House of Commons

Environment, Food and Rural Affairs Committee

The UK Government's "Vision for the Common Agricultural Policy"

Fourth Report of Session 2006–07

Volume I

Report, together with formal minutes

Ordered by The House of Commons to be printed 16 May 2007

HC 546-I
Incorporating HC 1250, Session 2005–06
Published on 23 May 2007
by authority of the House of Commons
London: The Stationery Office Limited
£0.00

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.

Current membership

Mr Michael Jack (Conservative, Fylde) (Chairman)
Mr Geoffrey Cox (Conservative, Torridge & West Devon)
Mr David Drew (Labour, Stroud)
Mr James Gray (Conservative, North Wiltshire)
Patrick Hall (Labour, Bedford)
Lynne Jones (Labour, Birmingham, Selly Oak)
Daniel Kawczynski (Conservative, Shrewsbury & Atcham)
David Lepper (Labour, Brighton Pavilion)
Mrs Madeleine Moon (Labour, Bridgend)
Mr Jamie Reed (Labour, Copeland)
Mr Dan Rogerson (Liberal Democrat, North Cornwall)
Sir Peter Soulsby (Labour, Leicester South)
David Taylor (Labour, North West Leicestershire)
Mr Roger Williams (Liberal Democrat, Brecon & Radnorshire)

James Duddridge (Conservative, Rochford & Southend East) and Mr Shailesh Vara (Conservative, North West Cambridgeshire) were members of the Committee during this inquiry.

Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No. 152. These are available on the Internet via www.parliament.uk.

Publications

The reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at

www.parliament.uk/efracom

Committee staff

The current staff of the Committee are Chris Stanton (Clerk), Nerys Welfoot (Second Clerk), Jonathan Little and Dr Antonia James (Committee Specialists), Marek Kubala (Inquiry Manager), Andy Boyd and John-Paul Flaherty (Committee Assistants) and Mandy Sullivan (Secretary).

Contacts

All correspondence should be addressed to the Clerk of the Environment, Food and Rural Affairs Committee, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 5774; the Committee's e-mail address is: efracom@parliament.uk. Media inquiries should be addressed to Laura Kibby on 020 7219 0718.

Contents

Summary

The objectives of the Common Agricultural Policy (CAP) have remained unchanged for the last 50 years and are now an anachronism. For all its revolutionary rhetoric, the UK Government's "Vision for the Common Agricultural Policy" was ultimately a disappointing lost opportunity as it merely described an evolution of the existing policy, primarily motivated by budget savings, rather than presenting a truly revolutionary vision. The Government's own policies have also moved on, with an increased emphasis on addressing climate change and environmental protection. The Government should grasp the fresh opportunity presented by the CAP 'health checks' and make it the time for the UK to direct the debate towards scrapping the existing CAP and replacing it with a 'Rural Policy for the European Union'. If the UK decides that CAP reform is a prize worth having, it may have to accept in return an erosion of the British budget rebate.

The Government must take a lead by deciding what a policy for a rural Europe should be, taking account of all relevant factors. Some of the key issues the UK Government must address in devising and pursuing such an approach for the EU are listed in this Report. We believe that the Government should publish, as soon as possible, a Vision 'mark 2' to address the deficiencies in the original document and to redirect the debate towards a truly visionary replacement for the existing, outdated policy. Given the advantages of providing farmers with advance warning of future agricultural policy changes, we see no reason why decisions could not be made in 2008, during the process of the CAP 'health checks', and then implemented in 2014, on the basis of a financial agreement reached in the budget review.

The Government showed a naivety in believing that its Vision document could be its catalyst to a reform agenda when it was introduced so near to the end of its Presidency and without any programme in place to gain support for the British position. For British ideas to succeed, it is important that the UK adopts a more sophisticated approach to its agenda than when it launched its Vision document on an unsuspecting audience and without prior effort to prepare other farm ministers for its arrival. This approach was counterproductive and caused a negative reaction. The UK will need allies if the British reform agenda is to be secured in the future.

The future credibility of the Vision document depends on the Government now committing itself to providing a full and detailed evaluation of the impact of these proposals on biodiversity, the environment, the markets for agricultural goods and individual farm enterprises. We call upon the Government to publish this by the middle of 2008. The Government must also provide an analysis outlining the effects on UK and EU agriculture of the elimination of Pillar 1. Without this, its assertions as to the value of removing Pillar 1 support will have little credibility amongst our EU partners.

The only long-term justification for future expenditure of taxpayers' money in the agricultural sector is the provision of public benefits. Payments should represent the most efficient means by which society can purchase the public 'goods'—environmental, rural, social—it wishes to enjoy. For these payments to remain publicly acceptable, it is essential that they relate directly to the public goods provided and that, in turn, these public goods are measurable and capable of evaluation.

1 Introduction

Aims of the inquiry

1. On 2 December 2005, HM Treasury and the Department for Environment, Food and Rural Affairs (Defra) launched their joint paper, "A Vision for the Common Agricultural Policy".[1]

Summary of proposals contained in the UK Government's Vision document

The HM Treasury / Defra paper notes at the outset that the Vision is not intended to set out a route map, but instead seeks to stimulate debate by describing where the UK Government is aiming to get to, in terms of European agricultural policy reform, in 10 to 15 years' time.

- Chapter 1 discusses what a sustainable model of European agriculture might look like.
- Chapter 2 considers the CAP from a sustainable development perspective and sets out the economic, financial, social and environmental costs to the EU of the CAP.
- Chapter 3 examines the scope for further reform of the CAP through a series of questions.
- Chapter 4 sets out the international dimension and the impact of protectionism on developing countries.

Despite having hailed the changes to the CAP, agreed in June 2003, as a "major breakthrough", the UK Government used its December 2005 paper to reject wholeheartedly the notion that the recent reforms are sufficient.[2] The opening statement of the Vision notes:

> "The Common Agricultural Policy (CAP) remains the most visible and expensive common policy of the EU, but is increasingly out of step with the need for Europe to respond to the challenges of globalisation. Internationally, it continues to attract criticism, to create tensions in the EU's relations with trading partners, and to impose significant costs on developing countries. Domestically, it imposes substantial costs on consumers and taxpayers but is inefficient in delivering support to farmers and promoting an attractive rural environment".[3]

The solution to these flaws, according to the UK Government's Vision, is to eliminate all market support, substantially reduce border protection, eliminate direct payments to farmers and to concentrate (substantially reduced) government support on rural development and environmental protection. The objective should be a position where agriculture is treated in the same way as any other part of the economy.

The aim, the paper says, is an agricultural industry which should be:

- internationally competitive without reliance on subsidy or protection;
- rewarded by the market for its outputs, not least safe and good quality food, and by the taxpayer only for producing societal benefits that the market cannot deliver;
- environmentally-sensitive, maintaining and enhancing landscape and wildlife and tackling pollution;
- socially responsive to the needs of rural communities;
- producing to high levels of animal health and welfare;
- non-distorting of international trade and the world economy.[4]

1 The report is available at: www.defra.gov.uk/farm/capreform/pdf/vision-for-cap.pdf

2 Defra website: www.defra.gov.uk/farm/capreform/background/260603-intro.htm

3 HM Treasury and Defra, *A Vision for the Common Agricultural Policy*, December 2005, Executive Summary, p 3

4 *Ibid*.

This report was intended to stimulate debate by describing where the UK Government was aiming to get to, in terms of European agricultural policy reform, in 10 to 15 years' time. We decided to examine the Government's proposals, in order to explore the "Vision" in detail and to test the validity of the assumptions underlying its conclusions.[5]

Background to publication of the Vision document

2. The month in which the UK Government's Vision was published—December 2005—was a particularly significant one for agricultural policy in the European Union (EU). A 36% cut in the guaranteed price of sugar had been agreed at the November Agriculture Council. The World Trade Organisation (WTO) was also holding its Sixth Ministerial Conference in Hong Kong in mid-December, with the hope of achieving significant progress towards further agricultural trade liberalisation. The UK Presidency of the EU concluded on 15 and 16 December 2005 with the European Council meeting at which it was hoped that agreement would be reached on the Financial Perspective for the period 2007–2013. The political pressure for budget reductions led some to suggest that these financial motives were the real driver for the publication of the Vision document.

Description of inquiry process

3. During the course of the Committee's inquiry, we took oral evidence from representatives of the Country Land and Business Association, the Royal Society for the Protection of Birds, the Campaign to Protect Rural England, the National Farmers' Union, the Tenant Farmers Association, and Natural England. In July 2006, the Committee took evidence from the Secretary of State for Environment, Food and Rural Affairs, David Miliband, at what was his first appearance before the Committee. In October 2006, we were glad of the opportunity to hear the views of the European Commissioner for Agriculture and Rural Development, Mariann Fischer Boel, on what she thought about the UK Government's Vision paper, when she travelled to Westminster to give oral evidence. Our inquiry also benefited from informal meetings with the HM Treasury and Defra officials responsible for drafting the report, as well as briefings from three eminent professors, Alan Swinbank, Neil Ward and Wyn Grant.

4. During the Committee's visit to the Royal Agricultural Show, in July 2006, we took formal evidence from a series of individuals with a stake in the future of the CAP whose views might not otherwise have been heard. Further visits to France, Germany, Poland and Romania gave the inquiry a wider European perspective, allowing us to hear how other Member States viewed the future prospects for the CAP. We are most grateful to all those who gave oral or written evidence, those who met us during our visits, and those who otherwise assisted our inquiry.

5 "New inquiry announced: The UK Government's 'Vision for the Common Agricultural Policy'", Environment, Food and Rural Affairs press release, 15 December 2005

2 Background

Previous CAP reforms

5. While some have criticised the Vision document for underplaying the extent of the recent reforms of the CAP,[6] the HM Treasury / Defra report does acknowledge the progress that has been made. The report notes that the MacSharry reform of 1992 focused on making direct payments to farmers to compensate them for reductions in market price support.[7] It states that "these compensatory payments are still being made today—around €18 billion a year of direct payments date back to these first reforms".[8]

6. The process of shifting support from production to farmers was continued with the Agenda 2000 reforms, initiated in 1999. The next major step was taken in 2003 when the Fischler reforms aimed to 'decouple' direct payments from the production activity.[9] This reduced the 'production for subsidy' link of the payments, and made receipt dependent on meeting minimum standards of good agricultural and environmental condition—the so-called 'cross-compliance' conditions. The centrepiece of the 2003 reforms was the 'Single Payments Scheme' (SPS), aimed at simplifying all the disparate product-specific area and headage payments into one single payment per farm.

7. The same principle of decoupling payments from production was employed in the 2004 reforms of the 'Mediterranean' products in order to change the support arrangements for olive oil, cotton, tobacco and hops and later with the 2005 reform of the sugar regime.

Previous parliamentary scrutiny

8. The successive reforms of the CAP, described above, have been the subject of scrutiny by the EFRA Committee, our predecessor committee and committees in the House of Lords. In 2002, our predecessor committee published a report on "The Future of UK Agriculture in a Changing World".[10] In January 2003, we looked at "The Mid-Term Review of the Common Agricultural Policy".[11] This was followed in 2004 by an inquiry into the "Implementation of CAP Reform in the UK", which focused on the options available to Defra in applying the CAP reform agreed in June 2003.[12] We have also looked on two occasions at the implications of "Reform of the EU Sugar Regime", first publishing a report

6 See, for example, Ev 212 [Sir Don Curry]

7 The 1992 CAP reform was named after the EU Agriculture Commissioner at the time, Ray MacSharry.

8 HM Treasury and Defra, *A Vision for the Common Agricultural Policy*, December 2005, para 2.3

9 The 2003 CAP reform, as with the 1992 reform, is often referred to by the name of the EU Agriculture Commissioner at that time, who was Dr Franz Fischler.

10 Environment, Food and Rural Affairs Committee, Ninth Report of Session 2001–02, *The Future of UK Agriculture in a Changing World*, HC 550

11 Environment, Food and Rural Affairs Committee, Third Report of Session 2002–03, *The Mid-Term Review of the Common Agricultural Policy*, HC 151

12 Environment, Food and Rural Affairs Committee, Seventh Report of Session 2003–04, *Implementation of CAP Reform in the UK*, HC 226

in 2004, and then following that up with another in November 2005.[13] The House of Lords European Union Committee also published a timely report on "The Future Financing of the Common Agricultural Policy" in June 2005, just prior to a meeting of EU heads of state which failed in its attempt to agree a budget deal owing, in part, to a stalemate over negotiations on the future of the CAP.[14]

3 Initial reaction to the Vision document

9. The initial reaction to the publication of the Vision paper, as reported in the specialist farming press, was largely negative. Headlines describing "Labour's nightmare for UK farming" and the "flawed case for CAP reform" characterised the media's response.[15] Although Commissioner Fischer Boel was reported as saying that she and her colleagues would "give this report our very careful consideration", she was clear about the UK's part in 2002 in agreeing the agricultural budget until 2013: "Let's not forget that EU governments, including the UK, agreed in 2002 to fix the CAP budget until 2013," she said. "We have just reformed the CAP based on that budget and these reforms are only now being put into effect".[16]

10. Subsequently, Commissioner Fischer Boel strengthened her criticisms of the UK Government's proposals. When addressing 'Green Week' in Berlin she described how, while she welcomed all contributions to the debate, "the vision of a merely industrial agricultural sector as presented in the UK paper is not a vision I share".[17] She described how her own vision of agriculture's role went way beyond just producing food. "It is an indelible part of our social and environmental fabric and I want it to stay like that".[18]

11. Green Week also saw other attacks on the UK Government's persistent calls for further CAP reform. Austrian Agriculture Minister and the Farm Council President at that time, Josef Proll, said that, after 14 years of reform, farmers desperately needed a period of stability. "We must put an end to this eternal call for yet more reforms", he said. The German farm leader, Gerd Sonnleitner, also accused the UK government of "poisoning the political atmosphere" in 2005 with its constant attacks on the CAP.[19]

12. When Commissioner Fischer Boel gave evidence to the Committee in October 2006, her position did not seem to have softened. Whilst her comments were couched in diplomatic language, she made it clear that she fundamentally disagreed with the Vision's

13 Environment, Food and Rural Affairs Committee, Twelfth Report of Session 2003–04, *Reform of the Sugar Regime*, HC 550; Environment, Food and Rural Affairs Committee, Second Report of Session 2005–06, *Reform of the EU Sugar Regime*, HC 585

14 House of Lords, *The Future Financing of the Common Agricultural Policy*, Second Report of the Select Committee on European Union, Session 2005–06, HL Paper 7

15 "Labour's nightmare for UK farming", *Farmers Weekly*, 9 December 2005, p 6; "'Flawed case' for CAP reform dismissed by farming leaders", *Farmers Guardian*, 9 December 2005, p 2

