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 II
Oral and written evidence

Ordered by The House of Commons
to be printed 16 May 2007
Environment, Food and Rural Affairs Committee

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

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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.
Witnesses

Wednesday 14 June 2006

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

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

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Tuesday 4 July 2006

Mr Jamie Blackett, Mr Andrew Brown, Mrs Gillian Herbert and Mr Guy Smith

Rev. Robert Barlow, Mrs Jilly Greed, Mr Roger James and Mr John Turner

Mr Carl Atkin, Mr Steve Cowley, Mr Tony Keene, Mr Hugo Marfleet and Mrs Chris Thomas

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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

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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

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Wednesday 18 October 2006

Mr Peter Kendall, President, Mr Martin Haworth, Director of Policy and Ms Carmen Suárez, Chief Economics, National Farmers’ Union

Mr George Dunn, Chief Executive, Tenant Farmers Association

Dr Helen Phillips, Chief Executive Officer, Mr Poul Christensen, Deputy Chairman, and Mr David Young, Executive Director: Strategy and Performance, Natural England

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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)
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Taken before the Environment, Food and Rural Affairs Committee

on Wednesday 14 June 2006

Members present:

Mr Michael Jack, in the Chair

Mr David Drew
James Duddridge
Lynne Jones
David Lepper

Sir Peter Soulsby
David Taylor
Mr Roger Williams

Memorandum submitted by Country Land & Business Association (CLA) (CAP 16)

1. The Country Land & Business Association (CLA) is the premier organisation safeguarding the interests of those responsible for land, property and business throughout rural England and Wales. CLA members own and manage more than half the rural land in England and Wales and we are committed to the positive development of the rural economy.

2. We are pleased that the EFRA Committee is undertaking a full inquiry into the joint paper issued by HM Treasury and Defra last December: “A Vision for the Common Agricultural Policy”. The purpose of the paper is not clear. It was produced with no forewarning in the midst of an intense debate on the EU Budget in which the Government decided to make CAP reform a central issue. Yet there was no attempt to carry stakeholders either in the UK or in the rest of the EU along with their vision. It seemed neither to engage with the principal current CAP issue—viz the implementation of the 2003 reform with which the Government is already struggling—nor is it very sensible timing to launch a debate about the next reform which is not due to get underway until 2008–09.

3. In our view the paper is severely unbalanced in four major respects.

4. First it contains no analysis of the impacts of the vision on: UK farming structure, employment and output; on the upstream and downstream effects of these changes; nor on the environment. The style of the report is to document a series of well-known economic impacts of the CAP and then to assume that if the present supports were withdrawn the problems would all disappear and implicitly there would be no undesirable knock-on economic or environmental impacts. This is a big mistake.

5. Second, the paper goes to great lengths to portray perceived problems with the CAP, but saying nothing about the successful development of agriculture across Europe whilst the CAP has been in operation—this is principally the production of wholesome food, in bewildering variety, reliably, consistently and plentifully available all year round, whilst releasing a large pool of labour to contribute to other aspects of economic development.

6. Third the paper reviews a range of evidence of environmental harm caused by modern farming, while it presents no evidence of the wide range of environmental benefits provided by farmers—for example, maintenance of landscape and heritage, the preservation of biodiversity, and the stewardship of natural resources. A collection of independent estimates of the values of these positive externalities has been sponsored by DEFRA and published in its own reports, yet not a whisper of this is included in this report.

7. Fourth, this is a very British report. The CAP is only reformed when a qualified majority of the EU Council can be persuaded of the case for, and direction of, reform. In its preparation, its launch and since, we are aware of no effort by the sponsoring departments to take along other views of the CAP or to explore how their vision might be taken forward. Unfortunately, if critics of the CAP merely point out what is wrong with it, and ask for it to be dismantled in this take-it-or-leave-it way, then most will choose to leave it.

8. Farming in the EU over the post-war period has not been without its problems but, on balance, we would argue that it has been a story of great success; a story of which the Government paper makes no mention. Achieving ever increasing production efficiencies, European farming has provided consumers with a wonderfully varied and wholesome food supply, produced to the highest quality standards in the world. At the same time, it has continued to provide the beautiful landscapes that are rightly famous around the world. All this has been achieved in one of the most difficult environments in the world, the densely populated and ancient lands of Europe. While most other major food producing regions can separate food production areas from areas of natural wilderness and biodiversity, European farming must balance the interests of high production business and the important need to maintain and enhance environmental quality and landscape character. At the same time, due in part to a number of food scares over the past 15
years, European consumers place a particularly high emphasis on assurances about the provenance of their food. Assurances that EU farmers provide. Achievements like these should not be undervalued; they can easily be lost, and would be very difficult to regain.

9. The report contains contradictions in what it says about the importance of the CAP. In paragraph 1.9 the report says that the CAP “significantly distorts the overall EU economy”, while in paragraph 2.6 it says the CAP has only “a perceptible impact on the UK’s and EU’s economy.” The welfare costs it says (para 2.8) are conservatively estimated to be about 0.2% of EU GDP, and maybe this should be inflated by 20% to allow for dynamic effects, to 0.24% of GDP. It also makes reference (para 2.11) to estimates of impacts on price inflation of 15%, this seems inconceivable if the economic impacts are so small. In addition there has been an opportunity to test the relation between farm-gate price support and retail price inflation in the period since 1992 when support prices for cereals, oilseeds, beef and dairy produce have all been substantially reduced. How much of this has been transmitted to consumer prices?

10. Overall, we found the economic analysis throughout the report lacked any real understanding of the realities and practicalities of the farming and rural economies. It refers in a number of places to the inflationary effect of subsidies on land prices, but fails to consider the impact on farming businesses and the rest of the rural economy of a collapse of land prices if supports were removed at the speed seemingly advocated by the report. With farm incomes naturally more volatile than in other sectors and our Government’s refusal to support income stabilisation programmes,1 it is often the asset values that a farmer can show his banker that allows him to secure the credit facilities needed to bridge the income gaps that inevitably arise, or to raise the finance required for a business expansion. Similarly, the report repeatedly distinguishes disapprovingly between land owners and farmers—and quotes a number of inconsistent figures in reference. Sadly, the report shows no recognition of the importance of land rental for tenant farmers2 and for varying production capacities.

11. The report advocates a farming industry that is internationally competitive and “treated no differently from other sectors of the economy” (para 1.29). This might be acceptable if farming was like other sectors of the economy but it is not. In economic terms it is a fragmented sector squeezed between highly concentrated businesses up-stream and down-stream and cannot pass on additional production costs, for example, such as those induced by high regulatory standards. Also as this industry manages over three-quarters of the UK landmass, over which there are a growing range of environmental concerns, it has to be treated differently than other industries.

12. The antipathy toward farming apparent in the report is worrying enough, coming as it does from the two Government departments most directly responsible for the development and implementation of policies affecting farming and rural businesses. More worrying is that they do not even seem to be aware of the historic changes to farming and countryside policies that they themselves have recently developed and are now in the process of implementing!

13. The report is all the more disheartening in that many elements of the vision for agriculture detailed in paragraph 1.5 of the report are supported by the CLA. But promoted, as in this report, within such a negative view of farming it makes it very difficult for the CLA to accept.

14. The Efra Committee have indicated that they are particularly interested in four main sets of issues. We will respond to each in turn.

**Expenditure on “Pillar I” of the CAP**

*Food security—does the Government remain committed to UK food production?*

15. Currently UK farmers and growers provide 63% of all food consumed here, and 74% of all indigenous food. The main exceptions are with fruits and vegetables that cannot be grown in this country. Certainly UK producers are doing all they can to remain competitive, but the increasingly cosmopolitan tastes of consumers create a market challenge that is hard to meet. At the same time, producers question the Government’s commitment to the food industry when they are required to carry the extra costs of a growing weight of UK and EU regulation at farm level, while being increasingly exposed to international competition from products often produced to much lower production standards.

16. The CLA believe that security of food supplies should be a strategic priority. Recent events have highlighted public concerns about reliance on imported energy supplies—often from unstable areas of the world. While concerns about possible reliance on imported foods are based on quite different issues, the potential problems are no less worrying. Food production is uniquely vulnerable to shortages due to climate change and greater climatic volatility, and to the increasing ability of disease to spread rapidly around the world. Allowing UK food production capacity to be exported to the current lowest cost producers, as the Government seems willing to contemplate, may have short term advantages but it also carries risks.

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1 Even so-called agricultural free-traders like Australia and Canada provide government supported income stabilisation programmes.
2 Tenant farming allows people to enter the farming business without needing to raise the capital need to buy land at the beginning, thus facilitating greater freedom of entry into the market than would otherwise be the case.
17. The CLA agrees with the suggested policy that the first line of defence for our food supply is by diversifying our food sources within an open, liberalised international trading system. In today’s globalised world, more than ever, no country can, or indeed should try to, isolate itself. But, in moving to this policy from where we are now, we should proceed with caution. There are very real dangers that a rapid liberalisation of trade would facilitate over-specialisation and concentration of food production in certain regions, which could increase vulnerability to shortages in the medium term. We are thinking for example of the huge environmental risks which would be associated with a further dramatic expansion of Brazilian agriculture. A sensible debate is needed to find the optimal balance between European and imported food sources.

Potential distortions and inequality of treatment of farmers across the EU

18. We are not aware of any substantial evidence that the Government have given this issue much thought at all. We have seen little evidence that the competitive effects between EU member states has been analysed either for the tendency for the CAP to become a less common policy, or indeed with respect to the most recent or prospective enlargement.

Possible environmental consequences of the proposals

19. The CLA is shocked at the complete lack of analysis of the environmental impacts of the proposed removal of all Pillar 1 supports and all border protection. We have argued elsewhere that a significant part of the direct payments under Pillar 1 are environmental payments in waiting. Our position is that the quantum of support currently offered under pillar 2 (even with the new Stewardship scheme fully rolled out) is still significantly below what it will have to be in the absence of Pillar 1 supports. To put this another way, and to illustrate with UK figures, the current financial support under Pillar 1 is about £2.5bn which is almost identical to the Total Income From Farming (TIF). Removal of this support (even if phased over a period of years would produce a very different structured agricultural industry than we have now (not analysed by DEFRA either). If at the same time the border controls were removed too (as proposed), then there is no way the bulk of the existing production could compete—whilst maintaining the current countryside outputs (landscape and biodiversity features). That there is no recognition or analysis of this point is the most shocking aspect of this report.

The extent to which the proposed changes to the CAP would result in lower food prices and (through reduced public spending on the CAP) a lower level of taxation

20. In our view, the current CAP reforms will have no noticeable affect on either consumer prices or on levels of taxation. Food prices are already very low and falling as a percentage of consumers’ spending, and we do not expect the reform of the CAP to have any significant effect on retail prices. In the case of meats and cereals, for example, the farmgate produce is often a small proportion of the total value of the retail product. This is increasingly the case as consumers demand ready meals and other high value-added prepared foods. Likewise with catering and restaurant meals, which account for about 50% of consumer spending on food. Certainly the suggestion that the CAP is responsible for pushing up food prices is not supported by the evidence. While the all items RPI has risen by 25% over the past 10 years retail food prices have risen by only 11% and the farmgate share of the retail price has fallen by 30%. Similarly, with taxation, we have no reason to believe that any budgetary savings that may be found will be returned to taxpayers. Indeed, to the best of our knowledge, HM Treasury has been very careful to avoid making any commitments—or even vague indications—that CAP reforms will give rise to any savings for tax payers.

How such a revised CAP would enable the EU’s farmers to be more competitive

21. The CLA have long understood the need to decouple farm support from production decisions. By doing so, producers are freed from having to undertake unprofitable production in order to get the additional support needed to provide them with an income. Indeed, we believe that the over-production that resulted from coupled farm support was an important contributor to the extremely weak markets that producers have faced over recent years. Under the new regime, producers will be free to refocus their businesses on more profitable activities, secure in the knowledge that they will have some financial support during the difficult restructuring phase.

22. Of critical importance, however, to a successful future for farming in the UK, is that Government understands that farmers cannot continue to carry the increasingly onerous burden of costly regulation, while facing ever more open global competition. It needs to be recognised that farming is subject to all the regulation that all other businesses face, while—as managers of 77% of the UK’s land—it is also subject to an increasing volume of environmental regulation. Farming carries the cost of these regulations because it
is unable to pass them through to consumers, as most other industries do. This, combined with the great environmental and landscape benefits routinely provided by farmers without any proportionate return, strongly suggests a key role for Government. In our view this should come largely through a well-funded Pillar 2 budget.

**How proposals would differently affect the tenanted and non-tenanted sectors across the EU**

23. Since the decoupled payments are made to the farmer, we see no significant difference in the effect on tenants as compared with land owners.

**The implications of the proposals for the applicant countries to the EU**

24. We assume that you refer to Bulgaria and Romania. Regardless, without a clearer view of the budget available for the period 2007 through 2012, the implications for those countries is very difficult to determine. Certainly it seems reasonable to assume that whatever budgetary resources may be available, their accession to the EU will mean additional development resources and market opportunities for them.

**The Rural Economy**

25. The implications of the report’s proposals for the rural economy are difficult to judge. This report provides no recognition of the knock-on effects for employment in UK farming and the rest of the food chain, the implications for the wider rural economy, or the consequences for the landscape and natural environment. These concerns are all the more important in less favoured, upland areas where farming is most vulnerable to reductions in support and where its importance in the local economy is often greatest.

26. In the CLA vision, where there is encouragement and facilitation for farmers to market environment-related high quality premium products and services, and full support for the non-market outputs provided by private managers that cannot be paid for via this user-cost route, the consequences for the rural economy would be positive. Agriculture may be a small part of the economy in many areas, but land management, and farming in particular, is the indisputable foundation of rural tourism and many other rural businesses. More generally, the landscape that is such an indispensable part of the attractiveness of rural life for many people is a manmade landscape; it is the product of people working and living in the countryside. Government must understand that our countryside heritage is both a “shop floor” and a place for recreation and enjoyment. With the right programmes, well implemented and properly funded, it will continue to be a vibrant and beautiful place to work, live and visit. Our concern is that the Government vision significantly underestimates the scale of support necessary under Pillar 2 to deliver what society wants from its rural areas.

**International Issues**

27. This section could well have been written by a campaigning NGO. It discusses at some length concerns about the barriers to the EU market but that discussion is entirely one-sided. A few facts not mentioned in the Government paper: The EU is a net importer of agricultural goods, and is the world’s largest importer of agricultural goods. The EU is the world’s largest importer of agricultural goods from developing countries—importing more than the US, Canada, Japan, Australia and New Zealand combined. The EU imports some 85% of Africa’s agricultural exports, and 45% of Latin America’s. Under the “Everything But Arms” initiative, the EU unilaterally provides duty and quota free access for the 49 poorest countries in the world. A total of 142 developing countries benefit from preferential access to the EU’s markets—by far the highest level of preferential access provided by any industrialised country.

28. The report is inconsistent when it quotes approvingly from the report of the Commission for Africa: “barriers and subsidies are absolutely unacceptable; they are politically antiquated, economically illiterate, environmentally destructive and ethically indefensible. They must go.” No mention, however, is made of the fact that it is the developing countries themselves who impose by far the highest tariff barriers, and that it is those barriers, together with their poor governance and lack of capacity that are the principal causes of their underdevelopment.

29. When it comes to who would benefit from the sort of trade reforms the report seems to support, again the arguments are weak. It accepts that the main winners will be the large producers—such as Brazil—and that most others will not benefit without substantial internal reforms. Similarly, the report does acknowledge that many countries will suffer as a result of the erosion of their preferential access. In neither case, however, does the report deal with these concerns seriously. For example, it makes no mention of the

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5 It is worth noting that the decision not to make extra provision in the Pillar 1 budget for Romania and Bulgaria suggests the Financial Discipline mechanism will require an additional cut in SFS payments of about 8%.

6 The paper also suggests that poor countries suffer from the imposition of EU customs procedures and the application of health and safety standards. See fn 6, p 52.

7 Capacity includes, amongst other things, production capacity, transport infrastructure, and legal and financial systems.
large environmental subsidies effectively provided as a result of weak environmental management in Brazil, or indeed the large subsidy provided to Brazilian sugar producers through the mandatory ethanol inclusion programme. Nor does the report give any thought to how those countries lacking the internal structures needed to compete internationally will cope with the international regime advocated by the report. It is important to note that some of the strongest supporters of the EU import systems are the developing countries themselves, and it seems to us to be patronising to suggest that we know what’s better for them than they do themselves. Likewise, the dismissive remarks about the concerns of the net food importing countries, for whom higher international food prices would be a real problem, betray the clear bias of the report’s authors.

**THE WIDER DEBATE ON FUTURE FINANCING OF THE CAP**

30. For the CLA this is the most important question. We believe that some of the key mechanisms needed to achieve the vision that we share with the Government are already in place. Crucial was the decoupling of payments in Pillar 1 from production decisions. Equally important is to ensure that the funding available in Pillar 2 is sufficient to deliver the environmental and rural development objectives that we all share. In the debates about the European budget, there is diminishing support for the Pillar 1 budget. Many, especially northern European taxpayers, are asking why so much money is being provided to farmers, and the newly acceded countries have not much interest in defending Pillar 1 as they have little expectation of benefiting from it on an equal basis with EU15 member states. An ongoing shift of funding from Pillar 1 to Pillar 2 seems inevitable.

31. In our view, there are three reasons for substantial support to farmers and other land managers that are both economically and politically justifiable. The main one is for the provision of payments for environmental and land management services (Axis 2 of Pillar 2). The other main reasons are assistance for wider rural economic development (Axis 3 of Pillar 2) and for helping with the structural adjustment and modernisation of the farming industry (Axis 1 of Pillar 2). Given their level of development, the larger proportion of their population in rural areas, and the higher share of national GDP accounted for by the rural economy the new member states in particular stand to benefit significantly from enhanced Pillar 2 funding.

32. The process of switching funds from Pillar 1 to Pillar 2 has begun. It is currently composed of two main elements; compulsory EU level modulation, and voluntary national modulation. At present both are match-funded by national governments. The UK is alone within the EU in using the facility for national modulation. The European Council, meeting last December, through a UK initiative, agreed to allow additional voluntary modulation from 2007 of up to 20% that need not be match-funded or subject to the agreed rural development guidelines. We have yet to see how this is embodied in detailed regulations. How the system of Pillar 2 funding develops over the coming years is pivotal to the success of the farming and other land-based industries, to the management and development of rural society, and to the maintenance and preservation of our natural heritage.

33. Historically, the UK has received only some 3.5% of funds for Rural Development, far less than it should have received if the allocation had been on objective criteria. This resulted from Treasury concerns to maximise the UK’s budget rebate in the 1980s and 1990s which meant that the UK made little use of the predecessor programmes of the Rural Development Programme. We hope that this will be rectified with the new budget for the post-2007 period, when a new mechanism for distributing funds may be implemented. However, the funds available from Brussels may not be materially more, since the UK championed the 36% cut in the proposed EU RDP budget.

34. The report seems to think that Pillar 2 is important, yet it was the UK that negotiated a significant cut in the Pillar 2 budget for the period 2007–13, and has reached agreement to allow national modulation of up to 20% without match-funding from the Treasury. Clearly, the government’s strategy is confused unless it is secretly planning to derive the bulk of its RDP funding from national modulation, and to do so without any match-funding from the Treasury. If so, this aspect of the UK policy was never openly or formally announced. It was certainly not subject to any consultation nor was it discussed with stakeholders.

35. In light of the “Vision” paper by Defra and Treasury, and the achievements of the British Government in the recent EU budget negotiations, we have grave concerns. As we have already said, the “Vision” paper conveys an unbalanced analysis of the current situation, while the conduct of the Government in the recent budget negotiations served only to reinforce to view that they lack an agreed, coherent strategy for realising the vision they advocate.

36. In our view a strategy for realising the next reform must be based on three essential elements:

36.1 It must be developed within an EU-wide framework; in our view the transboundary nature of the main environmental concerns addressed by the CAP in future still justify a common policy approach. This requires a common vision that can only be realised through engagement with our European partners, and through clear, compelling analysis that take account of the variety of conditions, experience and ambition within the EU.
Q1 Chairman: Good afternoon, ladies and gentlemen. Welcome to our first evidence session on the Committee’s inquiry into the UK Government’s vision for the Common Agricultural Policy. We welcome old friends of the Committee, the Country Land and Business Association, and in thanking them very much for their comprehensive and interesting written evidence we welcome David Fursdon, their President, Professor Allan Buckwell, their Chief Economist and Head of Land Use, and Dr Derrick Wilkinson, their Senior Economist. Gentlemen, one of the things which has been going through my mind as I have looked at the evidence for this inquiry was—and indeed the Committee had the pleasure of visiting Poland and Romania last week in pursuit of further background for this inquiry—what actually do we think the purpose of the Common Agricultural Policy is, because the “Vision” document is strong on drawing up lists of what a reformed Common Agricultural Policy might look like and it lists some of the things it would like to see coming out of it, but it made me ask myself the rather more fundamental question, what should this Common Agricultural Policy’s purpose now be? Perhaps you might like to supply me with an answer?

Professor Buckwell: Thank you, Chairman. If I could kick off on that one, in a word, changing. The purpose of the CAP is changing and that is the difficulty in a sense and the reason we are having a debate. The objectives laid down in Article 39 of the Treaty of Rome, which is all to do with agriculture, food production and ensuring the standards of living of those engaged, stabilising supplies, and so on. Those were objectives which were absolutely understandable in the late fifties, early sixties, when it was set up and even for one or two decades thereafter, but what has happened since then is that we have added significant other demands which society places on its rural areas and its agriculture, and that increasingly involves delivering environmental services. So this did not figure at all in the original Articles, but it is now a core part of the current and future purpose of the policy, whilst at the same time trying to stimulate and encourage the industry to deliver food supplies, because that is what the fundamental job of agriculture is, and to improve quality, to improve marketing, and so on, but now increasingly to deliver these wider what I would call environmental and cultural landscape objectives.

Q2 Chairman: Do you think it is quite important in a way that before one gets into the detail, the delivery mechanisms—which is what the “Vision” does in its long, what I call shopping list analysis—I looked around to see if they could define with some degree of clarity what the CAP’s purpose actually is and it is very fuzzy. I could not quite get to the definitive paragraph. I have lists of what it might look like, but they talk about, in paragraph 1.32, “Against this background a sustainable CAP would comprise,” and then there is a long list of what it would comprise of, but you are still left asking the question, what is the purpose?

Professor Buckwell: We felt exactly the same, what is the purpose of this document? Is it not a vision for agriculture, is it not a vision for land management or the countryside, which is where you might have thought we would have started with our vision for...
that and then said, what policy do we need to deliver that? This document does not provide this. To our reading, this is a list of what the Treasury and some Defra officials think is wrong with the current financing of the CAP. It is a rather narrowly focused document about the financing issues, and there is a very strong thrust in this that they want to significantly reduce the public expenditure cost of the countryside, which we think would be a huge mistake.

Q3 Chairman: Did you make a cockshy yourself at remediing that failure of the document? I know you have produced your evidence, but you have been kind enough, if you like, to follow the mantra we laid down and answer the questions we put down. I just wondered if you had come back to a simple question of what is the purpose of the CAP? You have talked about the delivery of environmental goods—and we will come on to discuss that in some detail—but everybody talks about these environmental goods as if there was a pre-determined list of what it was we wanted.

Professor Buckwell: You are absolutely right, Chairman. That is a complicated question to answer, if you want to start it now, but in terms of the purpose of the CAP there is a requirement—it is perfectly reasonable and sensible that the largest economic block in the world, the European Union, would want to have a policy for secure, stable supplies of its food, of high quality and food safety, and so on. So it is not at all surprising, particularly within a single market, that the European Union would want to have a policy covering that area. This is the basic needs of the population. When you add to that that Europe is unusual in many parts and most regions of the world in that its rural areas are also its playground. A huge amount of tourism and recreation takes place in the countryside. It is a managed countryside very largely, particularly in this country, less so in some of the other Member States but still to a high degree, and so of course this policy nowadays, given what society expects from the countryside, we would expect to have a very significant element of how that countryside is managed. I do not just mean agriculture, but of course that includes agriculture.

Q4 Chairman: I suppose what was at the back of my mind was how common the policy needed to be, because one of the things which comes out from a lot of the evidence is that when you had a CAP which was production-focused then a common approach had some appeal. But now you have decoupled, if you like “doing your own thing” becomes more appealing as opposed to acting on commonality.

Professor Buckwell: There are two reasons why we would be very cautious about that. First of all, as more of the policy is justified in environmental terms and as most of that environmental regulation is European—these are European standards, rightly, within a European market because you are regulating businesses within an open market—that is part of the justification. A huge element of these environmental concerns is trans-boundary. Insects, birds, and so on, do not respect national boundaries and water flows across national boundaries. These are the fundamental reasons why a very strong element of commonality is justified, but likewise we would be suspicious because there is a much stronger taste in other Member States to put public expenditure into agriculture per se, but it is necessary to have a common policy to hold the ring for competition reasons within the single market. Therefore, it is vital, in our view, that we cannot just simply walk away from a common policy, from where we are now within the European single market with all its regulation.
stable or even increased in a number of Member States. So from one paragraph to the next they have got this sort of sleight of hand. Their entire analysis of the upstream and downstream linkages is, what, five short paragraphs and it cites three studies, only one of which relates to England, notwithstanding the fact that Defra has commissioned a lot of studies and it is quite capable of commissioning the relevant studies. They go on to talk about the consequences for the environment. We are treated to, what, four paragraphs on the environment where they do not seem to quite know whether or not they think that further CAP reform would lead to further intensification or not, but they certainly do not cite any work one way or the other. So we are talking there about the consequences of their vision for the rural economy, the English landscape and countryside, and we have got a total of nine paragraphs out of this entire document. I do not think that that is an appropriate analysis, quite frankly. What they are suggesting, if we have a look in here, is that agricultural spending should be reduced to the current levels of Pillar 2 funding, that is to say a 90% reduction in support over a 10 to 15 year period. What are the consequences of that? Absolutely no analysis whatsoever. That seems to me, if it is not too strong, a dereliction of their duty as a department to put forward policies which are based upon careful, well-thought out and balanced analyses. This, sadly, is lacking.

Q7 Mr Williams: So what would your assessment be of the impact if the “Vision” was implemented as far as the CAP is concerned?

Dr Wilkinson: Quite clearly the CLA does not have the resources of Defra and the Treasury combined, so we are not in a position to offer you a clear analysis of that. What we could say, I think, at this point is that we do understand the imperatives in terms of the budget and the changing needs of society, and so forth, but we also understand that the Pillar 1 funding, the support, if you take that away from farmers right now—the core business of farming lost £500 million last year. It loses money year in and year out, that is the core business, without support. We all buy into the fact that farming needs to be better connected to the market, it has to find market opportunities for a sustainable future, but over a 10 year period? Is there any analysis anywhere which suggests that market returns to farmers, whether from commodity production, from diversified activities, or even indeed from the new non-food opportunities, are going to provide an increase of, let us say, two to £3 billion a year on a stable basis over the next few years? I have not seen any of that analysis. What we would like to do is engage in that discussion to see some of that work being done and to have a sensible debate about what the future for farming and the countryside is.

Q8 Mr Williams: I think some of the models which were put forward by the academics were of countries where agricultural support had been eliminated or greatly reduced, that there was not much effect really on agriculture?

Dr Wilkinson: Indeed.

Q9 Mr Williams: I guess we are looking at New Zealand?

Dr Wilkinson: Correct.

Q10 Mr Williams: Could you suggest any other countries?

Dr Wilkinson: No. New Zealand is an interesting example on several counts. First of all, it is a small country. Nobody else has ever done it or even tried, or even contemplated it. We have to remember, when we are talking about New Zealand, it is different. There are differences and those differences are not often brought out. For example, when they did their overnight liberalisation, withdrawal of support if you will, they also did a number of other things. They did provide exit grants for those who wanted to leave, but—and this is crucial, and interestingly not mentioned in here when they went on at some length about New Zealand—if you have a look at the exchange rate (and remember 90% of New Zealand’s farm output is exported so the exchange rate is critical), as you lead into that it was very, very low. The New Zealand dollar was very low, so farm incomes were reasonably good. It then peaked in about 1988 when they did this liberalisation. Quite how they timed it, I do not know, but it was brilliant timing. They had this lovely run-up of good farm incomes up to a peak and then it went right down again. There was about 15% devaluation within 12 months, which stayed there until only about two years ago, so the exchange rate really worked for them. They also have a government and a ministry which supports them, which is actually proud of them and tries to help them. It has got a competition policy which allows their companies to grow up to world-scale, such as Fonterra, where we do not have that here. So there is a number of differences which need to be borne in mind. Yes, as I said, we do understand that farming needs to be more engaged with the market and get better market returns, we all want that, but we have to be realistic about it.

Q11 Mr Williams: When the Committee visited Brussels recently, senior members of the European Union Commission were critical of the “Vision” document in the sense that it did not give an indication of how farm structures would be involved as a result of this implementation, if it was implemented. That is critical to our understanding of rural communities, particularly in some more rural countries like France, for instance. Have you got any ideas? You have not got the capacity of Defra, but you might have the imagination to tell us how farm structures could be affected by these proposals.

Dr Wilkinson: Probably the beginning assumption is that the trends in farm structures would accelerate very, very rapidly, and those trends briefly, as far as farm size, are that we have got a very, very rapid growth of the very tiny, what some people call “hobby farms”, and a fairly stable number of the very large farms, although they are getting bigger.
They are the ones which produce 80% of the food supply of this country. There are about 10,000 of them. We are losing that middle ground, the family farms. That will accelerate under this type of scenario. There are some 550,000 jobs, farmers and jobs directly in farming. The loss of farmers and farm workers will accelerate. The knock-on in the broader rural economy is that we have got about 50,000-odd in the food supply chain—I am thinking there of the farm suppliers and the wholesalers, just one away from farms—and clearly they are going to get hurt as well. So there is going to be a lot of unemployment, a lot faster unemployment, and we have to remember that while those figures might not seem very large in the scheme of things, this is going to be largely out in the more rural areas where there are fewer opportunities for people to do things there, so then they will have to leave those areas, and again you are going to end up with all the problems of people having to leave the countryside because they cannot afford to be there any more, and so on and so forth. There is a number of working assumptions we could begin with, but, as I say, we have not been able to do the analysis. We want to see the analysis done and we want to see the debate begin.

**Q12 David Taylor:** It is about 1% of GDP, is it not?  
**Dr Wilkinson:** It is less than that, actually, it is about 0.7, 0.9. It depends which year we are talking about.

**Mr Fursdon:** Chairman, could I just add one point to that? Part of what lies behind this whole thing is that it will be better for the environment if we go down this route, and yet you would expect also some analysis to have been done on how the effects of these changes in structure might affect the environment as well, and the assumption that if people are going to have to compete in a world market they are not going to be intensive and that the only intensive agriculture is associated with the CAP supported agriculture is, I think, simplistic.

**Q13 Mr Drew:** If I could just take up your point about your views on the “Vision” document, the problem is that in a sense the historic contradictions of the way in which the CAP has operated, and will operate, inevitably means that you have got a very divergent series of countries now within the CAP. Why is it we cannot look at options including, on the one hand, complete repatriation of the monies to national agriculture and, on the other hand, something to the extent that we might have a fully integrated market where you give every encouragement to those less developed countries to change their agriculture rather than a dependent income and production-based scenario, one which actually moves in the direction we all seem to want to go, which is to pay farmers to do things which are public goods and produce the alternatives to food production which everyone seems to crave after? Is that something the CLA has been interested in and done some work on?

**Professor Buckwell:** Yes, we are interested in that and, yes, we have done work on this. You made some very important points there. First of all, that there are quite different requirements around the European Union. This is absolutely true and it is quite hard, as the Chairman was saying earlier, to see what is the commonality. My answer is that we need a common framework, and insist on that, but in fact it is not the current CAP. There has to be a common framework all the while we are in a single market with common regulation. The point about repatriation—and I do not like the use of that word—is that it has been agreed, we thought, in principle, and we are shocked at the way Defra and the Treasury threw away the principle in December that Pillar 2, in a sense the good CAP, the rural development, the agri-environment part of the CAP, was traditionally co-financed and the principle was precisely because the requirements amongst the various measures offered in Pillar 2 are different. The different Member States choose differently from the menu there and they should, of course, quite reasonably tip in some of their own funds to ensure that they only go in for programmes which make good value for money.

**Q14 Mr Drew:** As usual, when it came to the budget renegotiations, it was the rural dimension which was the main—

**Professor Buckwell:** It was cut.

**Q15 Mr Drew:** That is where all the cuts were across the board. We in Britain were as guilty as the traditional agriculture subsidy nations and unless you can change that mindset—and to be fair it is totally unhelpful, going through Romania and Poland last week, to be leading them in a direction in which we do not want them to go, but they have to go there to move in our direction later, which seems a completely barmy way of undertaking policy.

**Professor Buckwell:** I quite agree, which is why we put on the table for discussion last summer, when these discussions were still at an early stage, that rather than reducing the co-financing of Pillar 2 we should talk about increasing the co-financing of Pillar 1, and then the Member States such as France and Spain, who are some of the biggest beneficiaries of it, might take a different attitude if they had to pay more for it themselves. That is one of several ingredients which will certainly be discussed in the next review in two or three years’ time, but the fact is that the opportunity to do that was not taken this time and instead we have gone almost in the reverse direction, reducing the co-financing in Pillar 2, which we are very upset about for the same reasons as Mr Drew mentioned.

**Chairman:** We will come back and look at this matter again a little later on.

**Q16 Lynne Jones:** In terms of reducing the spending on Pillar 2, the Government says that that was not their idea and it was the inevitable consequence of trying to negotiate for a budget reduction overall
and it was a presidency compromise. Do you accept that position? If so, did the Government have any alternative?

