for franchises and ceilings in relation to modulation and of the direct payments. These have been removed in the Commission's January document, but the proposed structure of modulation still puts the burden of reform very heavily on the UK.

Department for Environment, Food and Rural Affairs
January 2003

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