16 "UK report urges more CAP reform", *Agra Europe*, 9 December 2005, EP/6–7

17 'Green Week' is an internationally renowned public exhibition for the food and agricultural industries, held annually in Berlin. Mariann Fischer Boel's speech at 'Green Week' on 12 January 2006 is published in German on the European Commission's website at: http://ec.europa.eu/commission_barroso/fischer-boel/speeches/archive_en.htm

18 "CAP reform demands face criticism at Green Week", *Farmers Weekly*, 20 January 2006, p 8

19 *Ibid*.

emphasis on farming without subsidies or market protection. She concluded by saying that, in the Vision paper, "assumptions are made and conclusions drawn which I have difficulty agreeing with, which have not been fully thought through and which are not coherent when we take them as a whole". In her opinion, in many parts of Europe, farmers simply would not be able to continue looking after the land if they were wholly dependent on the revenue obtained from selling their produce.[20]

13. Domestic reaction to the paper was not much more positive. The National Farmers' Union (NFU) described the lack of a "roadmap", detailing how the Vision's objectives were to be practically achieved, as being "particularly problematic".[21] The Country Land and Business Association (CLA) suggested that the "purpose of the paper is not clear" and also criticised the lack of any attempt "to carry stakeholders either in the UK or in the rest of the EU along with [the UK Government's] Vision".[22] The Tenant Farmers Association (TFA) thought the report was "riddled with false illusions, rocky assumptions and dated thinking", which all made for "depressing reading from a farmer's perspective".[23] Sir Don Curry, Chairman of the Sustainable Farming and Food Implementation Group, was also "disappointed" that the overall tone of the Vision document implied that little had been achieved at a time when the farming industry was going through its biggest change in over 40 years.[24]

14. Reaction from environmental organisations was, generally, slightly more positive. The Royal Society for the Protection of Birds (RSPB) supported the overall direction of the Vision and many of the points within it, although it would have liked to see "much more detail attached to the future policy framework it describes". It particularly welcomed the commitment to environmental policies and the endorsement of the 'Public Money for Public Goods' principle. However, it felt that "the value of the Vision document will be compromised if it is seen as the justification for a cost-cutting exercise".[25] Natural England supported "the overall critique presented" and welcomed the Vision "as far as it goes", but considered that it "lacks any explanation as to how parts of the Vision could be achieved". For example, it asserted that "achieving sustainable agriculture will require more than regulation and the existing Pillar 2 support" and recommended that "the Vision is further developed to set out a clearer vision for the shape of future European support for sustainable agriculture, land management and the rural environment".[26]

The CAP is made up of two 'Pillars':
Pillar 1: market support measures and direct subsidies to EU producers, which account for around 77.5% of total CAP expenditure.
Pillar 2: rural development programmes, which account for the remaining 22.5% of CAP expenditure.[27]

20 Q 243

21 Ev 99

22 Ev 1

23 Ev 117

24 Ev 212

25 Ev 17–18

26 Ev 126

27 Proportions of CAP spending taken from: "Budget 2007: New framework, new programmes, new financial rules to boost growth in EU-27", *European Commission news release IP/06/1810*, 14 December 2006.

15. Our overseas visits were particularly useful in gauging the general reaction to the Vision in some other EU Member States. The reaction was unsurprisingly negative in the French Ministry of Agriculture. There we were told that the continued existence of Pillar 1 support was necessary to compensate European farmers for the costs associated with meeting the high standards demanded by consumers with respect to the environment, animal welfare and food safety. Officials of the French Finance Ministry, however, accepted that most of the arguments contained in the UK Government's Vision made economic sense and described the report as being "very refreshing", but felt that it was difficult to see how the Vision could be turned into policy. The consensus within France on the need to support farmers was also thought to be sufficiently strong to withstand the change from being a net CAP beneficiary to being a net contributor when farm payments were fully extended to the new Member States at the end of their transitional phase-in.

16. In Germany, the Ministry of Food, Agriculture and Consumer Protection seemed to be adopting a pragmatic approach, describing itself as being "flexible and open, but also realistic" about the prospects for further CAP reform. Meanwhile, the representatives of the German farming union that we met were keen to stress the need for a period of stability after the 2003 reforms. The overriding message to come out of our visit to Poland and Romania was that there was unlikely to be much appetite for further CAP reform there until the level of direct payments received by farmers in the new Member States reached parity with that of producers in the rest of the EU. Due to the terms of accession, these levels of support would not be fully aligned until 2013 in the case of Poland and 2016 for Romania.

17. The opinions we heard from a number of individuals during formal evidence at the Royal Agricultural Show were especially interesting. There was a sense that the Vision document had disregarded the human dimension of agriculture.[28] The witnesses we met at the show emphasised their belief that agriculture was not like any other industry and, while previous subsidy regimes had failed to encourage farmers' entrepreneurial instincts, it was still imperative that policy makers provided economic conditions in which UK farmers could survive.

4 Timing

Context into which the Vision document arrived

18. In the run up to the end of the Luxembourg Presidency of the EU in June 2005, much of the discussions had centred on the UK rebate and the possibility for further reform of the CAP. As the budgetary negotiations had ended in stalemate, responsibility for agreeing the next Financial Perspective, for the period 2007–2013, was passed to the UK Presidency. This provided an opportunity to press for what the UK described as a more rational and balanced EU budget.[29] However, it was not until 2 December 2005, just two weeks prior to the next European Council, that HM Treasury and Defra spelt out the direction the UK

28 Q 121 [Mrs Herbert]

29 Tony Blair's speech to the EU Parliament, 23 June 2005

Government wished further agricultural reform to take, by publishing their Vision for the Common Agricultural Policy.

19. Many people criticised the timing of the report, including Commissioner Fischer Boel, who suggested that it "was not the right moment" for the UK Government's radical Vision of the future to have arrived, while in the midst of trying to agree an EU budget for the next seven years.[30] Professor David Harvey, from Newcastle University, also thought the paper was "mis-timed",[31] as did the NFU and the Food and Drink Federation. Both these organisations suggested that the timing of the paper's release—in advance of the EU budget discussions and the World Trade Organisation Ministerial meeting in Hong Kong—was detrimental to the paper's reception and its credibility.[32] Moreover, the timing of publication suggested to the TFA that the CAP Vision document had been "hastily prepared in order to allow Ministers and in particular the Prime Minister to answer questions from other parts of the Union on what the UK meant by further CAP reform, particularly as the EU had just been through the most major CAP reform in its history".[33]

20. The fact that the UK Government's proposals for further CAP reform were following so closely behind the last major reform was a theme repeated to us during the Committee meetings, both home and abroad. The NFU summarised these views when it suggested that farmers were "still acclimatising to the largest ever reform of CAP" and "to present, at this stage, plans for future reform without sufficiently analysing the current situation, the feasibility of the proposals or their effects on competitiveness appears hasty".[34] Since several EU Member States had not even begun to implement the new Single Payment Scheme at the time the Vision was published, it was perhaps unsurprising that that the UK proposals were met with calls for a period of stability, rather than even more change. In any case, the Fischler reforms of 2003 had an inbuilt review clause, mandating the Commission to conduct a series of studies, or 'health checks' as the Commissioner would have it described, to monitor the effectiveness of the CAP during 2007 and 2008.[35] Around December 2005 and the early part of 2006, it was also becoming increasingly apparent that Defra and the Rural Payments Agency were struggling to make payments to English farmers as part of the process of implementing the SPS.

Agreement on the EU budget

21. Agreement was reached on the EU's budget for the period 2007–2013 at the conclusion of the December 2005 European Council. The UK Presidency had failed to revolutionise CAP spending overnight. However, it had managed to negotiate into the final agreement a commitment for a full and wide-ranging budget review "covering all aspects of EU

30 "UK report urges more CAP reform", *Agra Europe*, 9 December 2005, EP/6–7

31 Ev 161

32 Ev 213, 99

33 Ev 113

34 Ev 103

35 Commissioner Fischer Boel appears to have chosen the term 'health check' to describe the forthcoming appraisal process consciously in order to avoid the phrase 'mid-term review', which had been used in 2002–03 by her predecessor Franz Fischler. That process had ultimately resulted in a major reform of the CAP and people might naturally presume that substantial changes were likely, if the phrase was revived.

spending, including the CAP", with the European Commission due to reports its findings in 2008/09.[36]

22. A combination of tight controls on the overall budget, along with an unwillingness to renegotiate a previous agreement to maintain levels of Pillar 1 CAP spending, meant that Pillar 2 rural development funding inevitably suffered.[37] As part of the EU budget deal, ministers decided to award a final sum of €69.75 billion for rural development over the period 2007–2013, a slight increase on previous indications, but still significantly lower than the proposal of €74 billion tabled by the Luxembourg Presidency back in June 2005, and way below the Commission's original optimistic suggestion of €88.7 billion.[38]

23. Commissioner Fischer Boel described to us how disappointed she was with this final allocation of rural development funds, given the increasing importance of Pillar 2 of the CAP.[39] In a recent speech, the Commissioner suggested the EU heads of state had "scored a spectacular own goal" in agreeing to the reductions in the rural development budget, which in her view represented a "false economy".[40] The NFU also noted how a potential contradiction in the stance of the UK Government had been highlighted by the proximity of the publication of the Vision report, which had proclaimed the importance of a CAP focused on the environment and on rural development, and the agreement on the budget deal. The NFU concluded that "the reduction in rural development funding, as a result of the Financial Perspectives deal (brokered by the UK Government) and of the low UK share of EU rural development funds, has resulted in a fundamental mismatch between agri-environmental and rural development objectives and resources".[41]

Our conclusions

24. The Prime Minister's earlier speech to the European Parliament sought to address the allegation that he had only raised CAP reform during the later stages of the budget negotiations in order to divert attention from calls for the UK to relinquish its rebate.[42] His defence, alongside the suggestion that the Vision's publication had to be delayed until after agreement was reached on an EU sugar reform package, was not wholly convincing. **Further reform of the CAP is both necessary and inevitable. However, we conclude that the Government showed a naivety in believing that its Vision for the Common Agricultural Policy document could be its catalyst to a reform agenda when it was introduced so near to the end of its Presidency and without any programme in place to gain support for its British position. Not only did this approach subsequently damage its prospects for Pillar 2 development, it may well have undermined the UK**

36 European Council, *Note on the Financial Perspectives 2007–2013*, 15915/05, 19 December 2005, p 32

37 Q 16 [CLA]

38 "CAP review agreed as UK reaches deal on new EU budget", *Agra Europe*, 23 December 2005, EP/1–4

39 Q 260

40 Commissioner Mariann Fischer Boel's speech at the Agra Europe Outlook Conference, 27 March 2007

41 Ev 103. The historical allocation methodology for sharing out Pillar 2 funds means that the UK gets only around 3.5% of the rural development budget for the former EU-15, despite having 8% of its rural population and around 7% of its rural area. The UK's allocation, including compulsory modulation, for the seven-year period of the Financial Perspectives is €1,909,575,420—approximately £1.3 billion—which represents around 2.2% of the rural development budget for the EU-27.

42 Tony Blair's speech to the EU Parliament, 23 June 2005

Government's ability fully to influence the reform agenda in the future by antagonising the European Commission and the other EU Member States. We call on the Government to provide an assurance that any future reform proposals will be developed in a more thorough and considered way.

5 Analysis and the use of data

25. A number of submissions to our inquiry voiced concerns over the use of statistics and the lack of analysis in the Vision document. The NFU noted how "the slanted use of statistical sources and the failure to recognise the positive reforms already undertaken appear as fundamental faults", before describing instances where figures were "bandied about rather indiscriminately" and suggesting the way data was presented could be "misleading".[43]

26. The TFA said it was greatly alarmed that the Government should be quoting research which was now quite dated in order to justify its position on the social and economic costs of the CAP, concluding that "the position at the end of 2005 when the report was drafted was very different to that viewed by the researchers quoted", with some references in the Vision dating back as far as 1985.[44]

27. The CLA's written evidence described the Vision paper as being "severely unbalanced", citing the lack of any analysis of the impacts of the Vision on the UK farming structure, employment and output, the upstream and downstream effects of these changes, or on the environment.[45] In oral evidence, the Association noted the paucity of analysis that only amounted to a "total of nine paragraphs" to cover all "the consequences of their Vision for the rural economy, the English landscape and countryside". Dr Derrick Wilkinson, the CLA's Senior Economist, went further, describing the failure of HM Treasury and Defra "to put forward policies which are based upon careful, well-thought out and balanced analyses" as "a dereliction of their duty".[46]

28. Commissioner Fischer Boel was similarly scathing about what she described to us as "a complete lack of analysis behind this paper". She also described how her Commission analysts had questioned the Vision's working assumptions regarding the market effects of the liberalisation advocated in the report, before calling for a proper impact assessment to be undertaken by the UK Government to analyse carefully the consequences of its proposals.[47]

29. In the face of such criticism, Defra responded by asserting that "the paper was intended to stimulate debate and research, especially in other Member States, rather than provide precise estimates of agricultural parameters post reform".[48] Defra also confidently assured

43 Ev 99–100

44 Ev 116

45 Ev 1

46 Q 6

47 Qq 243–244

48 Ev 85

readers of its "Autumn Performance Report 2006" that the Department's work in the area of CAP reform was "underpinned by the existence of a robust evidence base to support the Vision".[49] Furthermore, a critique of the use of statistics in the Vision document, produced by the House of Commons Scrutiny Unit, prompted Defra to submit a detailed rebuttal, addressing each of the issues raised.[50]

Our conclusions

30. Despite Defra's helpful reply to the Scrutiny Unit's critique, **we believe there are several instances where some clarification would have enabled a more balanced representation of the statistics, where information could have been nuanced to alert the reader to the fact that some data predated the most recent reforms, and where it would have been helpful to have noted the assumptions upon which the analysis was based. The Government's lack of analysis to underpin its proposals was both a practical and intellectual failing. We require the Government to explain why it thought it right to publish a document which has been so heavily criticised for its lack of rigour and up-to-date statistical data by key groups whose support for CAP reform was vital. We recommend that Defra publish a full impact assessment of the consequences of its proposals, as requested by Commissioner Fischer Boel, in time for the CAP 'health checks'.**

6 Analysis of aspects of the Vision

31. We now turn to a detailed analysis of the contents of the Vision paper. In the first chapter of the report, the Government lays out its "Vision for Agriculture", describing how a sustainable CAP should comprise:

- a free, fair and level playing field throughout the EU for farmers to produce and market their goods in a single market, as in other sectors of the economy;
- central to this, the integration of agriculture within EU competition policy on the same basis as for other sectors with rules set at the EU level;
- a clear framework, set at EU level, to define the goals of EU agricultural policy, focussing in particular on maintaining the environment and promoting sustainable rural development, particularly in the more environmentally sensitive regions of the Union;
- within this framework and in the long-term, targeted, non production-distorting measures defined and applied at Member State, regional and local levels to achieve these goals in accordance with local priorities and consistent with EU competition policy;
- import tariffs for all farm sectors progressively aligned with the much lower level prevailing in other sectors of the economy;
- no price support, export refunds or other production or consumption subsidies;

49 Department of Environment, Food and Rural Affairs, *Autumn Performance Report 2006*, p 43

50 See: Ev 224–226 and 84–86.

- social and welfare benefit support as determined by the Member States available to farmers on the same basis as other members of society but with no income or production support payments which treat agriculture differently from other sectors; and

- EU spending on agriculture based on the current Pillar II and supporting these objectives as appropriate, allowing a considerable reduction in total spending by the EU on agriculture and bringing this into line with other sectors.[51]

Expenditure on Pillar 1 of the CAP

32. Defra and HM Treasury acknowledged that an "important component" of the Government's Vision was an end to Pillar 1 CAP expenditure, as detailed in the later elements of the above list.[52] Pillar 1 expenditure includes market support mechanisms, such as intervention buying and export subsidies, as well as direct payments to farmers under the Single Payment Scheme. Defra / HM Treasury noted that "direct payments could be phased out in a number of different ways", with the remaining EU spending on agriculture being based instead on the current Pillar 2, which is designed to support rural development and fund agri-environment schemes.[53]

33. It is this objective of the Vision, which looks towards Europe's agriculture being in 10 to 15 years' time "internationally competitive *without reliance on subsidy or protection*" to which Commissioner Fischer Boel took most exception when giving oral evidence.[54] She argued that under the liberalised scenario, as advocated by the UK Government, with no direct payments and no market protection, "most European farmers will be kicked out of the market".[55] We analyse below the relative advantages and disadvantages of eliminating Pillar 1 support. We also consider the possible options for executing this policy change.