Professor Buckwell: It is an incredible way of describing it. The reality was that there was a decision to reduce the overall budget and there was an acceptance that Prime Ministerial agreement had already been made to maintain the Pillar 1 budget, so therefore the consequences of that was inevitably a slashing of Pillar 2 funding. It was as sure as night follows day that would come from those two policy decisions which this Government took, so there can be no pretending that we were surprised and we were not really wanting that outcome. It was a deliberate contrivance or outcome of the decisions it had made.

So the question is, what do we do about that now? This is why we are saying what we do not like about this whole “Vision” document is that it is just hell-bent on reducing public expenditure on the countryside, instead of standing back and asking the question which the Chairman did at the outset, “What do we want the policy to do?” We in the CLA have certainly said that the way we are supporting the countryside has to change.

Q17 Lynne Jones: So you are saying that the Government should have predicted that that would be the inevitable outcome and therefore to blame the presidency is really disingenuous?

Professor Buckwell: They were the presidency, as far as I know.

Q18 Lynne Jones: To blame the Commission, sorry. Professor Buckwell: Yes, I agree.

Q19 Lynne Jones: Moving back in terms of Pillar 1 and Pillar 2, the Government’s line is that spending directly on targeted agri-environment schemes is more effective in providing environmental goods and services than the imposition of cross compliance measures for Pillar 1. Do you accept that as a point of principle?

Professor Buckwell: We accept that the payment for public services is going to be a major part (not the whole part, but a major part) of the enduring public support for rural areas. The question now is, how do you do that? The problem, as we see it, is that you would not start from where we are, but the trouble is we are where we are. We are paying large sums of money, roughly £200 per hectare in England, on the Pillar 1 schemes. It is a bit less than that after deductions, but as a round figure. We are paying £30 per hectare for entry level stewardship, and then varying larger sums on a much more selective basis for the higher stewardship. Those figures do not make any sense. Had the £200 per hectare in the Pillar 1 payments not been there, you would have had to have paid an awful lot more than £30 per hectare to have got the delivery from the basic stewardship scheme, but the reason why you only need £30 is because you are giving them £200. Trying to unravel that knot is the challenge and all we are saying is that you do not unravel that mess by just saying, “Slash Pillar 1, end of story.” We have got to find a way of either targeting the environmental payments in Pillar 1 or switching the money to Pillar 2, but there are all these co-financing problems about doing that. That is the knot we are trying to untie.

Q20 Lynne Jones: You say that it is difficult to estimate the actual amount of money you would need to spend on ensuring environmental goods and services. Why is it difficult, and should somebody be actually trying to find out what sort of money we need for these goods and services?

Professor Buckwell: Yes, absolutely, we are, but it is like any public expenditure; it is difficult to know how much to spend on health, police and education.

Q21 Lynne Jones: It does not mean you automatically say you should spend £200 per hectare.

Professor Buckwell: No. Exactly.

Q22 Lynne Jones: £30 is too little, but £200 is too much.

Professor Buckwell: Precisely, so it should be to do with what are the costs of producing these goods, how much of them, where are they produced and what are they worth.

Q23 Chairman: You are coming down a bit on that, because one of the things I was interested in was where you were sort of glibly saying, “We want to purchase environmental goods, but we do not seem to analyse what goods it is we want to buy and there is not much about how much value we put on that.”

Professor Buckwell: I think there is an increasing body of evidence. In terms of what they are, we have public service agreement targets for some of them, such as farm land birds and for Sites of Special Scientific Interest in favourable condition. In a sense, these are the signals as to precisely what it is environmentally that is produced and managed by farmers and land managers that we want to buy. The challenge is how much of them and what rate per hectare or anything else we have got to pay to get them, starting from where we are with sustainable businesses, because most of these services do not come about when you just walk away from the land.

So if you want people there managing it, then you have got to find a payment rate which makes it attractive for them to be there. That is a complex issue, but it is not insoluble. It is no more difficult in principle than deciding how many and what kinds of health services, and that is something of constant debate and refinement. It is a “suck it and see” approach, do a bit and then ask yourselves, “Are we doing enough or too much?” It is plain to us that at the moment our spending on this area of activity under Pillar 2 is in order of magnitude smaller, we say, based on Defra’s figures for the value of these services than can be justified. So we know in which direction we want to move.

Q24 Lynne Jones: Do you think there is already evidence out there to be going on with, or should there be further research carried out?
Professor Buckwell: There will be a non-ending need for research because society’s demand for these things is not static and it will adjust, depending on how much of these services they have got, but there is a body of work. Again, it was a shocking thing that Defra do not cite their own data, which they have spent a lot of money collecting, on the worth of these services in this document. They published a document in 2004, a very comprehensive survey done by the best academics in the land, in the world, on green accounting, the late Professor David Pearce, on what the values of these things are in a comprehensive way and then ignore the results.

Q25 Lynne Jones: So they could have done more in producing this document?
Professor Buckwell: Absolutely.

Q26 Lynne Jones: Although perhaps even more work would need to be done?
Professor Buckwell: Yes.

Q27 Lynne Jones: What would your view be of the impact if there was a phasing out of spending under Pillar 1 over the 10 year period without adequate compensation through increases in Pillar 2 spending?
Professor Buckwell: It is a complex thing because it will affect the arable areas, the horticultural areas and the hill areas in quite different ways, but to take some of the areas where there would be real concern, the grazing areas, which is a large part of central and western England and Wales and other parts of the UK, you have just taken away what those people are living on by removing over a period of 10 years the Pillar 1 supports and if there was nothing—

Q28 Lynne Jones: There is a proposal for some one-off compensations, is there not, which could be invested?
Professor Buckwell: Yes, but we do not really understand how big that was and to whom it was directed, and so on, so we would need to look into what was meant by that. If that is all that was done, you would find that there would be a huge de-intensification of production. Who would be keeping cattle, particularly in those areas? The stock per hectare would fall. The number of people looking after them would diminish. Their ability to manage those flocks and herds would diminish. You would see landscape change within 10 years, that is for sure. You would see it within three years, and the change you would observe is that it would be a much less open countryside, a less open landscape. You know that if you leave a field for two or three years—the President can explain this in great detail, he has got one or two he showed me—in one or two years it is impenetrable. You have changed an open landscape into a scrub. In the fullness of time, who knows what the climax for vegetation is, but that takes a very long time to achieve.

Mr Fursdon: There is an assumption in the paper that really very little will change, apart from maybe one or two areas in the hills, and so on. It does seem to me that it actually merited some further consideration and some further analysis to see what actually would happen and what the impact would be, and what the impact would be environmentally as much as anything else on biodiversity, and so on. We all know that in certain parts of the country even now under the countryside stewardship, the equivalent of the HLS scheme, there are requirements to graze at certain sward height, and so on, but if you actually have not got the stock there you cannot do that. I would have thought that some sort of measures of loss in environmental terms, and also actually in landscape terms—an awful lot of the landscape benefits are unquantified at the moment and it would be nice to feel that some attempt had been made to quantify what those benefits might be and what might be lost in those circumstances.

Q29 Lynne Jones: Some reduction in intensification could actually be beneficial. I have just been on holiday to Greece, where they have got flower meadows to die for, and within agriculture it is much less-intensive. So if we get the balance right in terms of de-intensification, that could actually be beneficial to the environment?
Mr Fursdon: You could be right. I think one of the points which is often missed is that at the moment— and obviously this is all changing—the Pillar 1 payments are what are providing the core to enable the farm to continue and then to actually offer the environmental services with the Pillar 2. I am involved with, as I say, a countryside stewardship scheme at home and the costs of the countryside stewardship work that I do is very often underwritten by the main core business, and if it had to stand on its own as a separate business it would be very difficult to make that work viably.

Q30 Lynne Jones: As you know, the Government has got approval to move 20% of the funds from Pillar 1 to Pillar 2. How important is it that the UK match-funds any national modulation? Are your concerns other than in terms of income grounds, that obviously the single farm payments will be reduced by up to 20%, affecting income? What are your concerns if that happens without match funding?
Mr Fursdon: If there is not a match funding for Pillar 2, then it is going to be very difficult for people to actually achieve the aims which are set under Pillar 2. It is key in terms of the cash, but it is also key in terms of the commitment and the signals which it is sending out. If you are trying to plot your way forward in agriculture and you are saying, as we are constantly being told, that there must be an environmental dimension to that, and then the environmental dimension is something which is going to work if it is co-financed, and then the co-financing does not come forward, it is sending out all the signals that the Government does not really believe in Pillar 2 and does not really believe in the environmental solution and, not surprisingly, that sends the farmers back into their shells and it makes them want to hang on then to Pillar 1 for dear life because that is seen as being the only way in which
they are going to be able to achieve what they are being asked to achieve, and also for them to have a future.

Q31 Lynne Jones: You want to see more objective criteria in determining the allocation of rural development funds. To what extent do you think the Government, the UK, is going to be able to negotiate for a larger share of the EU’s rural development pot?

Professor Buckwell: The answer is that we found out two weeks ago that they have not, that the objective criteria were not used and the criteria which is being used is the historic distribution from 2000 to 2006, so in a sense the UK therefore continues to have its miserable 3.5% of the RDR budget with 11 or 12% of the land area. This is part of the failure of their negotiating strategy, that they put their number one requirement to get the overall budget down, and this is one of the consequences. Seven or eight other Member States negotiated special deals which gave them extra pots of RDR money. I do not even know whether we tried, but we did not get any.

Q32 Lynne Jones: You think that was because we were so determined to reduce the overall budget, because of the unpopularity of the CAP?

Professor Buckwell: Yes.

Q33 Lynne Jones: And that in the end we perhaps got a worse deal for our country—

Professor Buckwell: Certainly they did.

Q34 Lynne Jones: — than if perhaps the budget had not been reduced to the same extent?

Professor Buckwell: If this had been the prime negotiating target, to have a reasonably objectively-based share out of the second Pillar funds, we would get a lot more than 3.5%.

Q35 Lynne Jones: You are arguing for more money to be spent on the CAP?

Professor Buckwell: Through that, yes, of course.

Q36 Lynne Jones: Which would not be politically very popular, so you can appreciate the Government’s difficulty?

Professor Buckwell: Yes, of course.

Q37 Chairman: Presumably the corollary of that is the fact that we have got this 20% ability now in terms of self-modulation, I presume to make up for the deficiency in the Pillar 2 pot, if we want to, from own resources?

Professor Buckwell: Yes, that is the mechanism that is there. Only the UK would use it, and it would be very difficult to persuade farmers that they are being treated on the same fair basis as the rest of the European Union, whatever the arguments are about these being decoupled payments. The overwhelming feeling amongst farmers, if and when we modulate at a much higher rate than the rest of the European Union, will be that they are being disadvantaged. That will be the overwhelming feeling.

Q38 Chairman: It is a subtle form of repatriation?

Professor Buckwell: It is.

Dr Wilkinson: Just a point of clarification. We are not really looking for more money for the CAP, there is enough money there, so let us be clear about that. What we are looking for is that it is distributed differently, both within Europe and within the UK.

Q39 Lynne Jones: That is what the Government wants to achieve as well.

Dr Wilkinson: No, that is not at all what the Government wants to achieve. The Government wants to achieve a very substantial reduction in the budget for the CAP. We are saying there is enough money there to do the job, as we understand it now, and we have yet to define the job, as we were saying earlier, what the new purposes are. So far, we are quite satisfied there is probably enough money there to get the job done, but it just needs to be re-organised. If we are going to be doing it on a land management basis, then the land which is being managed should be a factor in the distribution of the funds. It is not. The share of the rural development, the 3.5%, is just the historic amount that we got—

Q40 Lynne Jones: Sorry, I thought you meant the overall spend.

Dr Wilkinson: No, we get that because of the rebate issue, and all the rest of that, which is probably why they did not fight particularly hard to get some more money. It is about how we take that pot of money, which is part Pillar 2, as Allan said, part ELS and part HLS. There are all these little pots of money all being distributed, and if you think of it from the land management point of view, it is a pretty peculiar sort of situation we are in now and it is because we are moving from one policy which was all about feeding a starving Europe and developing a rich source of a wide variety of high-quality foods, et cetera, to a different set of policy objectives, and we are in that transition right now. So things perhaps do not always make sense when you are in a state of transition. That is what we are trying to get the clarity on. That is why we need the debate. But so far as the total funds are concerned, I would say our starting point is that it is not the quantum which is an issue, it is the distribution which is the concern.

Q41 James Duddridge: The “Vision” paper states that the value of the direct payments is perhaps already capitalised within the land, so the benefits of the payments do not actually accrue to the farmers, they actually accrue to the landowners. Do you actually accept that analysis?

Professor Buckwell: Defra’s own analysis which they cite in there is that 26% of the value of the support is capitalised in the land, 36% accrues to the other input suppliers, machinery, fertilizers, crop protection councils, and so on, and there is 26% which is economic waste and 10% farm income. So they have got a statement that most accrues to the land and their own tables to support that shows it is 26%, so they do not even describe their own data in...
a correct way. Of course, some of it accrues to land, but as David will explain, because he is a land valuer, it is a bit more complicated than that.\(^8\)

**Mr Fursdon:** Yes, I am a rural surveyor as well and I learnt at college how you value land and when I went out in practice I tore all that up, because it is completely different. I learned that you value land in terms of whether it is grade 1, grade 2, grade 3, what its productive capacity is and all the rest of it, and you look at the likely income you are going to get from the land and actually take a proper economic look at it. In practice, what you do when you look at the value of land is you look at the neighbours, you look at who has bought a house in the area, you look at a whole lot of other issues and you value it on that basis, and that is how people pay for it. There is this simplistic idea in this paper that the CAP support has all been moved into land values. Land values vary across the country and yet the support, up until now, has been uniform. So if that is the case, then there cannot be as close a correlation as is given here. Yes, of course land values reflect a variety of things and your ability to earn something from that land must be a relevant factor, but there are so many other things which override that in practice in terms of land value that I think that is a little bit simplistic. The other thing which I think is a bit depressing, if you like, about the paper is that it sort of paints a picture that landowners in receipt of money are the bad guys and the farmers in receipt of money are the good guys. There is an interaction between land ownership and farming. We have a tenancy sector in this country. There is a landlord and tenant system which works to the benefit of both, where very often successful tenants are able to develop entrepreneurial businesses and landlords reinvest money in capital equipment, and so on, on those holdings in order to enable that to happen, and that is given no acknowledgement at all in the paper here. The final thing I would say is that a number of these statistics in the paper are based on the old coupled payments, and it says so in the paper. Now that we are in an era of decoupled payments, isthatultimatelyitisanenvironmental purpose and that reflects the environmental value of this land. Of course, some of that value you would expect to be reflected in the price of that land. That is a normal economic shared relationship. So in our argument, which does not involve demolishing the whole support system but changing it, we would not expect such a dramatic impact on land value.

**Q44 Mr Williams:** They can only sell it to somebody who has got land, because without the land you cannot use the entitlement.

**Mr Fursdon:** I accept there has to be land elsewhere to move it on to. I accept that is part of the process, but there are still occasions where it is moved away from the land. The landowner has no ability to prevent the tenant, provided the tenant has land elsewhere, from moving those entitlements elsewhere. So it is a much more complicated issue than is suggested here.

**Professor Buckwell:** We suggest that a major part of the purpose of the payments, even the Pillar 1 payments, is that ultimately it is an environmental purpose and that reflects the environmental value of this land. Of course, some of that value you would expect to be reflected in the price of that land. That is a normal economic shared relationship. So in our argument, which does not involve demolishing the whole support system but changing it, we would not expect such a dramatic impact on land value.

**Q45 James Duddridge:** If you are saying land values only relate to about 26%, yet s.1.3 of the report actually says they are going to compensate landowners for the reduced value, is there not something in it for your members if Treasury has done the wrong calculations? This is good news for you, surely, not bad news, if I am reading it correctly?

**Mr Fursdon:** It is a very broad statement, compensation for loss of value. I think one would need to see what actually was involved there. It is an easy sentence to say and, to be honest with you, past history would not suggest that that was necessarily going to be the answer. It is one of the examples of bald statements in the "Vision" paper with no consultation with organisations like ours and others which might represent the people involved. If we had actually been part of a discussion which said, as you have put the question to me, "How would you feel about this? What level of compensation would be appropriate and how would one deal with that?" and so on, we might have a different attitude to it. The fact that it has actually been bounced on us and with a bald statement like that, which we know nothing about—we do not know how much money it means, we do not know whether it is actually going to compensate or not—makes it very difficult for us to answer that question.

**Dr Wilkinson:** I could perhaps throw a little light on it. If memory serves me correctly, and I stand to be corrected on this, the Defra figures suggest that the total value of farm land which is in ownership is somewhere over £100 billion. If we are talking of, let us say, a 10% reduction in value, that is £10 billion. Are we suggesting the Treasury is going to stump up £10 billion to compensate these

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8 See Ev 17
people that they have spent all this time slagging off? It does not really ring true somehow, so I would be deeply suspicious that we would get anywhere near a fraction of the sort of changes they allege would happen.

Q46 James Duddridge: Has the report already set tenant farmers and landowners at one another’s throats, or in discussions, because if the Government is saying that all the money is going to the nasty landowners because the capitalisation is in the land and the tenant farmers are being left out—

Dr Wilkinson: But it does not.

Q47 James Duddridge: But that is what the Government is saying. It is saying the money is capitalised in the land value, is it not? I am not disputing the fact, I am just—

Professor Buckwell: To the extent that it is true, it is a once for ever change, is it not? The current support system merely replaces the previous support system which has been around for donkey’s years, so any capitalisation has long been, in a sense, absorbed and reflected in all the ways that it can be. We are not talking about a new change until and unless they eliminate the support, and there will be some impact of that, but not huge, we estimate. So at the moment, there is nothing between landlords and tenants. We are both equally unhappy with the thought that the Government is contemplating simply removing support—the tenants will speak for themselves—rather than changing it, which is our view.

Mr Fursdon: I think what would have been fantastic would have been if this report had actually looked at the landlord and tenant system, for example, and asked, has this actually got something to offer for the way forward for agriculture in this country? I believe it has, but we have not gone into that sort of detail. Admittedly, it was a vision for the CAP and not a vision for agriculture, so I have to be careful what I say there. Nevertheless, I think a constructive look at the way in which capital is involved in the future of farming is a valid thing which needs to be looked at, and whether it is capitalised into land values or whether it is actually made available to entrepreneurs in order to develop a good system of agriculture for the future is a very relevant subject for us to be discussing at the moment and in the future, and what would have been great would have been to have started to have that sort of discussion in the context of this “Vision”.

Dr Wilkinson: You are not only capitalising in land values, you are just capitalising in all sorts of things. Tractor prices are higher than they would be if that support was not there, and feed prices. There is a whole range of things, if you follow that argument through.

Q48 Mr Williams: You have already mentioned co-financing of CAP and I understand that you have advocated co-financing of Pillar 1, or a percentage of Pillar 1. Perhaps you could tell us what you see are the advantages of co-financing?

Professor Buckwell: This was offered as a contribution for discussion in the context that if the desire is to reduce the EU budget component, the public expenditure on agriculture, then here was a way of doing it, because the justifications for not co-financing Pillar I have vanished. When it was market support, it was essential that it was funded centrally because the actual costs would appear wherever the surplus product appeared, and yet the benefits are felt throughout the Common Market. Now that it is a decoupled payment, that justification has disappeared. So we are saying if you wanted to reduce the total expenditure that is one of the options for doing it and it would spread the cost of the CAP more equitably around the Member States. The losers, of course, would not be expected to see this point.

Q49 Mr Williams: Yes, but if co-financing is a good thing, why would it not be better to have 100% co-financing than 10% co-financing?

Professor Buckwell: In a sense in principle because that was offered. It was difficult enough to get anybody to take that suggestion seriously with a small element co-financing and it seems to me that in Europe the way you get change in the policy is to introduce a principle at a low level first so that it does not hurt the losers too badly, and then in a sense crank it up later. That is bound to happen. If ultimately we are talking about a policy which is essentially a Pillar 2-type policy, then I suspect it will all be co-financing in the fullness of time. So if we are going to end up there ultimately, why not start talking about it now, which is all we were saying last summer? But that has gone off the agenda. At the earliest, that will come back on the agenda in 2008.

Q50 Mr Williams: In terms of the UK’s approach to the EU budget, presumably one way we could encourage people to go down the co-financing route would be to give up our rebate? Have you any idea about how much we would benefit from co-financing, giving up the rebate?

Professor Buckwell: Those calculations were done and the whole point of them was obviously to arrange equations which made the UK better off, but certainly no worse off. That was perfectly possible.

Q51 Mr Williams: The National Farmers’ Union is not very keen on that?

Professor Buckwell: No, it is not.

Q52 Mr Williams: Can you tell us why?

Professor Buckwell: To be honest, you will have to ask them. They prefer to have the payments cut rather than, as we would, just have them financed differently.

Q53 Mr Williams: Do you think it is possible under the EU legislation to have co-financing?

Professor Buckwell: Yes, perfectly possible. All policies, apart from Pillar I and the CAP, are co-financing. It is the norm in Europe.

Mr Williams: Thank you.
Q54 David Taylor: Chairman, exactly 15 minutes ago—I wrote down the time and quote—Dr Wilkinson said, “There’s enough in the CAP to get the job done,” and then he weakened that slightly to say, “There’s probably enough in the CAP to get the job done,” but the problem was that it needed to be distributed differently within the EU and within particular countries. Presumably you had in mind the UK. Looking forward then in terms of justifying future payments, do you see them as something akin to income support which should be targeted at need, or a payment for the provision of services and environmental goods?

Dr Wilkinson: Very much the latter. I think we have to get away from the idea that there will be a model for the future. There will not be. It is going to be a tapestry of all sorts of little bits and pieces which will come together and create the possibility for somebody to do this thing called farming, which might look very different from one farm to another. Some people will be getting more money from selling food to retailers, some might be selling food to people in the farmers’ markets, some people might be selling stuff to power stations, some people might be selling environmental services to the Government, but in a whole different range of ways will be providing different goods and services and will have a range of different markets. Whether or not we call that provision of goods and services to the Government, or whether we call that government money a subsidy, I do not think it is. I think it is a fee for service. I think we have just got to make sure that we get these things packaged right. Even within that there will be a range of different things on offer. There will be some things which you are just not able to define sufficiently to put them into a contract or relationship, so they will probably be provided on a sort of flat fee where you get so many pounds per hectare for doing X. Other things will be a little more bespoke. There will be a whole different range, but this is precisely the discussion which I think we need to be engaging in. It is not that we are able to show you a blueprint for what the future financing of the countryside and of farming looks like, it is that we are trying to articulate what the exam questions are and what some of the beginning propositions are.

Q55 David Taylor: Some of your members have tried—and I know that my friend, the Member for Stroud, has—to get information on this in terms of the payments which are received at almost the agri-industry end of the spectrum. They are very, very substantial indeed, are they not, and they are probably difficult to justify in some circumstances? I wonder whether you saw the FT article a week ago today, right on the front page? I will bet Professor Buckwell has the FT and reads it before he reads the Daily Mail every morning. The title of it was, “Move to cap EU farm relief targets gentry’s rich pickings.” Did you see that article Professor Buckwell?

Professor Buckwell: The capping issue, of course, has never gone away; it is bound to be there. But you mentioned agri-industry. You are absolutely right that various businesses which export dairy products, cereals and sugar receive export subsidies. Who on earth did anybody think export subsidies were immediately paid to? They were there as part of the market support arrangements of the old CAP. There is now a commitment to abolish them, so they will tail away to nothing. They have already shrunk. Beyond that, there are some very large payments to some very large landowners.

Q56 David Taylor: Yes, that is the point I want to make now.

Professor Buckwell: There is one of them sitting behind us, called the RSPB, and there is another one called Farmcare, and then there is a lot of—

Q57 David Taylor: There is the cooperative movement. I understand that. I am not thinking that they are all the Duchy of Cornwall, but the fact is that the proposals by Franz Fischer in 2002 were put to bed, so it was thought, and they have risen at night and here we are again with almost the scenario of Commissioner Fischer Boel’s suggestion, which will be attractive to many, that from next year there be a capping, which is tentatively suggested at €300,000, is it not?

Professor Buckwell: Yes.

Q58 David Taylor: That would not affect too many individual enterprises or organisations in the UK, would it? There are fewer than one in 2,500 in receipt of payments who would be affected by that ceiling and only 20% of those, fewer than 400, would be in the UK. Surely that would demonstrate a fairness and an equity which the taxpayer at large would be happier with, would it not?

Professor Buckwell: To the extent that these are described in any way as income payments, that would follow absolutely, I have not quarrel with that, but our whole argument is that we have moved away from this and these are, as Derrick Wilkinson just said, payments for environmental services. If you deliver a lot of environmental services, you get a lot of payment. I am not suggesting the present arrangements are precisely what I have just described, but what I have said is that there is a commitment which we share, and we think the Government shares, that that will be the ultimate long-run justification, in which case to have a cap would suggest that anybody who delivers more than a certain number of hectares’ worth of environment does not get paid for a very large area. That would simply bring about a restructuring of the farms. RSPB would change their holdings so that they were not caught by the cap, so would as many of our members as could do that.

Q59 David Taylor: So you would advise families to disaggregate their holdings for individual members and then have virtual farms for which they are responsible to keep them all beneath the cap? Is that what you are saying?

Professor Buckwell: That is what happened in the US.
Q60 David Taylor: Is that what you would be saying to your members?
Professor Buckwell: You would not need to say it to them. They are intelligent operators who know how to run a business, so they do not need any advice from me on that, but our point is, do not let us do it, please, because if you are moving the money into payments for services and you are encouraging businesses to expand—the way most of these surviving commercial land management operations are surviving is by having big areas under their control. They do not own most of it, they rent it in, they contract it, they share-farm it. There are very complex and sophisticated arrangements out there and you do not want to set that process in reverse, which is what capping would do.

Q61 David Taylor: So you are pretty relaxed about large estates that are prosperous and well-to-do in every sense and are taking away cart loads of money every year, at least a quarter of a million pounds or more? That is not something which fazes you at all?
Professor Buckwell: And delivering a quarter of a million pounds worth of environmental services.

Q62 David Taylor: I would like Mr Fursdon to react to that. Are you one of the 380 in the UK who will be better off?
Mr Fursdon: I wish I was, but sadly I am not. One of the things about the capping is that it seems to me that a lot of the discussions about capping start to go beyond the point which Allan has just been making about what the purposes of these payments are there is a whole load of circumstances which people may or may not be in. You have just made all sorts of suggestions about the people who are receiving them and yet in many other ways, such as the tax process, and so on, people look at what people’s net worth is and try and work it out. This is a very simplistic way of dealing with what is a complex problem.

Q63 David Taylor: It is a problem then, the inequity, as Dr Wilkinson acknowledged, of the distribution of funds made available by the taxpayer?
Dr Wilkinson: No.

Q64 David Taylor: You said that there ought to be a redistribution, I think, Dr Wilkinson?
Dr Wilkinson: Not in the sense you are talking about, no. I certainly never said that, because I frankly think that the capping is a piece of propaganda of the worst sort. The simple fact is that people were, under the old policy, given a support payment in order to provide food. The more food you provided, the more support you got, and that is why the ones who provided the bulk of the food got the bulk of the payments. Now we are moving to a situation where you get paid to provide landscaping, environmental goodies, and all the rest of that. Those who provide the most of it should get the most payment. I find it really quite remarkable that you would not think it at all sensible if you said, “We are going to cap government spending on computers”—

Q65 David Taylor: I think you have picked the wrong example there! On consultants, say, or on PFI? We could cap that, could we not?
Dr Wilkinson: Whatever it might be, but nobody is suggesting doing that, because they are providing some service and we are paying the market rate. This is what we are trying to move the farming and countryside managers’ businesses towards, a more business-like relationship between them and government in the provision of these particular goods and services which the market cannot really deal with in ordinary terms.

Q66 Lynne Jones: We would have consultants advising how to break up the land and get the money against the land!
Dr Wilkinson: Yes, exactly.
Chairman: Before it gets too much like a party, Mr Drew has told me he has a short question. One sentence for you and one for Mr Williams, and then we will wrap it up.

Q67 Mr Drew: Can we look at the other end of this, in terms of a single farm payment and the fact that you have got 50% more people claiming a single farm payment. Again, I was interested because obviously you were persuaded by the area scheme. Did you anticipate that huge increase, and is that fair?
Dr Wilkinson: Yes.
Mr Fursdon: And in so far as there were environmental conditions attached to that land, there was an appropriateness in the land—

Q68 Mr Drew: But these are not farmers?
Dr Wilkinson: So what?
Chairman: That is more than one question. Mr Williams.

Q69 Mr Williams: You made a case against capping, but tapering is another issue which would reflect the economies of scale of either producing food under the old system or environmental goods under this system?
Professor Buckwell: I have no problem with debating that. Of course, if we are saying they are justified by payments for services then they have got to relate to the cost of delivery, and if there are economies of scale, of course we have to discuss that. Therefore, you need an evidence basis to do that, not a £300,000 cap where the 300,000 is plucked out of the air.

Q70 Chairman: Gentlemen, you as an organisation have relations with others in Europe. Do you sense there is any mood for change amongst those you talked to on the other side of the Channel for any of the kind of package which is put forward in this “Vision” document?
Professor Buckwell: With the Swedes and Danes there was a flicker of recognition and with everybody else blank amazement.
Chairman: Gentlemen, thank you very much indeed for your contribution, both in your answers today and in your written evidence. We much appreciate it.
Supplementary memorandum submitted by Country Land & Business Association (CLA) (CAP 16a)

CAPITALISATION OF SUPPORT INTO LAND VALUES

1. One of the answers I gave concerned the capitalisation of support into land values. [Footnote referring reader to Q 41] My answer, that OECD evidence cited by the report, showed that only 26% was capitalised into land—more accrued to input suppliers—referred to price and market support. This is exactly the policy we operated for most of the last 40 years, and I have no reason to believe that OECD have got it wrong. As I said there has been plenty of time for these forces to have worked themselves out.

2. However I realised afterwards that the question I was asked referred to (decoupled) direct payments. Here the analysis shows a much higher proportion capitalised into land values. Again I don’t doubt that if you started from an unsupported market and suddenly started giving land managers £x/ha simply for having agricultural land, then most (maybe even 90%) of this value would be capitalised into the price, and thence into the rental, for land. But we did not start from a clean sheet when we introduced the SFP. We started from the position of a highly supported market in which the support was already well distributed, presumably as described by the OECD calculation. We are now slowly moving from this historic distribution of the payment to a three region Regional Average Payment in England, and this will redistribute the support and thus its benefits. We can expect some adjustments therefore slowly to follow over the next half dozen years. There is certainly no evidence to date that the switch in support system has had any noticeable effect on the land market—apart from the fact that this market all but dried up for two years given the chaotic and uncertainty-ridden way Defra and its agencies have implemented the new system.

3. But as David Fursdon explained, the productivity of land and any public payments it attracts are just two of many things that determine land prices. Its location, the nature of the farm house, the demand for houses, for second homes and so on all massively affect land prices. Also, as the payment entitlements are tradable, then some of the subsidy value which would otherwise accrue to the land will reside in those entitlements.

4. In short this is a complex area where we must be careful before making sweeping statements about land values. I’d be happy for you to share this note with the committee, I certainly did not intend to mislead.

June 2006

Memorandum submitted by The Royal Society for the Protection of Birds (RSPB) (CAP 22)

SUMMARY

1. The RSPB welcomes the HMT/DEFRA Vision for the Common Agriculture Policy, and recommends that:
   — The cost-saving arguments are separated from the need to rationalise agriculture and rural development policies. More coherent policies will deliver their objectives more efficiently and cost savings are likely to arise from that, but the policy development should be prioritised over simple budget reductions.
   — The details of how to support the public benefits of land management are further developed. The Vision reaffirms the principles set out in previous Government statements but is not explicit in stating how, to what extent, and by what mechanisms a healthy and sustainable rural economy is to be delivered.
   — The challenge of stimulating debate across Europe to enable a more strategic approach to supporting sustainable land management is addressed at the earliest opportunity.

INTRODUCTION

2. The RSPB wants to see sustainable farming that provides safe, healthy, affordable food, protects and enhances the environment and its wildlife, supports diverse and attractive landscapes and contributes to a thriving rural economy. To this end, we advocate 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.

3. The RSPB welcomed the HMT/DEFRA Vision for the Common Agriculture Policy and the debate its publication has stimulated. We support the overall direction of the Vision and many of the points within it, although we would like to see much more detail attached to the future policy framework it describes. We particularly welcome the commitment to environmental policies and the endorsement of the Public Money for Public Goods principle. However, we believe that although the Vision endorses the current Strategy for Sustainable Food and Farming and indicates the policy environment needed to deliver it’s objectives, it
serves more as an initial statement of intent than a complete policy package. A more developed rationale for supporting land managers to deliver public goods within a liberalised agriculture market, and the policy and resources to implement it, are needed to realise many strategic objectives for the countryside.

4. The Vision appears to have been developed according to two drivers: a) a desire to reduce expenditure on agriculture and b) a desire for more coherent policies for supporting agriculture. While both of these are valid objectives, the value of the Vision document will be compromised if it is seen as the justification for a cost-cutting exercise. A coherent policy framework is needed to target public benefits, and appropriate cost-savings can then be achieved subsequent to this. We must anticipate that cuts to the agriculture budget will take place, because a more efficient system to deliver support for public benefits is possible. The scale of that cut is not yet known; so going from the justification to change spending to a commitment to cut spending is shortchanging the logic.

5. First, we need to work out how the change in spending to support public goods will impact on agriculture. Some public benefits are currently supported by Pillar I. In withdrawing this support, further support will be needed through Pillar II. It will be targeted to this effect and therefore must do it more efficiently. Therefore, agriculture spending can be expected to fall.

6. At the same time more public goods are wanted from agriculture, including catchment management for soils and flooding, water resources; biodiversity conservation; access provision; landscape features; and employment. And the total cost of these goods, allowing for overlaps and efficiencies in their delivery and the effects of Pillar I changes, is not accurately known. Therefore, we would prefer a change of emphasis to that presented in the Vision, with the focus on the development of effective rural development policies which support the range of public goods required from the countryside, ahead of any associated savings.

**Expenditure on Pillar I of the CAP**

7. The Vision sets out a convincing case for the need for continued reform of the CAP. This is occasionally undermined by selective use of information to pave the way for cost-cutting arguments. For example, 2.25–2.31 explores farm household income and assets, showing them to be relatively high, and suggests that this raises questions over the use and targeting of taxpayers money. On balance though, the environmental, economic and social evidence against the current CAP presented in the Vision is sufficient to justify the magnitude and direction of change proposed.

8. With respect to food security, the RSPB notes that direct support for production is not the only way to maintain a farming sector in a state of readiness to produce food. There is much to be done to rationalise the food chain which the Vision does not address. Furthermore, retaining land management skills in uncompetitive rural areas would be best achieved through Pillar II support for the types of activities which deliver public benefits, rather than a continuation of the compensation culture which has which has presided over declining farmer numbers and output ranges from many less favoured areas across Europe. As the Vision points out at 3.46, food security does not begin and end with production of grain, milk or meat, as many of the inputs required for their production are imported.

9. On the question of possible distortions and inequality of treatment of farmers across the EU, it should be recognised that the current system does not treat all farmers equally. Payment distribution is skewed towards the most productive systems and individuals. Moving to a payment system based around public payment for public goods, delivered through the agri-environment system, would not necessarily ensure an even distribution across all farmers, but it would allow increased access to public support for the majority of EU farmers who currently receive less than 20% of subsidies. Most importantly, such a system would also be more equitable and transparent in that all the support would be earned through the provision of public benefits such as wildlife and landscape conservation, rather than through historic entitlements for which the current recipient may have done little.

10. We appreciate the recognition given in the Vision both to current environmental challenges on farmland, and to the greater emphasis on policy support for environmental benefits from farmland needed in the future. The analysis of current environmental issues downplays nature conservation in favour of water and soil issues, perhaps influenced by the current concern over delivery of the Water Framework Directive. It is important to recognise the significant commitments at European and UK level to wildlife conservation, including the Birds and Habitats Directives, the Gothenburg commitment to halting biodiversity loss by 2010, the 82 farmland species action plans and nine agriculture habitat action plans in the UK Biodiversity Strategy, and DEFRA’s PSA target to reverse farmland bird declines by 2020.

11. The statement at 2.38 that “only now, are we beginning to see early signs in the UK that agri-environment schemes are having an effect in halting that decline” (of farmland birds) is optimistic. While individual agri-environment schemes have been shown to be very effective, there is no evidence yet that they are having a population-level effect on wild birds across the UK. The bird indicator’s levelling off may have been driven by several factors, including agri-environment schemes, set-aside, or stabilisation at a new lower level for some species, while others are still in steep decline. Research suggests that the new Environmental Stewardship Scheme has the potential to reverse the wild bird indicator, if taken up in appropriate combinations and at an appropriate scale.
12. Overall, the environmental consequences of the proposals depend on two factors which are not made explicit in the Vision: the funding available for Pillar II activities, and the degree of integration of environmental objectives with mainstream farming and economic policies in the future.

13. The assumption at 2.48, that agri-environment schemes buy environmental benefits at a lower price than Pillar I payments, is perhaps oversimplified. While agri-environment payments are lower than Pillar I payments, they operate within a framework of farming systems defined by subsidies. At this early stage in the decoupling process, it is still unclear which beneficial farming activities are indirectly supported by Pillar I subsidies. This is partially acknowledged at 3.52, but there is no explicit statement that policy support may be needed to ensure the continuation of such activities. It is likely that, if Pillar I subsidies are removed, some agri-environment payments would need to rise considerably if favourable systems are to continue. An example which is already emerging is the extent to which suckler cattle systems are declining post CAP reform, and the support needed to sustain them where extensive cattle grazing is important for conservation.

For this reason, the RSPB lobbied to get a cattle grazing supplement in the HLS and welcomed its inclusion in November 2005. Conversely, of course, the price of paying for cessation of activities that cause negative environmental impacts is likely to diminish with the removal of Pillar I subsidies, with economic research showing savings of between 40–70% in theory.

14. The Vision highlights the issue of food miles (3.55), the considerable social and environmental costs of transporting agricultural produce, particularly within the UK, but provides no guidance as to how these could be reduced. A sustainable agricultural sector will require food transport to be addressed and we would like to see policy options to do this, such as promoting localised supply chains, more fully explored.

15. With respect to the applicant countries of the EU, as well as the new Member States, the RSPB considers that it is crucial to provide them with a new model of agriculture development and support, which delivers the necessary production and quality of life improvements but without the social and environmental problems experienced by rural Western Europe during the past 30 years. This is likely to entail direct support specifically for those environmental and social goods and services that might otherwise cease to be provided as these agricultural systems modernise, and a policy environment which recognises the multifunctionality of agriculture in the wider economy. While this might involve significant levels of targeted support for capital or environmental investments, it would not involve production support per se, or current Pillar I-type payments which are a neutral way of injecting money into communities without much control over its impacts. A change in CAP away from direct subsidies and towards improved rural development support might make the EU less politically attractive for applicant countries, but would result in more sustainable development for them once they join. There might also be administrative problems, as many poorer countries do not currently have the infrastructure or expertise to deliver rural development schemes.

THE RURAL ECONOMY

16. The Vision paints a picture of a CAP that encourages agriculture which is “socially responsive to the needs of rural communities” and “rewarded by the market for its outputs... and by the taxpayer only for producing societal benefits which the market cannot deliver” (1.5). This is very similar to the recommendations of the Curry Commission in 2002 and DEFRA’s response in the Sustainable Food and Farming Strategy, and the RSPB endorses these principles. The Vision goes on to point out the incompatibilities between the current CAP and the Lisbon agenda for increasing competitiveness in rural areas (1.11), and to make the point that the economic prosperity of rural areas is less likely to depend on agricultural activity in the future (1.28). However, beyond establishing that agricultural production should be in response to market needs, and making headline statements about the growing importance of environmental protection and rural development (1.32), the Vision does not go into detail about how the rest of the rural economy should function, or the role of policy in delivering the environmental and social security needed for sustainable economic development.

17. The crucial statement is at 1.32: “EU spending on agriculture would be based on the current Pillar II and would support these objectives as appropriate”, which is in line with previous Government statements and which the RSPB supports. However, the same section continues “... allowing a considerable reduction in total spending by the EU on agriculture and bringing it into line with other sectors”. We have concerns about the assumptions behind this statement.

18. Most importantly, the cost of delivering the social and environmental objectives for rural areas has not been adequately established. It is premature to make the case for a reduction in rural expenditure without first costing the delivery of strategic rural objectives. A study of the cost of delivering the UK Biodiversity Action Plan has made an initial estimate that the annual cost would be in the order of £680 million by 2020. This represents a doubling of the current estimated expenditure linked to UK BAP targets (£346 million). BirdLife International estimate that a budget of €1.7 billion is required, to deliver the Natura 2000 network of protected sites across Europe. Biodiversity is only one of the objectives of agri-environment schemes, and RSPB does not know of studies which estimate the costs for delivering landscape, access, historic environment, water, soil and air targets. However, the biodiversity data alone indicate that a significant increase in the current rural development budget is required. Therefore, it is not possible to calculate the potential savings in agricultural expenditure until a coherent policy framework to support public benefits from agriculture is in place, and the efficient delivery of these benefits has been costed.
19. While we cannot yet define the budget needed to support the public benefits of land management, there is growing evidence of their importance in the wider rural economy. A 1997 study found that the benefits of Environmentally Sensitive Area schemes averaged £15 million per year. The presence of a pair of ospreys in the Lake District in 2003 is estimated to have generated £420,000 in additional spend by visitors, directly supporting £126,000 of local income, and 11.3 full-time equivalent (FTE) jobs. These equate to 34 full-time jobs over the four-month osprey breeding season. RSPB Reserves are estimated to support more than 1,000 FTE jobs across the UK, through expenditure of £19 million pa by the RSPB and its visitors. Only around a third of these jobs are direct employes by the RSPB. Another third arise from contract work, expenditure or grazing lets from the reserves, and the final third derive from spending by visitors contributing to the local economies of the reserves. A 2001 study by Hartridge and Pearce valued the environmental services of agriculture at between £0.6 and £1.8 billion.

20. An essential element in developing Pillar II to support more fully the non-marketable products of the rural economy is the need to develop an alternative system of agri-environment payments. The current payment calculation of income foregone plus costs incurred restricts payments to a compensation for the opportunity costs of not engaging in a particular activity, and a reimbursement of any additional expenditure. The payment is not related to any measure of the priority attributed to the delivery of the public goods in question. This restricts their delivery potential and the degree to which they can internalise the external benefits of land management. If the rural economy is to recognise the environmental assets which land managers can deliver on behalf of society, a more equitable payment system is needed so that land managers can make business choices around the delivery of environmental goods, rather than treating them as incidental. Unlike any other business sector, farming impacts on the quality of three quarters of the country’s land area. For this reason, it will never be appropriate to fully “bring it into line with other sectors” in the fiscal sense, as the wider impacts of farming on our quality of life and environmental priorities will always need support.

INTERNATIONAL ISSUES

21. The Strategic Impact Assessment of the WTO proposals indicates that liberalising European agriculture through tariff reduction and phasing out market support will accelerate the loss of globally important habitats in countries that are able to exploit the opportunity presented by the resulting increase in demand. Examples of habitats at risk include rainforests in Brazil and Indonesia, and the Brazilian cerrado. There is uncertainty in the Vision as to how this should be dealt with (3.58). While we agree that CAP reform itself and liberalisation should not be affected, the importance of the habitats at risk, in terms of biodiversity and carbon sequestration, means that the negative impacts of this process cannot be disregarded, nor can they be left until the countries in question are richer and therefore more likely to value them.

22. At the same time, it is true that import tariffs are not an appropriate tool to guarantee their protection. We would therefore like to see, as a parallel process to liberalisation, a significant increase in the effort and resources assigned to form global markets and policies that would allow the benefits supplied by these ecosystems to be paid for and thus maintained.

THE WIDER DEBATE ON FUTURE FINANCING OF THE CAP

23. The Vision is careful to state that the aim of the document was to stimulate and inform debate, and not to set out a roadmap for its delivery. In the RSPB’s view, the outcome of the recent Financial Perspectives decision on the EU budget 2007–13, particularly the cut to agri-environment schemes in EU15, emphasises how far we are from sharing a vision for agriculture across Europe.

24. Agriculture policies in the UK have benefited from an intense period of debate and development, from the Curry Commission onwards, resulting in a much clearer understanding of the role land management plays in the wider rural development context and the appropriate policy mechanisms to support it. We believe that stimulating a similar debate across Europe is the biggest agricultural challenge our leaders now face. Before much further progress can be made in domestic rural policy, there must be a broader consensus of views about the role of land management across Europe.

25. RSPB and our BirdLife International partners are seeking to stimulate such a debate amongst European colleagues. We believe that UK representatives should seek alliances with like-minded politicians across Europe as a priority, in the lead-in to the European Budget review in 2008–09. Without a better understanding of the strategic objectives for the countryside and appropriate policy mechanisms for delivering them, the forthcoming budget review will face many of the same obstacles, and progress towards the HMT/DEFRA Vision and the Sustainable Food and Farming Policy will continue to be blocked.

February 2006
INTRODUCTION

1. CPRE broadly welcomes the paper “A vision for the Common Agricultural Policy” (the CAP Vision paper). It has concentrated minds as never before, on the scale, complexity and importance of the issues of farming, production from land and the benefits and costs of comprehensive, deliberate land management. In this respect, the debate has been taken beyond the valuable work achieved by the Curry Commission. We also warmly welcome the explicit acknowledgement in the paper of the public benefit to be derived from securing attractive landscapes. But the CAP Vision paper is also highly ambiguous over the long-term future of support for land management and the securing of public goods. In the same way, the future of landscape and wildlife policy and the success of Natural England are also cast into doubt.

2. CPRE is concerned with the landscapes and habitats of rural England, the overarching question of farming and other production from open land, and the public benefits derived from these. We place great importance on the pattern of land use, landscape and habitat which retains long-established landscape characteristics and features and which gives regional or local identity. The 159 Landscape Character Areas of England are largely determined in this way. The huge influence of human activity on land over millennia also means that most wildlife depends on habitats which have also been farmed and managed landscapes.

3. Further reform of the CAP should be regarded as an opportunity to re-affirm the part of farming and land management in the quality of all our lives and to take stock of the huge value of continuity of good farming practice. It is also the right time to make a determined effort to move away from environmentally damaging farming processes and look for possible new ways to harness benign land management for the public good.

4. The CAP Vision paper requires all those with an interest in farming and its associated effects to address some critical questions which are at the heart of the future of land management in England:

   — Should the United Kingdom pursue policies which are directly intended to retain a farming industry, and particularly a livestock sector, even if the short term economic case cannot be made for direct support as the CAP Vision document suggests?

   — How resilient are the various farming sectors to the challenge of liberalised markets and an end to Pillar 1 financial support? What is the critical mass of farm businesses, skilled farmers and the range of technical support (such as large animal veterinary practices and crop advisory services) required in order to retain a widespread distribution of both arable and livestock businesses across the country?

   — Is it possible to separate an objective to manage the majority of land across the country as recognisable, accessible landscape and viable habitat from the case for retaining the capacity, knowledge and skills to farm in the long term?

   — What is the full range of environmental services offered by farming and the value of these services? What is the extent of environmental damage caused by farming? What is the cost of securing the former and preventing the latter? Which is likely to be the most cost effective way to achieve these objectives?

   — What is the Government’s real long term intention in driving forward further CAP reform: to replace an unacceptable and inefficient support system with one which is well-designed, sustainable and delivering public goods on a very broad scale? Or to make substantial permanent cuts in expenditure with reliance only on regulation to achieve some limited environmental standards?

   — What will be the likely effects of the dismantling of trade barriers and the ending of direct farm support on the farmers and rural communities of developing countries? Is there any real intention to guarantee that the environmental and social costs to English agriculture, environment and society lead to genuine improvements in the condition of the agriculture, environment and society of developing countries?

   — Do we value the existence of a responsible, comprehensive and productive land management system enough to develop a range of policies which sustain this system in a politically acceptable way?

5. CPRE believes that securing answers to these questions is fundamental to the national interest. In the answers will lie the future of our countryside. Further CAP reform should not be undertaken until there is a broad consensus on the likely effects of such reform, agreement on what we value about the countryside and how we shall retain what we value in the long term. In our view, the Government is under an obligation to lead this debate, and build a new foundation for farming and environmental land management in the future.
6. CPRE has a long and effective track record in driving forward the agenda for reform of the CAP and turning this policy framework into a force for good. We are the only Non-Governmental Organisation which has a remit for the whole landscape and the inter-relationship between rural and urban society, including public enjoyment. The fact that we are not a landowner or land managing organisation, we consider greatly adds to the clarity of our analysis.

7. Further reform of CAP could be a great opportunity. But equally, it could help destroy the system which puts to good use the vast majority of the land surface of England and with it, much of its cultural significance, wildlife and distinctive character. We might lose the function of much farmland in England, some of our few remaining societal links to land and the ability to manage and use it productively.

8. There is a prevailing climate of uncertainty about the future of farming in England. The motivation of different parts of the Government in driving forward further reform is unclear. In these circumstances, it is essential to foster a state of mutual trust between the wide range of affected interest groups. This can only be achieved by accurate and uncoded communication. CPRE welcomes the CAP Vision document insofar as it has this objective and sets out to achieve it. But because of the ambiguity of much of the report, CPRE warmly welcomes this inquiry by the EFRA Committee.

9. We address the issues raised by the CAP Vision paper under the headings suggested by the Committee.

**FOOD SECURITY**

10. CPRE understands the tensions inherent in the pursuit of food and commodity production, landscape character, wildlife habitat and public enjoyment of farmed land. Skilled, productive farming has wrought the superb range of landscapes, upland and lowland which we enjoy as a nation. But great intensification, drainage, the ill-advised use of some persistent pesticides and far greater efficiency in farm practices and farm layout have also destroyed much of this character, habitat and the pleasure derived from it by the public. Before the CAP was established, national agricultural policies which damaged the environment were pursued explicitly in the name of food security. During the last 15 years, a gradual shift in funding, regulation and objectives on the part of Government, farmers and environmental NGOs has started to slow and in some cases reverse the damage with very little reduction in efficiency. Welcome animal welfare obligations have, in particular, imposed increased costs on the livestock sector.

11. We regard the ability to produce a wide diversity of food, other commodities and some energy crops to be a major national strategic asset. We recognise the great advances in farming practices and the potential for co-existence of modern farming and greatly improved landscapes and wildlife populations. Much effort has been expended by LEAF, FWAG and others to achieve this reconciliation of production and environmental value. CPRE considers that it is worth building on this knowledge in the future.

12. The onset of climate change means far more uncertainty than ever before over the viability and productivity of farm land everywhere in the world. Competitive advantage may one day come to our relatively temperate climate and rich soils in the event that growing conditions deteriorate in major commodity and food producing parts of the world. Even if climate change is less severe than most people anticipate, there are likely to be very serious shortages of water for agriculture in many parts of the world in the near future. Our own relatively efficient use of water in food production will become a more valuable factor in world food production. We should not lose such opportunity by allowing the severe contraction of farming in the short term. Furthermore, it is reasonable, in our view, to regard as significant the strategic ability to produce substantial quantities of our own food at some time in the future, even if conventional methods of discounting give very little value to opportunities more than 20 years’ away.

13. Some argue that the new cross compliance rules, in force since January 2005, are enough to keep English farmland in a useable condition in the longer term. Good Agricultural and Environmental Condition (GAEC) requirements, in order for farmers to qualify for the new Single Payment (Pillar 1) will keep fields open. But GAEC is of little value without the retention of the capacity and skill to farm the land and produce from it. Land kept in a basic GAEC condition will be of questionable environmental value, too. Occasionally topped fallow land will rarely develop into valuable habitat, and it will fail to have the lustre of productively managed land, so important in creating attractive landscape character. Absence of excessive fertiliser and pesticide inputs will be the main benefit, but this will not in itself secure vulnerable species recovery or even necessarily ensure the recovery of formerly common species. The necessary skill and experience in habitat management of English Nature, the National Trust, the Woodland Trust and others bears testament to this.

14. If GAEC is to mean the retention of distinctive grazed, harvested and cultivated plant communities, then the standards of GAEC will have to rise. In many cases, retaining semi-natural habitats, the capacity to produce food and other commodities, and the skills and knowledge to achieve sustainable farming, are mutually dependent. If the new demands of protecting water resources and managing the volumes, velocity and quality of water flows are added, we have a portfolio of activities which will require financial support, but which will contribute hugely to the viability of development and the quality of life. To this
we must also add the need to ensure the resilience of habitats under pressure from climate change. This will be made much more likely by the careful expansion and targeting of agri-environment expenditure and the gradual relocation of species as climatic conditions shift. This amounts to need for a land management policy which harnesses the existing skills base and investment pattern to achieve it.

15. There is no need to achieve maximum production from farmland in the foreseeable future, but there is a need, in our view, to keep the system of farming viable and stable. The protection of productive land from development is an essential part of this process. The existing planning mechanism protecting Best and Most Versatile Land (BMV) is now weaker, since the publication of Planning Policy Statement 7, Sustainable Development in Rural Areas in 2004. The Agricultural Land Classification System on which BMV is based also took no account of climate change. CPRE considers that there is an urgent need for a new system which protects land from development and which includes the calculation of the potential of land to produce food, fuel and other commodities in changing climatic conditions.

POSSIBLE ENVIRONMENTAL CONSEQUENCES OF THE PROPOSALS

16. CPRE believes 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. The Scott Report (Report of the Committee on Land Utilisation in Rural Areas, 1942) still has some resonance today. There are likely to be some exceptions to this, but they are unlikely to be predominant. In some cases the future of the productive use of land in England may mean new crops, and new management methods. Some of these should be positively welcomed. The productive landscapes of bio-energy production could in certain circumstances introduce a range of landscape patterns which are attractive, and provide good habitat as well as establishing a new link between the public and the way the land is managed. Examples might include the experience of buses passing through a landscape of bio-oilfields from which their fuel is refined, or of walking through the coppice which heats the local school. Intensively managed poplar plantations, when mature, are well-known as excellent habitat for that rare and beautiful bird, the golden oriole. Not all bio-energy crops will be so easily accommodated into the English landscape, however, especially those which are not native, such as miscanthus or coppice crops grown intensively without regard for their appearance or wildlife value.

17. The dedication of more land primarily for public amenity, on the edge of towns and cities, for example, will still require a management regime, often as intense as conventional farm management. Farmers could be well placed to deliver this considerably more efficiently than other contractors. The integration of sensitively designed new public woodland into farm management and farm businesses could ensure permanent good quality management, with the costs of management reduced and a burden removed from local authorities. In rare cases, probably in a few remote, large tracts of uplands and coastal lowlands, a carefully planned reduction in the intensity of management (sometimes referred to as “rewilding”) may be appropriate, to secure more diverse wildlife populations and a different texture of landscape. The cost of managing such land and considerably reducing the conventional production income from it, will need to be borne by government or local authority funds. Nonetheless, to retain recognisable English landscapes and native wild species, the management of much land will need to be similar in important respects to that which is currently practiced.

18. This does not mean that all existing management and cropping should be encouraged or retained. There is room for much improvement and some of this improvement will be expensive. Much remains to be done, particularly in terms of the recovery of wildlife dependent on farmland: the recent report The State of Britain’s Larger Moths by Butterfly Conservation makes the case for urgent further change in agricultural practices. Even more recent national butterfly survey results tell the same story. It has been calculated that to meet its existing biodiversity targets, the Government may need to spend approximately double the existing annual agri-environment expenditure of £340 million. That figure takes no account of landscape or access-oriented work undertaken by Natural England in the future.

19. But it would be mistaken, in our view, to imagine the successful conserving of our iconic landscapes and native species without substantial continuity of familiar crops and practices. By this we mean the mix of permanent, grazed pastures, arable and grass crops, broad-leaved woodlands, orchards and permanent boundaries of woody plants (hedges), stone walls and streams. This applies to our so-called “ordinary” landscapes as well as our National Parks, Areas of Outstanding Natural Beauty (AONB) and Sites of Special Scientific Interest (SSSIs). The very welcome signing of the European Landscape Convention (ELC) in late February 2006 by the United Kingdom Government acknowledges the importance of systems which sustain landscapes whether of national significance or not. Future farming policy will need to take the principles and objectives of the ELC into account.

20. Landscape and farming are almost entirely interlinked, including both existing farming practice and effects of farming practice in the past. These often overlap, for example in the case of moorland and heath which are largely result of Bronze Age farming practice and climate change since, or the continuing distribution of trees in field systems originally managed for building timber and fire wood. Much farmland still contains features long since ‘redundant’ in their original role, but now valued for all sorts of other reasons.
21. The cultural and recreational value of accessible, managed landscape abundant with wildlife is huge, as is the management of archaeological and historic sites, the result of centuries of temperate, stable climate and continuity of land management.

22. The productive use of land largely determines its character and the habitats found within it. More than most other countries, our wildlife, the character of landscape and our farmers coexist in the same place. The damage done to wildlife and landscape by farming during the last 60 years should not blind us to this fundamental truth.

23. English Nature (EN) recently presented its report Target 2010. EN stresses the need for continued adequate funding if the PSA target of 95% of SSSIs in favourable or recovering condition is to be met. It is clear that EN will depend to a considerable degree on paying for good farm management to meet and then to sustain this quality of management. In the longer term, the viability of SSSI management will depend on particular, often traditional farming practices, avoiding either over-intensive or too little management.

24. If the wider benefits of good management of SSSIs are to be enjoyed, much land adjoining SSSIs will similarly need to be sympathetically managed on a permanent basis. In order that wild species are able to disperse across wider areas, extend their range and replenish their populations, both SSSIs and much more extensive areas of similar, but less high quality habitat will need to be farmed into the indefinite future. This is already beginning to be acknowledged by EN in their own report. The management of Winmarleigh Moss SSSI in Lancashire, Spurn National Nature Reserve in East Yorkshire and Sutton Combe SSSI in Dorset are all good examples.

25. Thus a credible strategy for biodiversity in England relies on continued farming of a skilled and supported nature, both lowland and upland, on heath, pasture, marsh and moorland. Those farmers who “provide the service” of managing SSSIs for the most part do not farm SSSIs alone. They also farm undesignated land. Their ability to deliver their conservation activity depends on the continued viability of their farm businesses. It will be important, to secure and establish improvements in wildlife populations, for many farmers to extend their traditional management over wider areas. The success of farming for wildlife will, therefore, depend on the survival of a substantial number of farmers remaining in business, farming in a traditional and often uncompetitive way, in strictly economic terms.

26. It will not be possible to reverse the damage done by the intensification of farming after 1947 by simply ending support payments. This is a false hope that should not be used to justify the eventual ending of support of some kind for farmers. Much of the damage can be undone, but this requires long-term, skilled management on a scale only feasible with a network of farmers and regular, skilled contractors. Habitats which remain are by and large dependent on management based on production too, though often at a level of intensity too low to be profitable without additional support.

27. CPRE accepts that the provision of many public goods through land management renders much farmland unviable as productive farmland in strictly economic terms. This situation is likely to become more common in the future. It is vital, therefore, to take account of the wider public benefits. By way of illustration, English Nature mentioned at the launch of Target 2010, an approximate figure of 370 million visits per year to SSSIs. Roughly 50% of all SSSIs are open access land. The calculation of the public benefit of continued traditional management of SSSIs and land surrounding them is urgently required.

28. The demands on land management to maintain landscapes with distinct character may sometimes be less onerous than those required to maintain some specific farmland habitats. This is because the specific demands of some species will be more complex than the broad visual appeal of patterns of vegetation, for example. But the cost of working with traditional, often ancient patterns and scales of fields with traditional boundaries, on land which might well be either abandoned, intensified or developed if left purely to market opportunities will still be high. We do not know what that cost might be. CPRE and the National Farmers’ Union intend to publish research later this year which attempts to calculate how much the routine management of landscapes, not in pursuit of agri-environment grants, might be worth in purely financial terms. What determines the character of landscapes varies considerably, as does what is still extant of a traditional farm landscape after 60 years of intensification, modernisation and development.

29. It is crucial to any analysis of farming policy to remember that great damage to the environment was caused by agricultural policies long before the CAP was established. There is nothing inherent in a post-CAP policy which is more environmentally benign. A consideration often overlooked is the cost in money and time of reversing environmental damage caused during the long period after 1939, when farmland was subject to policies aimed at greatly increasing production with little or no consideration of the consequences for landscape, habitats and archaeology. Huge sums of money and great efforts were spent on intensifying production in ways which removed landscape character and biodiversity, simultaneously often diminishing and curtailing public access at the same time. CPRE suggests that the case for undoing some of the damage of previous policies and restoring wider public benefits from farmland should be considered in the calculation of the cost of ending direct support for farmers. This restitution could be described as a one-off endowment of the public realm. Such a policy would also have great value in contributing to better management of soil and water quality.
THE DEFRA FIVE YEAR STRATEGY

30. It is instructive to test the objectives of DEFRA’s Five Year Strategy against the CAP Vision paper. CPRE considers that for the achievement of the strategy’s objectives to be worth pursuing, they will also need to be secured in the longer term. One objective, the reduction of diffuse water pollution from agriculture, might, in some circumstances, be more easily achieved should agriculture contract substantially. But many others, including the encouragement of sustainable behaviour in young people, sustainable procurement, helping farmers produce sustainable products and improving the quality of SSSIs, will all require a healthy farming industry with the resources to experiment, take risks and develop new ways of working.

HOW WOULD ENGLAND’S RURAL ECONOMY FARE UNDER THE CHANGES PROPOSED IN THE REPORT?

31. The CAP Vision paper rightly recognises that a period of transition will be important, whatever the direction of agricultural and land management policy in the future. But in the judgement of CPRE, such a transition will be profoundly traumatic for many farmers, for many reasons, and will require very careful planning.

32. For more than 50 years, farmers were exhorted to become more productive, to embrace every means to expand and intensify. Patterns of land ownership, capital investment, the development of technical expertise and husbandry by farmers and their employees were driven in a single direction. For 10 years since the early 1990s, there has been a phase of compensation for income foregone with only marginal effects on most farmers’ businesses. Although this system has now been expanded and is now, in part, available to all farmers, the uncertainty over the future both after 2008 and more profoundly, after 2013 is the prevailing sentiment.

33. CPRE understands that approximately £9 billion is invested in farming borrowed from the City. This investment cycle is crucial. Some farmers will be at risk from a significant change in support levels, even if this takes place over a number of years. There is a serious risk that capital investment in farm buildings and machinery will slump if farmers are unable to plan their capital investment responsibly. CPRE has anecdotal evidence of this from farms owned by other charities with which it works. The confidence of farm workers and agricultural contractors to be committed to the industry is similarly under threat. It is often said that the much quoted statistic that the average age of farmers, at 59, has remained that way for many years. But CPRE is not satisfied with hearsay, and it is unacceptable that there is no better official understanding of the age profile of the farming community. We suggest that the experience of the Royal Agricultural Benevolent Institution (RABI) would be valuable evidence in understanding the true state of morale amongst farmers and their families. No group in society is well served by feeling unwanted, sidelined or ignored. Whether it is true or not that this is the case, the fact that much of the farming community perceives this is doing harm to the resilience and enterprise of farmers. Fear of investment and absence of long-term planning are also taking their toll on the businesses that service farmers, with consequent reductions in earnings and employment. The increasing power of the supermarkets adds further to the caution in the industry and the narrowing of margins which allow for investment.

34. Decline in farmer confidence and farm support services works both ways: the decline in vets makes it more and more difficult to be a responsible livestock farmer, while the decline in livestock farming makes it unviable for vet practices to maintain this service, to the detriment of those who still need the service. CPRE has evidence from the British Veterinary Association of the decline in large animal vet services in Essex, for example. In southeast Essex, at least four practices have withdrawn their large animal service in the last four months. One vet has told us that his practice continues to offer these services, but now has to cover an increasingly large geographical area. A recent local meeting to discuss this problem attracted 60 farmers. This vet says “We survive for the moment, but for just how long?” The same problem exists in other sectors. Many livestock farmers in Suffolk and Norfolk are reliant on one abattoir on the border between the two counties. If this business closes, these livestock farms will be severely threatened, together with the local food processing, distribution and retail sector.

THE IMPACT OF CAP REFORM ON DEVELOPING COUNTRIES

35. There is an increasingly vocal case for the removal of support payments for English farmers based on the moral argument that such expenditure directly harms the livelihoods of farming communities in developing countries. CPRE would welcome the decoupling of land management in England from damage to the local rural economies of developing countries as is implied in paragraph 1.11 of the CAP Vision paper. Should radical reform of the CAP take place, it would be possible to establish a support system for farming in England which rewarded farmers for the successful “export” of our native landscape in terms of both domestic and international tourism. This is something which is unlikely to be regarded as a priority for those intent on removing trade distortions.

36. But we should not be ignorant of the serious consequences of merely exporting environmental damage to other parts of the world, many of which have far greater biodiversity to lose than England, or the consequences of increased carbon emissions from the expansion of long distance food export. Both modes of transport and the methods of agriculture need to be carefully appraised for their carbon performance.
Furthermore, the urbanisation of the developing world is proceeding very rapidly in many of the countries most able to compete in agricultural trade. It is unclear whether the decoupling of agricultural support from the damage to developing rural economies will be a lasting or effective legacy. We should not, therefore, contemplate the abandonment of much traditional English farming in the unfounded hope that traditional sustainable agriculture in poorer countries will benefit. For this argument to hold water, there would have to be targeting of support for small-scale farmers in developing countries, which is contrary to the likely outcome of opening up global markets.

**THE WIDER DEBATE ON THE FUTURE FINANCING OF THE CAP**

37. The CAP Vision paper acknowledges that “EU agriculture does not exist in isolation” (1.31, page 16). The paper goes on to suggest that the EU could “take the opportunity of its own reforms to secure reductions in trade distorting support and protection policies of other developed countries in order to maximise the benefits for all” (our italics). CPRE agrees strongly that EU agriculture will be increasingly subject to wider influences and pressures. But for that reason, it is inexplicable that the CAP Vision paper thinks it adequate to let the issue rest with the admirable but inadequate sentiment that follows. Unless English agriculture is to be abandoned to market forces in markets distorted strongly to its disadvantage, there are only two possible conclusions: either that support payments for environmental goods will be universally available and high enough to keep farmers in business thanks to their land management work; or that the liberalising and support reduction process will only take place on a strictly reciprocal basis. It would be entirely unacceptable to CPRE and also reckless, if English agriculture were sacrificed for gains in other fields of international policy.

38. There are several reasons for this. First, CPRE strongly believes that our farming industry is an immensely valuable national asset, with strategic, technical, environmental and societal importance far beyond the short-term calculation of contribution to national prosperity from food and commodity production.

39. Secondly, the significant contraction of agriculture in England and the collapse of certain parts of the industry, would have far more destructive consequences than in many other countries. This is because of the intimate association over millennia of the productive use of land, wildlife habitat and the character of the landscape, by comparison with places in the world where productive agricultural land and biodiverse wilderness are much more segregated. Examples include Canada, the USA and the formerly collectivised farmland of some central European countries. The serious decline of farming in England would do far more than simply reduce inputs and the area under cultivation or grazing. Networks of semi-natural landscapes (our farmland), with combinations of management to which the majority of native species have adapted, would be lost. The variation across the country, expressed in the style, scale, age and pattern of field boundaries, woodland, farm buildings, livestock, crops and soil, would be suppressed or allowed to degenerate. The three processes most likely to damage locally distinctive landscapes and habitats on a very wide scale are abandonment of farming, ruthless rationalising of farming techniques to cut costs, and renewed and increased intensity of farming. All three are very likely if farming contracts significantly in England.