Assessment of the advantages of eliminating Pillar 1 expenditure, as advocated by the Vision

34. Clearly, for a Member State such as the UK that is a net contributor to the EU budget, there is an obvious advantage in reducing the overall expenditure on the CAP. In his letter to the Chairman of the Committee of 16 January 2006, the Prime Minister noted that "the CAP remains expensive" and that "it is inadequately geared towards protecting and enhancing the environment".[56] This conviction, that the CAP consumes too great a proportion of the EU budget, underpinned the UK negotiating position during the debate on the Financial Perspectives throughout the latter part of 2005. The Prime Minister used his address to the European Parliament at the start of the UK Presidency to highlight the importance of increased spending on items such as research and development, before describing how "a modern budget for Europe is not one that 10 years from now is still

51 HM Treasury and Defra, "*A Vision for the Common Agricultural Policy*", December 2005, para 1.32

52 Ev 75

53 *Ibid*,

54 HM Treasury and Defra, "*A Vision for the Common Agricultural Policy*", December 2005, para 1.32 [emphasis added]

55 Qq 243, 263

56 Ev 140

spending 40% of its money on the CAP".[57] The UK Government's Vision for the CAP points the way to how a more balanced budget might be achieved, proposing that "a very significant reduction in the CAP budget" could be achieved by phasing out spending on Pillar 1 of the CAP to leave all future support directed exclusively at Pillar 2.[58]

35. Not only would the Vision's proposals rebalance the priorities of the general EU budget, but they would also shift the emphasis within the CAP budget heading itself. The Vision foresees that, as Pillar 1 expenditure is phased out, at least some of the resultant savings could be devoted to agri-environment measures and other rural development schemes. However, while suggesting that the reform dividend could be "considerable", or even "very significant", the Vision stopped short of actually quantifying the saving that might be possible.[59]

36. Other witnesses were similarly reticent in attempting to estimate the scope for savings by redirecting support from Pillar 1 to Pillar 2. However, Natural England did helpfully disclose that it was working on the basis that between £500 and £700 million per year would be needed to fund agri-environment agreements with English farmers by 2013.[60] While acknowledging that this was considerably lower than the total SPS fund in England of £1.5 billion, Natural England was quick to point out that more work was required to refine its estimate and that only "the basic requirements in terms of biodiversity and natural resource protection" could be provided within that budget. Delivering additional Biodiversity Action Plan targets would require extra resources, as would a contingency to mitigate any negative impacts on biodiversity caused by climate change. Furthermore, Natural England agreed with the NFU when it said that much of the benefits that could be derived from developing Pillar 2 in the future might only be possible if the farming infrastructures were retained through Pillar 1 support.[61]

37. Another potential advantage in eliminating Pillar 1 support stems from bringing to an end what the Vision described as the inherent inefficiencies of existing CAP support. The Vision paper quoted figures from the Organisation for Economic Co-operation and Development (OECD) when arguing that much of the value of direct payments is capitalised into land prices, so that the benefits accrue mainly to the landowner rather than the farmer, noting that the benefits of market price support and direct payments linked to land "accrue primarily to the initial landowners, quota-holders, entitlement holders and owners of other inputs used intensively in agriculture, whilst those wishing to enter farming subsequently and farmers who wish to expand their husbandry are disadvantaged as they have to buy their way into the support system".[62] Ironically, one negative side-effect of pursuing a policy of enhancing the funding of agri-environment schemes based on land management criteria is likely to be the capitalisation of a proportion of these Pillar 2 monies into land values.

57 Tony Blair's speech to the EU Parliament, 23 June 2005

58 HM Treasury and Defra, "*A Vision for the Common Agricultural Policy*", December 2005, para 1.29

59 *Ibid*., paras 1.29, 1.32

60 Q 368

61 Q 375 (See also Q 327, 330–331 [NFU]).

62 HM Treasury and Defra, *A Vision for the Common Agricultural Policy*, December 2005, paras 2.13–2.14

38. Eliminating all Pillar 1 CAP expenditure would also significantly improve the EU's position with respect to the ongoing multilateral trade negotiations. While the 2003 CAP reform eased the pressure on the EU in terms of its World Trade Organisation (WTO) commitments on domestic support, the other elements of its international trade commitments are more problematic. The EU has already pledged to end agricultural export subsidies by 2013, as part of the Doha Development Agenda talks, and the ability to make further concessions on market protection might also go some way to breaking the current impasse in the trade negotiations.

Assessment of the possible disadvantages of eliminating Pillar 1 expenditure

39. Numerous witnesses highlighted concerns regarding the possible threat to food security arising from the Vision's proposals. This fear, that reducing agricultural domestic support levels would result in a decrease in both domestic production and production capacity, and hence a further reliance on imports, is tackled head-on in the Vision document. The report summarised the Government's position as follows:

> Food safety and food security benefits for the EU are often cited as a justification for the CAP. But the evidence suggests that a combination of EU regulation and international standards assists in protecting the EU from unsafe imports, and would ensure that further CAP reform would not diminish these standards.[63]

40. The argument is expanded further in written evidence from Defra and HM Treasury. In their submission, the two departments stated that:

> It is important not to equate food security with self-sufficiency. As the Vision paper sets out (p 47), domestic production is neither a necessary nor sufficient condition for food security. For example, many of the inputs used by UK farmers are sourced from overseas, and trying to ensure food security solely by promoting domestic production would ignore the global dimension of modern food production. Furthermore, relying on domestic production alone does not insulate a country from risks such as climate change, natural disasters, fluctuations in world markets, health crises etc.[64]

The Defra / HM Treasury evidence went on to suggest that "the number of farmers or farms is not a direct indicator of food security or self-sufficiency", since "80% of UK food production now comes from just one quarter of all farms, with the largest 10% of farms producing over half of total food output".[65]

41. The NFU, however, described some of the arguments in the Vision document concerning food safety and security as being "misplaced".[66] It argued (without offering any specific prescriptions) that "recent developments in areas such as climate change, geopolitical events and pandemic health scares, should be kept under close review and

63 HM Treasury and Defra, *A Vision for the Common Agricultural Policy*, December 2005, Executive summary, p 4

64 Ev 73

65 Ev 73

66 Ev 102

need to inform any potential policy review". The NFU concluded by saying that "food security concerns also need to play a role in the design of any future agricultural policy".[67]

42. The TFA also criticised the UK Government for its apparent lack of concern regarding food security. The TFA picked up on a footnote in the Vision report, which noted that in 2003 "the UK was 76.9 per cent self sufficient in respect of 'indigenous type food and drink'",[68] and asked how low this proportion would have to fall before the Government started to worry.[69]

43. Food security was also a subject of discussion during our visits. Officials at the French Ministry of Agriculture stressed to us the importance for French people of the origin of their food and wider concerns about dependency on other countries for food and energy. During the Royal Agricultural Show evidence session, Roger James, a hill farmer from mid-Wales, described the figure of €950 a year that the Vision report quoted as the average cost of the CAP for an EU family of four as a legitimate expense in order to "provide an insurance policy to put food on the table".[70]

44. Professor Tangermann, the head of the OECD's Food, Agriculture and Fisheries Directorate, acknowledged that any Government would want to make sure its people are fed and so should plan for every eventuality, in terms of a military conflict or a failure of logistics. However, he stressed the need to focus on defining the potential threat to food security and argued that every plan devised would almost certainly be able to cope with lower than existing levels of food production in the EU. A similar point about being well prepared for a wide range of eventualities was made by the Food Ethics Council. It was most concerned about problems that could affect imports in general, rather than issues affecting only specific importing countries, with rising oil prices being given as an example of something that could severely disrupt international supply chains.[71]

45. Other alleged disadvantages of eliminating Pillar 1 expenditure include possible negative environmental consequences, including land abandonment, as farmers' businesses in more marginal areas become unviable, causing an exodus from the countryside. The CLA felt that it was "a big mistake" for the UK Government to assume that if the present supports were withdrawn there would be no undesirable knock-on economic or environmental effects.[72] The CLA illustrated the potential economic problem with UK figures, noting that the current financial support under Pillar 1 was about £2.5 billion, almost identical to the Total Income From Farming (TIFF). It said that the removal of this support (even if phased over a period of years) would produce a very differently structured agricultural industry than we have now.[73]

67 Ev 103

68 HM Treasury and Defra, *A Vision for the Common Agricultural Policy*, December 2005, p 47, footnote 35

69 Q 336

70 Q 159

71 Ev 177

72 Ev 1

73 Ev 3

46. The Campaign to Protect Rural England (CPRE) stated that farmers' "ability to deliver their conservation activity depends on the continued viability of their farm businesses" and claimed that "the success of farming for wildlife will, therefore, depend on the survival of a substantial number of farmers remaining in business". It also argued that "it is impossible to disengage the future of farming from the future of the character of English landscapes or the future of most of our wildlife habitats".[74] The RSPB also argued that "the environmental consequences of the proposals depend on two factors which are not made explicit in the Vision: the funding available for Pillar 2 activities, and the degree of integration of environmental objectives with mainstream farming and economic policies in the future".[75]

47. Natural England noted that grazing in some habitats in England (most particularly low-intensity meadows and heaths) had been assisted by the CAP incentives to keep livestock. It also suggested that "Pillar 1 of the CAP appears to have allowed the maintenance of beneficial farming practices in valuable High Nature Value (HNV) areas and other cultural landscapes at danger of abandonment (such as Alpine meadows and the Spanish *dehesas*)".[76] Commissioner Fischer Boel also confirmed that land abandonment was a real concern of the Commission. She suggested that farmers in mountainous regions would not be able to compete in the absence of direct payments and import protection.[77] The Commissioner's calls for further impact analysis (as discussed in paragraph 28 above) were echoed by Natural England, when it highlighted the need, in developing the Government's Vision further, "to identify how any negative environmental impacts from reform will be addressed and how it will avoid the export of environmental production problems outside the EU as a result of changes to patterns of production arising from greater global trade".[78]

48. In a brief section of Chapter 3, the Vision document sought to address the 'food miles' debate, which it described as being "concerned with the environmental and social costs associated with transporting food from where it is produced to where it is processed and then consumed".[79] Among other evidence, the UK Government noted that "82 per cent of food miles in the UK food supply chain are generated within the UK", and suggested that this raised questions about whether the 'food miles' debate really constituted an environmental case against agricultural liberalisation and an expansion in agricultural trade.[80] However, both the Environment Agency and the RSPB suggested that the Vision's analysis of 'food miles' was incomplete, citing the need to take account of the "significant environmental and social implications of air freighting (as opposed to shipping)" and produce guidance on how food miles, and their negative consequences, could be reduced.[81]

49. Witnesses also suggested that the Vision's advocacy of the elimination of Pillar 1 expenditure exposed its whole *raison d'étre*, which was simply to save money. Steve

74 Ev 24, 23

75 Ev 19

76 Ev 127

77 Q 277

78 Ev 126

79 HM Treasury and Defra, *A Vision for the Common Agricultural Policy*, December 2005, para 3.55

80 *Ibid.*, para 3.56

81 Ev 183, 19

Cowley, a contributor to the evidence session at the Royal Agricultural Show, felt the Vision was "driven purely by financial concerns" and the CLA characterised the HM Treasury / Defra report as being "just hell-bent on reducing public expenditure on the countryside".[82] The Woodland Trust echoed these sentiments, describing the Vision as "simply a money saving exercise with insufficient thought given to how much money will actually be required to deliver the sustainable, attractive, biodiverse countryside that society requires". "There seems to have been little thought given to this except that the vision is for a substantial reduction in the agricultural budget", it concluded.[83] The RSPB similarly felt that "the value of the Vision document will be compromised if it is seen as the justification for a cost-cutting exercise".[84]

Possible ways to eliminate Pillar 1 expenditure

50. Defra and HM Treasury were careful to stress that their Vision paper was focused on where the UK Government felt EU agriculture needed to be in 10 to 15 years' time, and why, rather than setting out a detailed route map for getting there.[85] While the paper did set out some broad parameters of how its Vision could be achieved in practice, particularly in paragraphs 1.33 to 1.37, these were only general guidelines and were not at all prescriptive about the policy approach that was required.

Modulation

Modulation

In CAP terminology, 'modulation' means the transfer of EU monies from the budget heading for Pillar 1 of the CAP (devoted to market support and direct payments) to the budget head for Pillar 2 of the CAP (financing rural development and agri-environment schemes). Modulation has facilitated increased spending on the traditionally under-resourced Pillar 2 since the 2002 Chirac–Schröder budget deal set Pillar 1 spending, seemingly irreversibly, until 2013.

51. The UK Government's Vision is, however, unequivocal about its desire to see existing expenditure on Pillar 1 of the CAP phased out, with future spending being devoted exclusively to the current Pillar 2. 'Modulation', in CAP terminology, is the process of switching funds from Pillar 1 to Pillar 2 of the CAP and it involves the top-slicing of farmers' direct payments so that these monies can be redirected to agri-environment and rural development measures. The 2002 deal, struck between the French President, Jacques Chirac, and the German Chancellor, Gerhard Schröder, to protect CAP Pillar 1 spending until 2013, proved very resilient during the last budgetary negotiations.[86] This inflexibility in the Pillar 1 budget heading makes modulation seem a particularly useful tool in pursuing the UK Government's objectives, at least in the short term. It is, therefore,

82 Qq 179 and 16

83 Ev 187

84 Ev 18

85 Ev 73

86 Ev 184

surprising that the only mention of the word 'modulation' in the Vision document appears in the final paragraph of Annex A.[87]

52. The Agenda 2000 reforms gave Member States the option to apply modulation on a voluntary basis, but the UK was one of only a very few to take it up. In the reforms agreed in 2003, however, modulation became compulsory, with Member States being obliged to reduce all direct payments by 3% in 2005, 4% in 2006 and 5% per annum from 2007 onwards, in order to finance additional rural development measures.[88] At least 80% of the modulated funds are retained within the Member State from which they came and expenditure financed from modulation is match funded by the national exchequer.

53. Through a UK initiative, the European Council agreed in 2005 to allow additional voluntary modulation from 2007 of up to 20% that need not be match-funded. Commissioner Fischer Boel has, however, been outspoken in her criticisms of this plan, which was set out as part of the agreement on the Financial Perspectives for 2007–2013. She told us that she was "not in favour of voluntary modulation" on the grounds that it could lead to Member States opting to modulate differing amounts of money, thus creating a degree of inequity between farmers.[89] The European Parliament's Agricultural Committee also vehemently opposed the proposals for voluntary modulation, stating that the plan "entails the abandonment or re-nationalisation of the CAP and abandons the principle of solidarity enshrined in the CAP".[90] This opposition from the European Parliament caused a protracted delay in agreeing the detailed arrangements for voluntary modulation. This has only recently been resolved through a compromise which reduced the flexibility of the original provision of the December 2005 European Council agreement.

54. It is unfortunate that the European Commission continues to base shares of the overall rural development budget on historical expenditure in the mid-1990s, since the UK's lack of interest in rural development schemes at that time has left it with a legacy of a disproportionately small allocation in comparison to other Member States—only around 3.5% of the core budget for the old EU-15.[91] This small allocation, combined with the UK's ambitions for expanding its agri-environmental schemes, make it understandable that the Government has pursued so diligently the freedom to reallocate funds that had originally been earmarked for direct payments under the Single Payment Scheme. However, the drawn-out saga over voluntary modulation, which took around 15 months to resolve, has not endeared the UK to either the European Commission, the European Parliament, or its fellow Member States. It is also an example of the UK succeeding in obtaining a small change in the CAP, but without the enthusiasm of the European institutions or its fellow

87 HM Treasury and Defra, *A Vision for the Common Agricultural Policy*, December 2005, p 59, para A.9

88 Direct payments up to an amount of €5,000 per farm are exempt the compulsory EU modulation reductions (see: Q 281).

89 Qq 284–285

90 European Parliament Committee on Agriculture and Rural Development, Second Report on the proposal for a Council regulation laying down rules for voluntary modulation of direct payments provided for in Regulation (EC) No 1782/2003 establishing common rules for direct support schemes under the common agricultural policy and establishing certain support schemes for farmers, and amending Regulation (EC) No 1290/2005 (COM(2006)0241 – C6-0235/2006 – 2006/0083(CNS)), 26 January 2007, p 8

91 Part of the UK's historical disinterest in rural development schemes stems from the requirement to co-finance expenditure and the direct impact monies drawn down from the EU had on the UK's budgetary rebate.

Member States. This may add to their scepticism about any CAP reform proposals presented by the UK in the future.

Co-financing Pillar 1 payments

55. Co-financing is where budget contributions towards CAP funding are shared between the EU and the national exchequers of each Member State. Moves to co-finance Pillar 1 payments have been resisted by those anxious to cling to the principle of financial solidarity, which was one of three tenets adopted at the 1958 Stresa Conference that was so influential in shaping the original CAP. However, advocates of a co-financing structure for Pillar 1 of the CAP argue that if Member States made a direct contribution towards the costs of a Community policy, it would raise their awareness of the expense and might motivate them to explore ways of improving efficiency. Moreover, it could be argued that the move away from a market support policy towards direct decoupled payments has eroded the justification for not co-financing Pillar 1. As the CLA explained, when market support predominated as an aid instrument, it was essential that it was funded centrally because the actual costs would be incurred wherever the surplus product appeared, and yet the benefits were felt throughout the Common Market. Now that support is based on decoupled payments, that justification has disappeared.[92]

56. The possibility of co-financing Pillar 1 of the CAP was aired numerous times during the negotiations on the EU budget, during 2005. The European Parliament Temporary Committee on the Financial Perspectives explored the budgetary impact of the EU only partly reimbursing Member States for their direct payments to farmers, so that 25% or even 50% would be funded by the Member State themselves.[93] The House of Lords European Union Committee also thought co-financing was a possible option, although it was keen to emphasise that it was not an alternative to fundamental reform of the CAP, but merely an adjunct.[94]

57. More recently, strong support for the concept of co-financing Pillar 1 payments has come from the Netherlands. The Social and Economic Council published a report in July 2006 advocating the use of co-financing.[95] That was followed later that year when the recently deposed Minister for Agriculture, Cees Veerman, presented his own vision for the CAP in which he concluded that "there must also be some combination of regional and European funds, in other words co-financing".[96] Commissioner Fischer Boel was able to respond publicly to the co-financing proposals when sharing a platform with Veerman at a conference in Wageningen, in February 2007. She said, "I don't think that this sort of re-

92 Q 48

93 European Parliament Temporary Committee on Policy Changes and Budgetary Means of the enlarged Union 2007–2013, *Report on Policy Challenges and Budgetary Means of the enlarged Union 2007–2013 (2004/2209(INI))*, p 79

94 See: House of Lords, *Future Financing of the European Union*, Sixth Report of the Select Committee on European Union, Session 2004–05, HL Paper 62, para 61; and House of Lords, *Future Financing of the EU: who pays and how?*, Sixth Report of the Select Committee on European Union, Session 1998–99, HL Paper 36, paras 109–112.

95 Social and Economic Council in the Netherlands (*Sociaal-Economische Raad*), *Co-financing of the Common Agricultural Policy*, July 2006

96 Cees Veerman, *Agriculture, a binding factor for Europe?*, 20 December 2006, p 25

nationalisation of the first pillar is the right road for us to go down. We would be taking the risk of seeing very different support levels, which could be dangerous in the WTO".[97]

Bond scheme

58. Both the report from the Dutch Social and Economic Council and Cees Veerman's own vision for the CAP also floated the prospect of introducing a bond scheme. This intellectually attractive idea, first articulated by Professor Stefan Tangermann in the early 1990s, envisaged that a guaranteed stream of fully decoupled future payments could be capitalised using the financial markets (hence the term 'bond'), thus providing the farmer with a lump sum to invest in the business, or to use as an early retirement fund. Payments would be time limited—10 to 15 years for instance—and the relationship with the land would no longer exist, thus extending the concept of decoupling to its maximum.

59. The bond scheme is, in fact, very similar in nature to the "time-limited payments" proposed in the UK Government's own 'Vision' document. In section 1.33 of the report, it is suggested that "time-limited payments to producers to compensate for income foregone, or to compensate for reduced asset values could be considered". The report continued by noting that "in both cases, de-linking such payments from land would better facilitate adjustment".[98]

60. Professor Alan Swinbank felt that completely decoupled payments of this kind would be acceptable under WTO rules.[99] The TFA also praised the idea, describing a bond scheme as its "preferred policy choice".[100] In his written evidence, Professor Wyn Grant noted the "strong case for replacing subsidies by a bond" due to its ability to serve as a capital asset or generate an income stream, thereby protecting against "economic, social and environmental sustainability in rural areas" that could be caused by a "too rapid reduction in subsidy and protection".[101] When the Committee visited Brussels, at the end of January 2006, we also heard a passionate case in support of the bond scheme during a meeting with Terry Wynn, who, during his time as a Member of the European Parliament, chaired both the Budget Committee and the Land Use and Food Policy Intergroup.

61. When asked in oral evidence about the possibility of introducing a bond scheme, Commissioner Fischer Boel did not rule it out completely. Instead, she encouraged all ideas to be put on the negotiating table for a full discussion in the context of the mid-term review of the Financial Perspectives in 2008/09.[102] She did, however, highlight what she regarded as "serious disadvantages" of adopting a bond schemes approach, when addressing the

97 Commissioner Mariann Fischer Boel's speech, "Ways forward to a future EU Common Agricultural Policy", at the "Mind the CAP" Conference held at Wageningen University, 1 February 2007

98 HM Treasury and Defra, *A Vision for the Common Agricultural Policy*, December 2005, para 1.33

99 Ev 157

100 Ev 115

101 Ev 212

102 Q 258

Wageningen conference, earlier this year, including the demise of the cross-compliance conditions that are currently attached to the existing direct payments.[103]

62. One other significant advantage of the bond scheme approach is that it would give farmers a clear indication of the timescale involved, rather than the uncertain policy environment they have had to cope with in recent years. It would also encompass a "transitional strategy" and the concept of 'phasing out' Pillar 1 direct payments, as referred to in the Vision document.[104] The Prime Minister recognised that "further radical changes to the CAP cannot happen overnight" and given the political sensitivities involved in eliminating Pillar 1 payments a gradual, phased approach would clearly be required.[105] Obviously the timescale for change is significant—the Vision talked of 10 to 15 years—but of equal importance, in the view of Professor Harvey, is the period of notice given to farmers to allow them to adapt to an unsupported market. "Sudden, but reliable change will induce rapid and viable responses; gradual change is much more likely to produce mal-adaptations and responses", he concluded.[106]

Our conclusions

63. Evidence to our inquiry suggested that the effect of the UK Government's proposals could be substantial, posing a potential threat to domestic food security, the environment and the structure of the farming industry. Since the Vision was published in December 2005, Defra has followed up on issues relating to food security with an in-depth study entitled "Food Security and the UK: An Evidence and Analysis Paper", which goes some way to addressing witnesses' concerns in this regard.[107] It also provided a helpful update on the food versus fuel paradox, which has been the subject of increasing debate since the Vision was first published.[108] **The future credibility of the Vision document depends on the Government now committing itself to providing a full and detailed evaluation of the impact of these proposals on biodiversity, the environment, the markets for agricultural goods and individual farm enterprises. We call upon the Government to publish this by the middle of 2008. This analysis should be informed by the publication, by the end of 2007, of an evaluation of the effects on UK agriculture of the 2003 CAP reform. The Government must also provide an analysis outlining the effects on UK and EU agriculture of the elimination of Pillar 1. Without this, its assertions as to the value of removing Pillar 1 support will have little credibility amongst our EU partners.**

Development of Pillar 2 of the CAP

64. The launch of the Rural Development Regulation as part of the Agenda 2000 reform introduced a new 'second Pillar' of the CAP, bringing together a range of existing

103 Commissioner Mariann Fischer Boel's speech, "Ways forward to a future EU Common Agricultural Policy", at the "Mind the CAP" Conference held at Wageningen University, 1 February 2007

104 HM Treasury and Defra, *A Vision for the Common Agricultural Policy*, December 2005, paras 1.7, 1.29

105 Ev 140

106 Ev 164

107 Defra's Food Chain Analysis Group, *Food Security and the UK: An Evidence and Analysis Paper*, December 2006

108 See, for example, Environment, Food and Rural Affairs Committee, Eighth Report of Session 2005–06, *Climate change: the role of bioenergy*, HC 965, paras 98–102

agricultural, rural development and environmental measures into a single regulation. The measures included support for structural adjustment of the farming sector, support for farming in Less Favoured Areas, remuneration for agri-environment activities, aid for investments in processing and marketing, forestry measures, and aids for the adaptation and development of rural areas.[109] The Centre for Rural Economy (CRE) described how the UK Government had played a "pioneering role" in this development through its decision to apply the discretionary modulation measures to redirect a proportion of payments from Pillar 1 to Pillar 2.[110] Other witnesses recognised, however, that while a progressive shift of funds towards Pillar 2 was in the interests of all Member States, not all countries needed, or were ready, to make the journey at the same rate.[111] Indeed, Professor Ken Thomson suggested that many of the new Member States would resist such moves, since they may not be sufficiently well organised to maximise uptake of Pillar 2 payments.[112]

65. The Vision paper envisaged that "EU spending on agriculture would be based on the current Pillar II and would support these objectives as appropriate".[113] Its emphasis on "a central rather than a peripheral role for rural development measures, including those targeted on protection and enhancement of the rural environment", was welcomed by witnesses, including the Environment Agency.[114] However, the RSPB was more critical, suggesting that beyond making "headline statements" about the growing importance of environmental protection and rural development, the Vision had not gone into sufficient detail on "the role of policy in delivering the environmental and social security needed for sustainable economic development".[115] The NFU also criticised the Vision for not properly defining the public goods and services it was seeking.[116]

66. The CRE described the main "challenge" as being "to improve and reform Pillar 2 such that it becomes a viable and attractive alternative to Pillar 1". In this regard, the CRE found the Vision document wanting, describing how any strategy for achieving this challenge was "entirely absent".[117] To make up for this deficit, the CRE called for a "companion document" to the existing Vision paper to review the potential for the development of Pillar 2 and to detail what Pillar 2 would look like in a world where Pillar 1 was progressively dismantled.[118]

67. One disadvantage of moving to Pillar 2 payments is that they invariably cost more to administer and control than Pillar 1 payments due to the diverse nature of the schemes involved. Defra told us that the estimated running cost of administering the payments under the England Rural Development Regulation was around 20% of scheme payments,

109 Ev 159 [Centre for Rural Economy]

110 Ev 160

111 Ev 130 [Natural England]

112 Ev 168

113 HM Treasury and Defra, *A Vision for the Common Agricultural Policy*, December 2005, para 1.32

114 *Ibid.*, para 1.36; Ev 183

115 Ev 19

116 Q 331

117 Ev 160

118 Ev 161

although costs for the new agri-environment schemes should be lower.[119] On the other hand, there are numerous advantages of Pillar 2 payments. As part of a "clearly-defined government environmental or conservation programme" and being "dependent on the fulfilment of specific conditions", agri-environment payments fall within the WTO's definition of permissible support.[120] Also, as an environmental enhancement programme, such payments are far better targeted and therefore yield far more value for money than the cross-compliance conditions attached to Pillar 1 payments.

68. Targeting was a particular theme endorsed by Professor Tangermann both when we met him at the OECD in June 2006 and later when he spoke in Helsinki at the Conference of EU Parliamentary Agriculture Committees in October 2006. Government support, he insisted, needed to be targeted directly and specifically at the objectives pursued. For example, in regions where more hedges are considered to be required to provide a habitat for endangered species, payments per metre of hedge planted are far superior to general payments per hectare of all agricultural land. Professor Tangermann's conclusion was that while decoupling had been a big step forward in overcoming the problems of past forms of agricultural support, the next major step in policy development was in targeting support to specific objectives.