40. Thirdly, as so much of England is dependent on farming for managing and maintaining its character and wildlife habitat, so is it dependent on farming for its marketability for visitors and tourists. The economic interests of rural settlements and market towns would be very severely affected if they were surrounded by landscapes increasingly polarising between dereliction and intensification. The overall proposition of visiting England could suffer too and with it, the fortunes of the tourism industry. The views of Visit Britain on the value of agricultural activity to the tourism industry would be useful to hear. Accelerating suburban development would also be much more likely as diversification away from farming became more urgent still.

41. Fourthly, successful rural diversification depends on a wider canvass of agricultural activity, which keeps the countryside distinctive and cared for. Ironically, it is likely that if farming were to decline significantly, the proposition of rural location could become less marketable. This would not be surprising: successful urban communities are rarely derelict or overwhelmingly dominated by commercial interests.

42. For CPRE, the reciprocal and synchronised removal of trade distorting measures both within the EU and with the rest of the world is a sine qua non.

**A NEW FOUNDATION FOR FARMING AND THE MANAGEMENT OF ENGLAND’S NATURAL RESOURCES**

43. CPRE concludes that the interdependence of farming, landscape character, wildlife habitat and the protection of natural resources requires an emphatic commitment by Government, the farming community and the environmental NGOs to a future foundation for the support of land management which is not merely sustainable but contributes very substantially to the quality of life of this country. For the time being, the capacity, skills and expertise exist to achieve this. But the economic cost of providing these services should be acknowledged and supported. We agree that the present system is not acceptable in the long term. But we do not accept that the public benefits that farmers, other land managers, environmental NGOs, and Natural England could provide can be bought for much smaller sums than the present CAP budget. Nor
do we agree that society should accept a much scaled down level of funding for much more limited objectives. Such a view ignores the great opportunities which could lie ahead. We return to our opening questions. If they are addressed effectively, it will be possible to establish the true cost of the land management activity society should enjoy.

44. Like many other organisations, CPRE supports the medium term objective of establishing a new fund for land management. But unlike some organisations, we do not reject the role of wisely managed regulation, which has a valuable role to play in achieving environmental quality. Nor do we believe that the farming community should be regarded as peripheral to the achievement of sustainable land management. On the contrary, we regard it as central to securing this objective. We need to recognise that farming should play a hybrid role, as niche producer, a producer of commodities to high environmental and animal welfare standards and as a supplier of a much wider range of environmental benefits for the public as a whole.

45. This new approach to funding land management should include a rigorous analysis of the special circumstances of upland farming which has a recent history of special support. Clearly, the farming of hill land should not be regarded as uncontestable public good in its own right. But the many environmental and societal services that hill farming may provide need to be thoroughly measured, understood and supported where this is justified by the evidence. Where this is not justifiable, other ways of achieving public benefits on hill land through management should be encouraged instead. Careful consideration of possible long-term effects of alternative options will be necessary. This should be done in full consultation with those directly affected by such change. Recent experience from the Spanish Pyrenees suggests that the abandonment of upland farming and the ensuing growth of secondary woodland has done great damage to the efficiency of reservoirs designed when a farmed catchment yielded much more run off into the valleys. Many English reservoirs established below traditionally grazed uplands could suffer the same fate if upland farming collapsed. Conversely, where flooding is an issue below upland slopes, the expansion of secondary woodland on uplands might help to reduce dangerously high levels of run off. Overall, the retention and management of water is likely to become a vital role of upland as well as flood plain farmers in particular.

46. CPRE looks forward to 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.

Conclusions

47. The competition of so many different interests within the EU means that it is vital that the Government speaks with a clear voice and articulates powerfully the case for continued support for land management, largely through farming. It should not be deflected by short-term budgetary considerations. To succeed, it needs to have command of the facts, many of which are unknown or at best, poorly understood. It needs to give the long-term security of effective and productive land management the high priority it deserves. We need to know the capacity of existing structures and organisations to take on a greatly expanded Pillar 2 and to plan carefully for the expansion of the mechanisms needed to achieve this efficiently and accountably.

48. In the short term, the Government needs to commit itself to retaining the level of Pillar 2 expenditure needed to honour existing Environmental Stewardship proposals. If this requires a higher level of voluntary modulation, that should be deployed. The Treasury should match-fund this modulated sum in full.

49. In the medium term, the Government should secure the evidence it needs to make responsible and informed judgements on the effects of further CAP reform, the services farming provides and the likely resilience of farming and its associated systems in the face of major changes in support. It should secure firm reciprocal commitments from our trading partners to liberalising reforms. The legislation needed to allow a new system of land management payments which is not based on compensation for income foregone should be planned and taken through Parliament.

50. In the long term, and in time for 2013, a new fund should be established, together with any necessary new delivery processes. It should be of a scale equal to the opportunities that exist. Such a fund should allow us to secure and extend the substantial public benefits which could be derived from effective land management. It should the valuable network of farmers and their support services which this country is fortunate to have.

February 2006
Q71 Chairman: We welcome our second set of witnesses for this afternoon’s inquiry and for the record, from the Royal Society for the Protection of Birds, Dr Michael Avery, their Director of Conservation, and Dr Sue Armstrong-Brown, the Head of Agriculture Policy; and for the Campaign to Protect Rural England, Tom Oliver, Head of Rural Policy, and Ian Woodhurst, Senior Rural Policy Officer. You are all very welcome. Can I thank you for your written evidence and for being here to join us this afternoon. I would like to ask you the same question I started with with our previous witnesses, which is, what do you actually think, in the light of this think-piece and commentary from Europe now on the changed nature of the Common Agricultural Policy? What actually is its purpose?  
Mr Oliver: Chairman, Mark is very kindly letting me go first, although I am not sure if it is kind. I think the purpose henceforth must be to maximise the sustainable management of land to public benefit, in one sentence. I think that includes things which have been very thoroughly discussed already this afternoon, semi-natural habitat, landscape character, the quality of the environment, which includes the quality of water, its velocity, its volume, but it also includes the capacity in the longer run to use land productively.

Q72 Chairman: How does the RSPB see that?  
Dr Avery: I think that is a good answer. Although we have had a while to think about this, since you asked the CLA, it is a difficult and probing question. I think their answer was that you might not start from where we are now and that the reason for the CAP is changing. We would say that the future for the CAP has to maintain a farmed countryside, because I think we do need farmed countryside with farmers in it. Maybe it is unrealistic to expect the same number of farmers as we have now, but a farmed countryside, but that the basis for public support has to switch increasingly towards producing these things which we call public goods, which are things like wildlife, landscape, access, clean water. The trick is starting from a system invented over 40 years ago, which was for one reason, to support the production of food, and moving it over a period of time to a completely different system. I do not know whether we are in the middle of it, but we are in that process still.

Q73 Chairman: I said at the beginning that the Committee has had the pleasure of visiting Poland to see how a new Member of the European Union was getting on and to a possible new Member in the shape of Romania, and you see in those two countries, particularly in Romania, a very diverse and different type of agricultural challenge, rural challenge, than the remarks which you have made, which very much reflect, if you like, a United Kingdom sophisticated farmed landscape background. I just wonder if, in terms of the international context which you have respectively had, you felt there were any other existing partners within the European Union who might share your vision of what should be happening to the farmed landscape?  
Mr Oliver: The Government made a very welcome move in February when it signed the European Landscape Convention, and I hope very much that it is ratified in due course. We will not be the first country to have signed and ratified it, and there is a very large number of countries in Europe which recognise the huge public benefits of landscape, its cultural and health benefits as well as its biodiversity and aesthetic benefits, that the issue is not so much which countries share the vision but which interest groups within the countries control the policy? The interesting thing about Eastern Europe is that there is such an explosion of enterprise and a desire for freedom that the movement from, if you like, the most old-fashioned forms of agriculture, which are often very beneficial from a biodiversity point of view, is being propelled often by external investment from Western Europe, while a lot of the collective farms under the Soviet aegis are actually on land of very little value in terms of biodiversity. So there is an interesting polarisation, which in a way matches the polarisation in England between CAP-generated productive farmland and more traditional farms.

Q74 Chairman: This is the point. This is, if you like, my own debate churning in my mind for exactly that reason, that you have in places like Poland large, certainly hundreds of thousands of hectares of relatively under-exploited landscape and yet the pressure is exactly, Mr Oliver, as you describe it. It raises the interesting question as to what should be the policy objective of the Common Agricultural Policy. Do you actually want to replace that by modern, efficient farming? For example, in Romania the minister tells us that he wishes to remove 2 million of his fellow citizens from farming and he says, “Bigger, more efficient units, that is the way we have got to go, the end of subsistence.” It does raise some quite interesting questions.  
Mr Oliver: At the heart of the answer rests the critical importance of continuity of management. I think our analysis—and I think this is true to say of the RSPB as well, though I am sure they will confirm it if it is true—is that you can have a coexistence of productive farming with much better public benefits of the kind we have all described if the policies are correct and if the funding is adequate for the purpose. It does not mean it being the same as the funding today and I think in these circumstances, in particular with the international influence of RSPB, for example, it is incredibly valuable to see the value of landscape and habitat across the Continent as well as England.  
Dr Armstrong-Brown: Can I perhaps come in on that? You may already know that the RSPB is one of the partner organisations of BirdLife International and we have the RSPB equivalent in every country in EU25 who share a common agriculture policy. We work together with our partners and the view we
express in our written evidence to you is that of BirdLife International. It is interesting in the way in which this links to the question of a purpose for the Common Agricultural Policy, because Pillar 1 is in the fairly unique position of not having any policy objective attached to it any more since decoupling, whereas Pillar 2 has a number of very important internationally-recognised policy objectives, including the Lisbon agenda, which does attempt to address this question of economic and social sustainability in rural areas, which is particularly important in the new Member States, as well as the objectives for halting the decline of biodiversity by 2010, and so on. All these objectives provide a very good and comprehensive purpose for the Common Agricultural Policy but they are linked exclusively to Pillar 2, which is where this “Vision” document comes in, because it starts to move in the direction of adequately funding those policies and expressing that purpose but does not in fact flesh out exactly what is needed. There is no need analysis attached to those policy objectives so far.

Q75 Chairman: Why did they produce this document?

Mr Oliver: As I understand it, they produced it in order to make easier their passage through the negotiations in December in Hong Kong.

Q76 Chairman: That is a new and novel perspective. What does the RSPB think?

Dr Armstrong-Brown: We cannot really speak for the Treasury’s or Defra’s purpose—

Q77 Chairman: No, I want you to speak for the RSPB. When this thing arrived there was little warning, it just dropped on the desk. What was your first reaction to it? Why did you think they had done it?

Dr Armstrong-Brown: My reaction was that it was an attempt to break the deadlock in Europe over Pillar 1 and the revision of the CAP policies, but was produced as a largely English, not even UK document, that will be a start for debate but a lot of work needs to be done to take that forward in Europe, as has been discussed earlier today.

Q78 Mr Williams: The RSPB states that the effects or the implementation of the “Vision” would depend upon the funding available for Pillar 2 and the way in which there was integration between the environmental objectives with mainstream farming and economic policies in the future. Can you explain what you mean by that exactly?

Dr Armstrong-Brown: Yes, of course. Much has been made, I think, in the debate (not only today but since the publication of the document) of the impact of changing Pillar 1 subsidies, but we must not forget that these are decoupled subsidies, so any impact they have on farming at the moment is largely down to the individual choice of the recipient of the subsidy. If they choose to invest that money in farming operations, then that has an environmental impact, but a lot of it need not be. At the moment, we do not really know, to be honest, what the consequences of decoupling are going to be on a farm by farm scale because it depends upon the state of denial of the individual landowner concerned.

Q79 Mr Williams: From the CPRE standpoint, you say that the effect on the landscape will depend upon the continued viability of the farm businesses. Can you expand on that a bit?

Mr Oliver: Yes. I think we all agree, as I think the CLA has said, that the effects will be variable and there are all sorts of things in the mix. There is the age of the farmer running the business. There is the likelihood of succession if he/she is a tenant and the kind of tenancy. There is the burden of reinvestment required in order for the farm buildings and farm machinery to operate effectively.

I think one of the most fundamental questions is the uncertainty which the individual farm business feels, and of course there are about as many variations of farm businesses as there are farmers and most of them have now diversified in some shape or other. So for all these reasons—and that (diversification) partly depends upon the planning regime in the local authority, where they are, it partly depends upon whether they are in a nationally protected landscape which gives them greater access to grants and also greater access to tourist interests—there is such a range of issues that at the moment it is very difficult to predict, as Sue has said. I think probably the crucial point is, though, that there is a sort of philosophical chaos reigning, which means it is very difficult to have a coherent vision rolled out across the country. One thing we all are unified by in particular is that we regard the 9.7 million hectares of English land to be crucially important. It is just not good enough for there not to be a clear sense of the value of that land in all its respects, including natural resource management and climate change, against a time when we will want it for all sorts of different reasons.

Q80 Mr Williams: Previously the CLA gave us this threat of land abandonment and scrub invasion. Is that a bad thing?

Mr Oliver: It depends. It is a very good question. In Huntingdonshire, in 1939, there were 60,000 acres of scrub, which there had not been in 1918. By 1944 it had all disappeared. Was that a good thing or a bad thing? Well, there were lots more Nightingales in Huntingdon in 1939 than there were in 1918 and almost none now. So yes, in one respect scrub can provide benefits, but of course the reading of the landscape and the morale of the management of that landscape are both directly affected by how viable the farming is. It is also interesting to reflect on the fact that the recession in farming between the wars was basically an arable recession, not a livestock recession. Today, although presently animal prices are quite good, one of the greatest difficulties is getting the world to understand the importance of grazing as a process for delivering landscape and habitat and the variations on that, in some respects the need for reductions in grazing that you are suggesting, but also in other places the need to maintain it.
Q81 Mr Williams: Would you like to comment on scrub and whether it is beneficial or not?  
Dr Armstrong-Brown: Not on scrub and Nightingales, he has done a good job of that. I think where your questions are leading and what Tom has mentioned so far all point to the sort of missing link, perhaps, in some of the explanation in the “Vision” document, which is that you may get a certain range of impacts by changing or removing Pillar 1 subsidies, but that is actually a process which has already started and it is going to be very hard to stop in the longer term. What the real debate is around is how you manipulate the current and future suite of land management practices through Pillar 2 so that you can either stimulate or block scrub development, if you chose to, in Huntingdonshire via agri-environmental measures which either delivered that or did not. That really is the debate. It is not whether if you just abandoned farming support you got a certain range of abandonment or intensification, it is whether, given the likelihood of any of those things, you wanted to manipulate them through the rural development schemes which are set out to be the future of land management support. Of course, there is cross-compliance at the moment, which does contain a suite of environmental conditions. Only three of them are not legal requirements already, and they are very important and we are greatly supportive of them. These things can help, certainly, and they do in some way provide a little bit of value for money for Pillar 1, but in terms of really managing the landscape to create a vision for the future they are probably not going to be an adequate tool.

Q82 Mr Williams: The agricultural depression in the 1920s and 1930s enabled lots of Welsh farmers to move from Wales into the Midlands and do some missionary work up there, but in terms of abandonment do you see it the opposite way round now, that arable would survive, perhaps, and livestock farming would be the one that would suffer?  
Dr Armstrong-Brown: We are seeing different patterns. For example, in some of the large contract farms in arable areas we are seeing the start of fallow appearing in rotations again for the first time for decades, and that is where they can just withhold the cost of any kind of input into the land in a particular year. So with large contract farms you are already seeing land abandonment one year in three, which is great from our point of view. It is like extended set-aside. That would not apply if you saw a massive reduction in extensive grazing in the uplands, which is also, as Tom has pointed out, a very vulnerable sector and one which is incredibly important for conservation there. Any form of abandonment or something like it would be very undesirable.

Q83 Mr Williams: In terms of landscape, it is very subjective, is it not, and people value the landscape they have come to know and enjoy, but is one sort of landscape any worse than another sort of landscape in that sense?  

Mr Oliver: I think it is fair to say that there is a general understanding that landscapes which evolve over very long periods of time, mostly through human intervention and interaction with natural processes, are strongly recognisable by and large. The Countryside Agency and English Nature, working now with English Heritage, have developed very good characterisation maps. There are 159 Joint Character Areas in England and it is a joy to read them. I have just a few of them in front of me here, “pastures of low agricultural quality but high nature conservation interests . . . . patches of heath land common . . . . strong patterns of hedgerows, hedgerow trees . . . ”9 Those are things which come about because people decide they are going to be there, and have done so for hundreds or even thousands of years. So changing those through abandonment or intensification, which happened a lot over the last 40 years, is profound and does have very significant consequences for public benefits (of landscape) as well as biodiversity and climate actually. One example there is that carbon capture of upland saturated soil is infinitely more effective than tree growth in lowlands. So there are all sorts of things going on, increasingly recognised. When it comes to the relative effects of the decline in different livestock sectors or in the arable sector, one of the things which I think applies to both sectors is the need for critical mass of the support services. If you do not have big animal vets anywhere near you, it is irresponsible and probably foolish from a business point of view to have cattle. We have quoted in our evidence the fact that in four months in one part of south-east Essex four big animal vets have given up and decided to merely do some suburban veterinary work. That is a very serious issue, but the same would apply to grain merchants and the availability of expert advisers for fungicide protection, and that sort of thing, with arable crops. So it does not really matter, both systems are very vulnerable. One of the things we said, and I think we all agree about this, is that we do not know what resilience the farming community has to these sorts of changes and in the CAP “Vision” document there is talk about transition, there are all sorts of kind words, but until we have some facts we are not in a position to know whether it will work.

Q84 Chairman: Could I just interrupt my colleague for a second and just ask you, in the previous evidence reference was made to a large body of research work which Defra had which attempts to value the environmental outcomes, but this document, apart from one sort of chart on the population of wild birds from 1970 to 2003 is a bit light on what environmental outcomes are required. The contrast was made in the CLA evidence that there, and have done so for hundreds or even thousands of years. So changing those through abandonment or intensification, which happened a lot over the last 40 years, is profound and does have very significant consequences for public benefits (of landscape) as well as biodiversity and climate actually. One example there is that carbon capture of upland saturated soil is infinitely more effective than tree growth in lowlands. So there are all sorts of things going on, increasingly recognised. When it comes to the relative effects of the decline in different livestock sectors or in the arable sector, one of the things which I think applies to both sectors is the need for critical mass of the support services. If you do not have big animal vets anywhere near you, it is irresponsible and probably foolish from a business point of view to have cattle. We have quoted in our evidence the fact that in four months in one part of south-east Essex four big animal vets have given up and decided to merely do some suburban veterinary work. That is a very serious issue, but the same would apply to grain merchants and the availability of expert advisers for fungicide protection, and that sort of thing, with arable crops. So it does not really matter, both systems are very vulnerable. One of the things we said, and I think we all agree about this, is that we do not know what resilience the farming community has to these sorts of changes and in the CAP “Vision” document there is talk about transition, there are all sorts of kind words, but until we have some facts we are not in a position to know whether it will work.

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Dr Armstrong-Brown: Does it exist? is quite as mechanical as that I have ever seen. I need a sum to deliver this, there is nothing which is quite as mechanical as that that I have ever seen. Does it exist?

Dr Armstrong-Brown: No. This is actually quite an issue. It is not completely costed. The most comprehensive piece of work which has been done is a very recent Defra-funded costing of what it would take to fund the UK biodiversity action plan, and there the findings are that for the section that would be delivered by agriculture the current funding is about £200 million short of what is required.

Q85 Chairman: That is a study of the cost to deliver an agreed programme, but there is not a parallel piece of work which says what would the public put as a value on achieving it, is there?

Dr Armstrong-Brown: There are many, many different attempts to get public valuations. There is one study which showed that every household in Cambridge would pay £48 a year for biodiversity benefits which they could see. There is quite a lot of different ones, but I do not think there is any one which is universally accepted as the one. The CLA referred to some work by Dr Pearce, which we referred to in our written evidence, which shows that the environmental services of agriculture were valued between 0.6 and £1.8 billion. That was an academic study.

Q86 Chairman: Is there a need, though, given the direction of travel of the “Vision” document, to more rigorously address that issue?

Mr Oliver: Emphatically, yes. If there is one message that would be very, very helpful from our point of view for the Committee to transmit in capital letters, underlined in red, it is this that is a very serious issue which requires very serious analysis and it is absurd that it has not received that so far.

Q87 Mr Williams: The public really do value biodiversity in landscape and it is easier to sell that concept, but what role should food security play and what does it play in your policy to talk, or could we manage huge ranges of land just for biodiversity, just for appearance?

Dr Armstrong-Brown: This is something which we have not spent a lot of time on in our written evidence, but it is clearly crucially important when you are talking about agriculture. The most important point when considering food security is to recognise that we have never had food security as a nation and sometimes the debate is muddied a little bit by nostalgic tinges, “Once upon a time we dug for victory and now we are being very foolish in moving away from that.” In order to achieve food security we would need to achieve security of all the imports necessary to produce that food, too, which sometimes gets missed in the argument, but is mentioned in the “Vision” document. Clearly having vast tracts of land which are unable to produce food might in the long term not be a great idea, but Tom has already mentioned that we do not believe delivering environmental targets is incompatible with producing food.

Mr Oliver: And indeed other commodities and some energy. I just want to go back to your previous question about the valuing by the public of the public goods and the question of meaningful figures. CPRE has just completed a research project with the NFU, the first ever joint project between the NFU and CPRE, which has been designed specifically to look at the public benefits and the cost of “ordinary farming”, and my colleague, Ian Woodhurst, can tell us a little more about that.10

Mr Woodhurst: We undertook this because there is a deficit of data on how much time it takes to manage some of these features and we wanted to try to address that deficit. We hope to publish that research quite shortly. We are still working on the final figures, but it is quite clear that there is a substantial amount of time which goes into managing features beyond the day to day farming practices which farmers undertake. If it would be helpful to the Committee, we would be happy to submit that as later evidence.

Q88 Chairman: Thank you very much.

Dr Avery: Could I just add on security, I think this is always raised as an issue, but I am not entirely sure under what circumstances we should be terribly worried about this. RSPB nature reserves could be ploughed up next year and be growing wheat in a year’s time if they really had to.

Q89 Chairman: You are not advocating that as a policy, are you?

Dr Avery: We would not be terribly keen on it, but if we were really pushed there is an awful lot of land which could be got back into production fairly easily. Certainly the amount of environmentally-friendly farming funded through Pillar 2 of the CAP is not going to completely stultify our ability to produce food.

Q90 Chairman: In your evidence, in paragraph 8, I noted this Delphic sentence: “There is much to be done to rationalise the food chain which the Vision does not address.” What did you mean by that?

Dr Armstrong-Brown: There is a range of things there. There is a widely-aired debate over whether farmers get a fair price at the supermarket and the issues around monopolies rules, which do or do not allow farmers to compete properly, is one area. The assurance schemes until recently made claims for environmental standards, which they have had to completely withdraw because they now require lower standards than cross compliance even. There is a wide range of issues associated with the food chain which are not in the realm of Government policy but in the market chain and how it regulates

10 See Ev 37
it, whether the market is itself geared up to providing a sustainable agriculture footing, which are very much worthy of further development.

Mr Oliver: Chairman, I did not answer your question about food security. The short answer from our point of view is that it is a bit like the direction of travel you referred to in the document. If there is no interest in food security as an aspiration at all, ever, two things will happen. One is the morale of the farming industry and its technical innovation and those interested in farming for technical and, if you like, technological reasons will decline, dangerously so, and it is very hard to get that back with all the commensurate problems with support services. The other is, what will happen is that the pressure for development of land which is of very limited value and is going to—well, I think you are probably correct to say it over-simplifies, but does the Government not have a point when they argue that if you spend less money on Pillar 1 and you shift money into Pillar 2 you do not actually need to spend as much to achieve environmental objectives? Would you agree with that, even if it is more complex?

Q91 Lynne Jones: I think somebody said earlier that there is no policy objective behind Pillar 1. I do not think that is quite true because of obviously cross compliance, which does achieve some environmental objectives. In terms of providing environmental goods and services, do you agree that the imposition of cross compliance measures to single payments is less effective than more targeted agri-environmental schemes?

Dr Armstrong-Brown: That is a very interesting subject area because it gets you into, is it better to agree in Pillar 1 or invest in Pillar 2? In terms of your first comment about whether cross compliance constitutes an objective for Pillar 1, I think it is more a condition on the receipt of the subsidies which do not in themselves have an objective because at the moment if the subsidies were payment for meeting cross compliance standards, once you have taken out the things which were legal requirements anyway, (which you would not be paying in addition for farmers to meet,) you would be paying very, very much over the odds. On the RSPB’s own farm it costs us in the order of £50 to meet cross compliance standards, but our subsidy cheque is vastly in excess of that, so there is a thought!

Q92 Chairman: When you say it costs £50, £50 for what, per hectare?

Dr Armstrong-Brown: No, over the whole farm for us to amend our practices so that they met cross compliance. That was the total.

Q93 Lynne Jones: It costs £50 per hectare?

Dr Armstrong-Brown: No, for the whole farm.

Q94 Chairman: So what size of farm is that?

Dr Armstrong-Brown: 200 hectares. This will vary from farm to farm, depending upon whether they were operating good practice.

Q95 Lynne Jones: Therefore, the answer to my question is definitely yes?

Dr Armstrong-Brown: To your second question of whether the cross compliance conditions themselves had a value, if I am paraphrasing it correctly, yes, they do have because what they provide is a definition of the minimum standard and it is crucially important that people can see what is expected of them, but this is in a sense something which you just require anyone to do. You do not pay people not to break the speed limit either, you just say that they should and there is the limit. Cross compliance sets that kind of standard. It defines how you should protect the environment. The Pillar 2 schemes do a different job. They provide targeted additional incentives to support or enhance, or do more work than is the basic minimum. So I think you can achieve very important things with both mechanisms, but they are different things.

Mr Oliver: Can I just come back on that? One of the things which is most important in considering regulation versus incentive is the capacity of the farmer to deliver, so it is very important, if you are going to pay farmers more money, that they know what to do and that it is well-researched as a process, and that is something which the RSPB has done a lot of work on. Another thing which matters very much is that they are still there to farm, and therefore it is crucial that the background arrangements for their competition, if one considers, for example, animal welfare standards (which are very welcome but nevertheless quite onerous on our farmers by comparison with many), have to be taken into account in deciding how to reconcile regulation with competitiveness across the world with increasing liberalisation. So it is not simply a question of whether one is more effective than the other, it is also what the effect on the farm business is, how that motivates the farmer. Also, and this is a very worrying implication in the CAP “Vision” document, it suggests that by ceasing subsidy for production somehow that is restitution for the damage done through 40 years of intensive farming, and that is simply not the case. The damage done, for example through eutrophication, through phosphate in the soil, lasts for thousands of years and in order to achieve serious benefits for biodiversity and landscape as well you cannot simply let it rest, having farmed the guts out of it for a very long time. So land which has been subject to intensification needs active management back to more interesting habitat and landscape. It is not something which simply can be achieved through, if you like, ceasing the damage.

Q96 Lynne Jones: Yes, but in both of your submissions you are implying that the Government is—well, I think you are probably correct to say it over-simplifies, but does the Government not have a point when they argue that if you spend less money on Pillar 1 and you shift money into Pillar 2 you do not actually need to spend as much to achieve environmental objectives? Would you agree with that, even if it is more complex?
Dr Armstrong-Brown: This is very difficult because, as we have said, the objectives in Pillar 2 have not been costed. What we can say is that there is a shortfall currently, there is not enough going into it to achieve even the current objectives. And, as has been said, with the increasing emphasis on water quality and on climate change demands the demands are only going to go up in Pillar 2, so clearly there is inadequate funding in Pillar 2. Whether that is going to be equivalent or less, or more than the amount in Pillar 1 is unknown because we do not know what we are comparing it with, but what we can say for the moment is that we are getting some delivery of environment goods through Pillar 1 because of the points which Tom has made. By being there and doing what they are doing, there is a service being provided, but it is a fairly inefficient way of supporting those things. So for the services which are being provided indirectly through Pillar 1 at the moment you are likely to get an efficiency saving by funding them more directly through Pillar 2. At the same time, there are some costs which will go up because they are not currently met through Pillar 2, or because we are going to have to start doing things like paying for systems to continue, and extensive beef grazing is one example. Most of the payments at the moment are based around trying to get people to extend, but if you are trying to perpetuate a system which might disappear altogether, that will have a different cost basis to it. So if we had to hazard a guess, we would say Pillar 2 will have to be a lot bigger than it is at the moment. It might be slightly smaller than the total budget, but we would not like very much to have to put a margin on it yet.

Q97 Lynne Jones: So you do not see that there is scope for substantial savings by having more efficient achievement of your environmental objectives through targeted schemes than through Pillar 1?

Dr Armstrong-Brown: We would not argue with the principle. One thing which concerned us a lot when the document was written was that that seemed to be the primary objective, so while we do not want any more than anyone else to see poor value for money from any kind of expenditure and unnecessary spending, we would really rather that did not lead to the argument. Leading with cost saving is not the principle. You may get cost saving, which should be a side effect and a benefit, probably, if you invested that money somewhere else, but that is not the principal point of reforming the CAP, in our view.

Mr Oliver: We say in our evidence that the fund should be of a scale equal to the opportunities which exist. One of the very complicated things about the single payment is its crudeness, oddly. For example, what happens with upland land management services, which are benefiting cities and costal districts because of flood prevention and water quality management? How do you quantify those costs, which at the moment are not even considered in the Hill Farming Allowance, which is rightly interested in landscape and the social effects of the payment? There is no consideration of the fundamental issues about water management in an era of uncertainty about water, and indeed an era of crisis about water in certain parts of the world. I think it may well be that we find that some components of public benefits from funding land management actually become more expensive as time goes on. We do not know, and the crucial thing is, neither do Defra or the Treasury, and they need to before they make very substantial changes. I think in that respect we are rather behind Mrs Fischer Boel’s comment that we need to see how the present reforms bed in before we start radically going down another road without knowing what the consequences will be.

Dr Avery: And of course the budget agreement before Christmas, which was touched on by the CLA, seems to take things backwards because the amount of money available for Pillar 2 will be reduced, and that is not the direction which the Treasury/Defra paper suggests we ought to move in and it certainly is not the direction we would want to see, and it must be very unsettling for farmers, too. As well as not getting your single farm payment cheques through the post, you now hear that the direction of reform of CAP is actually taking a step backwards. So what type of signal does that give to an industry which is going through a difficult stage and is going to go through some more difficult times in terms of restructuring?

Q98 Chairman: On this question of Pillar 2, the thrust of the conversation has been that Pillar 2 monies can be spent, by and large, to deliver environmental goods because of targeted environmental programmes. But then the Commission has effectively said you have got to have a spread of some of this expenditure, and the other Member States have a different view. They would not recognise the kind of discussion we are having. They would say, “Pillar 2 is all about restructuring the rural economy.” So you have a different driver for the debate about Pillar 2, which we have all admitted is lacking in the “Vision” document, but in terms of actually delivering the type of reform CAP, if one to two is the direction of travel, any thoughts on how you rationalise the different perspectives throughout, by that time, probably the 27 plus Member States, who would all be coming at what they think Pillar 2 is from very different backgrounds?

Dr Armstrong-Brown: This is something we have done some consultation on with our BirdLife partners. The view—and admittedly this is from the conservation lobby across Europe—is that land management is what makes rural rural, if we are talking about rural development. There is a wide range of other things to do with economies which would operate in any event anywhere, but the things which make rural rural are the links to the land, and therefore access to the land management schemes must be the most important part of any spread of funding. Obviously there are competing interests and some of those voices are stronger in some areas than others.
Mr Oliver: I totally agree with that. One of the things we have been quite concerned about is the difficulty of successive generations of young people farming. To some extent that issue has been ameliorated by the rise of the new generation of people who buy land who are interested in farming but who do not rely on it as their principal or even one of their major parts of their income, but there is still the question which arises (we again refer to this in our evidence) that we do not know whether the average age of farmers being 59 is a crisis or not. The Government would have us believe that the average age of farmers has been 59 for ever. That is a colourful, interesting and amusing comment, but I do not think it is terribly helpful, nor do I think it is substantiated by the facts. So it is a good example of the need for some thought on helping new people into farming and also helping some people retire from it, and here I pay tribute to the work of people like the Rural Stress Network and the RABI, who recognise the crucial difficulty which many people who appear to be delivering landscape and wildlife for us all face when they are facing ruin. So there is a crucial need for some money to be directed towards transition for individuals and, as we have said before, there are as many farmers’ circumstances as there are farmers.

Q99 James Duddridge: Looking beyond the land, what would be the effects of the UK Government’s proposal on the broader rural economy?

Mr Oliver: One area which is quite interesting, which English Heritage has done work on, is the relationship between building conversions and farm incomes, and we can pass you an interesting chart which illustrates how very close the decline in farm incomes is linked with an increase in interest in traditional farm buildings. There are 30,000 listed farm buildings in England and there are something like 500,000 traditional farm buildings, so probably this is the tip of an iceberg and because buildings which are not listed have much less protection probably there is an awful lot of activity going on and already has. In fact, English Heritage has said that something like a third of all traditional farm buildings have already converted. That suggests there is a ready market for diversification in rural areas. However, Government policy, quite rightly, is to discourage reverse commuting from towns and cities to the countryside because the average distance of those commutes tends to be longer, and that is unsustainable while they are interested in reducing emissions from traffic. It also has consequences for the landscape character and tranquillity. So in the event that farm incomes substantially decline, it is likely that there will be resort to more diversification and that the diversification which farmers will seek will be high-value diversification, which tends not to be linked to land-based industries, and we can submit a document to you at the end which will help, I hope, to illustrate this, which is research we did with Oxford Brookes University. So the consequence is a great pressure to find new activities which yield a lot of money, either because they are basically urban activities benefiting from broadband, or because they are large-scale leisure activities such as golf courses, paintball, go-karting, the sorts of things which you see increasingly when driving along main roads in this country. So the consequence is likely to be a plethora of applications for leisure activity and high-value manufacturing and information management, which will make it very difficult for farming to co-exist if all the buildings have been taken over for those sorts of things and the holdings fragmented, as the GFA research has shown, which suggests that as uncertainty over farming continues there are many, many more very small holdings, sort of mini green belt, private green belts around farmhouses which have been dislocated from farming practice, and large areas of land which are held on grass keep or on very rudimentary farm business tenancies with very little interest in their long-term management.