69. Unfortunately, in pursuing a move towards more targeted payments under Pillar 2 of the CAP, the UK Government has to cope with the legacy of the EU budget deal it presided over in December 2005. The CLA summed up the situation when describing the Government's strategy on Pillar 2 funding as being "confused", noting how the UK had "championed" the cut in the proposed EU rural development budget just weeks after publishing the Vision document, which stressed the future importance of Pillar 2 (see paragraphs 22–24 above).[121]

Our conclusions

70. **Properly targeted schemes delivering public goods and services and representing better value for the public money that is expended on them are clearly desirable. The Vision document suggests this is the direction down which the UK Government would like EU agricultural policy to travel. However, the Vision's argument has been weakened by a lack of detail on the development and agreed outcomes of Pillar 2, as Pillar 1 is progressively dismantled. A clear statement from the European Commission on the environmental and social objects of Pillar 2 should be sought by the Government. In addition, the Vision's failure to address the potential redistribution effects of modulation should also be rectified through the publication of an impact assessment.**

71. **The UK Government's calls to increase the importance of Pillar 2 have been further undermined by its involvement as the Presidency of the EU when a budget deal was struck providing significantly less resources for Pillar 2 than in the original European Commission proposal. Those reductions in the rural development budget are**

119 Ev 86

120 General Agreement on Tariffs and Trade (GATT), *Agreement on Agriculture*, (Marrakesh, 1994), Annex 2(12a)

121 Ev 5

inconsistent with the UK Government's stated objective of enhancing funding levels in this area. The UK Government should not call for cuts in Pillar 2 funding as part of its wider demands for CAP budget cuts, as this sends mixed signals to other Member States and the Commission.

International issues

72. The farming organisations seemed to be particularly exercised by Chapter 4 of the Vision document, which deals with "International Trade and Developing Countries". The NFU said that it was this section of the document where "some of the strongest criticisms of the paper need to be raised". It suggested the paragraphs were imbalanced and cited the fact that "there is no real examination of the issue of trade preferences and the impact of the erosion of preferences on poorer countries".[122] The TFA made similar comments regarding the treatment of trade preferences in the Vision report, while the CLA suggested that Chapter 4 "could well have been written by a campaigning NGO" and described the discussion as being entirely one-sided.[123]

73. Commissioner Fischer Boel also raised concerns about the "huge difficulties" that would be faced by the least developed countries as a consequence of following the UK proposals for zero import tariffs and free access to the EU market for agricultural products. She noted that the 50 poorest countries in the world already had free access to the EU market, so a reduction in tariffs would constitute an erosion of their trade preferences and bring with it unwelcome competition from countries like Brazil.[124]

74. The RSPB was also keen to point out the global importance, in terms of biodiversity and carbon sequestration, of some of the habitats that could be at risk from agricultural trade liberalisation. Rainforests in Brazil and Indonesia, and the Brazilian *cerrado*, were some of the habitats that could be threatened by agriculture expansion into these areas to meet the increased demand created by liberalisation of European agriculture. While the RSPB felt that section 3.58 of the Vision suggested the UK Government was not certain how to deal with such a threat, it was adamant that the potential negative impacts must not be disregarded.[125]

Our conclusions

75. **The Vision document gives insufficient coverage to the potential international consequences of its proposals. The arguments used lack balance and important issues, such as the potential erosion of trade preferences for poor countries, do not seem to be taken sufficiently seriously. We recommend that further analysis be undertaken by Defra, in collaboration with the Department for International Development and HM Treasury, to provide evidence to underpin what at present amounts to little more than an overview of these international aspects in the existing Vision document.**

122 Ev 100–101

123 Ev 116, 4

124 Q 277

125 Ev 20

7 What kind of a CAP do we want?

76. The evidence sessions and other meetings held in connection with this inquiry were particularly useful in canvassing what witnesses thought should be the future purpose of the Common Agricultural Policy.

Evidence from the Royal Agricultural Show

77. Three main themes arose from the evidence session at the Royal Agricultural Show (RAS): the importance of food and fuel security; the dominance of the supermarkets; and the absence of a 'level playing field'.

78. Ensuring food security was cited by many witnesses as an important objective of the CAP. Mrs Chris Thomas, a beef farmer from Wales, described food security as "a very, very important issue" and underlined the threat to food imports posed by terrorism.[126] Gillian Herbert, a livestock farmer from Herefordshire, was struck by the "complacency" of the assumption, contained in the Vision document, that food would remain in abundant supply. To emphasise her point, she noted the implications for food security of the inherent time lag in bringing food to market.[127] Tony Keene criticised the Vision document for inadequate analysis of renewable energy, which was a subject developed by Andrew Brown.[128] He thought the CAP should be encouraging farmers to grow biofuels and energy crops, although he sounded a cautionary note when he described the consequences of global warming leading to "a situation where we are going to have to choose between growing food and growing fuel".[129]

79. The power of the food retailing sector was another subject referred to regularly by the witnesses at the RAS evidence session. The Reverend Robert Barlow, an agricultural chaplain from Worcestershire, summarised the situation in the UK food chain as having "countless must-sell-producers and a handful of might-buy-buyers".[130] He also felt that the power exerted by the handful of supermarkets had much more of a distorting effect on the market place than policy mechanisms, such as import and export subsidies.[131] The power of the supermarkets was also an issue explored by Jilly Greed in her evidence and Hugo Marfleet described how supermarkets had imported "inferior products" and employed "bullying tactics" to further the demise of UK agriculture.[132] This criticism was also echoed by Jamie Blackett, who asserted that the structure of the food sector was skewed in favour of the retailers, with "a supermarket cartel" dictating prices to producers which meant,

126 Q 173

127 Q 121

128 Q 170

129 Qq 116–117

130 Q 146

131 Q 150

132 Qq 154 [Mrs Greed], 171 [Mr Marfleet]

particularly in the case of the dairy industry, that farm produce was selling at less than the cost of production.[133]

80. The absence of a 'level playing field' in terms of the relationship between UK farmers and their competitors in the rest of the world was another central theme running throughout the evidence session. Gillian Herbert thought it naive of the Government's Vision to talk about a "free, fair and level playing field throughout the EU", as the new Member States had a long way to go to catch up with the efficiencies of farmers in the rest of Europe.[134] Essex farmer Guy Smith also felt that policy makers ought to recognise that British agriculture had higher structural costs "in terms of high labour costs, high land costs and in terms of regulation on the environment, welfare, and food safety". Owing to these relatively high costs, Mr Smith thought UK farmers would "struggle to compete on a free global agricultural market".[135] The burden of extra regulation on the UK farmer was something raised by Steve Cowley. He accused Defra of 'gold-plating' every EU directive and implementing them "with a fist of iron very, very slowly".[136] The Reverend Barlow thought the current absence of a 'level playing field' could also lead to some domestic production being transferred to countries where animal welfare and environmental standards were not as high. He felt this equality of treatment was so highly valued by the farmers he met that they would be prepared to accept an end to all subsidies if it could be secured.[137] However, Roger James, a hill farmer from mid-Wales, believed UK agriculture was "completely reliant on subsidies" and without them, there would be very few farmers left in the hill areas.[138] This sentiment was also echoed by other witnesses. Carl Atkin felt that, for some, the elimination of Pillar 1 support, as outlined in the Vision document, "would be a nightmare", while John Turner described the "devastating effect" on local communities if the fate of farming mirrored that of the UK shipbuilding, mining or steelmaking industries.[139]

Other evidence

81. The HM Treasury / Defra paper seemed preoccupied with what a reformed CAP might look like, without stepping back to ask the fundamental question of what the CAP should actually be for. Answering this question proved harder for witnesses than might have been expected. Even the Secretary of State remarked that it was sometimes "quite difficult" to answer "in diplomatic terms" the question about what the purpose of the CAP now is. However, he then went on to describe, in simple terms, what it should provide: "a regulatory framework and a financial framework for agriculture in the European Union".[140] The regulatory framework would involve issues of "animal health and welfare"

133 Q 115

134 Q 130

135 Q 131

136 Q 169

137 Q 146

138 Q 159

139 Qq 167 [Mr Atkin], 160 [Mr Turner]

140 Q 179

and the "environment", while the financial framework would be solely "directed towards the delivery of public goods".[141]

82. Many other witnesses answered the question by citing reasons for maintaining support to the agricultural industry. The NFU was not alone in referring to the constraints its members faced when farming in the EU as a justification for continued protection of the Community market.[142] The Royal Society for the Prevention of Cruelty to Animals (RSPCA) and the British Veterinary Association both agreed that the market alone could not compensate domestic producers for the higher costs associated with maintaining animal health and welfare standards.[143] These were arguments for which Commissioner Fischer Boel had sympathy. She cited animal welfare standards in the EU, along with higher wages and higher environmental standards as reasons for maintaining a certain level of direct payments, for what were described in the context of WTO negotiations as "non-trade concerns".[144]

83. A more direct answer came from the countryside and environmental organisations. The CPRE thought the purpose of the CAP henceforth "must be to maximise the sustainable management of land to public benefit".[145] Natural England thought the purpose should be:

> to ensure that European taxpayers' funds are used for public benefits, including environmental benefits, and in particular that farmers and land managers are incentivised to deliver the wide range of environmental goods and services that they are starting to do across Europe through agri-environment schemes.[146]

In the long-term, Natural England thought that CAP reform should establish a "sustainable land use funding stream".[147]

84. In considering the possible justifications for existing Pillar 1 support, the Centre for Rural Economy (CRE) helpfully identified the following four rationales:

- Compensation payments for policy change
- Economic adjustment aids
- Social assistance payments
- Public good payments.[148]

141 Q 180 (Previously, the Government had told us that "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". (Environment, Food and Rural Affairs Committee, Second Special Report of Session 2002–03, *Government Reply to the Ninth Report of Session 2001–02*, HC 384, p 7))

142 Q 303

143 Ev 174, 199

144 Q 261

145 Q 71

146 Q 371

147 *Ibid*.

148 Ev 159

The CRE thought that under the first two rationales, payments should be finite and time-limited otherwise they threaten to perpetuate the dependency and distortion that they were intended to overcome. The rhetoric of past reforms was that the new payments were compensatory payments. They were not particularly effective as economic adjustment aids because they did not target the farm workers and those in the upstream and downstream industries who bore the brunt of shifts from production to land-oriented payments. Moreover, CRE thought the third rationale might be legitimate in countries where farmers were not eligible for unemployment or retirement support. However, this was not the case in the UK. This rationale also raised questions about the inequitable distribution of existing payments in relation to need. The fourth and final rationale was thought to remain a long-term justification for continuing payments, although they should not be considered an entitlement and must be related to the public goods provided.[149]

Our conclusions

85. Historically, agriculture has always been regarded as having a special place in the economic and social structure of the EU. Agricultural policy in the EU has sought to foster this status, as well as protecting the industry from some of its inherent problems, such as the cyclical nature of production and the vagaries of the climate. Going forward, however, we agree with the evidence presented to us that suggested that **the only long-term justification for future expenditure of taxpayers' money in the agricultural sector is for the provision of public goods.** Witnesses described the bundle of public goods provided by agriculture as including: catchment management for soils and flooding, water resources, biodiversity conservation, access provision, landscape features, and employment.[150] **Payments should represent the most efficient means by which society can purchase the public goods—environmental, rural, social—it wishes to enjoy. For these payments to remain publicly acceptable, it is essential that they relate directly to the public goods provided and that, in turn, these public goods are measurable and capable of evaluation. Defra should harness the power of the internet to consult as widely as possible with the rural community about the type of rural policies which should be developed in the context of the 2008 'health checks' and subsequent CAP reform debate.**

Commonality of EU agricultural policy

86. The proposals in the Vision paper are sufficiently radical to question the common nature of the future CAP it envisages. The final paragraph of Chapter 1 proposed that:

> There would continue to be a common European policy but one very different from that now in place. It would allow Member States a greater measure of discretion than at present—for example, in determining their agri-environmental priorities—but it would preclude unfair competition between Member States, and EU spending on the common policy would be significantly lower than now.[151]

---

149 Ev 159

150 See, for example, Ev 18 [RSPB]

151 HM Treasury and Defra, *A Vision for the Common Agricultural Policy*, December 2005, para 1.37

87. Such proposals, allowing for a greater degree of national discretion in agricultural policy matters, were not welcomed by the NFU. Concerned that its members in England and Wales might be disadvantaged in relation to other farmers elsewhere in the EU, it insisted that any change to the CAP needed to be undertaken at an EU level and implemented in the same manner by all Member States.[152] Professor Wyn Grant noted that a "creeping re-nationalisation" might result from the UK Government's Vision, something he felt was, to some extent, already embedded in the most recent reforms.[153]

88. Commissioner Fischer Boel alluded to the potential distortions and inequality of treatment that would face farmers across the EU when she described her concerns regarding the re-nationalisation of agricultural policy. Using fairly agri-centric language, she suggested it would become "a competition between ministers for finance more than a competition between agricultural ministers on how much to subsidise your farming sector", before concluding that "this would be devastating for the possibility of maintaining a common policy and trying to find the right balance in the support for the agricultural sector".[154]

89. Natural England was keen to draw a distinction between competitive distortion and equal treatment for landowners in all Member States. The former it agreed must be avoided, but the latter was something which could not be achieved owing to the legitimate desire of Member States to employ different approaches. Pursuing this idea specifically in relation to voluntary modulation, Natural England concluded that "if differential reduction of the Single Payment is shown to have a distorting effect, the payment itself must be scrutinised, not the attempt to modulate it".[155]

90. A similar argument was applied more generally by Professor Sir John Marsh when he noted that provided payments were "fully decoupled and paid for from local or national budgets, they will have no impact on market prices and will not disadvantage producers in other member countries". If, however, they concealed subsidies in the form of preferential tax treatment or access to cheap loans, they should be subject to strict rules of competition. Professor Sir John Marsh concluded that "effective rules would impose penalties on offenders and offer compensation for those whose interests were damaged" and that "they should be monitored as part of competition policy".[156] Defra and HM Treasury agreed with this. They said:

> It would be important to ensure that EU state aid rules for agriculture, as for other sectors, were fit for purpose and rigorously enforced, in order that any national aids such as those to secure environmental objectives did not create new distortions.[157]

152 Ev 101

153 Ev 211

154 Q 253

155 Ev 129

156 Ev 151

157 Ev 74

Our conclusions

91. **Moving towards specifically targeted policies under Pillar 2 of the CAP will inevitably entail greater national discretion than exists at present. Under this scenario, the Government must ensure that the UK does not once again become the poor relation in the area of rural development policy by conceding negotiating ground which could place our farmers and rural businesses in a position of comparative disadvantage compared to those of other Member States. In this regard, it is vital that the Government is successful in pursuing its case for a fairer, objective based method of allocating Pillar 2 funding during the EU budget review.**

Appropriateness of the title 'Common Agricultural Policy'

92. Article 33(1) of the founding Treaty establishing the European Community, the Treaty of Rome, laid out the objectives of the Common Agricultural Policy as follows:

> Article 33[158]
>
> 1. The objectives of the common agricultural policy shall be:
>
> (a) to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, in particular labour;
>
> (b) thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture;
>
> (c) to stabilise markets;
>
> (d) to assure the availability of supplies;
>
> (e) to ensure that supplies reach consumers at reasonable prices.[159]

These objectives reflect contemporary priorities at the time the Treaty of Rome was signed in 1957. During the 50 years that have since passed, the focus of European agricultural policy has moved beyond these considerations to encompass issues such as rural development, protection of the environment and animal welfare. Despite successive Treaty revisions in recent years, the objectives for agriculture have not been amended in any way in order to reflect these new priorities and bring the CAP's foundational document up to date.[160]

---

158 The original Treaty of Rome has been amended several times, with new elements introduced, redundant elements removed and Articles renumbered. Agriculture is now covered by Articles 32–38, but previously it was dealt with by Articles 38–47, with the CAP objectives laid out in Article 39(1).