Q100 Mr Williams: In terms of modulation, there is compulsory modulation but there is also an opportunity for countries to use voluntary modulation and the UK negotiated an increase, so it could be up to 20%, but I do not think any other nations actually make use of any facilities for voluntary modulation. In your view, you say that the Government ought to, as I understand it, take up the 20% modulation to be used for environmental schemes. Do you think that modulation should be match-funded by the UK Government?

Dr Armstrong-Brown: Yes, this is a very interesting area. We do support modulation in principle because it moves money from Pillar 1 to Pillar 2, which, as has been said, is the direction of travel for the wider CAP policy. The current debate is in a sense forced by the cut in rural development funds, which has been mentioned, and it is unfortunate that it is having to be taken forward like this because of all the associated trauma and stress which is accompanying it. It is becoming a much more emotive issue than a sensible policy evolution. That is one comment. On match funding, in fact in the longer term if you insist on match funding Pillar 2 subsidies you disincentive many Member States from moving money into Pillar 2. So in the longer term there is now less justification for insisting on match funding. Now it is an optional measure anyway, so we see in the short-term that there is a crucial need to match fund it simply because of the shock to farm businesses as they adjust. We do support modulation to the maximum extent needed to fund the schemes because they are existing commitments and, as we have already said, the budgets for Pillar 2 are too small to meet the objectives they already have. So there is no way around it, modulation is going to have to happen, but to minimise the impact on farmers and to keep the farming community with the programme, to enable them to support it, a signal of investment...
from Government in the form of match funding is important as a message. It is also important economically to reduce the impact in the short-term on farm businesses.

Mr Oliver: Our view is fairly similar. The issue really is that only by meeting existing commitments for environmental stewardship that is not really addressing the targeting issues for high-level stewardship, for example the national priorities are National Parks and Areas of Outstanding Natural Beauty, and of course the wider countryside is equally as important. So I think by standing still we are not really going to move forwards in either in terms of farming policy or supporting that through agri-environment schemes. You would be right in detecting there is a bit of a tension for us between the sort of pan-European view which says the sooner this is all coming out into Pillar 2 the better and the view which is, if you like, a more English view, which is that the more modulation the better because again the more money there is looking after landscapes outside AONBs and National Parks the better it is for the population as a whole, because many people do not live near AONBs and National Parks. I have a letter here from Jim Knight, which expresses an aspiration for the health agenda to be more directly met by agri-environment schemes on the edges of towns and cities, where farming is difficult but where open space is very valuable and where one does not want to have to commit local authorities to expensive management of country parks. The obvious solution is to make it easier for farmers to farm extensively in an interesting way, encouraging access close to where people live. That is an area where modulation will be enormously valuable, but there is not even a whisper that that is actually going to happen, and in the meantime the public benefit of landscape which is within walking distance of suburbs and urban expansions is just lost. You only have to look at any town where the last house on the edge of the town is left and there is a boundary and a fence and then there is an intensive field right up to the fence, so there are all the issues of access and sprays and a lack of connectivity between the people who live there and the landscape next to them. All that could be a thing of the past if we were to modulate more with greater aspiration for change that was not simply to do with the best land going into schemes.

Q101 Mr Williams: Encouragingly, you both talk about keeping up the morale of the farming community and the enthusiasm as being vital to achieving your objectives, but if you have a 20% modulation in this country and the compulsory level of modulation in the other European countries, will that put British farming at a disadvantage and affect the morale and enthusiasm which you value so much?

Dr Avery: I think it will certainly do the latter. I think there are two perspectives which are worth bearing in mind on this. One is that across Europe farmers receiving support get that support in varying proportions from Pillar 1 and Pillar 2, depending on which European country they are farming in, and in the UK the preponderance is for that support still to come from Pillar 1, so our farms are differently positioned than other farmers. The other perspective which I think we would have to advance is that that graph of declines of bird numbers in the UK, which I think would be a good indication of a decline of biodiversity on farm land in the UK, if one had the data for plants and insects. You can produce that graph for every European country and when you do the loss of birds, farm land birds in the UK is greater than it is in any other European country because we have clobbered our farm land, not because farmers have done it but because the way we have enacted the Common Agricultural Policy over decades has taken the wildlife out of our countryside. So as a result of that there is an urgent need for us to move money into the good bits of CAP as much as we can, but that is going to be more difficult and more morale-sapping for UK farmers than it would be in other parts of Europe and we need a plan to do that in a way which is most sensible and sensitive while still getting the job done, because in this discussion we have kind of said, "Well, this is okay, this vision." Let us remember how awful the effects of the CAP have been on the environment, the landscape, and it has not been great on consumers and farmers either. So we have to change and the direction of change I think is right, it is just that it is going to be very uncomfortable. It is going to be uncomfortable for politicians, who are going to have to make some difficult decisions and for farmers. It is the job of politicians to make it a bit easier for farmers, I would say, and we absolutely do want farmers to stay on the land.

Q102 Chairman: Let me just ask you, because some of this involves some quite complex dynamics. Ultimately, if we start from the point of view of the money, this discussion has been about moving out of Pillar 1 amounts of money into Pillar 2 and you made a very interesting point, Dr Avery, that in those areas where, if you like, there is the biggest deficit of environmental goods—and you chose bird numbers as your proxy for that—you might argue that, say, the intensive arable areas of the United Kingdom might be the potential biggest beneficiaries of income in a Pillar 2 situation not necessarily to see that money flow to areas where you might, if you like, intuitively think, "Oh, they will go to the Lake District or to the Welsh hills. But hang on a minute, they’ve had lots of special schemes already to achieve these objectives. The clobbered areas are the ones which have got the biggest deficit.” So the question I was groping towards was whether in fact if you were going to restructure Pillar 2 you have got to have some method almost where you say to farmers, “You guys have got to have first refusal at bidding for the cash, because if you’re going to have it taken out of Pillar 1 that’s off the bottom line of the farm, so there is some money moving around.” But if the farmer said, “Well, okay, I think I can put together an environmental package for my farm because these nice people from the RSPB have identified where the clobbering and the deficit is. I’d like to have first chance to re-deliver these
environmental goods,” then at least some of that resource goes back into the farm’s accounts, but I do not see anybody having thought about that kind of dynamic situation.

**Dr Armstrong-Brown:** Actually, we have done a bit of thinking about that. In fact, I think an earlier question to the CLA was also the future model for financing the CAP, and we do have one. It is not one that we can allocate all the cost to all the landowners who would participate in it yet, but it is basically a model for support through Pillar 2. It is a little bit like the environmental stewardship scheme now, if you are familiar with its structure, which is support for everybody at the lowest level, so every single hectare can deliver for the environment and should be able to receive support for doing that if the budgets were sufficiently large. Then where people can deliver more, where there is the potential to do specialist recreation or enhancement work, that landowner should also be assisted to do that. That will be patchy. Not every single landowner or every single hectare has the capacity to do more than just something. Every hectare can be good for the environment, but not every hectare can have an SSSI on it or be part of a designated landscape, or a wonderful wildlife-rich walk, so that will then limit the number of people as you go up this pyramid idea. That is our model for support through Pillar 2, which would not necessarily smooth out the distribution. We are not talking about either the people who get the money now getting exactly the same amount as they used to get via a different route or a completely flat rate distribution rate for everybody, but it would be distribution on merit rather than on any kind of historic allocation.

**Mr Oliver:** Can I just contribute to that answer? I think one crucially important point is that whatever the system is, it is clearly to the greatest public benefit. One of the most damaging things about farming policy for the last six years has been the drift away from recognising the public benefit involved in the taxpayer funding it. The other point is the one which has been very well made by the Woodland Trust in particular, which is that if you are going to most effectively accumulate new habitat which is resilient to climate change it is actually very important to target critical areas. The work of Peterken on woodlands, for example, is very useful on this, but also other people, which suggests that it is very good to target new, higher tier scheme activity as well as entry level scheme activity to places which give critical mass to areas of habitat. In landscape terms the story is a bit different, but it is an area where I think CPRE is content to recognise that climate change is so pressing that there may be some areas of habitat which are so precious that they require, if you like, special recognition. Without that, maybe SSSIs and local nature reserves will be of increasingly little value because of their lack of resilience. So I think that is an added element in any new scheme and if we criticise the Government for not taking account of climate change, we also must make sure we do.

**Q103 Lynne Jones:** I was surprised to hear you say that in other countries there is a higher proportion of funding going under Pillar 2. Could you tell me where those are and how that occurs?

**Dr Armstrong-Brown:** Yes. It is the new Member States which joined after the UK did, so Austria, Portugal, Sweden. They were not allowed under WTO rules to receive large Pillar 1 payments, so the money was diverted via Pillar 2.

**Q104 Lynne Jones:** So it is just the new Member States?

**Dr Armstrong-Brown:** Yes.

**Q105 Mr Williams:** One thing which worries me is that if we go down the transfer from Pillar 1 to Pillar 2 we put in jeopardy food security, to give it a shorthand expression, and at the same time we go into schemes to promote biodiversity and landscape quality and those schemes actually do not succeed. What evidence have we got that the sorts of schemes which are being proposed, Ty Goral in Wales and a lower entry and higher entry in England, actually will succeed in doing what they set out to do?

**Dr Armstrong-Brown:** That is an extremely good question because there is quite a live debate in Europe over whether agri-environment schemes actually work and a researcher called Kline has recently published a second study which goes through some of the weaknesses. We think there is a lot to be learned from this and the bad examples are in places where the scheme has been used as an alternative to Pillar 1 subsidies, in fact just to deliver money to farmers via a route which is legally okay under WTO rules. There is a scheme in Germany which pays farmers €100 a hectare not to use growth regulators on their cereals, which to my knowledge has very little environmental benefit. So there are certainly bad agri-environment schemes out there, but we know of a set of principles which will make them work well. And because of the very, very good development process which has happened in this country and the extensive use of a whole suite of environmental expertise in designing environmental stewardship we believe this scheme is fit for use, and subject to sufficient funding it will deliver its objectives. We have already got some extremely good examples. One is the Cirl Bunting special project, one element of the agri-environment schemes in Devon, which has more than met its targets, in fact it has tripled the number of Cirl Buntings. It has gone up by 300% actually. So if the schemes are well-designed, well-targeted and delivered according to the things which Tom has outlined about having sufficient advisory support, then they will work, certainly.

**Mr Oliver:** I would draw the attention of the Committee to the Land Management Initiative, which was reported on by the Countryside Agency quite recently, with a series of projects which were to do with cultural inheritance, historic landscape, biodiversity and landscape quality in a whole series of projects using the mechanisms available and they are fully reported on and very positive.

**Dr Avery:** I think the UK can be proud of its track record in agri-environment schemes. They are not all that perfect, but they have not been around for all that long. Many of them have absolutely met or
exceeded the targets they have set. Elsewhere in Europe, the schemes have been badly designed and it is not surprising that they have not met their targets and they have actually been a complete waste of money. But that is not the case in this country and it should not be the case going forward.

Mr Oliver: It would also be helpful if there were PSA targets for an increasingly sophisticated and ambitious range of issues. One of the things, for example, we are very, very keen on introducing is a PSA target for landscape quality, which would be entirely possible to achieve in an era of an RSPB-style mechanism for funding. Another one would be a more sophisticated view of biodiversity measurement. It has been critical that the Birds Directive has been at the forefront of everybody's mind, but I would draw the Committee's attention to Butterfly Conservation's report, The State of Britain's Larger Moths, which shows how very worrying the condition is of large numbers of invertebrates, which often have rather different dynamics to birds. This is in no sense undermining the importance of the Birds Directive, but it is making the point that actually we are pretty crude at the moment in looking at the value of our inheritance and we have a vast number of skilled farmers and skilled conservationists who have spent a lot of time working out how to do this well and, unlike the rest of Continental Europe, we are raring to go.

Chairman: I think, as I draw this to a conclusion, the exchanges of in particular the last few minutes perhaps illustrate the environmental deficit in the “Vision” document, in other words there is a lot about change but changing into what? Your comments about the fact that we have well quantified results for agri-environment schemes perhaps should encourage the Government to take some leadership for being able to demonstrate what a more environmentally sustainable, friendly Pillar 2 might look like with some good arguments, but sadly those are not arguments which are deployed with the degree of sophistication and knowledge which you have done in the “Vision” document. Thank you very much for opening up that further and interesting perspective to our inquiries, and again thank you for your written evidence. We much appreciate it.

Supplementary memorandum submitted by Campaign to Protect Rural England (CAP 28a)

1. Regarding the Joint Character Area maps (ref: Q 83) these can be downloaded from the Countryside Agency website from the following link, http://www.countryside.gov.uk/LAR/Landscape/CC/index.asp

2. In a similar respect, English Heritage’s Historic Landscape Characterisation work may also be of interest to the Committee, as this provides a framework for broadening our understanding of the whole landscape and can contribute to decisions affecting landscape character. This work is approaching completion and a report, “Using Historic Landscape Characterisation”, ISBN 1 899907 77 7, is available from the following link, http://www.english-heritage.org.uk/upload/pdf/a4report.pdf

3. The joint CPRE/NFU report “Living landscapes: hidden costs of managing the countryside” (Ref Q 87) was published on Monday 10 July 2006. It is available from the following link, http://www.cpre.org.uk/resources/pub/pdfs/farming-and-food/agriculture/living-landscapes.pdf

4. I have sent hard copies of the Oxford Brookes research (Ref Q 99) by post.13 The report for CPRE, by Dr Lucy Nichol of Oxford Brookes University, is entitled “Undermining the Land-Based Economy—The effects of permissive planning policy on farm diversification”, ISBN Number 1 902786 67 X. I have also sent the CPRE briefing that accompanies the report which is entitled “Squandering our Assets”.14

5. The graph that compares Total Farm Income against planning permissions for agricultural building list entries 1980–2001 (Ref Q 99) from the report by English Heritage is shown below. This graph is figure 15 from the report which is entitled “Historic Farm Buildings: constructing the evidence base”, by Peter Gaskell and Stephen Owen 2005, University of Gloucestershire, ISBN Number 1 86174 172 3. The English Heritage Product Code is 51168. The full report is available through the following link, http://www.helm.org.uk/server/show/category.9190

6. We would also like to draw the Committee’s attention to English Heritage’s report, “Heritage Counts 2005—The State of England’s Historic Environment”. CPRE and the NFU provided initial data from our joint research project, mentioned above, on the availability of skills needed to maintain and enhance the historic environment, paragraph 2.5.7, pages 60–61. The report containing this data is available from the following link, http://www.english-heritage.org.uk/heritagecounts

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13 Circulated as Background Note (Not printed).
14 Circulated as Background Note (Not printed).
Figure 15: Trends in Total Farm Income compared with planning permissions received for agricultural building list entries, 1980-2001

- Agricultural list entries with planning permission (Index 1980=100)
- Total Income From Farming per whole time person equivalent (Index 1980=100)

Source: Planning History Survey/Defra

October 2006
Tuesday 4 July 2006

Members present:

Mr Michael Jack, in the Chair

Mr David Drew Lynne Jones David Lepper Mrs Madeline Moon
Sir Peter Soulsby David Taylor Mr Roger Williams

Memorandum submitted by Jamie Blackett (RAS 02)

CAP REFORM

1. I agree that CAP needs further reform but the Government should acknowledge that:

2. UK farming does matter. Without it our rural economy would be in crisis: tourism, food processing and agricultural service industries and indeed civil servants’ jobs would disappear. The balance of payments would suffer and our economy would shrink.

3. Subsidies will be necessary for as long as the rest of the world has them and as long as our industry bears the cost of national regulation and gives like the minimum wage. By all means get rid of subsidies world wide and let food prices rise to their true level, or if not just accept that they are necessary and stop blaming UK farmers for needing them.

4. Farmers are highly entrepreneurial in the classic definition of risk taking with capital. The current bureaucracy stifles that entrepreneurial spirit. The industry has tried to diversify into the bio-fuels market and the chancellor has stubbornly refused to create the necessary fuel duty regime—unlike the rest of the world.

5. Government lecturing to farmers on the environment lacks any credibility while the playing field is tilted towards fossil fuels and away from bio-fuels.

6. CAP reform was supposed to make life simple and cut the huge waste of money in administering subsidies. Since CAP reform there has been an increase in bureaucracy. They should pay the single farm payment for the rest of its life, now that it is fixed, and remove the obligation for annual returns.

7. It is daft for six large supermarket chains to be allowed to control over 80% of food retailing. Economists such as Michael Porter would tell you that there would never be a balance of purchasing power until there are only six large farmers left in the UK—does the Government seriously want that? Either the oligopoly needs breaking or entities such as the Milk Marketing Board will be needed again.

8. The weight of regulation is now so great that even large farms simply do not have the resources to learn about them let alone implement them. Red tape must be cut.

9. Stringent production rules are sensible for the health of the nation, for the global environment and for animal welfare but they are a nonsense unless they are applied to products at the point of sale in this country as well as at the point of production as is the case, for example, with forestry products.

June 2006

Memorandum submitted by Andrew Brown (RAS 04)

1. I would like to raise the following points to the EFRA Select Committee at the Royal Show:

2. First, how are future Governments going to incentivise the growing of energy crops like oilseed rape. The current system gives only a very small incentive, half of which is taken by the processor as an administration fee, which leaves very little for the farmer.

3. Secondly, if the effects of global warming are to be as bad as predicted will the production of food take priority over the production of energy crops, and if so where will that leave those who have invested large sums in plant and machinery for the energy crops?
4. I am a farmer from Caldecott in Rutland farming 620 acres of mixed arable and permanent pasture, and I have looked closely at growing miscanthus and short rotation coppice but come to the conclusion it is not worth the effort.

5. I am 42 years old, a graduate of Nottingham University and have been farming for 20 years on our family farm, which has been in the family well over 150 years.

June 2006

Memorandum submitted by Mrs Gillian Herbert (RAS 10)

1. I have a degree in Business Studies and, among other things, spent 15 years as senior PA to the owner of the McLaren F1 motor racing team before becoming a farmer in 2003.

2. It appears to me, from a unique perspective compared with those who have been farming all their lives, that Europe is in terrible danger of losing the irreplaceable knowledge and experience represented by those who have farmed for generations. Farming is not something you can sort out by “sending the troops in”. I would have thought that recent experiences with the results of the Iraq war, SE Asian tsunami, SARS and H5N1 bird ‘flu would have begun alarm bells ringing somewhere with regard to the vulnerability of not only this country but the whole world to a continued, let alone continued and safe, food supply.

3. Policy is made by people who go from centrally-heated home to air-conditioned car to air-conditioned office and back again. Farmers are in the midst of the elements the moment they step outside the farmhouse door and spend most of the working day there and so much better placed to appreciate how vulnerable the food supply is to the vagaries of nature and disease.

4. If CAP reform continues to reward using the land for activities other than providing food why should any farmer continue working an 84-hour + week? Once the SFP ends what’s to stop those few who still want to farm ploughing up their set aside and field margins to maximise any profit? If EU regulations continue to increase costs by increasing the standards of animal welfare and compliance with environmental restrictions and no restrictions are placed on the importation of foodstuffs from countries where no attention is paid to either concern, who on earth in the European Parliament thinks anyone will want to farm in the future? It’s time someone out there stopped thinking only about how much money is to be paid out this year and next and instead about who exactly is going to be feeding the EU population, including them, in 10 or 15 years’ time. The USA is moribund in terms of growth and China doesn’t have enough land to grow the food her burgeoning population will require as she industrialises. Will she take the 40% of non-EU produce presently filling UK bellies?

5. High time someone started a little joined-up thinking and a LOT of planning.

June 2006

Memorandum submitted by Guy Smith (RAS 12)

1. 95% of British farmers are, and will remain, dependant on producing globally traded commodities that are also produced around the world. Despite undoubted technical efficiency British farmers will struggle to compete against their foreign competitors because of high costs through structural factors in Britain such as high land and labour costs. Similarly we live in a society that expects high standards from its own farmers in terms of: food safety; animal welfare; environmental care. This is enforced through Government regulation that drives up the farmers costs of production. The killer irony for farmers is that British consumers seem happy to buy on price preferring cheaper imports produced to lower standards.

2. In the past the CAP has protected farmers from the inevitable consequences of this disparity by seeking to protect home markets from foreign competition and through support payments. I would suggest if the CAP is to be dismantled and this protection withdrawn then British farmers will struggle to survive.

3. But there is another possible strategy for survival outside the past conventional thinking of the CAP that policy makers and farmers should consider. British farmers should seek to promote their products and their services (particularly in relation to the environment) to British consumers and citizens. We have 60 million affluent consumers on our doorstep, if we can secure a significant part of that market by securing a home loyalty and preference—then, as British farmers, we have a future.

4. To do this we must finance and devise effective promotional campaigns and educational initiatives. At the present time British agriculture suffers from a paucity of this. There is a role for Government here even if Government is intent on abandoning their past strategies of protecting agriculture through the present CAP. If Governments demand relatively high food safety, animal welfare, environmental standards from their farmers then Governments have a moral/political obligation to promote these standards to their citizens as consumers. Furthermore Governments have an obligation to explain to tax payers and citizens the role of the farmer in maintaining the countryside through schemes such as the ELS.
5. If the CAP is to continue to be a pan-EU policy then these arguments can also be made on a pan EU basis rather than just a parochial UK one.

June 2006

Witnesses: Mr Jamie Blackett, Farmer, Mr Andrew Brown, Farmer, Mrs Gillian Herbert, Farmer and Mr Guy Smith, Farmer and Commentator, gave evidence.

Q106 Chairman: Good morning, ladies and gentlemen. Can I welcome you to this formal evidence session being held by the House of Commons Environment, Food and Rural Affairs Select Committee as part of its inquiry into the document which the Government published last December, A Vision for the Common Agricultural Policy. By way of background, the Committee has already conducted a number of evidence sessions involving the major farming unions, landowners, and those organisations concerned with the environment of the countryside. In addition, it has made trips to Poland, Romania, France and Germany to talk about some of the politics and practicalities of the CAP and to get a European perspective on how other people look at the question of the Agenda for Change. The Committee thought there could be no finer place to come and hear directly from those involved in the land themselves, and so we decided that we would have a very special, and, in fact, unique to this Committee, evidence session here at the Royal Show. Through the assistance of the Farming Press, and I think particularly Farmers Weekly, a number of farmers have very kindly volunteered to come and give us their evidence in this particular session. This is a formal session of the Committee, and I would like to put on record my grateful thanks to Tracy, this young lady here, who is from Gurney’s and is taking down every word which is said as a formal part of our evidence. The only thing I would say to witnesses is that once you have spoken it is on the record, you cannot undo that which you have done, but if afterwards when you wake up tomorrow morning you think, “Oh, gosh, I wish I had said that”, whatever “that” may be, do please write to us and let us know whatever “that” might be. We have got three panels of witnesses, roughly speaking 40 minutes for each. The instruction basically is that we have invited those witnesses, some of whom have been kind enough to put forward in writing some of their views, to give a five minute presentation which leaves the Committee time to ask each one of them a few questions. If everybody is very crisp and there is any time leftover—we have, in fact, got four on the panel as opposed to five, one of witnesses, Mr Davenport, for personal reasons could not be with us—we will obviously deploy that in asking additional questions. In terms of those who are giving evidence, we will start with Mr Jamie Blackett, who runs a family farm, mixed arable, beef, and sheep on two sites in Yorkshire and Dumfriesshire. He will be followed by Andrew Brown, who farms 620 acres of mixed arable and pasture in Rutland, and he is a farmer with over 20 years’ experience. The next is Mrs Gillian Herbert, who started farming in 2003 and supplies rare breed lamb and pork from a small farm near Bromyard in Herefordshire. I notice that she used to be a PA to the owner of the McLaren Formula 1 motor racing team. As someone who has a passion for that, perhaps they need your help still, Mrs Herbert, judging by what happened on Sunday. Finally, we have Mr Guy Smith, who is a farmer and commentator on farming issues based in Essex. Without further delay, Mr Blackett, would you like to give us the benefit of your five minutes.

Mr Blackett: We were briefed to be quite brief with our introduction to allow time for you to ask questions, so very briefly about myself. I farm just over 1,000 acres, mainly in Scotland, which is fortunate because I think it is a country which still values its agriculture rather more than England does, and that is something which is seen in policies north of the border. I farm in arable and beef but I am also diversifying into tourism and shellfish. My perspective, briefly, is I felt the mid-term review started out well but ended up being a bit of a shambles in that the whole thing was supposed to get simpler and has actually got a lot more complicated. This is something which needs to be addressed next time round. I would like to see a world free of support payments, but unfortunately we still need subsidies in this country because in many cases we are selling our agricultural commodities for less than the price of production. This is something that politicians worldwide have engineered, partly through giving subsidies and partly by allowing, particularly in this country, cartels to govern food retailing. In working towards a subsidy-free world we need to look very carefully at making it a level playing field, and certainly from our perspective in this country it is not level. My major concern is that all the major parties seem to lean towards a policy of unilateral disarmament of subsidies partly through modulation and other means, doing away with subsidies in this country to our great disadvantage. Finally, in eventually dismantling the CAP, I would like to be given the freedom to innovate, to grow my business, and be free of bureaucracy which at the moment I am not.

Q107 Chairman: Thank you very much for that succinct introduction. When you say you want to do away with subsidies, one of the things we have encountered is the move from pillar one to pillar two, and one of the first things we did here was to look at English Nature’s display of environmental stewardship which represents a payment to farmers for delivering environmental goods, does that go into your box labelled “subsidy”? If you are asked to deliver environmental goods, will you do it for free?

Mr Blackett: I certainly cannot afford to do it for free. We have gone into the Rural Stewardship Scheme which is north of the border, I have not done it in England. Levels 1, 2 and 3, certainly I am all for
environmental benefits, but they are all ways of giving us money in different ways. We should not kid ourselves, all it is is rearranging the deckchairs slightly.

**Q108 Mr Williams:** Now that agricultural support is decoupled and not focused on production, there is an argument that we could repatriate the Agricultural Policy so we have a British Agricultural Policy rather than a Common Agricultural Policy, would you support that?

**Mr Blackett:** I would support it if I had a bit more trust in you lot! I would like to see a bit more repatriation north of the border because it alarms me that it is Westminster that is negotiating with Europe for Scottish farmers when I think Scottish politicians have shown that they understand the rural economy slightly better. If repatriation of the Agricultural Policy is just another way of saying unilateral disarmament, we will pull out of Europe in the sense of the CAP, and our farmers will be worse off, then I would not support it.

**Q109 Mr Drew:** Can I tease out this differential between England and Scotland. Are you thinking principally because Scotland has stayed with the historic system which, of course, is a system that will inevitably lead to problems elsewhere in Europe as other parts of Central and Eastern Europe come into it and we increase a dependency culture?

**Mr Blackett:** Yes, it is principally because the Single Farm Payment in Scotland is a lot easier to implement, a lot less bureaucratic and, therefore, probably a lot cheaper to administer than in England. It is not just that, I think SERAD employs people who understand agriculture whereas Defra, as far as I can see, does not. There are numerous other small policies where they try to be helpful in the way that some of the cross-compliance rules are implemented.

**Q110 Mrs Moon:** You said that you have a desire to be free to innovate, can you tell us a little bit about what that would mean if you had that freedom? In what way would you innovate?

**Mr Blackett:** A lot of my time is spent filling in forms or having pointless discussions with civil servants. I am diversifying in lots of different ways, and I would have more freedom to do that if I was not so heavily regulated, if I did not lie awake at night worrying about whether my cattle had got out and were grazing in the wrong field because it happened to be in set-aside, or whether we ploughed too close to the hedge in one field and are going to be penalised or have not in another field. I do not think a manager of one of Stalin’s collective farms would have had to put up with as many regulations as we do.

**Q111 Mrs Moon:** I did not get a response about the innovation.

**Mr Blackett:** The innovation is that we are trying to diversify and build new businesses on our farm.

**Q112 Chairman:** Give us a flavour of what those would be? What kinds of businesses are we talking about?

**Mr Blackett:** We have gone into the holiday letting market, and I am trying to start a shellfish farm, an aquaculture project with mussels, oysters and cockles. I am fortunate in that obviously we live on the coast and I can do that; I appreciate that not everyone can. These are all different ways that we are going to feed the world in this century. It is extremely difficult to be an entrepreneur in this country when there are so many civil servants blocking your every move, and when the actual business of farming takes up so much time because of all the regulations.

**Q113 Lynne Jones:** Can you give an example of civil servants blocking your innovation? Why do you think it is that the cohort of people who are employed by regulators in Scotland are that much more sympathetic than the cohort of people in England?

**Mr Blackett:** To answer the first part of your question in terms of the government agencies, the Environment Agency in England, SEPA in Scottish, Scottish Natural Heritage and their English equivalent, they block every single planning application that we make. We will get there eventually, but there are delays which go on in dealing with all these different agencies. I think we are all in favour of doing away with pollution and all these things but all these agencies do more harm than good now. We farm in a very sensitive, clean way compared with many parts of the world, and to get it that 1% better we are doing a lot of disproportionate harm to our industry.

**Q114 Lynne Jones:** We have not got time to go into it, but can you, perhaps, write to the Committee with one or two examples of where you think unreasonable decisions have been made?

**Mr Blackett:** Yes.

**Chairman:** Very quickly, a question from David Taylor and then from Peter and Jamie can take them together.

**David Taylor:** Jamie, in your written evidence you referred to the possibility of recreating, for instance, the Milk Marketing Board. We have a major deficit internationally with processed dairy products, do we not, and you have talked about the freedom to innovate. Why have dairy farmers not innovated in the ways that you suggest they ought to, to remedy that imbalance? I know you are not a dairy farmer yourself.

**Q115 Sir Peter Soulsby:** Again, in your written evidence you talked about the need for the balance to be tipped by the government towards biofuels, I wonder if you would like to say a little bit about what you think will be necessary to tip that balance?

**Mr Blackett:** The first thing is in terms of innovating, not every farmer is able to exploit these niche markets because if they did they would ceased to be niche markets, if that is what you mean by what dairy farmers should do. The other thing is that in this country we have allowed ourselves to have the
structure of our food markets skewed in favour of the retailers. We have got a supermarket cartel that is dictating the price to the extent that dairy farmers, in particular, are selling their product at less than the cost of production. In order to overcome that I think you should look at other ways. The Milk Marketing Board will obviously be going backwards to an old system, but some sort of system like that where farmers are able to grab a fairer share of the value chain. It has not happened on a voluntary basis for all the talk we have had over the last few years, so it is going to have to be done through some sort of regulation. Looking at biofuels, we have missed a golden opportunity in this country to get in at the beginning of this industry. Gordon Brown steadfastly refused to lower the duty on biofuels to the point where they became viable where people would have invested in the necessary crushing facilities and plants. It is now starting to happen but very belatedly. Fuel is one of the biggest disadvantages in this country. Okay, we have red diesel, but every time we call a vet out or get a spare part for the combine, it comes via fuel on which the full duty has been paid. All this talk about climate change, the fuel duty escalator, and all the rest of it, is just hot air if this Government is not prepared to get biofuels off the mark with a reasonable chance by altering the fuel duty on them.

Q116 Chairman: Thank you very much for the crispness of your answers and the focus of its content. We move on to Andrew Brown.

Mr Brown: Thank you, Chairman. The issue I would like to raise is the future incentivisation of energy crops and biofuels by the CAP and the EU. Crops such as miscanthus and short rotation coppice attract establishment grants which are generally taken by the end purchaser, and then there is a gap of up to four years before any realistic yield is gained, therefore, the farmer gets no income from it for four years. I have recently heard that establishment grants for these crops are being suspended as of 31 July. I have looked closely into growing miscanthus but came to the conclusion that it was not viable. Currently, the EU is offering €45 per hectare for crops such as oilseed rape and wheat for biofuels, of which the farmer receives €22.50 because the merchants and processors take the other €22.50. In the case of wheat, this equates to an extra £1.50 a tonne to the farmer. Whilst this is a welcome extra, it is not going to influence my decision on whether or not to grow combinable crops for biofuel if the price is dropped back to recent low levels. It does rather take the shine off it when huge multinationals such as Cargill take half the incentive in a spurious administration charge. Companies are investing in the biofuel market and energy crops, but without sufficient incentive to kick-start it we are going to be left dead in the water compared with Brazil, for instance, who started the process back in the 1970s, and EU countries, such as Germany and Austria, who seem to be 10 years ahead of us. It may be the case that it is cheaper to import biofuels from Brazil, Malaysia or India rather than growing them in our temperate climate, but there is no point whatsoever in paying us to look after the countryside here whilst halfway around the world other people are destroying the rainforests just to supply us. Oil companies seem to have little concern for the environment and absolutely none for the rural economy. In the future not only do we need to see low food miles, we must also be looking at low fuel miles by getting locally sourced fuel grown in a sustainable way to high environmental standards, and by ensuring the oil companies get the 5% biofuel element in their products from EU Member States and not by exploiting cheap imports from non-EU countries. We have got half a million hectares of set-aside in the UK and as farmers we want to farm it. Surely we must be able to use this to reduce our reliance on tinpot dictatorships for our fuel supplies. Through the CAP we have the opportunity to get things started now to safeguard our future.

Q117 Chairman: Thank you very much indeed. In your evidence you made an interesting observation about the balance between that passionate statement about the factors which are affecting the supply of biofuels and the effect that would have on food supply, would you like to develop that juxtaposition point which you made?

Mr Brown: If global warming gets going to the extent that some people are saying it is going to, in the future is there going to be a situation where we are going to have to choose between growing food and growing fuel? If the south part of Europe starts turning into a desert, obviously countries like ours, temperate climates are going to have to produce more food. You have got to have one or the other, obviously you cannot have both from the same piece of land.

Q118 Mr Drew: Can I take you up on that point. When we looked at our inquiry into biofuels clearly one of the issues is the worry that there could be monoculture, what is to stop that from happening, and as a corollary of that, the issue of education amongst farmers, to the extent that they would be sensitive to how they could move towards non-food crops?

Mr Brown: Obviously we have got to strike a balance between the two. You cannot incentivise one too much at the expense of the other. In my opinion it has got to be a very fine dividing line. What the answer is exactly, I do not know.

Q119 Lynne Jones: I am concerned that you say it is not worth the effort to grow miscanthus and short rotation coppice, particularly because of the carbon saving from biomass as opposed to biofuel is much greater. I understand the four year problem, but what would you like to see done about it? There is a lot of emphasis on biofuels for transport, but a third of our energy nationally is going on heat, and we could get far more carbon saving if we went to biomass energy for heating or, to some extent, energy generation than for transport.

Mr Brown: Yes, if we can get back to small energy production in local towns and villages, years ago they used to have a gas plant in every village, which
presumably produced gas from coal and turned it into coke. We have got to get local production of miscanthus and short rotation coppice so that we do not take it more than 20 miles. If we take it more than 20 miles we have lost all the environmental benefit by burning the fuel on the road. Another problem with miscanthus certainly is that the purchasers want it at 16% moisture, and basically it is like making hay in March, which, as you can imagine, is quite difficult. Apparently the average moisture content in this country is about 50% and the best you can get is 25%, so if you have then got to dry it before you can use it as fuel, you are wasting your time.

Q120 David Lepper: Mr Brown, you talked about the lack of incentives for farmers such as yourself to get into biofuels, I understand that point. On the other hand, I think Mr Blackett was putting the emphasis on the need for a fuel duty regime to help create the market for them. Would you agree with him on that, are both things necessary?

Mr Brown: They have got to run together because I think they are giving us 20 pence a litre off biofuels at the moment and that is the lowest duty rebate in Europe. If we can get that down even more and incentivise the farmer there is going to be a symbiotic relationship. It is chicken and egg, without one you are not going to get the other.

Q121 Chairman: I am going to ask all of you if we have a minute or two at the end—and this is to let the subconscious thought processes work on it—what you think the purpose or the definition should be of the Common Agricultural Policy. You can all think about that and muse on that, and if we have a minute at the end I shall look forward to some answers. Mr Brown, thank you very much indeed, again, for the succinctness and focus of your evidence. Now we are going to move on to Gillian Herbert.

Mrs Herbert: I come from a slightly different background to many of the farmers here. I have spent five years as a civil servant in the dim distant past, 15 years working for the McLaren motor racing team and have only been in farming full-time for three years. Reading the CAP Vision, I was struck by the complacency of the assumption that food would always be available for everybody. It is my job to produce food, it is your job to ensure that the population of this country is fed. As a farmer there are so many things you see, you realise how desperately fragile the world is and how extremely difficult it is sometimes to produce food. The Government wants farmers to manage risk by diversification, and I think the idea was that a lot of farmers would maybe use that Single Farm Payment to start that process, but by the time they got it most of the farmers around me were using it just to pay off the overdraft because they should have had the payments at the end of last year, and some of them are still waiting for them. If the whole process of further CAP reform is managed to that standard, heaven help us all. It is the kind of standard that one would expect if you lived in Guatemala or somewhere but not, please, in the UK. The CAP reform document seems to address everything. It seems to suggest that we should use it to make the world a greener place and encourage imports from environmentally sound places and, also, that we should prop up struggling Third World economies and help them to compete on the world market, all with the use of the CAP reform, and it is such a scattergun. It is not very detailed and I think, particularly in the international part of it, very naive. It does not give solutions, it just says what would be nice.

Chairman: Thank you very much indeed.

Q122 David Taylor: You referred to RPA, and I can assure you, Mrs Herbert, no group of people more than this Committee have been critical of what has happened there. You make interesting points in both what you have said and in your written submission in terms of food security. Towards the end of your written submission you talk about the US being moribund in terms of growth and “China doesn’t have enough land to grow the food her burgeoning population will require as she industrialises” and I do not dissent from that. But in essence will that not
drive up world food prices and will that, therefore, not make some types of food production more profitable and bring back the core to agricultural activity, the sort you are describing?

**Mrs Herbert:** Possibly, but there is only a finite amount of world that one can grow crops on, and that may be changing, as Andrew Brown said, because of global warming. The population of China is growing enormously, she is diverting three rivers to the north of the country to give more water but that is going to take 50 years. The population of China can grow an awful lot in 50 years.

Q123 **Mr Williams:** The review of the Common Agricultural Policy is set against the negotiations on the World Trade round which basically is promoting free trade. Part of that would be to reduce our export subsidies which would lead to a decrease in the price of products produced in Britain. In terms of food security, do you think it is justifiable to keep our export subsidies in order to keep the price up and stimulate production in this country?

**Mrs Herbert:** Whatever we do it has to be in line with the rest of the world. I do not think Europe is strong enough to take unilateral action, when you have got places like Japan and the USA strongly supporting their own farming industries, to go out on a limb and do it just us.

Q124 **Lynne Jones:** The document bemoans the fact that much of the subsidies do not reach farmers, do you think that is true? Mr Brown was more or less saying that was the case. If so, do the Government’s proposals solve that problem? If they do not, what would you like to see done about it?

**Mrs Herbert:** That is a very sticky one. The document does give the example of France where the money would go to the landowners who have 80% of the land and not to the people who farm. I think if you do manage to get it to the farmers in places like France, all that is going to happen is the landlords are going to put the rent up to take account of that. That is one of the problems when you decouple it from production because the money can go anywhere. Where I live lots of people are getting SFP but they are people who have bought up small holdings, using them as pony paddocks and they produce nothing. I think it has gone too much the other way in some cases.

Q125 **Lynne Jones:** What would you like to see being done about it?

**Mrs Herbert:** I do not really know. I do not know how you get the money to the right people.

Q126 **Lynne Jones:** Being somebody who lives in a town with a centrally heated home and an air-conditioned car, I have not got the answers, but I thought you might have.

**Mrs Herbert:** Not on how you arrange the economics, no.

Q127 **Mr Drew:** Can I ask you a couple of questions about yourself. I am intrigued, why did you come into farming, which obviously is a personal question that you may choose to hedge your answers around? Also, do you think it is a good thing that people like yourself are coming into agriculture, given that there is this view that agriculture is a dying industry with lots of older people, the average age is 59 now? What would bring newer people in? Is that something we should be particularly trying to do?

**Mrs Herbert:** I entered it because about 12 years ago my husband and I got very concerned. We were living in the South, near Staines, and we could see that what was happening was not sustainable, particularly in the south of the country. We planned, saved and trained—I went to Berkshire Agricultural College in my spare time—and then we made the move three years ago. It was so unusual that we did get several articles written about us in the local newspapers. We are sure we made the right decision, but we obviously made it at a time in our lives when we had a certain amount of financial security. I think to encourage young people in there is not a great deal at the moment. It is something that one sees constantly bemoaned in *Farmers Weekly*, that there is not much encouragement in the way of grants and things which there are in other countries. I believe France has a good start-up scheme for new entrants to agriculture. I think we are unusual. Many farmers around us are fifth generation farmers and you can see the results of it. One of the problems is that it is a very instant culture in this country. There is fast-food and instant celebrity, and the idea of farming and me planting a tree which is going to look wonderful 200 years after I am buried, or going out to a show like this one and investing thousands of pounds in good genetics to bring into my herd or flock which will not really begin to show fruit for five, ten, 15 years is not in line with current culture.

Q128 **Sir Peter Soulsby:** In your written evidence, Mrs Herbert, you argue against the reward to farmers for using land for activities other than providing food. You said why should they then continue to work 64 hours a week, or however long it is. It is really following from Lynne Jones’ question, how would you tie the reward to farmers from the CAP in such a way that it was doing something useful?

**Mrs Herbert:** It depends on the Government as to how much they value the environment as opposed to producing food. I think there is probably a balance to be struck somewhere, but at the moment I find it quite ridiculous that when I get the digital map of my farm, which I have been waiting for for nearly two years for, I shall be able to apply for ELS and I will be paid for not cutting my hedges, when I think I should be paid for producing food for the population. I will manage my farm in a certain environmentally sensitive way as it has been for the last 550 years, thank heavens, but I do not think you can decouple those two things entirely. There has to be a balance struck, and I do not know what it is, it is for wiser heads than me, but I think there has to be a balance.
Q129 Mrs Moon: You have expressed a lot of concern about food security and cited an example that China, for example, will not be able to feed its own population and there will be problems with the EU feeding its population. One of the things we have certainly discovered as we have been on our travels is there are whole parts of the European Union, certainly in China, that are farming in a way which has not been seen, for example, in Britain for perhaps 200 years. As they move towards the current farming practice, as we have here, their food production will change dramatically, their capacity to feed themselves will change dramatically and they will then obviously have the capacity to compete. How do you see that competition affecting the way our farmers operate? How do you see farming in 10 years’ time in this country?

Mrs Herbert: I think the idea that, yes, they will become more efficient is an interesting one, but I think also the number of people in farming, as has happened all over the world as countries industrialise, will move to cities and the whole country will become more industrial. Once that happens, there is always a greater demand for food, so the countries which become more efficient, I would think, looking historically, will only be supplying their own increased demand rather than the food going onto the world stage, as it were.

Mrs Moon: Part of the problem at the moment is—for example, we saw in Romania—that farmers are literally strip farming, so they cannot produce the mass, there is not the land base in farms to produce a critical mass. In fact, I think in Romania it was 60% of the population were still on the land.

Chairman: Four million farmers and they do not need two million of them.

Q130 Mrs Moon: There has to be that move, that move is going to be vital for those countries to grow their economies and become less reliant on subsidy and free up subsidy to allow the countries to grow and develop.

Mrs Herbert: Again, that is why I found it rather naïve that the policy says there should be a free, fair and level playing field throughout the EU. That is a long way down the line because those countries in Eastern Europe, the new Member States, have got a long way to go to catch up with the efficiency of the Western European farmers.

Q131 Chairman: I think we have got to move on. As much as I would love to ask you whether Formula 1 should be using biofuels, I think we must give Mr Smith the opportunity to give us his views.

Mr Smith: Thank you, Chairman. No doubt you were all pouring over my written evidence as you went to bed with your Horlicks last night, but I will briefly remind you of the nub of my argument. It is that British agriculture has certain structural costs that other agricultures do not have in terms of high labour costs, high land costs and in terms of regulation on the environment, welfare, and food safety. Because of these relatively high costs I think it may struggle to compete on a free global agricultural market. I would suggest that there is one big ray of hope for our farmers in Britain and that is our proximity to 60 million affluent consumers who call themselves British citizens. If we can secure some of that market for British farmers then we have a future. My problem is I think traditionally there is not an effective promotion of agriculture in this country and agriculture must promote itself in three key ways. First of all, in the way it produces a world-class, affordable, low food mile, safe-assured, traceable product in that it has a world-beating animal welfare record and it looks after the countryside in a good way. If we can promote the role of farmers to the British population in that way there will be a return to British agriculture which may secure its future. This is the controversial bit: I think Government has a political obligation to help with this, and I would suggest that there is a lack of political will in this country to do so. No doubt you are all in denial about this and I am trying to shake you out of your denial.

Chairman: Consider myself well shaken! Thank you very much indeed.

Q132 David Lepper: Yes, Government has got its responsibility, you have rightly said that, to help farmers reach the—how many million did you suggest?

Mr Smith: Sixty million or thereabouts.

Q133 David Lepper:—Sixty million potential customers out there. But you have used the phrase in your written evidence: “British farmers should seek to promote their products”, and in your comments just now—I have jotted down your phrase—“Agriculture must promote itself”. We will take as given the fact that the Government ought to be doing more, but can you say a bit more about the farmers’ input into doing more?

Mr Smith: Traditionally I do not think farmers are particularly good communicators or promoters of their industry for a number of reasons, but that is changing with a new generation which is much more switched on to communication. I think Government has a responsibility to help nurture that and get farmers to promote themselves in a positive and strategically effective manner in terms of markets.

Q134 David Taylor: You are based in Essex, Mr Smith?

Mr Smith: That is correct.

Q135 David Taylor: I do not know whether there is a Tesco in Chelmsford, there probably is, if I was to stand outside there on Saturday morning with a petition urging people to campaign against low poultry standards or pig production, whatever, the same people who would be keen to sign that petition would then go in and buy chickens produced perhaps in Thailand or Brazil
to standards that are relatively low, which bears out your sentence in your written statement, “the killer irony for farmers is that British consumers seem happy to buy on price, preferring cheaper imports produced to lower standards”. How do you think we can bridge that gulf between what they say their values are and how they deliver them in practice?

**Mr Smith:** For starters, as our elected representatives, you will want to think this through before you pass the regulation. I think you assume that there is a political will amongst the British electorate to have high welfare standards in this country. I hope you are right, but you must realise that if that is correct then it would manifest in the way they make purchasing decisions. If it is not manifest in the way they make purchasing decisions, then maybe you are over-regulating us, and the pig industry would be a perfect example of that.

Q136 David Taylor: Do you feel there is more that can be done in terms of labelling to bring out the high environmental and welfare standards that are often associated with British food which are less often the case with the imported equivalents?

**Mr Smith:** I think as regulators you could do more to ensure correct, accurate and openly honest labelling of British food and its source. You could also do things like relax the over-restrictive interpretation of state aid rules whereby even my money as a levy payer is not allowed to be used to promote my product to my home consumers.

Q137 David Taylor: Do you feel the EU inhibits this in any way?

**Mr Smith:** You are the first port of call as my elected representatives, but if you will not help then I will go to the EU.

**David Taylor:** I fully agree with what you are saying, Mr Smith, I am just asking the questions, I can assure you.

Q138 Mr Williams: The message that you give that British farmers produce to high standards in terms of the environment, animal welfare and various other criteria is one that is mirrored by farming organisations in Germany and France. But it seems to me that if farmers in the EU are going to sell at a price which represents the cost of production and get public support in terms of subsidy, then they have got to re-engage with the British people and the people across the EU. That engagement seems to have been lost recently. Have you got any idea how that engagement can be encouraged and re-established?

**Mr Smith:** Often it comes down to money. If you want to promote yourself and your goods then you need a budget to do so. Tesco spend £60 million a year promoting themselves, British agriculture spends about two and a half pence a year promoting itself. I think you have got to be serious about budgets and you have got to be strategically sophisticated with the way you use communication. I also think—and here is another bit of controversy for you—in this country there is almost a culture to demonise agriculture as being responsible for a myriad of problems, and that is often well reflected in Westminster, and I would like to see a change of that culture as well.

Q139 Mr Drew: What you have been saying suggests that you would agree with me that the problem is the price of food is too cheap and the only way you are going to be able to overcome the problems is if the price of food goes up. The real dilemma is if you were to deregulate, if you were to lessen some of the controls, the danger is that you will further drop the price. How do you square this circle?

**Mr Smith:** The problem is people want it both ways in this country, they want cheap food and they want it produced to high standards. It has got to be made clear to the consumers that you cannot have it both ways. I am told that there is a burgeoning market for ethical consumption in this country, but to make an ethical decision you have to be aware of the ethics around the marketplace. I would suggest that people should be made aware of the fact that British farmers have very high animal welfare standards and, therefore, there is a premium to their product in terms of their ethical consumption. I am positive that they are not particularly aware of the fact that a British pig is treated a lot more kindly than one from wherever.

Q140 Lynne Jones: A lot of the chickens and eggs that are sold in the supermarkets are British production and are not produced to very high welfare or environmental standards. What does the Government have to do to help you market the products that are produced to those high standards? What about the supermarkets themselves, should they not be enlisted here? Although Government, because of world trade rules, cannot impose regulations that are not accepted, the supermarkets or retailers can require certain standards but, of course, they have to pay for them and they have to require their customers to pay for them.

**Mr Smith:** It is interesting that you are of the opinion that they are not produced to high animal welfare standards. All standards are relative, and I would suggest that those standards are high in relative ways.

Q141 Lynne Jones: Yes, but not in absolute terms, battery production of poultry and eggs.

**Mr Smith:** You cannot give every chicken a three-piece suite and room service to make sure it has got high welfare standards.

Q142 Lynne Jones: Who said they wanted that, that is just ironic.

**Mr Smith:** Because you were telling me that British welfare standards were in some way wanting, that was what you suggested.

Chairman: Before we get into a debate, we are up against our time deadline.
Q143 Lynne Jones: You can go into a supermarket and pay for a hierarchy of different types of products.

Mr Smith: I would suggest that you must accept that welfare standards are relative, and relatively British welfare standards are higher than imported products. Therefore, I would suggest that if you promote British products as having a high welfare standard rather than, as you suggested now, wanting in some way, you would do more to secure our markets.

Lynne Jones: Supermarkets do not sell Thai chicken.

Chairman: Lynne, I think you have made the point.

Supplementary evidence submitted by Jamie Blackett (RAS 02a)

1. I was asked to provide examples of where excessive regulation hinders growth and where civil servants have acted to block innovation.

2. Two brief examples of where farmers in this country are hampered by regulation.
   — We have to give the Government the same information three times a year in lengthy forms, namely the SP5 and the two censuses. Time = money and the time I spend filling in forms could be more profitably spent elsewhere.
   — In most parts of the world if they have fallen stock they bury it. This could be done quite safely on my farm in a lined dead pit on land that does not drain into a watercourse (it drains straight out to sea and any residue would be clean by the time it got there anyway). The animal would rot down as nature intended. As it is I have to spend time and money getting it disposed of through the fallen stock scheme. This has an adverse effect on global warming as a vehicle has to go on a 25 mile round trip to pick it up and it is then burnt. The cost amounts to about £1.50 on every beast I sell when averaged across my herd, which puts me at a further disadvantage against South American beef.

3. An example of bureaucracy stifling innovation.

4. We have plans for a shellfish farm on foreshore that we own on the Solway Firth. The project would be backed by inward investment from a European partner and would create 20 local jobs.

5. The fact that it is in an SSSI means that we have to go through a lengthy process to prove that there is no adverse effect on the environment. The burden of proof is on us and we are in an impossible position because it is a scientific axiom that you can’t prove a negative. Even though shellfish are net cleansers of water rather than pollutants.

6. We are a small business and against us are ranged large government agencies, SNH (English Nature equivalent), SEPA (Environment Agency equivalent) etc. staffed by worthy people who mean well but decide that there is no personal risk to themselves if they say no to every proposal.

7. As a result we have got nowhere. In the same space of time shellfish farms have sprung up in Ireland, France and Australia using the same technology in similar environments, some of them SSIs.

8. There may come a point when we just give up, which would be a pity because if those in the public sector in safe jobs are to have their index linked pensions paid for, then entrepreneurs like me are going to have to work that much harder.

July 2006

Supplementary memorandum submitted by Guy Smith (RAS 12a)

Thank you for the opportunity to address the EFRA Committee at the Royal Show last Tuesday. In our Q and A session after my submission I suggested that there was a general culture in Britain to concentrate on the negatives in modern agriculture and ignore the positives. I went on to suggest this was reflected in Westminster amongst MPs. I was challenged to produce some evidence to back this up. By way of example I would concentrate on one specific but well known area—the impact of farming practice on the British bird population.
The best place to start is with a graph that you will find in DEFRA publications.

Although British Bird populations have increased in terms of species and numbers in the last 30–40 years (bold line), DEFRA and English nature maintain there is a sub-class of 19 bird species called the “Farmland” species (broken line) that have declined.

From this it has been deduced that modern agriculture is bad for birds, if not bio-diversity generally. You will often find this sentiment echoed in the media. My view is this is quite damaging for agriculture in as much that it undermines our image as good custodians of the countryside and suggests to consumers there is an “environmental cost” to British farm produce. It is a sentiment I have heard echoed by MPs and ministers—most notably Elliot Morley.

The idea has influenced a lot of Government’s agri-environmental policy and will continue to do so. Farmland birds, as defined by the RSPB, are an indicator on the Government’s “Quality of Life” indicator.

The “sound science” question is what is the definition of a “Farmland Bird”. Is it where they nest or where they forage or where they mate or where they roost or whether they are migratory? On the RSPB analysis it is none of these things. The Turtle Dove, the Kestrel, the Skylark have all shown declines, are all on the RSPB list and are all different in terms of where they nest or forage or whether they are migratory etc. Furthermore the idea that british farmland only harbours 15% of the british bird population is quite perverse. As is the RSPB idea that the Grey partridge is a farmland bird and a Red Leg partridge is not. Similarly how can it be that the Sparrow hawk is not a farmland bird but it’s prey, the sparrow, is. Again, according to the RSPB and DEFRA, the crow is not a farmland bird. Most farmers find this ridiculous and laughable. The crow is traditionally and presently associated with farmland. More generally farmers will tell you their farm’s harbour scores more species that the RSPB 19.

In short there is no objective definition being used here—there is no sound science. It is simply the subjective opinion of the RSPB. I would suggest the RSPB are a vested interest here in that they have something to gain from promulgating the idea British birds are under some sort of threat from a human source. Their campaign clearly sells membership and increases their influence in Government.

If one looks into this issue it becomes clear that the RSPB analysis taken up by English Nature and DEFRA is rather selective and unduly negative and stems from a campaigning agenda that has nothing to do with conservation science. The BTO identify 21 species of bird which they define as “Farmland” which have actually increased over the last 30 years. (see table taken from BTO web-site).
Table of population increases for CBC farmland 1968–99

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<th>Species</th>
<th>Period (yrs)</th>
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</table>

The key point here is that only three of this list of 21 are included in the RSPB/EN/DEFRA group of farmland birds. If they were included the RSPB graph broken line would look very flat and not nearly as alarming. If this was done then the view of agriculture by consumers, politicians, opinion formers may be a good deal more positive.

Furthermore inclusion of the BTO 21 would put a different slant on the RSPB analysis as to why some species of bird (such as Skylark or Corn Bunting) are declining. The RSPB argue that as all farmland birds are declining it can be assumed that change in habitat is the key. Therefore we must change farm practices and change habitat. The BTO list suggests something else might be going on as these twenty-one increasing birds would also be sensitive to this habitat change if the RSPB argument was right. It may be that predators are more important than habitat as the BTO 21 includes many predators and birds that do not suffer from predation.

The most worrying thing for the industry here is that Government are expecting to see reverses in the declines of the RSPB 19. If habitat is not the key here but predation is, we may not see these increases while predators increase (and the vast majority of mammal and bird predators of birds have seen large increases over the last 30 years). Hence, under the RSPB analysis we may not see much reversal and the pressure on agricultural reform will remain. We are in a lose-lose scenario.

I am keen to see a more rounded analysis. Farmers should recognise that some bird species have declined and should acknowledge that agricultural practice may be to blame and we should encourage changes and new practices that will address this. But we should also seek acknowledgement that some species have increased and that some species loss may have nothing to do with agriculture and will not be influenced by agricultural policy.

More generally I find it odd that Government and politicians should take up a loaded and selective analysis from a lobby group which is unduly negative. It is almost as if politicians are keen to accentuate the negative when it comes to viewing agriculture. It would be nice to think our elected representatives would accentuate the positive about British agriculture and it’s conservation record.

I have more evidence that I could present on this issue generally but feel I have gone on long enough.

July 2006
INTRODUCTION

1. Thank you for offering the opportunity for farmers to share their perspectives on CAP reform as part of the EFRA committee review.

2. My name is John Turner and together with my brother and parents, run a 100ha family farm close to Stamford in Lincolnshire. The farm was converted to organic production in 1999, which enabled us (for a short time at least) to produce for a differentiated market that recognized the value of a mixed farm founded on traditional husbandry practice. An oversupply in the organic milk market in 2002-03 coupled by increasing influence of the supermarkets’ buying strategy meant that the three-year contract guaranteeing our milk price became worthless. The resulting losses meant that in the autumn of 2004, we had to disperse the herd that we had spent 40 years establishing, making our herdsman redundant in the process.

3. We continue as a mixed farm, with beef, sheep and cereals combined with some niche markets such as the cultivation of herbs for medicinal use. We also take processing and retail some of our meat directly through a box scheme to the local villages. However, despite taking advantage of these different market opportunities, maintaining our farm business as a farm rather than a subsidised hobby is proving to be increasingly difficult. We find that our business planning is now based on a survival strategy for one or two years rather than the sort of long-term investments that should be underpinning the farm.

4. The future of farming is becoming polarised towards two very distinct models:

5. The continued expansion of agri-business, which is increasingly tied to the agricultural supply industries and to centralised distribution and processing as part of a global trade in food. Whilst the economies of scale encourage continued growth of this model, the impact and costs are often borne by farmers, the environment and the public.

6. The alternative is one of farm businesses that are built on a foundation of good animal and crop husbandry principles that place the environment and social issues as integral parts of food production rather than “bolt-on” extras. Economists and other analysts often overlook much of the value in this form of agriculture within the relatively narrow definition of “efficiency” that is often used.

7. I still believe that it is this second model that should provide the backbone of Sustainable Farming within England and that there exists considerable potential beyond the relatively small market opportunities that are currently available to niche, organic or “hobby” farmers.

8. I am disappointed to see that the list of farming organisations being asked to present evidence to the Committee (the NFU, TFA and CLA) all tend to represent a similar view in farming, which predominantly reflects the “agribusiness” model referred to above. There appears less opportunity for those representing the alternative model, such as the Small Farms Association, FARM or the Smallholders Association to have their views presented.

9. I was involved in the formation of the farming organization “FARM” in 2002 and remain closely involved with their work. I also work in conjunction with the Food Ethics Council as part of a wider effort to close some of the gaps in communication between those involved in policy work and those in farming.

ISSUES I WOULD LIKE TO SEE ADDRESSED IN THE FUTURE OF THE CAP

10. Firstly, the current support structure for payments where farmers have to do little or nothing to receive their Single Farm Payment is something that can only be justified as a brief transitional step towards a more efficient and productive use of public money. Subsidies have been, and continue to be a major factor in the move away from good rotational farming practice. Their continued existence perpetuates the problem of farmers and their staff working at, or below a subsistence income.

11. It is quite possible to envisage from the list of challenges placed before us as farmers, that the efforts to reduce the environmental impact within the English region will command such a high prominence, that production will be displaced to other countries. This does not in itself reduce the impact of farming and food production, it merely displaces it to those areas where production continues and in doing so exacerbates the increasing problems caused by international transport systems and starves local economies of much-needed sources of income.

12. The current trend in land use reflects a worrying trend that appears to reflect government thinking that all environmental targets can be easily met by merely ceasing production. This “solution” however can no longer be described as farming, it is countryside stewardship and it will not feed, cloth or heat a single human being.

13. A recognition of the value of farmers as primary producers as well as custodians of the land they farm would at least be a start to addressing the widespread feeling amongst farmers that their efforts are undervalued and that their skills as food producers are no longer required. I would therefore like to see a better balance that reflects an integration of production with “the environment” rather than production displaced by “the environment”.

THE FUTURE OF THE CAP
14. Possible areas where support could be justified for farming:

15. Support for some of the logistics needed to maintain good farming practice that currently present a disproportionate burden of small and medium-sized farms: These could include:

   — Soil testing and analysis (which would have the added advantage of providing a national information resource to monitor changes in agricultural practice).
   
   — Demonstration farms that integrate farming, science, research and emerging technologies and provide a working test bed for new innovation.
   
   — Targeted support to address barriers in processing, distribution, marketing and legislation that are blocking important marketing opportunities for smaller-scale farming.
   
   — Fostering better cooperation between farmers.
   
   — Working IT systems that simplify record keeping and provide the necessary reports to underpin farm assurance schemes.
   
   — Support for a “fair trade” system of supply contracts that enable farmers to plan their cropping and animal production with confidence.

The list is by no means exhaustive.

June 2006

Memorandum submitted by Reverend Robert Barlow (RAS 16)

1. You ask for views on what CAP should look like in 10 to 15 year’s time. Having been a village vicar for 12 years, I am now an agricultural chaplain, working closely with farmers and farming organizations.

2. My hope for the future of the CAP & European policy is that it will produce an agricultural industry that is not dependent on subsidy, but for which there is a level playing field worldwide and where the world’s farmers get a fair return for their labour.

3. I would like to see an industry where:

   (a) If stalls and tethers are banned in pig production in the UK, then pigmeat produced overseas using stalls & tethers is banned from our shops.
   
   (b) If minimum wage rates apply for producing food in the UK, then food from overseas should also pay the same minimums.
   
   (c) If Foot & Mouth is eradicated in the UK at horrendous cost to the UK industry and government, that overseas beef from countries with endemic Foot & Mouth should be banned.
   
   (d) Air freighted beans from Africa should meet the cost of the CO₂ pumped into the atmosphere.
   
   (e) There is a level playing field between producers and purchasers and where the buying power is not in the hands of increasingly fewer retailers.
   
   (f) Supply chains are shortened and we can ensure safe and wholesome food through good relationships in a short chain, rather than endless paperwork in an increasingly long chain.
   
   (g) The world’s agricultural industry meets the world’s food needs. Farmers in the developed world are scratching to make a living. Farmers in the less developed world are also scratching to make a living. Yet 800 million people don’t have an adequate diet! That is an affront to God’s sense of justice (a view of God being concerned with justice is common to all the major faiths) and a sad indictment of the world’s political and economic system.

June 2006

Memorandum submitted by Mrs Jilly Greed (RAS 24)

The Future of the Suckler Beef Sector: Jilly Greed—Devon Beef Producer

1. The suckler beef sector has been hit hard by CAP reform. We are now seeing a significant reduction in the national herd in both the UK and Europe. This will have long term environmental impact especially on the grazing management of the uplands and lowlands of this country, as well as the supply chain.

2. This is a flagship industry. Many improvements are being made at farm level to improve efficiency and quality. However, the reality is that unless farm gate prices increase by 40% over the next three years to cover the real cost of production, the long term prospects for the suckler beef industry is grim and unsustainable for the beef producer.
3. I have no illusions about supermarket supply chains and how these need to be strengthened and improved, brands developed and fair prices paid to producers. I recently went on a beef study tour of Argentina and Brazil with Tesco to see their South American supply chain, visiting farms and the processing industry. It opened my eyes to global trade.

4. The cost of production on our farm is £2 per kilo and we are efficient producers through our system. It is significantly lower in South America (Argentina is 90p and 70p in Brazil) helped greatly by scale, low labour, little regulation and environmental constraint. On our farm, we are currently paid an average of £2.08 per kilo in a forward price contract with Blade Farming South West that has been mutually beneficial. However, despite prices strengthening through the export market opening up, we are making no profit and depend on SFP to survive.

5. In reality, we need to be at £3 per kilo to ensure a future, where we can invest back into the farm. Are supermarkets really prepared to pay these prices and pass the extra cost to their customers? I think not, so the squeeze at producer and processing level will just continue, despite the rhetoric.

6. To conclude, I do not think the UK suckled beef sector will be able to survive in a global marketplace unsupported.

7. Other forms of support for good environmental management to preserve our national heritage, bringing a visible public benefit and high quality to local and regional food, will be crucial.

BACKGROUND

8. I am a 4th generation beef producer farming in Devon in the flood plains of the Exe and Culm, near Exeter, with my husband Edwin on a 500 acre family farm.

9. Earlier this year I went on a five day beef study tour of Argentina and Brazil with Tesco and other industry representatives to see their South American supply chain, visiting farms and the processing industry. I am a council member of the National Beef Association South West and member of the CLA Food Chain Initiative Committee. I am also involved in the PR and marketing of regional food through Taste of the West.

10. Our farm is divided almost equally between permanent water meadows and arable land with every field on the holding in a Nitrate Vulnerable Zone as well as a triple SSSI (site of special scientific interest). Our business focus is to keep it simple and concentrate on what we do best. Our aim is long term sustainability and we are adapting to the new era of CAP reform by adding value to our enterprises and reducing cost wherever we can.

11. The three main enterprises are quality suckled beef, energy crops and the environment, with Countryside Stewardship and Environmental Level Schemes, to increase the endangered cirl bunting and grey legged partridge. Meanwhile we are seeing other species thrive on the farm, in particular skylarks, otters and kingfishers.

12. We have a closed suckler herd of spring calving South Devon and Blonde beef cattle, pure and cross bred, with over 50 years of bloodline between them and high herd health plan and strict bio security. Farming in the flood plain means we cannot out winter, so cows and calves graze the river meadow from early April to the end of October and are then housed in a mix of modern and traditional buildings.

13. We do not have a large labour force. 25 years ago six men were employed on the farm, seven years ago four, and now there are only two, Michael who has been with us for 31 years and my husband Ed. With other wintering costs and pressure on available buildings, efficient beef production systems and reducing costs including labour are crucial.

14. A supply chain system and partnership that would give us added value and extra margin was also key. Which is why we became a member of Blade Farming South West in October 2004, agreeing a forward contract that rewarded quality and consistency—but also ensured a high level of technical backup and expertise to improve what we do and reduce cost.

15. However, we are very dependent at the moment on SFP to continue farming and without this payment, we would not be in business. This was reinforced by the considerable delay in the SFP payment, which remains unresolved, but certainly concentrates the mind!

June 2006
Memorandum submitted by Roger James (RAS 32)

1. I am 46 years old and farm in Mid Wales along with my wife and young family.

2. Brief History

I left school at 16 with two O Levels and a few CSE’s. I went into mechanical engineering doing a four year Apprenticeship. I passed as a Machine Tool Fitter. My spare time was taken up with the livestock at home and also doing some agri-contracting. At 20, myself and two brothers started an agri-contracting business doing mainly fencing, harvest work, ploughing, draining and digger work. The partnership brought a 250 acre welsh hill farm in 1984, in 1986 I moved and took on a 310 acre share farming enterprise and I rented a further 200 acres in 1988. I was finding it increasingly difficult to farm and work with my brothers so in 1995 I sold my share of the contracting business and purchased a 120 acre tenanted farm. This is still rented out. My wife and I are currently running 1,000 breeding ewes, rearing 1,500 lambs with 500 suckler cows and their calves.