159 European Union: Consolidated versions of the Treaty on European Union and of the Treaty establishing the European Community, *Official Journal of the European Union*, C 321, E/54, 29 December 2006

160 The 1992 Maastricht Treaty did make provision for the requirements of environmental protection to be integrated into all Community policies, including the CAP, and the 1997 Amsterdam Treaty made similar provision to ensure that consumer interests were taken into account in all Community policies and for greater regard to be paid to animal welfare.

93. While the NFU did not feel there was a need to change the words of the Treaty as a prerequisite to changing the policy,[161] Commissioner Fischer Boel was more amenable to the prospect of amendments being made. She recently wrote, when marking the fiftieth anniversary of the Treaty of Rome, that "the CAP is as relevant now as it was five decades ago—albeit for different reasons".[162] During oral evidence, she accepted that "the world had changed since 1957" and admitted she did not know "why it was not possible to find wording that could be a bit more modern than 50 years ago".[163]

94. The RSPB also questioned the extent to which the separation of Pillar 1 and Pillar 2 budget headings was helpful. It advocated "moving away from the Pillar systems of the CAP to a single rural fund that supports land managers to provide the environmental and social goods and services which we need and value, and minimum environmental standards for all farmland".[164] A possible merger of Pillar 1 and Pillar 2 funds into a single financing instrument was also raised in the vision for the CAP of former Dutch Minister Agriculture Cees Veerman.[165]

Our conclusions

95. **The objectives of the CAP have remained unchanged for the last 50 years and now seem dated. European agricultural policy has moved on since then, encompassing issues such as rural development, protection of the environment and animal welfare. The UK Government should begin negotiating, at the earliest opportunity, for a redrafting of the existing Article which lays out the objectives of the CAP—Article 33(1)—with the new text reflecting the wider context of modern rural policy.**

96. **The name, the 'Common Agricultural Policy' is now an anachronism. It should be replaced by a new 'Rural Policy for the EU'.** The development of such a policy is discussed below in paragraphs 116–125. **The separation of the funding mechanisms for Pillar 1 and Pillar 2 represents a significant obstacle to re-tuning the balance of rural support measures in the EU and should be re-evaluated as part of the 2008/09 budget review. The UK should also use its influence in Europe to encourage other Member States fully to integrate their agricultural and environmental policies. The Government could point to the advantages that have flowed from such policies in England being the responsibility of a single department.**

161 Q 306

162 "The EU and the CAP—past, present and future", *Agra Europe*, 23 March 2007, A/1–2

163 Q 248

164 Ev 17

165 Cees Veerman, *Agriculture, a binding factor for Europe?*, 20 December 2006, p 28

8 Is the UK Government's Vision achievable?

Assessment of whether the Vision has achieved its objective of stimulating debate

97. Defra and HM Treasury told us that the Vision paper "was designed as a contribution to the debate already underway on how to achieve a sustainable future for agriculture and to help answer those who have asked what the UK Government means when it calls for further CAP reform".[166] Defra's own assessment of how well the Vision document had achieved its aim was extremely positive. In its Autumn 2006 Performance Report it described how "very successful" the Vision had been because now there was "significant talk of future reform", with the debate shifting from "'whether' to 'how fast'" changes would take place. Defra also boasted that "the Vision has stimulated the publication of vision papers in other Member States, and has provided the foundation for a range of activity across Europe, including seminars, meetings, conferences, and in the media".[167]

98. Most other witnesses, however, failed to share this rosy picture of the success of the Vision. The general opinion was summed up by the NFU when it described how the "lack of focus, the content and timing of the document" had antagonised some Member States and the Commission.[168] The NFU also argued that developments since the publication of the Vision had "confirmed the lack of success of the UK Government strategy to date" and called for a "reconsideration" of those strategies and priorities.[169]

99. Even if the European Commission had been antagonised by the publication of the Vision, there seems little doubt that the report encouraged it to engage with the UK over its plans for reform. Since Commissioner Fischer Boel gave oral evidence in support of our inquiry, in October 2006, she has travelled to the UK on at least three further occasions, addressing the Oxford Farming Conference, the NFU's Annual Conference and Agra Europe's Outlook Conference. One might argue that, given the 'Britishness' of the report, the Commission might have to be seen to distance itself from the proposals. However, the potential for a less counterproductive outcome, from the UK Government's point of view, suggested itself earlier this year during a public spat between the Commissioner and France's Farm Minister, Dominique Bussereau. With political sensitivities running high, in the run up to the French election, Mr Bussereau had criticised Fischer Boel for appearing to pre-empt the post-2013 budget discussions in an interview with the Financial Times, published on 29 December 2006. According to a subsequent edition of the same newspaper, the Commissioner's robust defence made reference to the fact she was "fighting an attempt to have spending cut as part of a budget review in 2008–09, as the UK wished, and to keep the agreed settlement until 2013".[170] This example suggested that the

166 Ev 73

167 Department of Environment, Food and Rural Affairs, *Autumn Performance Report 2006*, p 41

168 Ev 103

169 Ev 104

170 "Paris fury at threat to farm cash", *Financial Times*, 9 January 2007, p 7

Commission may have found the Vision's radical proposals at least partly useful as an extreme comparison that could play down the significance of its own ideas for reform.

Our conclusions

100. **Further reform of the CAP is very necessary. However, for British ideas to succeed, it is important that the UK adopts a less naive approach to its agenda than when it launched its Vision document on an unsuspecting audience and without prior effort to prepare the farm ministers for its arrival. This approach was counterproductive and caused a negative reaction. A more consensual approach must be developed if success for the British reform agenda is to be secured in the future.**

101. **For all its revolutionary rhetoric, the Government's paper was ultimately disappointing. It merely described an evolution of the existing policy, primarily motivated by budget savings, rather than presenting a truly revolutionary vision, directing the debate towards scrapping the existing CAP and replacing it with a 'Rural Policy for the EU'. The failure of the Government to consult stakeholders prior to the launch of the Vision, or to debate its proposals on the floor of the House, or to encourage a wider debate after the Vision's publication, represents a regrettable lost opportunity for engagement. We, therefore, believe that the Government should publish, as soon as possible, a Vision 'mark 2' to address the deficiencies in the original document outlined above and to redirect the debate towards a more visionary replacement for the existing, outdated policy.**

Analysis of whether the Vision is politically achievable

102. As the CLA noted, the CAP can only be reformed when a qualified majority of the EU Council can be persuaded of the case for, and direction of, reform.[171] Trans-national alliances have to be established. When the CLA was asked about how the UK Government's Vision had been received in the rest of the EU, it said that "with the Swedes and Danes there was a flicker of recognition and with everybody else blank and innocent".[172] However, in advance of the final negotiations on the EU Financial Perspectives and just one week after the publication of the Vision document, the Prime Minister described the balance of those for and against CAP reform as being "about half and half in Europe".[173]

103. It is encouraging to note that Defra recently seemed to have recognised and acted on the need to build a wider coalition. Evidence of this came from an accord, signed in the margins of the March 2007 Agriculture Council, between the Secretary of State, David Miliband, and his Italian counterpart, Paulo de Castro, outlining their joint position on the

171 Ev 1

172 Q 70

173 Prime Ministers press conference on EU Budget negotiations, 9 December 2005, www.number-10.gov.uk/output/Page8743.asp

future of the CAP.[174] In April 2007, the Secretary of State also described how his "recent discussions suggest that the UK agenda for CAP reform has growing support".[175]

104. The fact that the CAP results in a substantial reallocation of resources between Member States is acknowledged in paragraph 2.15 of the Vision document.[176] These vested interests have historically made it very difficult to secure change, as inevitably there will be winners and losers. The radical changes advocated by the UK Government's Vision are therefore likely to be resisted by those Member States that benefit most from the *status quo*.

105. Our visit to the French Ministry of Agriculture left us in no doubt about its opposition to the proposals contained in the UK Government's Vision for the CAP. France's own ides for the future development of EU agricultural policy had been presented to the EU Agriculture Council in March 2006, in what some believed was a riposte to the more 'liberal' economic agenda presented by the UK's Vision.[177] The nine-page French memorandum was, as David Miliband pointed out, not exactly an alternative vision.[178] However, its calls for the development of agricultural policies to shore up the incomes of farmers in increasingly tough markets did succeed in securing the support of the majority of the other Member States.[179] The scale of this support for the French paper illustrated the sort of sea change that would be required for the UK Government's Vision to become politically achievable and showed how isolated the well-established core group of reform-minded countries (UK, Denmark, Netherlands and Sweden) seemed to have become.

106. France has been a dominant force in EU agricultural policy, with its influence stretching back to the origins of the CAP. Jacques Chirac's announcement that he was not standing for re-election as France's President in the 2007 elections has potential significance for the future of the CAP. President Chirac has had what commentators described as a "near-umbilical attachment to the country's farmers" throughout his career, which included a spell as Agriculture Minister.[180] He received much domestic acclaim for his role in securing the 2002 agreement to protect CAP Pillar 1 spending until 2013; so much so that it would have been politically difficult for him to have considered renegotiating the deal during his period of office. Now his presidency has come to an end there does seem to be the promise of some openness to new ideas on agricultural policy in France, if our own discussions with the Finance Ministry and French farmers are anything to go by. President Chirac's replacement, Nicolas Sarkozy, is unlikely to be quite as stubborn in defending the interests of French farmers as the man who has held this office

174 "Miliband receives support of Italy for greater CAP reform", *Farmers Weekly Interactive*, 21 March 2007, www.fwi.co.uk (See also: "Communiqué on Italian and British shared positions on the future of European agricultural policy", www.defra.gov.uk/farm/capreform/pdf/uk-italy-070419.pdf)

175 HC Deb, 19 April 2007, col 432

176 HM Treasury and Defra, *A Vision for the Common Agricultural Policy*, December 2005, para 2.15

177 Council of the European Union, Memorandum on the implementation and the future of the reformed CAP, 7265/1/06, 17 March 2006

178 Q 193 [David Miliband]

179 Greece, Spain, Ireland, Italy, Cyprus, Lithuania, Luxembourg, Hungary, Poland, Portugal, Slovenia, Romania and Bulgaria all signed up in support of France's proposals, while Germany, Belgium, Finland and (to some extent) Austria all voiced support as well.

180 "Limited legacy for 'le bulldozer' Chirac", *Financial Times*, 12 March 2007, p 7

since 1995.[181] The French attitude to CAP reform also has added significance since at least part of the budget review process, scheduled for 2008/09, will fall under France's leadership as it will hold the six-month rotating EU Presidency of the EU in the second half of 2008.

107. The Committee's visit to Poland and Romania brought home to us how different the priorities of the new Member States were when it comes to the CAP, given their small farm structures and higher than average reliance on the rural economy. In Romania, the then Minster of Agriculture described how the restructuring of its agricultural sector would necessitate two million of his fellow citizens to quit farming.[182] There is also likely to be a reluctance among the new Member States to begin talking about further changes until the level of direct payments received by their farmers reaches parity with that of producers in the rest of the EU, at the end of their transitional phase-in (see paragraph 16). Evidence to our inquiry also suggested that the new Member States may not be ready yet to move to a CAP where Pillar 2 schemes dominate, as Pillar 1 funding is progressively removed.[183] Defra did, however, assure us that there were some countries amongst the new Member States who were very open to what the UK Government was saying on the subject of CAP reform.[184]

Our conclusions

108. **Defra's problems in introducing the Single Payment System in England and its demands for the ability to modulate voluntarily funds between the two CAP Pillars in the absence of match-funding may be perceived by some as having a direct relationship with its impatience to move the CAP reform process on at a faster rate. This is unfortunate, as it may well have undermined the Government's negotiating position on further CAP reform as we enter what will be a crucial time for the development of future EU policy. The UK Government must also recognise the differing priorities of many of the new Member States and the need for major restructuring of their agricultural industries.**

109. **We welcome the recent accord signed with Italy on the future of the CAP and encourage the UK Government to make further attempts to establish alliances with likeminded Member States, as these will be essential in attempting to achieve the most far-reaching reform possible. Despite assurances from the Prime Minister as to the balanced nature of the argument, the majority of the evidence suggests that the political consensus currently lies closer to those wishing to preserve the status quo than with the reformist camp of those sympathetic to the UK Government's Vision for the CAP. However, political changes in influential Member States, such as France, combined with a build up of pressure for reform going into the 2008/09 budget review, have the potential to shift the balance in the other direction.**

---

181 During the build-up to the election campaign, the French newspaper, *Le Figaro*, quoted Nicolas Sarkozy as saying that, prior to 2013, he would be prepared to put on the table of the European Council the question of CAP reform ("*Dans les Ardennes, le candidat au chevet de « la France qui souffre »*", *Le Figaro*, 19 December 2006).

182 Q 74 [Mr Jack]

183 Ev 130 [Natural England], 168 [Professor Ken Thomson]

184 Q 194

Future prospects for CAP 'health checks' and the EU budget review

110. Mariann Fischer Boel admits that she has much to do in the second half of her five-year mandate, a period which will determine whether or not her legacy will be that of a reformist Commissioner. She is looking ahead with the regularly repeated motto: 'one vision, two steps'.[185] The first of these steps is the CAP 'health checks', meeting the terms of a series of clauses introduced into the final agreements of the CAP reforms of 2003, 2004 and the sugar reform of 2005. Over the period 2007 to 2009, the Commission must report on cross-compliance, the consequences of partial coupling and the choice of model for implementing the Single Payments Scheme, as well as reporting on certain agricultural markets, most notably the dairy sector.[186] The second of the two steps is the EU budget review, which the European Commission has been requested to undertake in 2008/09, explicitly including the CAP and its financing.