3. Future Vision

I strongly feel that without subsidies there will not be a future for the livestock industry, especially in the hill areas where I live, very few youngsters will become livestock farmers. I feel that there needs to be a retirement system to pension off the old farmers. This will enable the younger ones that want to farm a chance of doing so. The old farmers should not be able to claim their pension as well as claiming subsidies. This would release land for the youngsters. The “Them and Us” attitude has to go, and we should all be working towards the future interest of agriculture and the rural economy, we should feel proud to be farmers and not pitied. If it continues as it is, I won’t see my son farming he will have a proper job (his words not mine).

June 2006

Witnesses: Reverend Robert Barlow, Agricultural Chaplin, Mrs Jilly Greed, Beef Farmer, Mr Roger James, Hill Farmer and Mr John Turner, Organic Farmer, gave evidence.

Q145 Chairman: We welcome four new witnesses. Can I introduce the Reverend Robert Barlow, the agricultural chaplain, I was going to say from Worcestershire, but that perhaps extends your theatre of responsibility too wide, whereabouts in Worcestershire?

Reverend Barlow: My responsibility is for the whole of the Worcester diocese, which is Worcestershire but not Tenbury Wells, which, for some reason, gets lumped in with the Hereford diocese, but also includes up into Dudley, the Black Country. One of the joys I have had is being able to go into urban areas and talk about some of the issues in rural areas and in agriculture.

Q146 Chairman: Thank you for that geographical clarification. We have Mrs Jilly Greed, who is a beef farmer with a closed herd of 200 suckler cows on a 500 acre family farm in the delightful county of Devon; Mr Roger James, a hill farmer in mid-Wales, who is responsible for 1,000 breeding ewes, producing 1,500 lambs and 50 suckler cows; and Mr John Turner, who farms a mixed 100 acre organic farm of beef, sheep, cereals, medicinal herbs—just have a look at the Committee to see if we need any help—near Stamford in Lincolnshire. We had hoped to be joined by Mr Richard Stubley but I understand that for personal reasons he has not been able to join us. You are extremely welcome. If we can start this time with Reverend Barlow.

Reverend Barlow: My work brings me into close contact with agriculture. I would not dare to claim to speak on behalf of farmers nor to represent them, but I believe I have a pretty accurate picture of how the industry feels. Among the farmers I meet there is a significant number who would welcome an end to the whole subsidy system if, in return, they had that level playing field which you write about in your report. If there was fairness in agriculture I think many would be happy to see the end of subsidies because UK agriculture has got much going for it. It has got a good climate, rich soils, skilled farmers and a market of 60 million, as we heard, on its doorstep. If everything were fair and equitable then our farming could compete with the best in the world. For that fairness there needs to be consistency, both across the EU and beyond the EU. An example of inconsistency would be the different circumstances that beef and dairy producers in Worcestershire find themselves in in comparison with those in Ireland. In Worcestershire, TB is endemic in wildlife and that adds enormous costs to the dairy and beef industry in trying to have bio-security measures to make sure that their animals do not catch TB, or the additional costs which occur if and when their herds go down with TB. In Ireland it is different because they have had a resolute cull of TB in wildlife and they do not have all those additional costs. Another example of inconsistency would be with egg production, we have heard a little bit about that. The EU Directive 99/74/EC has meant that in this country we have had to tool up with new cages of a higher standard; that has not been implemented in the same way in the rest of Europe. I understand that not only has the rest of Europe avoided those costs, but the Spanish egg industry has been able to expand, buying up cheap second-hand equipment from the UK which does not do any good. Exporting production does not
solve welfare issues. Likewise, stalls and tethers with pig meat, we have heard about that. As with animal welfare there are questions about environmental standards. The Water Framework Directive is to be welcomed if it cleans up the rivers in this country and the Thames, the Severn and the Avon are all clean, but not if that is only done by putting additional costs onto UK farmers so that we end up polluting the Seine, the Rhine and the Danube or the Mississippi, the Amazon and the Plate. I heard somebody speaking just over a year ago and he was telling me that he was standing at the mouth of the River Plate, a great wide expanse of water going out, and it was dark brown with the silt soil that had been washed off. It is the kind of standard which would not be acceptable in this country. As we are putting so much money from Europe into agri-environment schemes it would seem bizarre if we end up wasting it by transferring production to places where animal welfare or environmental standards are not so high. There needs to be a consistency across Europe and beyond for fairness and for farming to compete. The second area where there needs to be fairness in farming is in respect of the market. We say that we all believe in the free market but I sometimes wonder whether the market is free as Adam Smith meant when he wrote In the Wealth of Nations. He talks there about multiple producers and multiple buyers and we simply have not got that both in this country and the world, we have countless must-sell-producers and a handful of might-buy-buyers. The Competition Commission’s investigation into the role of supermarkets has been affirmed in their positive role in terms of prices for consumers, but as one Oxfordshire farmer said, “There are 200,000 farmers dealing with basically three supermarkets, two grain merchants, four fertiliser companies, not a chance. They have got power, real power”. That is not a level playing field. Worldwide, six corporations handle about 85% of the trade in world grain, eight corporations account for 55 to 60% of world coffee sales, seven account for 90% of the tea consumed in Western countries, three account for 85% of the world trade in cocoa and three account for 80% of the world trade in bananas. The long-term effect of world food trade being dominated by a handful of large companies both in the UK and overseas has to be questioned in terms of its effects on producers, the environment and animal welfare. We ought to remind ourselves that there is a demand for food. There are 850 million people in the world who have an inadequate diet, there are 25,000 people who will die today, and 25, 000 who will die tomorrow and the day after and the day after that because they do not have enough to eat. A market which is truly free and gives freedom to our producers and producers worldwide to meet that demand would be welcome. A market that gives freedom to a handful of companies to exploit differences in environmental standards, living standards and animal welfare is not the free market of Adam Smith. With consistency across Europe, across the world, and a market free from the stranglehold of a few companies, there can be an excellent unsubsidised future for UK agriculture. Finally a plea, getting from where we are now to where you want to be in 10 or 15 years’ time will involve tremendous change for those in the industry. I would urge that during that transition, which I hope we will make, you will make support available in terms of realistic funding to the various agencies that work to provide help to stressed and distressed farmers.

Chairman: Thank you very much indeed.

Q147 David Taylor: In your written statement, and I do agree with a lot of it—as a Christian in a rural village I wish you were the chaplain in our area, and perhaps we will try and send a transfer fee for you—you talk about 800 million people who do not have an adequate diet, which is an affront to any God of any religion. Early on in that submission you also talk about foot and mouth being eradicated at a horrendous cost to the UK industry and government. Does not God, any God, also want to avoid cruelty to all living beings? Was that an appropriate approach to get rid of foot and mouth? Were we not in a position when the NFU at national level were urging on the government, amongst others, to go for their culling policy where many individual farmers in areas like ours were perplexed by this policy? Is there not a gap between the way in which farming is represented at the national level and some of the many people who are doing their best to provide at the local level? Do you not see that gap?

Reverend Barlow: I said at the beginning that I would not dare to speak on behalf of farmers.

Q148 David Taylor: The rural community then? Reverend Barlow: I think you can put three farmers is one room and end up with four different opinions. There will always be people who have different views about how foot and mouth was handled and whether it was done appropriately or inappropriately. I always remain aware of the tremendous personal cost to all sorts of people involved, both farmers and those involved with MAFF.

Q149 David Taylor: And the millions of animals? Reverend Barlow: I have a concern for animals as well. I do not think we need to be over-sentimental about animals, and I get concerned with some of the more extreme things that seem to come from the animal welfare lobby. Whether we handled foot and mouth, or whether you handled foot and mouth, well or not we can debate at length, the point I made in my written submission is that it is handled differently in this country as it is in Brazil. Those costs are borne not just by government—obviously it put tremendous costs on government—but there were tremendous costs on farmers, many of whom were caught up in the whole thing but were not involved with the compensation of it.

David Taylor: In particular, Chairman, I welcome—and this is a statement, not a question—the Reverend Barlow’s perspective on this. There are
Chairman: Perhaps that is why it is called “A Vision for CAP Reform”.

Q150 Mr Williams: Your analysis of world trade in commodities rightly highlights the fact that we have got many I think you called them must-sell-producers and a few might-buy larger companies, but trade is not free also because we have got export subsidies and import tariffs as well. Would you like to comment on whether we should be getting rid of export subsidies in the European Union, in the CAP, and whether we should be reducing import tariffs which we are told have a terribly detrimental effect on Third World countries?

Reverend Barlow: In an ideal world I would like to see an end to all subsidies, it is a question of how we cope in an un-ideal world. My personal view would be that for the average farmer in this country the distortion of the market caused by the handful of transnational corporations that dictate price is much, much more of an effect on the freedom of the market than import and export subsidies; I think they are peripheral and secondary. The major distortion of a market which is truly free is that there is distortion of price by those who hold power and, incidentally, who have accountability to nobody. In theory the large corporations are accountable to shareholders but that is pension funds, and there is not the ethical and spiritual dimension brought in to question how those things happen. You are accountable to your electorate but here you are dealing with corporations and many of them have an economic activity larger than small countries and seem to be accountable to nobody.

Q151 Mr Williams: As I understand it, you are advocating fair trade as opposed to free trade because the circumstances do not allow free trade to take place. Would you advocate fair trade for British and European farmers as well as for Third World farmers?

Reverend Barlow: I would advocate fair trade for everybody, you cannot make a distinction between the UK and overseas. With the advantages that we have of our good climate, our good soils, our skilled labour force and a market on the doorstep, if it were fair I think our agriculture would flourish. I see a lot of very good farmers who if they were not fighting against prices which are set for them that they cannot produce to would be very happy.

Q152 Chairman: Thank you very much indeed. We now move on to Jilly Greed.

Mrs Greed: Thank you. First of all, I would like to say well done to the Committee for coming here to the Royal Show and hearing our submissions and evidence. I would perhaps like to take it one stage further and offer a warm invitation to come down on our farm, if you would like to, and see some of the good things we are doing and also some of the difficulties that we have effectively on the coalface. I am very passionate about my farm and farming, and

I am very concerned about the way in which farming is being marginalised. What I want to talk about is the beef suckler industry and also the impact of international global trading, and I experienced a trip to South America earlier this year which opened my eyes. Briefly about the farm, I am a fourth generation farmer in Devon, farming with my husband Edwin on a 500 acre family farm. It is in the river valleys of the Exe and Culm which are both flood plains. Every single field on our farm is in a NVZ, a Nitrate Vulnerable Zone, and we are also in a SSSI, a site of special scientific interest, so we have strict environmental regulations. We have got 200 herd of beef suckler cattle, breed specific, South Devons, a traditional breed, and Blonde d’Aquitaines. We also produce arable crops, split 50:50 between feed and also energy crops in the form of oilseed rape. We are in the Countryside Stewardship and also in the Environmental Level Stewardship as well. I have to say, we have only really known it tough. We came into farming in 1997 after the BSE crisis when my father became ill, and then we eventually took it over in 2000. Then we experienced the foot and mouth outbreak and, as you know, Devon was particularly hard hit. We were about six miles from a very bad outbreak, but it concentrated the mind. We moved on again and we embraced CAP reform very positively. Then we had this year with the RPA payment, or non-payment, eventually it came through at the end of last month, and that has concentrated the mind very much. We do not have a God-given right to farm, but we are working hard to respond to the marketplace by producing high quality beef, high yielding energy crops and looking after the countryside. Through the Stewardship Schemes we have seen species thrive on our farms: skylarks; otters on the river; kingfishers; hedge sparrow; and we are also in a scheme to enhance the species of cirl bunting and grey leg partridge. We have cut production costs to the bone, including labour. This is a good illustration of how this family farm ran: 25 years ago there were six men employed by my father; seven years ago, again by my father, four, and now there is only one man and my husband, and we are perpetually running. In our drive to be linked to the marketplace we are also in a supply chain on the beef side with Blade Farming South West. This is the only integrated supply chain which gives a forward price and a guaranteed margin. This has been very good for us in terms of technical and cost-reduction support. We have also done a lot on the farm as well. We believe in using the farm to connect with the consumer. We have had about 100 chefs, hoteliers and restaurateurs out to see how we produce beef, we have had school children, supermarkets, fresh meat counter staff, and also producers as well. We have also been on about 35 million labels in Tesco on the standard beef range. We have been there quite a long time, nine months, but I think we have come off now, it was with a little bit of a description about the farm. It is interesting that we have had letters from the public writing to us about what we are doing and about the quality of the beef. The misfortune is perhaps to think that Jilly and Edwin in Devon are
producing all the beef in the country, so perhaps it is slightly misleading. As a result of that, I was able to go to Brazil and Argentina at the end of January the beginning of February. As I said earlier, it opened my eyes to the scale of production, the low cost of production and the natural resources. Our cost of production is £2.04 per kilo, in Brazil it is 70 pence and in Argentina it is 90 pence. We simply cannot compete on that same level playing field. To give an illustration of the scale of one farm in Brazil, one of eight that was owned by this organisation, they had 35,000 cows producing 35,000 head of cattle in one year. They could take water from the river whenever they needed it, they did not have to pay for it. We are licensed on our river. This is the central issue. With support gradually being removed, will the marketplace meet the difference? Will the supermarkets be prepared to pay more? If I was an idealist I would say, yes, but I am a total realist. Although the consumer may be willing to pay some more, but at the moment the supermarkets are reluctant to charge more for quality beef from this country, so I do not think we are going to bridge the gap. My small family farm will not stand a chance in an international global marketplace, and the suckler herds, which are already under intense pressure through CAP reform, and it is probably the hardest hit sector, will be under continual pressure. I have to say, sometimes it is easier to give up than to carry on.

What is my message? I do not think the UK suckler beef industry can survive without some form of support in the global marketplace, but I think through the suckler herd system there is very good environmental practice that can bring a perceivable public benefit by the production of high quality local and regional food, and also in the management of the landscape which has a huge tourism benefit. We must not underestimate our own domestic tourism business and our overseas tourism benefit. We must not underestimate the landscape which has a huge tourism benefit.

Q153 Chairman: Thank you very much. I note from your written evidence that you said this eye-opening tour to Argentina and Brazil was, in fact, with Tesco’s to see their supply chain, I hope I have quoted that correctly.

Mrs Greed: Yes, it was.

Q154 Chairman: It opens up one of the paradoxes which is the first question, what did Tesco’s tell you as to why they needed a supply chain from South America in the first place? During the course of your discussions with the Tesco people, did they acknowledge that they had any responsibility or special relationship with farming in Devon that made them say, “In spite of the fact that we have seen production at 70 pence a kilo we are still willing to support production at £2.04 a kilo”? When you talked about “we need support”, should that support come through Tesco’s till or should it come from the taxpayer’s pocket?

Mrs Greed: To answer the first point about Tesco, the relationship and what we saw there, we saw the showcase farms that are supplying Tesco in the UK and in Europe. In Argentina they are sourcing beef which competes with the British product prime beef, in the standard range, and then in Brazil it is much more in the value range. Where they see the UK British suckler industry is in the finest brands, so in the premium sector. Like other supermarkets, they are looking to develop a price position which enables them to have a future supply trade in the UK so that they have product on their shelves 24 hours of the day, and that is the key thing. They must have it there 24 hours of the day, day in day out. The second point, your suggestion that consumers will be willing to pay and will support the product, I think there is a huge revolution taking place, and perhaps it is not quite so visible up here but it is certainly down in the South West. The “buy local”, “buy regional”, the identification with local foods, how it is produced, the environment, is driving a renaissance and a demand which the supermarkets are now beginning to grasp. They are beginning to fall over themselves to do buy local and buy regional within their stores. There still is a price ceiling, and it is a psychological ceiling, because they had a captive marketplace in the beef industry for 11 years. The price of beef paid at farm gate level is still 15% below what it was 11 years ago. I think we are the second lowest still in Europe, which is great for our export trade and it is opening up opportunities, particularly now with the mature beef being available in those sectors.

Q155 Chairman: Can I be clear, in terms of the price you are getting for your beef from the supermarket. You gave the impression that because of the change in the CAP and the change of support through the alteration of the suckler cow arrangements that you have taken a big beating, effectively.

Mrs Greed: Not at the moment, no.

Q156 Chairman: At the moment is the price enabling you to make a return on the capital that you have invested in your beef production unit?

Mrs Greed: The Single Farm Payment is the only profit area for the farm from our arable and our beef. Our cost of production is £2.04 and our average price that we are getting is £2.08/£2.10 per kilo.

Q157 Mrs Moon: I would like to thank the Chairman for stealing my initial question in relation to Tesco’s! That is the benefit of being the Chairman. My sister and brother-in-law farm in Devon so I am aware of the problems that you face down in Devon and I am aware of the opportunities down there as well. I would also particularly welcome your role in the high level Stewardship Scheme, I think you should be commended from the description that you gave of the work that you are doing there, well done. I see my farmers on a regular basis. We have a cycle of visits where we have an agreement, we spend 50% of the day on the farm looking at practical issues on the farm and 50% of the time talking about the issues. I met with them last Friday and one of the things they were raising is something which has come out in a few of the presentations and it is around food miles. They tell me that they are appalled at the situation they have where they have...
hauliers bringing stock down for slaughter in Wales and then filling up with Welsh cattle and taking them into the Midlands for slaughter. How do we get out of this nonsensical cycle of cattle moving around the country? Everybody has said they want less regulation, but would it be reasonable and practical to bring in regulations which brought in those shorter food miles which said cattle had to be slaughtered within a defined geographical limit? Is there potential for that? Otherwise, how do we get those shorter food miles which you have said are important and others have said are important?

**Mrs Greed:** I would be very concerned about putting in any further regulation on slaughtering in terms of travelling. It is wrong, but what is happening at the moment is farmers chase the extra pence per kilo. The slaughtering situation in the UK means that the processing is being concentrated in certain plants. In the South West, we have two large plants and they are the largest suppliers to Tesco. You will see that there has also been a rationalisation within Sainsbury’s where Lloyd Maunder for example, is no longer slaughtering lambs. That created quite a big lamb problem here in the South West for us as well. There needs to be much bigger thinking, and better joined-up government thinking, where we get added-value into our commodity products through planning and investment from the business sector, which is the food industry. After all, although my beef may taste really lovely and it is giving lots of environmental benefit, when it is on the shelf in Tesco nobody really knows where it comes from, and certainly I do not know where it has gone. In order to turn that beef into ready-meals and other quality products, indeed milk and fish and vegetables and such like, you need much more infrastructure in the industry. I have been involved in something called a “South West Food Park”—and I do not want to talk about that now, but perhaps there might be an opportunity at another time—where it needed a lot of government joined-up thinking and planning support from the Regional Development Agency and Government Office of the South West in order to make that happen, and now it is not going to happen. It was a £27 million private sector investment in the South West at a strategic location and it could have made a huge difference in terms of having centralised processing and distribution. Distribution is the key. The other key area is branding. We need to have a stronger image for farming and we also need to be much more promotional and branded about the food we are producing from this country, from our regions, and also at a local level as well. There is a lot which is not right on that front at the moment. Butchers are seeing a resurgence as well because consumers are now understanding much more about the meat they are buying, they seek trust and want to know where it comes from and that there is a fair return as well.

**Q158 Sir Peter Soulsby:** I want to follow up that last point because we heard earlier on from Mr Smith and, indeed, I think it is implicit in what others have said about the difficulty and the importance of promoting home loyalty and local and regional preferences broadly. I think we are aware that there is a cultural problem in the UK as against the attitudes in France or Germany and, indeed, apparently also in Devon, because clearly there are successes at a local level there. I wonder if you can say a little bit more about what you think can be done to help extend what you have described as a revolution in Devon on a more UK-wide change in attitude, and what other agencies might do to assist in that process?

**Mrs Greed:** There are various sectors which need improvement. I think the supermarkets’ labelling, certainly on the fresh beef side, is very tight, but if you take the food service sector, particularly the hospitality sector, the tourism area, you will find that 70% of the beef served in these outlets is from overseas and it is travelling many more miles. There is very little accountability. There is no audited system which gives the consumer more information, unless the restaurateur or the hotelier or the publican want to promote the source of their meat. When they do promote local or regional products they invariably find that they are on a completely winning formula. Perhaps that is one area where promotion and auditing could be improved. Coming back to the point about state aids, I have been involved with EBLEX and they were very good in supporting the event for the hospitality trade on the farm. But we ran into all sorts of state aid rules, because it was West Country beef, and it was exasperating. I think the fact that our levy is taken in order to give some marketing benefit and yet it cannot be used directly back to that particular region is frustrating.

**Q159 Chairman:** Thank you very much indeed. Because of the quality and interest of the information we have had we are sadly running a little bit behind time, so I hope our next two witnesses will be willing to co-operate a little bit. Roger, if you would be kind enough to make your presentation to the Committee and then, John, if you would follow straightaway afterwards, and then colleagues will put questions individually to you.

**Mr James:** My name is Roger James. I am 46 years old. I have been farming in my own right and have been my own boss in farming for 20 years. The farming industry in this country, especially the hill areas, is completely reliant on subsidies. With no subsidies there will be no farmers, or very few farmers, left in the hill areas. Whether you like that statement or not, I do not care, but that is the truth of the matter. The younger generation areendregion out of farming in mid-Wales at an alarming rate. They are getting educated. They want to work for five days a week, not seven days a week, and if we are not careful we will not have another generation of farmers in our area. I have got a young son and his attitude is, “Dad, I am going to get a proper job”, and I think to myself regularly, “He is right, I am wrong”. They all want more spare time. When we read the reform, the crux of the matter was money, and everything boils down to money. They want to get rid of all subsidies, so how do you go about getting rid of subsidies? Do you leave all of your farmers in
the UK flat and dry or do you keep pumping the money in? I will agree that the money is pumped in in a very irresponsible way. You tend to talk to people and you get a compromise, and by getting the compromises when you are talking to people you are missing the point and you are not directing the money in the right direction. 80% of the money goes to 20% of the farmers. I feel there should possibly be a maximum payout per working farmer, whether you cut that to 300 acres, 500 acres, or what, I do not know, but that is how I feel the money should be directed. We should put a lot more people back on the land. There are a lot of people unemployed in this country, so I feel it would put more people back into the rural economy. I feel the rural economy is very important. We live in a very small rural area, everybody helps everybody else, and it would be a pity to lose that. A lot of the houses on the farms in Wales are getting sold off. The English are coming from the South and buying them up, and the young people in our area cannot compete, so that is another thing, we need the money to compete with those. People should not claim a pension and subsidies. I think my head might roll for that statement, but people are getting two subsidies. If you are 65, you are getting the subsidy for farming and you are also getting the pension. You are not leaving room for our youngsters to get into farming. We are supposed to be able to compete in a global economy, does Tony Blair compete when he goes for his wages in the economy? I feel he does not. It should be like-for-like. We cannot compete because very few others compete. A level playing field, we have got no chance of a level playing field. Our live export is very few and our lamb would be worth at least 50% more if we could get it into Europe at the right money. That would be the difference between survival and sinking for people like me. In your notes on the Vision reform, it says New Zealand’s subsidies finished in the 1980s, well do not compare the UK with New Zealand because we cannot. They have got a climate where they feed animals in the summer and we have got a climate where we feed animals for seven months in the winter, so do not think we can compete with New Zealand because we cannot. Reading on in the report, it is costing a family of four €950 in subsidies to keep farmers throughout Europe. The way I read it, it is €950 as an insurance policy to put food on the table. It has not been many years since this country was short of food. Do you want to go back to that? It is all about money and food. I have got a full belly, I am not complaining, and the majority of people in this country have full got bellies. Do not complain on a full stomach, it is only money.

Q160 Chairman: That is very clear.  
Mr Turner: I will try and keep my introduction brief. I have described myself as a traditional farmer. We have heard a number of different viewpoints expressed by witnesses today which I think reflect the dynamic that is there in most farming businesses between the need to run them as a modern business, in other words awareness of commercial markets, global trade and the impact that might have, but we are also dealing with wider values within farming, such as animal husbandry, environmental husbandry, and they have always existed in all farming businesses. Quite where that balance falls very much depends on an individual perspective but also the market opportunities. I was driven to respond to this because when I saw this Vision document, which was published by Defra and the Treasury, I felt it was a very dry document that took a very limited perspective. Sure it was a vision, but it was from a very limited perspective which was framed by international agreements, the need for addressing global issues, but local issues hardly figured at all. If you put a word search in here for “local produce” it does not figure once, yet “international trade” figures on a number of instances. Therefore, what I would like to have seen in that was this wider perspective brought into it. We hear a lot of talk about moves towards environmental payments and moves away from production but, at the same time, I think what it fails to reflect is that the environmental damage which has happened over the last 40 or 60 years in farming has been the result of the policies and the markets that it is framed in. It is not always down to farmers being the bad guys, they are responding to external constraints and drivers in the market. A number of people have already made the point that if we export production to other countries there is absolutely no guarantee that those same drivers will not follow it out there and there is going to be a similar impact on their environment. There was also mention made of this move from Pillar 1 to Pillar 2 payments, but the Pillar 3 payments, the social aspects of farming, have hardly figured in that. Farming is interwoven into every community throughout the country. Somebody mentioned that within the report you could quite easily have put “washing machines” as the commodity, and it is certainly true that you could replace the word “farming” with “shipbuilding” or “mining” or “steelmaking”. It seems to me that it is being treated as one of those commodities, but if you pull farming out of a lot of local communities it will have an absolutely devastating effect on them. The number of industries that are related to farming, the number of people who are potentially involved in farming, has been seriously underplayed and not reflected in this document. There are a lot of ways the Government could support farming which do not fall under the word “subsidy” which has been a millstone to farmers. Farming never really benefits from the word “subsidy”, it is a subsidised food production, the farmers very rarely benefit. In the 1970s and 1980s farming benefited from the Farm and Horticultural Development Scheme which allowed farmers to develop their businesses. Once that ended, we are now seeing a point 20 years later where that investment in infrastructure has dried up, those buildings are in need of repair and renewal, and farmers do not have the confidence in the future to invest anymore. One thing, above all else, that farming needs is clear guidance for where we need to go, and we need the confidence to invest in a market that we know is going to be there in 10 or 15 years
rather than what we are getting at the moment, which is every two or three years having a different objective put in front of us, trying to turn round a very complex business and trying to align it with different sources of funding and different streams of support.

**Chairman:** Thank you very much indeed, gentlemen, for two challenging and very interesting perspectives on the Vision document. I have got four colleagues who have indicated they wish to ask questions. I am going to ask David Drew and Roger Williams if they will put their questions one after the other and then ask our two witnesses if they would respond.

**Mr Drew:** Picking up on what both of you say, in a sense one of the weaknesses of farming is it does tend to come from a compromised position, and that is the way that politicians may want it to at least be perceived. I believe strongly with what Roger says. I think it is disgraceful that we give the greatest amount of money to the richest people for reasons that are very unclear. How would you get farming to respond? I think it would help politicians if we had a diversity of opinion on the way that things might be taken forward to at least have this argument rather than it being a messy compromise all the time.

**Q161 Mr Williams:** I think Roger James makes a very good case for hill farming, and at the moment hill farming is only supported marginally in the Common Agricultural Policy. At the moment, the Common Agricultural Policy would give the same amount of support for land which has good soil, good climate, good growing conditions as for somebody farming in the most upland areas. Is there a case for having not such a level playing field for reasons that are very unclear. How would you get farming to respond? I think it would help politicians if we had a diversity of opinion on the way that things might be taken forward to at least have this argument rather than it being a messy compromise all the time.

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**Mr Turner:** Whatever strategy we evolve for the future of CAP, it should be one that involves not just 16 farmers but gives a forum for a great number of other farmers to be involved in, but not only those, the public, the retail sector and others. It would be great if we could sit down together and develop a strategy. There have been models, such as the Biotechnology Commission, which have taken quite divisive issues within farming and brought those together in quite a dynamic way. It is a shame that model is not replicated in other issues such as CAP reform.

**Mrs Moon:** In the first presentation from Mr Blackett, he said the Scottish Parliament knew better how to work with farmers. Mr James, you work with the Welsh Assembly, would you say the Welsh Assembly is more proactive in terms of its work with farmers? If so, how? I understand also that the Assembly is withdrawing a subsidy to hill farmers which currently is in place. I had this from my local farmers this weekend and I wonder if you would comment on that too.

**Q164 David Taylor:** I was very interested in John Turner’s suggestions about areas where support can be justified for farmers. He makes the point that small and medium farms find it particularly onerous to do some things to maintain good farming practices: soil testing analysis; demonstration farms; support for fair trade; all of those, fine, and I can see how they might work. The one I was surprised at was: “Working IT systems that simplify record-keeping . . .”. I am astonished, having come from an IT background, that within the marketplace there is not some viable worthwhile cost-effective systems that do just that. Is there really a market void of that kind? Secondly, and finally, you also talk about areas of support, “... fostering better co-operation between farmers”. We have heard evidence from time to time that getting farmers to co-operate is not unlike herding cats because, of course, farmers are proud,
independent and entrepreneurial. How can you break down these things and put them into a more co-operative context?  

**Mr James:** Carwyn Jones is rumoured to be taking away our monies. What do I think of the Welsh Assembly and the way things are going? I think it is another disaster. You have got another heap of politicians, excuse the phrase, and all it is doing is taking money out of our kitty. There are too many compromises and too many tiers of government. We have got the FUW, the NFU, the Scottish Unions, and whatever, and by the time our idea gets to the politicians the idea is gone, it has been watered down that much that the good idea and the good intention has disappeared. As the gentleman here said, we need more of these forums for you to get an actual idea of a working farmer. I am a working farmer, like it or lump it. I am a bit rough around the edges, a bit blunt, I cannot help that, but I am a working farmer. I get all my living from agriculture, albeit subsidies, but that is what I do. Carwyn Jones will be like the rest, he will get rid of us all if we are not careful. We are a dying industry and it is a real shame. As you like hills, we live in a beautiful area and it will disappear and all go back to bracken and that will be the end of it.  

**Mr Turner:** I too classify myself as a working farmer but, unfortunately, increasingly I spend two and a half days of the week just in front of a computer, record-keeping and keeping things up-to-date. It is bad enough for most farmers but as an organic farmer there is a further tier of forms and record-keeping that we have to do, which is purely for the sake of the audit trails. I know the Government does not have a good record in implementing centralised IT systems, but I think there is a very, very good case for using public money to build that centralised food distribution system, and there is a viable alternative to the centralised distribution and retailing system which is dominated by the supermarkets which has framed a certain sort of agriculture and a certain style of farming. Where I feel there is a case for public support is to develop an alternative network which provides a greater choice for people. The seed funding at least will not be provided by the market at the moment. My feeling is that can be brought together there is a viable alternative to the centralised food distribution system, and there is a very good case for using public money to build that network.  

**Chairman:** Thank you all very much indeed. That was excellent. We are going to move quickly to our third panel of witnesses.

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**Supplementary memorandum submitted by Robert Barlow (RAS 16a)**

1. Thank you for what you did in organising the event yesterday at the Royal Show. I appreciated the opportunity to speak to the Committee. You will recall that we were invited to send in further comments/observations that we might wish to make to the committee.

2. **Defra Staff**

While I have no doubt that what has been said about Defra staff not understanding agriculture and the needs of farmers, I hope that you will not assume that is the whole picture. Defra have a large office in Worcester and I have met with some of the staff and know a few of them quite well. In the main, they are competent and professional, sometimes as frustrated as the farmers are at the bureaucracy of the system. I have noticed instances of farmers’ sons and daughters unable to work in the family farm (because the business is not large enough to support another salary) wanting to retain links with farming and thus working for Defra. I don’t want to minimise the damage done by Defra staff that don’t understand agriculture, but I wouldn’t want you to think that is the whole picture.
3. PRICE AND VALUE OF FOOD

It seemed to me that in discussion there was concern about the price of food, but perhaps we need to try and promote an understanding of the value of food. The BBC did research last year that showed that in the UK we throw away uneaten around a third of food produced. The economic price of this waste is the equivalent of the entire national Council Tax bill. If we valued food as the basic need that sustains our life and produced at the cost of animal life (this is true of all diets except vegan) then we might make better use of it. There is no need for consumers to pay more for food for farmers to get a fair reward, the same amount spent more wisely could have the same effect.

July 2006

Memorandum submitted by Carl Atkin (RAS 09)

1. I would welcome the chance to give evidence to the EFRA Committee at the Royal Show. I attach my biographical note below.

BIOGRAPHICAL NOTE

2. Carl is Director of Research for the Land and Business Division at Bidwells and also Heads the Strategic Farm Business Consultancy team within the Bidwells Agribusiness Team. He comes from a Lincolnshire Farming family and joined Bidwells six years ago on graduating from Newcastle University with a first class Honours degree in Agriculture and Farm Business Management.

3. He has overall responsibility for Research for the Bidwells Rural Division, analysing and interpreting the implications of EU and UK agricultural, environmental, food and rural policy on the food and farming industries. He is a member of the Editorial Committee of the Academic Publication Journal of Farm Management.

4. Business consultancy interests extend across agricultural supply chains and farming and food businesses and he has particular expertise and interest in rural grants and funding streams, and working with commercial businesses, public sector bodies and non-governmental organisations on farming, food and rural economic policy projects. He is just completing a distance learning MBA. He Chairs the Agricultural and Rural Policy Committee of the Institute of Agricultural Management, as well as being an active member of the British Institute of Agricultural Consultants (BIAC) and the Agricultural Economics Society.

June 2006

Memorandum submitted by Steve Cowley (RAS 21)

1. I would like to have an opportunity to present to your committee at the Royal Show.

2. I am concerned that the UK government’s policy of relying on imported food is not sustainable for UK citizens. Consumers are becoming more and more aware of the human and environmental cost of their food, as it is often produced in third world countries by people on low wages, with poor environmental controls and then sent by air causing huge CO2 emissions. The CO2 emissions that are caused by importing food should be factored into our commitment to reduce greenhouse gasses in the Kyoto Agreement. We are working towards a carbon neutral business.