111. Commissioner Fischer Boel began to outline her thinking in advance of the CAP 'health checks' in September 2006, when she addressed agriculture ministers at an informal Council meeting in Finland. In that speech, she launched a thinly-veiled attack on the UK's reformist position, when she said:

> Some seem even to believe that this *rendez-vous* [the 'health checks'] could be the moment to dismantle the CAP, or to change it radically, whatever this might mean, after the wide-reaching reforms of the recent years. Do not expect me to be in this camp.[187]

Since then, she has used speeches at numerous meetings (several of which have been in the UK) to emphasise that a 'health check' should not imply sickness, or the need for radical surgery. Rather, the process is to make sure that the recently reformed CAP is working as it should, in an EU of 27 Member States and in the foreseeable international context.[188]

112. Commissioner Fischer Boel seems to have employed the same tactic as used by her predecessor, Franz Fischler, of using public fora to hint at ideas for change and then to repeat the messages until they gained familiarity and listeners started to accept them as the prevailing orthodoxy. From her oral evidence and the other speeches she has made around Europe, we know that the 'health checks' will in all probability recommend:

- the abolition of set-aside
- the elimination of most, if not all, of the existing derogations from the principle of full decoupling of the Single Payment Scheme
- an increase in the rate of mandatory modulation (above the current 5%)

185 Qq 245, 268

186 Commissioner Mariann Fischer Boel's speech, "The European Model of Agriculture", at the informal ministerial meeting, Oulu, Finland, 26 September 2006

187 *Ibid*.

188 See, for example: Commissioner Mariann Fischer Boel's speech, "Farming for the Future", at the NFU Annual Conference, Birmingham, 26 February 2007.

- a formal commitment not to prolong the milk quota regime once it expires in 2015.[189]

Looking ahead to the CAP beyond 2013 and the budget review of 2008/09, Commissioner Fischer Boel has used her recent speeches to suggest that payments to farmers would likely remain, though full decoupling would be necessary. In the Doha Development Agenda talks at the WTO, the EU has already pledged to end agricultural export subsidies by 2013 and Mrs Fischer Boel has hinted that the Commission will be examining closely whether other market interventions should be phased out as well.

113. The 'one vision, two steps' approach has potential to create confusion. Commissioner Fischer Boel insisted to us that "they are two different exercises […] they might be going back-to-back but they are two different steps".[190] She has also insisted that the EU must decide what kind of policy it wants, before then finding the money to pay for it:

> We will have to keep the horse firmly in front of the cart. Thinking about policy must drive thinking about the European budget. If we put things the other way round, either the cart will not move, or it will tip over, and we won't have a CAP that can meet the very real challenges of the future.[191]

However, the pursuit of this objective does not seem compatible with her other pronouncements regarding only minor adjustments being made with the operations of an already quite 'healthy' CAP, during the first part of her two-step process. If the 'health checks' prove to be a missed opportunity for revising the fundamental workings of the CAP, then presumably the Commissioner will see the realisation of her fears, with budgetary cuts determining the scope and ambition of the future CAP post-2013.

114. When speculating on the extent to which substantial reforms could figure in the 'health checks', Defra noted that the previous Commissioner, Franz Fischler, had hid major reforms behind the title of a "mid-term review" in 2003.[192] However, Defra's ambitions for the future of the CAP seemed to have been constrained by a dose of realism when the Secretary of State outlined his "wish-list" for the 'health checks', at the NFU Annual Conference in February 2007. Echoing much of the Commissioner's own view, David Miliband said:

> We should be looking to end set-aside as a production control instrument. We should prepare the way for a smooth elimination of milk quotas by 2015. We should be rigorous in finding ways to simplify the Single Payment Scheme. We should extend the principle of full decoupling to all Member States.[193]

While none of this is incompatible with the proposals outlined in the Vision document, it does rather suggest that the UK Government has perhaps become more realistic in looking

189 "Commission confident of a reformist future for the CAP", *Agra Europe*, 5 April 2007, A/1–2

190 Q 268

191 Commissioner Mariann Fischer Boel's speech, "The future of the CAP", at the Agra Europe Outlook Conference, London, 27 March 2007

192 Q 224

193 David Miliband's speech at the at the NFU Annual Conference, Birmingham, 26 February 2007

towards the 2008/09 budget review, rather than the earlier 'health checks', to press for the fundamental revisions to the CAP which it advocates.

Our conclusions

115. **We believe that the CAP 'health checks' are a vital opportunity for the UK Government to pursue its agenda on the future of the CAP. If the policy is to be developed in advance of the financial negotiations that will set its budget, the debate on its future direction cannot wait until the later step of the mid-term review of the Financial Perspectives. Advance warning of the future EU agricultural policy for the period post-2013 would help farmers prepare for their new policy environment and help facilitate a resolution in the ongoing multilateral trade negotiations. There seems to us no reason why decisions could not be made in 2008, during the process of the 'health checks', and then implemented in 2014, on the basis of a financial agreement reached in the budget review. The logic of this approach seems compelling, and we urge the UK Government to grasp the opportunity of the forthcoming negotiations to push hard for a new policy that better reflects the modern-day objectives of Europe—a 'Rural Policy for the EU'.**

9 What kind of a rural policy do we want?

116. Agriculture is not the whole of the rural economy. The CAP is founded on a misapprehension that it is. In this final part of our report, we present our conclusions on the policy direction we would wish to see the Government follow. We identify below (paragraph 122) the key issues the Government would have to address in pursuing what we have called a 'Rural Policy for the EU'. Such a policy would need to be guided by common objectives, such as maintenance and enhancement of the environment, and the development of rural economies, but would have to incorporate a high degree of regional differentiation in order to meet the diverse requirements of the different parts of the EU.

117. The Centre for Rural Economy (CRE) told us that "there will remain a need for a common European policy but this should essentially be centred on three objectives: avoiding unfair competition between Member States; managing a common framework for agri-environmental support; and managing a common framework for support for rural development".[194] Professor Sir John Marsh pointed out that the Vision document "rightly stresses that agriculture is already a relatively small part of the UK's rural economy", and that "Governments may properly wish to reward farmers in relation to their contribution to the supply of public goods. Provided this is done in a manner that has minimal consequences for the level of production, it is not unequal treatment nor market distortion. Instead it pays for the total value of the farm's activity to the economy."[195] The CRE also argued that:

> there has been an over-emphasis on the role of agriculture in rural development which the CAP has perpetuated, with damaging consequences in terms of the over-

194 Ev 159

195 Ev 152, 151

> intensification of agriculture (and resultant damage to the rural environment), economic over-dependence of rural areas on agriculture and ill-adapted rural economies.[196]

Professor Ken Thomson suggested this "bias" was perpetuated the UK Government's publication of a "Vision of a reformed 'Common Agricultural Policy' rather than a substitute 'Common Rural Policy' or a 'Common Environmental Policy'".[197] The CRE's own vision, through a 15 to 20 year transition period, would "result in the replacement of Pillar 1, whose primary objective of boosting farming production and productivity is now defunct, with Pillar 2 which aims to encourage the conditions for the balanced territorial development of rural areas".[198]

118. The Campaign to Protect Rural England (CPRE) wished to see:

> a new system for funding land management which rewards farmers positively for the management of features and husbandry which yield public benefits. Individual elements in the landscape, such as ancient trees, archaeological remains, wetlands, field boundaries, traditional buildings and remnant farming systems which are inefficient in producing crops or livestock, but very efficient in producing wildlife or landscape character, should attract positive payment which covers more than the cost of management. This will acknowledge and pay for the benefit derived for society, while allowing farmers to secure some return from selling the fruits of farming in an open market.[199]

This seemed to chime with a recent speech from the Secretary of State, in which he indicated his vision of the sort of agricultural policy he wanted, stressing in particular the environmental angle:

> we must think how our farming subsidies can deliver the maximum level of environmental public goods. We are starting a shift within the Common Agricultural Policy from paying farmers for producing food to paying farmers to look after the land and deliver environmental public goods. As CAP reform progresses, we will need to be increasingly clear about understanding what environmental goods we want to subsidise and how we can use the CAP to enable farmers to become net environmental investors.[200]

119. The Land Use Policy Group (LUPG), whose membership is drawn from the UK's statutory nature conservation, countryside and environment agencies, had also called for a similar development.[201] In its own "vision for sustainable rural land management", the

196 Ev 158

197 Ev 169 [footnote]

198 Ev 158

199 Ev 27

200 David Miliband's speech at the at the Conference to celebrate the 80th anniversary of the founding of the Campaign for Protection of Rural England, "A Land Fit for the Future", London, 9 March 2007

201 Membership of the Land Use Policy Group includes representatives of Natural England, the Environment Agency, the Joint Nature Conservation Committee, the Countryside Council for Wales and Scottish Natural Heritage.

LUPG called for the CAP to be replaced by a new "European Common Rural Policy" which:

- helps achieve regional, national and EU environmental objectives
- reflects EU policy on sustainable environmental, social and economic development
- avoids the export of environmental problems to areas outside the EU
- incorporates a large element of subsidiarity to support national, cultural and economic diversity, but with a common framework for implementation, monitoring and auditing
- integrates individual measures into appropriate 'packages' for different areas, to ensure added value
- complements the Structural Fund support which is available to rural areas with specific needs and problems
- adopts a participatory approach to the development, design and implementation of rural development programmes in Member States, emphasising local engagement
- is adequately resourced to ensure effective delivery.[202]

Our conclusions

120. **We note a distinctive shift in definitions of Defra policy regarding the CAP. Defra must now confirm that HM Treasury is in tune with this, as there is no guarantee that securing environmental goods and services is going to be less expensive than the old Pillar 1 dominated CAP.**

121. **The Government must also take a lead by deciding what a policy for a rural Europe should be, taking account of all relevant factors. These could include environmental and biodiversity protection and enhancement, promotion of employment and economic development, support for biocrops, and compensation for less favoured areas. In order to be politically sustainable, financial support mechanisms within a 'Rural Policy for the EU' would need to support wider public benefits. Otherwise the costs of such a policy would be unlikely to be justifiable to the majority of people in this country and the EU who live and work in urban or semi-urban areas.**

122. **Some of the key issues the UK Government must address in devising and pursuing such a rural policy for the EU should include:**

- **the prioritisation of objectives (for example, between environmental and rural development considerations)**
- **the degree of subsidiarity embodied in the new policy**
- **the relative advantages and disadvantages of financing such a policy—at least to some extent (i.e. co-financing)—at the Member State level**

202 Land Use Policy Group, *Vision for Sustainable Land Management*, June 2006, www.lupg.org.uk/vision

- **how much of the current expenditure on the CAP would be required to fulfil the policy objectives chosen**
- **how best to manage the transition from the current CAP to this new 'Rural Policy for the EU'**
- **the extent to which this new rural policy can contribute to the mitigation of, and adaptation to, climate change.**

123. **In putting forward our recommendations for a 'Rural Policy for the EU', we acknowledge the serious and inherent difficulties in making a clear move away from the entrenched position of the existing CAP. This is made particularly difficult by the inertia of the EU policy process and the close connection of the CAP with the overall budget of the EU, which Member States will be reviewing again in 2008/09. However, the prize of CAP reform is worth the Government devoting all its persuasive power and negotiating effort to push for such a move.**

124. **There is a widespread acceptance in the EU, including in some quarters that have traditionally supported the old style CAP, that the status quo is not a sustainable option. There is also an increasing acknowledgement among farmers and politicians in the EU that further agricultural reform is an inevitable consequence of increasing budgetary pressure and the liberalisation of agricultural markets.**

125. **There is a historic opportunity for the Government to persuade other Member States and the EU institutions of the positive case for fundamental reform in the coming years. This may require the UK to decide if CAP reform is a prize worth having, even if the price that has to be paid is an erosion of the British rebate.**

Conclusions and recommendations

Timing

1. Further reform of the CAP is both necessary and inevitable. However, we conclude that the Government showed a naivety in believing that its Vision for the Common Agricultural Policy document could be its catalyst to a reform agenda when it was introduced so near to the end of its Presidency and without any programme in place to gain support for its British position. Not only did this approach subsequently damage its prospects for Pillar 2 development, it may well have undermined the UK Government's ability fully to influence the reform agenda in the future by antagonising the European Commission and the other EU Member States. We call on the Government to provide an assurance that any future reform proposals will be developed in a more thorough and considered way. (Paragraph 24)

Analysis and the use of data

2. We believe there are several instances where some clarification would have enabled a more balanced representation of the statistics, where information could have been nuanced to alert the reader to the fact that some data predated the most recent reforms, and where it would have been helpful to have noted the assumptions upon which the analysis was based. The Government's lack of analysis to underpin its proposals was both a practical and intellectual failing. We require the Government to explain why it thought it right to publish a document which has been so heavily criticised for its lack of rigour and up-to-date statistical data by key groups whose support for CAP reform was vital. We recommend that Defra publish a full impact assessment of the consequences of its proposals, as requested by Commissioner Fischer Boel, in time for the CAP 'health checks'. (Paragraph 30)

Analysis of aspects of the Vision

3. The future credibility of the Vision document depends on the Government now committing itself to providing a full and detailed evaluation of the impact of these proposals on biodiversity, the environment, the markets for agricultural goods and individual farm enterprises. We call upon the Government to publish this by the middle of 2008. This analysis should be informed by the publication, by the end of 2007, of an evaluation of the effects on UK agriculture of the 2003 CAP reform. The Government must also provide an analysis outlining the effects on UK and EU agriculture of the elimination of Pillar 1. Without this, its assertions as to the value of removing Pillar 1 support will have little credibility amongst our EU partners. (Paragraph 63)

4. Properly targeted schemes delivering public goods and services and representing better value for the public money that is expended on them are clearly desirable. The Vision document suggests this is the direction down which the UK Government would like EU agricultural policy to travel. However, the Vision's argument has been weakened by a lack of detail on the development and agreed outcomes of Pillar 2, as

Pillar 1 is progressively dismantled. A clear statement from the European Commission on the environmental and social objects of Pillar 2 should be sought by the Government. In addition, the Vision's failure to address the potential redistribution effects of modulation should also be rectified through the publication of an impact assessment. (Paragraph 70)

5. The UK Government's calls to increase the importance of Pillar 2 have been further undermined by its involvement as the Presidency of the EU when a budget deal was struck providing significantly less resources for Pillar 2 than in the original European Commission proposal. Those reductions in the rural development budget are inconsistent with the UK Government's stated objective of enhancing funding levels in this area. The UK Government should not call for cuts in Pillar 2 funding as part of its wider demands for CAP budget cuts, as this sends mixed signals to other Member States and the Commission. (Paragraph 71)

6. The Vision document gives insufficient coverage to the potential international consequences of its proposals. The arguments used lack balance and important issues, such as the potential erosion of trade preferences for poor countries, do not seem to be taken sufficiently seriously. We recommend that further analysis be undertaken by Defra, in collaboration with the Department for International Development and HM Treasury, to provide evidence to underpin what at present amounts to little more than an overview of these international aspects in the existing Vision document. (Paragraph 75)

What kind of a CAP do we want?

7. The only long-term justification for future expenditure of taxpayers' money in the agricultural sector is for the provision of public goods. Payments should represent the most efficient means by which society can purchase the public goods—environmental, rural, social—it wishes to enjoy. For these payments to remain publicly acceptable, it is essential that they relate directly to the public goods provided and that, in turn, these public goods are measurable and capable of evaluation. Defra should harness the power of the internet to consult as widely as possible with the rural community about the type of rural policies which should be developed in the context of the 2008 'health checks' and subsequent CAP reform debate. (Paragraph 85)

8. Moving towards specifically targeted policies under Pillar 2 of the CAP will inevitably entail greater national discretion than exists at present. Under this scenario, the Government must ensure that the UK does not once again become the poor relation in the area of rural development policy by conceding negotiating ground which could place our farmers and rural businesses in a position of comparative disadvantage compared to those of other Member States. In this regard, it is vital that the Government is successful in pursuing its case for a fairer, objective based method of allocating Pillar 2 funding during the EU budget review. (Paragraph 91)

9. The objectives of the CAP have remained unchanged for the last 50 years and now seem dated. European agricultural policy has moved on since then, encompassing

issues such as rural development, protection of the environment and animal welfare. The UK Government should begin negotiating, at the earliest opportunity, for a redrafting of the existing Article which lays out the objectives of the CAP—Article 33(1)—with the new text reflecting the wider context of modern rural policy. (Paragraph 95)

10. The name, the 'Common Agricultural Policy' is now an anachronism. It should be replaced by a new 'Rural Policy for the EU'. The separation of the funding mechanisms for Pillar 1 and Pillar 2 represents a significant obstacle to re-tuning the balance of rural support measures in the EU and should be re-evaluated as part of the 2008/09 budget review. The UK should also use its influence in Europe to encourage other Member States fully to integrate their agricultural and environmental policies. The Government could point to the advantages that have flowed from such policies in England being the responsibility of a single department. (Paragraph 96)

Is the UK Government's Vision achievable?

11. Further reform of the CAP is very necessary. However, for British ideas to succeed, it is important that the UK adopts a less naive approach to its agenda than when it launched its Vision document on an unsuspecting audience and without prior effort to prepare the farm ministers for its arrival. This approach was counterproductive and caused a negative reaction. A more consensual approach must be developed if success for the British reform agenda is to be secured in the future. (Paragraph 100)

12. For all its revolutionary rhetoric, the Government's paper was ultimately disappointing. It merely described an evolution of the existing policy, primarily motivated by budget savings, rather than presenting a truly revolutionary vision, directing the debate towards scrapping the existing CAP and replacing it with a 'Rural Policy for the EU'. The failure of the Government to consult stakeholders prior to the launch of the Vision, or to debate its proposals on the floor of the House, or to encourage a wider debate after the Vision's publication, represents a regrettable lost opportunity for engagement. We, therefore, believe that the Government should publish, as soon as possible, a Vision 'mark 2' to address the deficiencies in the original document outlined above and to redirect the debate towards a more visionary replacement for the existing, outdated policy. (Paragraph 101)

13. Defra's problems in introducing the Single Payment System in England and its demands for the ability to modulate voluntarily funds between the two CAP Pillars in the absence of match-funding may be perceived by some as having a direct relationship with its impatience to move the CAP reform process on at a faster rate. This is unfortunate, as it may well have undermined the Government's negotiating position on further CAP reform as we enter what will be a crucial time for the development of future EU policy. The UK Government must also recognise the differing priorities of many of the new Member States and the need for major restructuring of their agricultural industries. (Paragraph 108)

14. We welcome the recent accord signed with Italy on the future of the CAP and encourage the UK Government to make further attempts to establish alliances with likeminded Member States, as these will be essential in attempting to achieve the most far-reaching reform possible. Despite assurances from the Prime Minister as to the balanced nature of the argument, the majority of the evidence suggests that the political consensus currently lies closer to those wishing to preserve the status quo than with the reformist camp of those sympathetic to the UK Government's Vision for the CAP. However, political changes in influential Member States, such as France, combined with a build up of pressure for reform going into the 2008/09 budget review, have the potential to shift the balance in the other direction. (Paragraph 109)

15. We believe that the CAP 'health checks' are a vital opportunity for the UK Government to pursue its agenda on the future of the CAP. If the policy is to be developed in advance of the financial negotiations that will set its budget, the debate on its future direction cannot wait until the later step of the mid-term review of the Financial Perspectives. Advance warning of the future EU agricultural policy for the period post-2013 would help farmers prepare for their new policy environment and help facilitate a resolution in the ongoing multilateral trade negotiations. There seems to us no reason why decisions could not be made in 2008, during the process of the 'health checks', and then implemented in 2014, on the basis of a financial agreement reached in the budget review. The logic of this approach seems compelling, and we urge the UK Government to grasp the opportunity of the forthcoming negotiations to push hard for a new policy that better reflects the modern-day objectives of Europe—a 'Rural Policy for the EU'. (Paragraph 115)

What kind of a rural policy do we want?

16. We note a distinctive shift in definitions of Defra policy regarding the CAP. Defra must now confirm that HM Treasury is in tune with this, as there is no guarantee that securing environmental goods and services is going to be less expensive than the old Pillar 1 dominated CAP. (Paragraph 120)

17. The Government must also take a lead by deciding what a policy for a rural Europe should be, taking account of all relevant factors. These could include environmental and biodiversity protection and enhancement, promotion of employment and economic development, support for biocrops, and compensation for less favoured areas. In order to be politically sustainable, financial support mechanisms within a 'Rural Policy for the EU' would need to support wider public benefits. Otherwise the costs of such a policy would be unlikely to be justifiable to the majority of people in this country and the EU who live and work in urban or semi-urban areas. (Paragraph 121)

18. Some of the key issues the UK Government must address in devising and pursuing such a rural policy for the EU should include:

- The prioritisation of objectives (for example, between environmental and rural development considerations)
- The degree of subsidiarity embodied in the new policy
- The relative advantages and disadvantages of financing such a policy—at least to some extent (i.e. co-financing)—at the Member State level

- How much of the current expenditure on the CAP would be required to fulfil the policy objectives chosen
- How best to manage the transition from the current CAP to this new 'Rural Policy for the EU'
- The extent to which this new rural policy can contribute to the mitigation of, and adaptation to, climate change. (Paragraph 122)

19. In putting forward our recommendations for a 'Rural Policy for the EU', we acknowledge the serious and inherent difficulties in making a clear move away from the entrenched position of the existing CAP. This is made particularly difficult by the inertia of the EU policy process and the close connection of the CAP with the overall budget of the EU, which Member States will be reviewing again in 2008/09. However, the prize of CAP reform is worth the Government devoting all its persuasive power and negotiating effort to push for such a move. (Paragraph 123)

20. There is a widespread acceptance in the EU, including in some quarters that have traditionally supported the old style CAP, that the status quo is not a sustainable option. There is also an increasing acknowledgement among farmers and politicians in the EU that further agricultural reform is an inevitable consequence of increasing budgetary pressure and the liberalisation of agricultural markets. (Paragraph 124)

21. There is a historic opportunity for the Government to persuade other Member States and the EU institutions of the positive case for fundamental reform in the coming years. This may require the UK to decide if CAP reform is a prize worth having, even if the price that has to be paid is an erosion of the British rebate. (Paragraph 125)

Formal minutes

Wednesday 16 May 2007

Members present:

Mr Michael Jack, in the Chair

Mr Geoffrey Cox
Mr David Drew
Patrick Hall
Lynne Jones
David Lepper
Mr Dan Rogerson
Sir Peter Soulsby
David Taylor
Mr Roger Williams

Draft Report [*The UK Government's "Vision for the Common Agricultural Policy"*], proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 125 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Fourth Report of the Committee to the House.

Ordered, That the Chairman do 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.

Several papers were ordered to be appended to the Minutes of Evidence.

Ordered, That the Appendices to the Minutes of Evidence taken before the Committee be reported to the House.

Several papers were ordered to be reported to the House.

***

[Adjourned till Monday 21 May at a quarter past Four o' clock

Witnesses

Wednesday 14 June 2006	Page
Mr David Fursdon, President**, Professor Allan Buckwell**, Chief Economist and Head of Land Use and **Dr Derrick Wilkinson**, Senior Economist, Country Land and Business Association	Ev 6
Dr Mark Avery, Director of Conservation and **Dr Sue Armstrong Brown**, Head of Agricultural Policy, Royal Society for the Protection of Birds, **Mr Tom Oliver**, Head of Rural Policy and **Mr Ian Woodhurst**, Senior Rural Policy Officer, Campaign to Protect Rural England	Ev 28
Tuesday 4 July 2006	
Mr Jamie Blackett, **Mr Andrew Brown**, **Mrs Gillian Herbert** and **Mr Guy Smith**	Ev 41
Rev. Robert Barlow, **Mrs Jilly Greed**, **Mr Roger James** and **Mr John Turner**	Ev 54
Mr Carl Atkin, **Mr Steve Cowley**, **Mr Tony Keene**, **Mr Hugo Marfleet** and **Mrs Chris Thomas**	Ev 66
Wednesday 12 July 2006	
Rt Hon David Miliband MP, Secretary of State, Department for Environment, Food and Rural Affairs, **Dr Simon Harding**, Deputy Director, Economics and Statistics and **Mr Andrew Lawrence**, Head of CAP Strategy Division	Ev 76
Monday 16 October 2006	
Mrs Mariann Fischer Boel, European Commissioner for Agriculture and Rural Development, **Mr Klaus-Dieter Borchardt**, Deputy Head of Fischer Boel's Cabinet and **Mr John Bensted-Smith**, Director, Economic analyses and evaluation, European Commission's Directorate-General for Agriculture and Rural Development	Ev 87
Wednesday 18 October 2006	
Mr Peter Kendall, President, **Mr Martin Haworth**, Director of Policy and **Ms Carmen Suárez**, Chief Economist, National Farmers' Union	Ev 104
Mr George Dunn, Chief Executive, Tenant Farmers Association	Ev 120
Dr Helen Phillips, Chief Executive Officer, **Mr Poul Christensen**, Deputy Chairman, and **Mr David Young**, Executive Director: Strategy and Performance, Natural England	Ev 132

List of written evidence

The following memoranda were received as part of the Committee's outreach programme to individuals within the farming community following an advertising campaign inviting individuals to give oral evidence at the Royal Show.

List of unprinted written evidence

Additional papers have been received from the following and have been reported to the House but to save printing costs they have not been printed. Copies have been placed in the House of Commons Library where they may be inspected by Members. Other copies are in the Parliamentary Archives, Houses of Parliament and are available to the public for inspection. Requests for inspection should be addressed to the Parliamentary Archives, Houses of Parliament, London SW1A 0PW. (Tel 020 7219 3074, Fax 020 7219 2570, archives@parliament.uk). Hours of inspection are from 9:30am to 5:00pm on Mondays to Fridays.

Mr C E Bateman (RAS 28)

Mr Matt Bell (RAS 25)

CPRE (CAP Background Paper 05): "Undermining the Land-Based Economy"

CPRE (CAP Background Paper 06): "Squandering our Assets"

Commercial Farmers Group (CAP Background Paper 04): "The future of British Farming after CAP Reform"

Mr Lawrence Keeley (RAS 27)

Mr Richard Stubley (RAS 23)

Reports from the Committee since 2003

(Government Reponses to Committee Reports appear in brackets)

Session 2006–07

Third Report	The Rural Payments Agency and the implementation of the Single Payment Scheme	HC 107-I
Second Report	Defra's Annual Report 2006 and Defra's budget	HC 132 (HC 522)
First Report	The work of the Committee in 2005–06	HC 213

Session 2005–06

Eighth Report	Climate change: the role of bioenergy	HC 965-I (HC 131 06–07)
Seventh Report	The Environment Agency	HC 780-I (HC 1519)
Sixth Report	Bovine TB: badger culling	HC 905-I
Fifth Report	Rural Payments Agency: interim report	HC 840
Fourth Report	The Departmental Annual Report 2005	HC 693-I (HC 966)
Third Report	The Animal Welfare Bill	HC 683
Second Report	Reform of the EU Sugar Regime	HC 585-I (HC 927)
First Report	The future for UK fishing: Government Response	HC 532

Session 2004–05

Ninth Report	Climate Change: looking forward	HC 130-I (HC 533 05–06)
Eighth Report	Progress on the use of pesticides: the Voluntary Initiative	HC 258 (HC 534 05–06)
Seventh Report	Food information	HC 469 (HC 437 05–06)
Sixth Report	The future of UK fishing	HC 122 (HC 532 05–06)
Fifth Report	The Government's Rural Strategy and the draft Natural Environment and Rural Communities Bill	HC 408-I (Cm 6574)
Fourth Report	Waste policy and the Landfill Directive	HC 102 (Cm 6618)
Third Report	The Work of the Committee in 2004	HC 281
Second Report	Dismantling Defunct Ships in the UK: Government Reply	HC 257
First Report	The draft Animal Welfare Bill	HC 52-I (HC 385)

Session 2003–04

Nineteenth Report	Water Pricing: follow-up	HC 1186 (HC 490 04–05)
Eighteenth Report	Dismantling of Defunct Ships in the UK	HC 834 (HC 257 04–05)
Seventeenth Report	Agriculture and EU Enlargement	HC 421 (HC 221 04–05)
Sixteenth Report	Climate Change, Water Security and Flooding	HC 558 (HC 101 04–05)
Fifteenth Report	The Departmental Annual Report 2004	HC 707 (HC 100 04–05)
Fourteenth Report	Sites of Special Scientific Interest	HC 475 (HC 1255)
Thirteenth Report	Bovine TB	HC 638 (HC 1130)
Twelfth Report	Reform of the Sugar Regime	HC 550-I (HC 1129)
Eleventh Report	GM Planting Regime	HC 607 (HC 1128)
Tenth Report	Marine Environment: Government reply	HC 706
Ninth Report	Milk Pricing in the United Kingdom	HC 335 (HC 1036)
Eighth Report	Gangmasters (follow up)	HC 455 (HC 1035)
Seventh Report	Implementation of CAP Reform in the UK	HC 226-I (HC 916)