3. The decoupling of CAP payment from production will become totally unacceptable to the British public when they realize that farmers are being paid, provided they keep it tidy, just to own land. When these payments stop we will not be able to compete with our neighbours in Europe or others around the world. So what then will happen to the great British countryside shaped by farmers over thousands of years and valued by many as an asset to business and the community?

4. Defra either by design or incompetency seems to be putting the British farmer at a great disadvantage to all our food producing competitors. Single farm payments and cross compliance has been used as a sledge hammer to threaten, bully, humiliate and degrade the work of farmers. Farmers generally want to produce food for UK consumption, take care of their land and make some sort of living.

5. If we are driven down the path we seem to be going we will see the countryside as a place of recreation and nothing more. We as a nation will loose the ability to produce our own food just at a time when global warming reduces the world’s ability or willingness to feed us.

6. I have a diversified farm on the Isle of Wight where we provide services for visitors, horse owners and others but now produce little food. I have been a county chairman of the NFU after my Father and Grandfather (I am no longer a member). I have been chairman of the local Parish Council, Deputy Leader of the Borough Council and Deputy Leader of the County Council. I have also presented the case of the Isle of Wight at local, regional, national and European levels.
7. I have led groups who have presented to Ministers and I have addressed to European Parliament committees.

8. Now I just care for the environment and my family.

June 2006

Memorandum submitted by Tony Keene (RAS 15)

BACKGROUND AND EXPERIENCE

1. Tony Keene is a first generation farmer and the son of a businessman. He started farming in the 60s after doing National Service and a formal agricultural education. During his farming lifetime he has been involved in setting up a plant near Grantham to freeze peas and produce chips, now owned by McCains. He also had a business in Nottingham retailing potatoes direct to the housewife operating 11 vans. He developed a business in which he erected specialist potato stores to store 11,000 tonnes of potatoes for Walkers Crisps. He has been Chairman of a Farmers’ Cooperative, a director of United Oilseeds Ltd, a member of the BBC Agricultural and Environmental Advisory Committee. He also served as a Governor of the Royal Agricultural College and was Chairman of the Farms Board and a past Chairman of the Oxford Farming Conference.

2. From a farm of 340 acres he increased the size of the business up to an acreage of 4,500. The acreage has since been trimmed back to 2,800 in order to consolidate the finances of the business to ensure that the business can endure these tough times. He has now handed over control of the business to his two daughters who have executive powers to run the businesses, which are situated in Leicestershire and Norfolk. He now has the luxury of being able to work when he wants to—which is quite a lot of the time.

THE COMMON AGRICULTURAL POLICY

3. The CAP by and large has served Europe well over the years but has now become outdated. We now live in a world of globalisation, which involves agriculture just as much as financial services, and the manufacture of industrial goods. We therefore have to change. The economics set the trend, which generally has to be followed. If the British farmer cannot compete financially he has no future. He only has a chance of competing on a world market if:

(a) His competitors, either in Europe or in the United States or anywhere else for that matter is not given financial advantages.

(b) If there were no support paid to British Farmers today the majority of the industry would be bust. Our farming at present only generates sufficient income to pay our actual rents or where we are owner occupiers a notional rent.

(c) If support is withdrawn in 2012 here and around the world, the assumption must be that commodity prices would rise to cover the cost of production and to generate some sort of return on capital employed; or the costs of production would drop or a combination of both. Hence the importance that world agriculture is uniformly treated.

(d) If farming is unprofitable production will decline until such time as prices rise to a level that enables farming to be profitable.

(e) As the standard of living around the world increases, so will the labour cost of producing food and if energy costs remain high, this will also affect the costs of moving food around the world hence giving an advantage to home produced food.

4. Politicians now have to decide:

(f) If farming were unprofitable what impact would this have on the environment and the countryside? Could agri-environmental schemes protect this environment and at the same time give farmers another source of income?

(g) Is the security of food supply an issue?

(h) To what extent can agriculture lessen the problem of global warming and can it contribute and help to lessen the dependence on oil and gas from unstable areas of the world?

5. However the over riding question is: Can British Agriculture survive without any outside support?

6. There is no doubt that if support were suddenly withdrawn there would be a mass shake out within the industry. Production of the commodities that have hitherto been supported would drop, rents would drop, the number employed in agriculture would drop and there would be an abrupt move to extensive low cost farming.

7. There is, however, a degree of attraction in letting economics decide the future of British Agriculture, but it seems to me that it is most unlikely that the French would adopt the same approach, as their farmers would not accept it and simply take to the roads and bring the country to a stand still. So how does the
British Farmer compete with no subsidies when across the Channel the French and maybe the German farmers receive preferential treatment? The answer is simple. They will not be able to. Therefore Europe has to move together, unless British Governments are prepared to sacrifice the British Agricultural Industry.

June 2006

Memorandum submitted by Hugo Marfleet (RAS 22)

1. I have been involved in British Agriculture as a farmer for 13 years. I started off a specialist pig operation for a breeding company growing their breeding stock. That business has now ceased together with its relevant staff due to environmental and financial pressures. We limp on with arable farming and have set up a free range poultry business supplying eggs to a major packer. Still the future looks bleak. We are now looking at farm diversity in terms of a farm tourist attraction. In the research for the farm tourist attraction I have travelled the length and breadth of the country. The one thing that is absolutely apparent is that the countryside is a wonderful, green and pleasant land. The UK towns and cities are an eyesore and litter haven. BUT as those people commute to their second homes, or the seaside, or the country retreats for leisure, they all go through England’s wonderful countryside. We saw a huge knock-on effect when we had foot and mouth in this country and the damage in the tourist industry. We still have this effect today with possible Avian Influenza. The bottom line is you need grazing animals to graze all the grazing land and arable farmers to farm the arable land. Therefore the grazing animals and the poultry industry require feed. If we do not have livestock because it is uneconomical to obtain a living from having livestock it only gets transferred to outside European countries, ie Brazil, and the damage to the environment of bringing a cow, which will have the same effect whether it is living here or in Brazil in unnecessary food miles. It is in these times with issues like global warming that we need to start to change to a local policy. Agriculture is green as it is and it has a negative carbon relationship. There is no reason why the UK agricultural industry cannot provide for the environment a decent living and, most of all, put good wholesome food on the consumers’ plate. However, if the supermarkets do not promote these benefits, and only promotes is own benefits for cheap cuts, then, in the end, the UK agricultural industry will be like the dinosaurs, slowly dying a death.

2. We have now gone into mad extreme policies whereby middleclass management are dictating policies when they have never been on a farm, near a farm and know nothing about farming, and are creating a situation of extreme administration whereby to ask yourself a basic question “can I spread farmyard manure on set aside” one has to trail through four to five books to potentially find an answer. These people create more to keep themselves in a job. If all this people were told “come up with some good ideas on farming don’t try and kill it off” we might be in a better way. As Beecham said “shut the railways down that will save us money”—anybody could say why not come up with a sensible package and take it forward—that is harder but better in the long term.

3. The big question is “does UK agriculture want family run businesses that have great attention to detail for both stock, environment, or, large agri-businesses where profit will override everything and, if there is not any profit they will walk”.

June 2006

Memorandum submitted by Mrs Chris Thomas (RAS 33)

BACKGROUND

1. Born in South Wales Valleys, to a family of farmers (but not my parents) paid for myself to go through agricultural college. Married, five children, we farm 300 owned acres plus additional 350 rented. 700 beef cattle producing prime finished beef. I do all tractor work, ie ploughing (250 acres/year), cultivations, bailing etc. I do cattle paperwork and campsite paperwork. Geraint and Charlie (our oldest daughter (18)) do all husbandry work, construction work etc. We cannot afford to employ anyone, other than contractors to plant maize and fencing. I came 2nd to Welsh Woman farmer of the year 2004, we hosted the Welsh National Ploughing Match 2005.

2. Farming is my passion, it’s my life and my love, I would not and could not ever think of not farming, but we must all accept change. “Farming is not just a job, it’s a way of life”—How many times have we heard that, and yet, if current policy trends continue, it will be a way of life for very few in future years.

3. Farming is not something which can be learnt just from books, it is bred in you— it is in the fibre of your genes.Yet, in as much as it could be bred in—it can be bred out too.

4. Who will be farming our countryside in 50 years time? One of my most serious concerns for agriculture is the total lack of foresight regards looking after and nurturing the younger generations. With “pure agricultural courses” being swallowed up, and replaced by “diversifications qualifications” I worry, are there enough fully qualified and properly bred young people to take over custody of the land?
5. Farming is being pummelled and moulded into an “ideal formula” by this Government and this cannot be done with any future thought. For far too long we have had ministers put in charge of this most specialist subject—ministers who have no practical, emotional and mental needs of agriculture and its workforce.

6. One of my all-time favourite lecturers in agricultural college had a great saying—“Common sense is a sense not common to everyone”, and I feel this is very true regarding the policy makers of today’s agricultural industry.

7. Take the Single Farm Payment. This whole fiasco has been turned into nothing more than an enormous white elephant—its purpose was two fold, to remove payments linked to production, and to encourage the older generation to retire and pave the way for a new and younger workforce. The reality could not be more different, or further from the truth.

8. The older farmer now has the best government funded pension policy of his entire life, for he can now sell his entire stock, rent out his land and yet he can still pick up—in the majority of cases—a very healthy cheque for doing absolutely nothing, while others, being unsuccessful in their bid for entitlements from the National Reserve, are farming with no financial help while producing a commodity.

9. This ridiculous situation does two detrimental things for farmers and farming alike. Firstly, the old boys desire to keep the entitlement payments have shot the price of rental land and grass keep through the roof—as farmers like us who find ourselves with more entitlements than owned land have to pay through the nose for land this year—grass keep is up by as much as £50 in the Raglan/USK area.

10. Secondly, this new system does nothing to help the public’s perception of farmers. How can it be justified to the tax paying public that we, for example, could sell all our 700 cattle, rent out our 300 acres of land, yet still be paid just under £1,000 a week in subsidies? The payments we now have at least are put to good use, as a product is being created, ie prime finished beef—but the system currently still allows payment for non-production. No wonder there is no sympathy and so much apathy aimed at us farmers.

11. Agriculture is Britain’s last industry we are now a consumer nation and not a producing nation. God forbid, if there were ever a world war, we would never as a nation survive. We depend on foreign imports to heat, clothe, feed and transport us. If fuel was put up to £10 or £20 a gallon—which could happen if we pick on Iran, we could not afford to import food. What would happen—we as a country are completely beholden to others to the extent we could be frozen and starved out of our own country. Should our agricultural industry be sold down the swanny as has our manufacturing, coal, steel, and construction industries—now all vanished or taken over by imports. Agricultural policy should be separate to government policy, which can move the goal posts in an afternoon. It is a continuity of good, sound, and reasoned policy that is required for the future.

12. There are more pages I could write, and many more policies which I could tell you about that make no sense to the farmer at all.

13. What carrot will the Government be able to use after 2012 and the abolishing of subsidies to “police” farming. We are currently farming in the “Big Brother” countryside with spies both in the sky and in the neighbourhood. What will happen to all those employed at BCMS, Defra, regional Affairs, inspectors etc etc when 2012 comes, the farmer is then not entitled to any payments? No one can answer that.

14. At least let the farmers who are actually getting their hands dirty and working hard, let them be the ones to receive payment, and not pay people to sit in the house on their backsides.

15. If Government want to remove the link between payment and “over production” (although that myth has long since been dispelled, or why import meat from food and mouth endemic countries) then why not link payments to good farming practice?

16. Arable payments could be given to producers to enable individual farmers to install bio-fuel plants (cost £26k) to fuel all arable cultivations—reducing emissions and saving money on the ever increasing price of diesel. Where farms could not individually justify individual plants, local co-operatives could be set up.

17. Stock payments—should be aimed at farmers who produce prime quality meats using good sound husbandry, environmental and conservational practices. If cross compliance does not want poaching of ground through winter grazing, bring in 50% grants towards the cost of erecting new farm buildings and handling systems and building environmentally sensitive slurry stores.

18. Put payments into helping pay for quality stock lines, to bring this country’s whole meat production to an overall standard of excellence. Let’s give agriculture a low interest borrowing rate as do France and some other EU countries. Lets get the public on board, so as they are loyal to our product—we do not need to fly in frozen sheep from New Zealand over 12,000 miles when as a nation we could feed ourselves.

19. Stop Britain becoming the “National Park” of Europe, let us do what our prime land was intended to do—produce the finest quality foods to feed our fine nation of people.

June 2006
**Witnesses:** Mr Carl Atkin, Agricultural Business Consultant and Head of Land & Business Research, Bidwells, Cambridge, Mr Steve Cowley, Farmer, Mr Tony Keene, Farmer, Mr Hugo Marfleet, Farmer and Mrs Chris Thomas, Beef Farmer, gave evidence.

**Q167 Chairman:** Ladies and Gentlemen, I am going to extend this session until 10 minutes past one, so it will require discipline on behalf of all of us to recognise that, including my colleagues and myself. Can I very quickly introduce our final panel: Mr Carl Atkin, an agricultural business consultant and Head of Land and Business Research for Bidwells in Cambridge; Mr Steve Cowley, a family farmer from the Isle of Wight, with active involvement in community and environmental enhancement projects; Mr Tony Keene, who is the Chairman of two farming companies, one of 1.500 acres in Leicestershire and the other with 1.400 acres in Norfolk. He is assisted by his family in the management of that, and has been involved in being the Chairman of the Oxford Farming Conference and the Governor of the Royal Agricultural College; Mr Hugo Marfleet, who farms in Lincolnshire in arable and free-range poultry. He was formerly in pigs and is looking at diversification and has been farming for 13 years. Finally, Mrs Chris Thomas, who is a beef farmer from Powys with 700 prime beef cattle. She has recently diversified, opening a new luxury caravan park and camping park. I hope you will accept that as a free commercial for your activities. We will start very quickly with Carl Atkin, please.

**Mr Atkin:** Thank you very much, Chairman. My name is Carl Atkin. I am a Lincolnshire farmer’s son and an agriculture graduate of Newcastle University. For the last six years I have worked at Bidwells as an agricultural business consultant and also heading our research team. I am also here as Chairman of the Agricultural and Rural Policy Committee of the Institute of Agricultural Management. The Vision makes a useful contribution to the debate about the future of the CAP and agricultural and rural development policy in general, however it is naive in a number of the assumptions and sweeping statements it makes.

First of all, it produces a long summary about the widely documented failings of the CAP to date. Whilst academically interesting, this is completely irrelevant and paints a distorted view of the current and indeed future policy environment. We all know, and probably all agree, the failings of the CAP of the 1960s onwards which led to the intervention, lakes and mountains of the 1980s and, indeed, probably even the CAP of the 1990s, which ended up capitalising large production linked payments in production systems, distorting both land and input markets and failing to return monies directly to the farmers, as several respondents have already mentioned. The CAP of 2006 is already very different. The decoupled Single Payment is the most radical reform for agricultural support for generations, yet the Vision makes little reference to this. It extrapolates current data about the distorting effects of the CAP and extends this to the new regime, which I believe is highly misleading. What of the central component of the Vision? Effectively, this is the elimination of Pillar 1 support. This maybe a “Vision” to some but to others it would be a nightmare. Again, I doubt many people in the room would claim that the current Pillar 1 support is good or, indeed, efficient since the Single Payment has evolved out of a complex mixture of market instruments direct to payments and is sort of being an income support, a compensation payment and a land management payment all in one. It is probably not achieving all of those things very well, yet it is what we have got at the moment. How we develop this, and how we do indeed eliminate it, if that is what we do, needs much more careful thought than is offered by the Vision document. We need to focus support far better on what we really want. If food security is a strategic issue for us, then let us have a debate and specific policy on it. If keeping small, inefficient family farms in business, particularly in Southern and Eastern Europe, is a socially good thing to do, then let us have a specific policy to do so.

If paying for environmental and public goods which the market will not provide for is what society wants, then let us pay for them in a proper way through a real Pillar 2 rather than relying on the current Pillar 2 as a bit of an afterthought bolt-on to Pillar 1. Let us not pretend that we can simply eliminate the current support mechanisms without having these proper debates. The structure and mentality of the current agricultural industry is entirely a result of the policy instruments we have. Farmers on the whole have become commodity producing machines, removed from their markets by intervention and such like, and encouraged to pursue a one dimensional high output, low cost business strategy. The industry needs to reconnect with its marketplace, step away from the mainstream into a growing plethora of need for specialist opportunities and focus on recapturing value through a supply chain. What is of real concern is the current shortage of Pillar 2 funds to provide support for business planning, marketing and training, and the ability of the Regional Development Agencies to deliver this support and advice to the industry going forward. That may be a discussion for another day. Let us also challenge the implementation set out in the Vision. The Vision offers no real roadmap on how to get there, except saying that gradual and carefully managed change is a good thing. I would argue is that really a good thing? All it provides the industry with is more uncertainty and a lack of ability to plan. What the industry needs now is clear signals to make it react and adjust accordingly. The gradual erosion of SPS over time, whilst appearing kind from some angles, will simply cause many to have a slow and painful exit from the industry, haemorrhaging cash over the medium term rather than reorganising their businesses now in a planned and structured way or exiting in a planned and dignified way. Where do we go from here? If the status quo rumbles on we simply have a cake that gets sliced into smaller and smaller pieces as we become an EU 27 and an EU 30. We need to look at the issues of funding the CAP. Should it be co-financed by Member States? Do we need more Member State flexibility? Do we need a Common Policy at all if we want our farmers to be
entrepreneurs? Let us have a grown-up debate about how Pillar 1 should go and how we get there. It is nowhere near as straightforward and blunt as recommending its abolition as the Vision would suggest.

Q168 Chairman: With the way you have delivered that with such speed, I think you could well be an auctioneer of the future! Thank you very much indeed. I am going to move straight on to Mr Cowley and ask if he would make his presentation, please.

Mr Cowley: Thank you for inviting me to make a presentation to you. I was not expecting it from my little note which I wrote.

Q169 Chairman: You do not have to if you do not want to!

Mr Cowley: I am sure I want to. I have been a farmer all my life, and my family have farmed in and around the parish for over 200 years. My father, my grandfather and I have all been county NFU chairmen as they have been chairmen of the Local Parish Council. I have diversified from farming from that time and as Deputy Leader of the Isle of Wight Council I have made presentations to parliamentary committees in Europe and also to ministers in the past. I had an interesting session with David Miliband yesterday, and sadly that gave me no encouragement as to how his tenure of the Ministry of Agriculture would be looked after. Since the last CAP reform, which has been mooted for some time, I have made significant changes in my business and I produce very little, if any, food anymore as a farmer. We have 350 acres, and we have put the whole farm into Countryside Stewardship which has secured my portion of the Pillar 2. I believe, for the next 10 years. We have planted 40 acres to woodland under the Jigsaw Scheme which encourages red squirrels and dormice. Particularly, we planted 16,000 trees in that area and that has secured funding for 15 years at least. Our most profitable crop under Countryside Stewardship is overwintered stubble and then summer fallow, £540 a hectare for running a cultivator through the land once. We keep a few suckler cows to keep the grass down, and we grow linseed on contract which is exported to France to make linoleum. We have moved our capital out of food production into holiday houses, four of which we have off the farm because that secures our capital base away from the farming industry. Most of our modern buildings house vintage buses and we have builders and a tree surgeon who operate from our site as well. We have planning approval for 34 stables which we havenot implemented yet, but will. We used to produce one and a half million litres of milk, and I enjoyed milking cows. I did not mind getting up at a quarter to five every morning and doing that, but it becomes a hobby you cannot afford when you are not getting enough to cover your costs. We have made this decision to go the way that we have. We are asked the question do we think the government is committed to UK food production. I do not believe within the government of whatever complexion that there is a commitment to UK food production. I think this is very foolish with global warming, and other speakers have indicated that food production worldwide will decline. Oil production will decline to get it here and, therefore, our food security is going to be compromised. We have heard a little bit about the FHDS Scheme, paying us farmers to clear scrub to grow food. We have recently put that land back to trees with a grant, and I suspect my son, within his lifetime, will be paid to take the trees out so that he can grow food. I think British farmers are disadvantaged, I probably hinted at this in my initial writings to you. Defra seems to gold-plate every EU directive and implement it with a list of iron very, very slowly. That is a matter of wrong thinking within Defra. I believe Defra should be there to help and assist, not to grind us down. Other countries’ agricultural ministries manage to encourage their farmers with the support of their populations. I think in the CAP Vision there might be short-term environmental gains on the way to dereliction in the countryside. It seems to be driven purely by financial concerns, it is jointly written with the Treasury, and we can understand where that is coming from. My real fear is that there is a perception, which I think is politically unsustainable, that with the Single Farm Payment farmers are being paid to own land and to keep it a bit tidy, and I do not think that is sustainable. I do not believe that EU farmers—others can probably speak better on this than I can—want to be seen to be maintaining their lifestyles by subsidies, they would like to get a fair portion from the market. A small proportion of more affluent consumers, and I think those are the ones we get in the press, the people we see, are beginning to appreciate local foods with no air miles, but most consumers still wish to minimise their weekly spend on food. I have thought about one or two possible solutions which are probably totally impractical. Farmers are not going to maintain any profitability in food production unless there is one organisation which represents an interface with government. It is so diverse at the moment. You, as politicians, are only there until the next election, and there is no focus on farmers and food producers by you and this maybe is why we are here today. I am a farmer believer, and in discussion with other farmers, that farmers are moving towards, if they can, contract pricing of food so that they know what they are going to get when they start out production. We talked about cooperation a bit. The Milk Marketing Board was the ultimate co-operative, but it was deemed not fit-for-purpose any longer and is no longer with us, and look at what has happened to the price of milk since then. I think we should keep CAP payments to enhance and maintain the environment but it needs to be specifically linked to specific outputs, which is what I am looking for. We have done specific things under Countryside Stewardship and have gained a matching payment. I think Defra is a stumbling block and I do not think a name change will make any difference. We need to change the key managers in there to something more useful so that we have managers who will understand what the job of farming is. They have been given a packet of money by the EU to support farming, not to erode it.
the UK, we need to remain committed to food production. However, with the volume of people in no longer a world player in terms of food tourism enterprises. Globalisation means that we are farming estate, being of arable, livestock and development. The UK is a small parkland island in reality not decrease by as much as is envisaged in the document. A lot of temperate food production has been on the world market at below the cost of production for many producers. When support is removed these prices may have to increase. It is stated that 36% of support given to farmers goes to a number of input suppliers, such as machinery manufacturers, fertiliser suppliers, and spray suppliers. To my knowledge, none of these suppliers is making excess profits, so unless their raw material costs go down or labour cheapens, which is very unlikely, I cannot see how they can afford to supply these commodities at a reduced cost. I can quite see that land costs would decrease as farming profitability decreases, although this has not done so to date by as much as it should have done. I would like to make one other comment under the heading of “land costs”. Farmers get agricultural property relief, which means that on their death they can pass their farms onto the next generation without having to pay inheritance tax. This is absolutely essential because if inheritance tax had to be paid farms would have to be sold, further fragmenting the industry. I just pose two questions: is it a benefit to farmers that wealthy outsiders can shelter their inheritance tax by buying into land and farming it for two years? Is it reasonable that those farmers who have got off their backsides and diversified their businesses may now have to face inheritance tax on their diversified assets? There is no mention in the Vision of renewable energy, about which we have spoken quite a lot this morning, so I will not go on, but this could have great benefit to British agriculture, the environment and the population at large.

Q170 Chairman: Mr Cowley, I am going to be very rude and cut you off. That was a very good point to end on. I am going to ask Mr Keene if he would take up the baton.

Mr Keene: Chairman, since time is of the essence, I will assume that you have all read my original submission and say nothing other than the fact that I am not a farmer’s son. I am not from a farming background, and I am a first generation farmer. I have to confess that I had not read A Vision for the Common Agricultural Policy before writing my submission. I have now read it and I must say it is a well presented and well written document, if at times somewhat complicated. I would like to make the following comments. The argument that the cost of food will significantly decrease to the consumer may in reality not decrease by as much as is envisaged in the document. A lot of temperate food production has been on the world market at below the cost of production for many producers. When support is removed these prices may have to increase. It is stated that 36% of support given to farmers goes to a number of input suppliers, such as machinery manufacturers, fertiliser suppliers, and spray suppliers. To my knowledge, none of these suppliers is making excess profits, so unless their raw material costs go down or labour cheapens, which is very unlikely, I cannot see how they can afford to supply these commodities at a reduced cost. I can quite see that land costs would decrease as farming profitability decreases, although this has not done so to date by as much as it should have done. I would like to make one other comment under the heading of “land costs”. Farmers get agricultural property relief, which means that on their death they can pass their farms onto the next generation without having to pay inheritance tax. This is absolutely essential because if inheritance tax had to be paid farms would have to be sold, further fragmenting the industry. I just pose two questions: is it a benefit to farmers that wealthy outsiders can shelter their inheritance tax by buying into land and farming it for two years? Is it reasonable that those farmers who have got off their backsides and diversified their businesses may now have to face inheritance tax on their diversified assets? There is no mention in the Vision of renewable energy, about which we have spoken quite a lot this morning, so I will not go on, but this could have great benefit to British agriculture, the environment and the population at large.

Q171 Chairman: Thank you very much indeed for the succinctness of your comment. Mr Marfleet?

Mr Marfleet: Good afternoon. Does the government remain committed to UK food production? Yes, but we do have to change, and are changing, with positive approaches like rural development. The UK is a small parkland island in proportion to the world picture. It is a traditional farming estate being of arable, livestock and tourism enterprises. Globalisation means that we are no longer a world player in terms of food production. However, with the volume of people in the UK, we do need to remain committed to food production. The UK is farmed throughout its length and breadth, encompassing every town and city. We even sing about it, “... this green and pleasant land...”, so we should not abandon it. We head through agriculture for the countryside and the seaside in our quest for the enjoyment it provides. We look to reform a market which is called “oversupplied”, yet thousands of humans are starving. The world is not settled nor in harmony. There are so many different circumstances and factors for each country across the world that it is impossible to bring about total harmony. What we can do is put parameters in place so that the environment, welfare of animals and health of humans is not jeopardised. If countries fail to adhere to these basic parameters their products should be vetoed. At the same time, if poor countries need help, and are willing to be helped to help themselves, then we should assist. The UK needs to protect its own agricultural markets by standing up and fighting and not gold-plating every EU directive putting us at a disadvantage. Environmental issues and schemes are very expensive to run. We have great regional and seasonal foods of good quality which can be promoted within our country, helping with the nation’s health. Our schools, hospitals and other public sectors should eat British produce. The supermarkets have used their powers to help the demise of UK farming by bully tactics and importing inferior products. The UK is well placed to go forward, but at these prices across the board the industry is falling into a state of disrepair which cannot continue. It is predominantly family-run farming practices which will do more for the countryside, employment and diversity in rural areas than large business organisations that only have money signs in their eyes. We are British, we should be proud of what we produce, and we should stand up for British produce as most of us, one way or another, enjoy the British countryside.

Q172 Chairman: Thank you very much indeed. Finally, Chris Thomas?

Mrs Thomas: Good afternoon, Chairman and members of the panel. I am sorry I sound like a man, since diversifying into a caravan park I spend all of my life talking, so it is rather new! My name is Chris Thomas. I am 41 years old as of last Saturday.

Q173 Chairman: Congratulations, well done.

Mrs Thomas: Thank you very much. I am a mother of five, ranging from 18 and a half down to one. We own and farm 300 acres in the heart of the Brecon Beacons, just literally outside the town of Brecon, and we rent another 300 acres, 200 in Hereford and 100 scattered around the other parishes. We commute on John Deere tractors. We are known as completely mad and insane. I often feel I need to take drugs just to stay alive! However, we totally love what we do and are committed greatly to what we do. I hope that whoever who are in charge of our commitment will listen to what I have to say and that I will convince you to follow this path with all of your hearts to realise that you are in charge of us, our own destiny is not ours anymore, it is in your hands.
Farming is not a job, it is a way of life. I will quote you paragraphs of my original submission for the benefit of other members of the panel and of the audience. I quite liked it, so I hope you did too. As I say, farming is not a job, it is a way of life, how many times have we heard that and yet if the current policy trends continue it will be a way of life for very few in future years. I feel we will be the next rare breed. Farming is not something which can be learnt from books, it is bred into you. In as much as it can be bred in, it can be bred out too. My main concern, especially being a mother of so many, is who will be farming our countryside in 50 years’ time, never mind the Common Vision for 10 to 15 years, we are breeding generations of young people. Although my son, Henry, is only four years old and a hefty bloke, it is going to be some time before he can reach the tractor pedals. With all the pure agricultural courses disappearing from our agricultural colleges, and we are all encouraged to diversify, my biggest worry of all is who will be left to farm our land. Farming these days is being pummelled and moulded into an ideal formula by this Government, and this cannot be done without any future thought. For far too long we have had ministers put in charge of this most specialist of subjects, ministers who have no practical knowledge, practical experience or even qualifications to understand the physical, emotional and mental needs of agriculture and its workforce. One of my all-time favourite lecturers in an agricultural college, himself a keen Yorkshireman farmer, used to say to me, “Chris, common sense is a sense not common to everyone”, and I genuinely feel this is quite right regarding the people who implement these policies and write the damn things. We now are at a stage where the Single Farm Payment has taken over our lives. I feel this whole fiasco has turned into nothing more than an enormous white elephant. Its purpose was two-fold. Originally it was to remove production payments and encourage the older generation to retire, paving the way for a new and younger workforce but, unfortunately, the reality could be no more different. The older farmer now has the best government-funded pension policy of his entire life, for he can now sell his entire stock, rent out his land, and in the majority of cases still pick up a hefty cheque. There are others who have been unsuccessful in their bid for entitlements from the National Reserve who are farming with no financial help whatsoever, whilst still, at the same time, producing a commodity. This ridiculous situation does two very detrimental things to farmers and farming alike. First of all, the older boy’s desire to keep the entitlement payments have shot the price of rental land and grass this year by £50 an acre alone from what we were paying last year. Secondly, the new system does nothing to help the public’s perception of us guys. Since going into this diversification project ourselves several articles went into our Welsh national newspaper, The Western Mail. I genuinely do feel that whereas perhaps before our lives ended at our farm gate our life begins because we have to be nice to people and that is something farmers are generally not very good at. They are quite rude, arrogant and anti-social as a breed and it is bred into us. Now we have to try and woo these people. We have to be nice to these campers and they are fantastic. We have never met so many people and we have only been open four weeks. We are full every weekend with over 400 people and, as you can imagine, it causes a bit of a hoo-ha. It is a wonderful way to learn how to be nice to people by getting them on your farm. How sad it was to see that the uptake for the farm walk was so minimum. We could not have them on our place because we still had diggers digging out things. It was a very, very sad thing that more participants could not go into this. However, agriculture is Britain’s last industry, boys and girls, we are now a consumer nation and not a producing nation anymore. God forbid, if there was a world war we would be in trouble for sure. Do not forget, government men, Britain is an island, and with the threat of terrorism they would not have to bomb our stations and our buildings, they would only have to put bombs in the Bristol Channel and they could starve us to death. It is an incredible thought that we only produce enough food in this country to survive from January to April and the rest is all imported. It is a frightening thought and, without scaremongering, if our country and the EU were all settled why on earth would Mr Brown make a note that he wanted to spend an extra £25 billion on the Trident Missile. They cannot feel that there is a great deal of world peace for him to go down that road. For our nation I feel food security is a very, very important issue. Should our agricultural industry be sold down the swannie as has our manufacturing, coal, steel, construction and shipping industries? They have all vanished now and all been taken over by imports. Agricultural policy should be completely separate from government policy as they can change the goalposts in one afternoon. It is a continuity of good, sound and reasoned policy that is required for the future. This policy should be worked over a 20 or 30 year period, not even a 10 or 15, it is a much longer period we need. I could honestly go on and on. Let the farmers who are getting their hands dirty be the ones who are going to receive the payments and not pay people to sit in the house. If the government wants to remove the link between payment and overproduction, although that myth has long since been dispelled or why would they import meat from foot and mouth endemic countries and why would you guys be voting on whether we should have American hormone beef in this country when it has been banned here for years, however, why can we now not look at arable payments. If you want to reduce greenhouse emissions, why do you not put arable payments into creating biofuel plants to do the cultivations. There is a huge amount of diesel used. When I plough 250 acres with my John Deere tractor every spring we go through a full tank of 80 gallons in a day with a four furrow plough on it and we have no stones, so God help the ones who have got stones. Not every farm can afford this. Our farm could not afford to have £26,000 plant but what we could do is put one in Brecon farm and we could all buy our fuel to do all the rotational cultivations in this country
using biofuel and that would keep everybody happy. Stock payments: the Single Farm Payment does not want poaching, and that is a very interesting thing because they are telling us to keep our stock in, but that is the worst thing unless you have got really good sheds, so bring back the 50% shed grants. Do not just dish out these payments to people who are not worth it. Listen boys, stop Britain becoming the national park of Europe. Let us do what our prime land was intended to do and produce the finest quality foods to feed our fine nation of people. We went to ball a fortnight ago at the officers' mess in Brecon and we had Argentinian beef and New Zealand lamb. There were only four of us on the table with our own teeth and I wanted to offer to chew it for them, it was appalling.

**Chairman:** Fantastic. Thank you very much indeed. Judging by the splendid photograph of your family that you sent I can see the next labour force there being bred very, very well. Two of my colleagues have caught my eye, so David Taylor and Lynne Jones in the remaining four minutes that we have.

**Q174 David Taylor:** You are not going to ask how many MPs here have their own teeth, are you? This one is to Mr Atkin, Chairman. He was concerned about the separation of farmers from their markets and the distance it has gone down the path of high output and low cost, and he referred to there being an unmet plethora of specialist opportunities I wonder whether he can highlight that briefly. Mr Cowley, on dairy, with one and half million litres he might have been losing about £30,000 a year with his tuppence a litre loss, which was typical. Does he think—a question I put to an earlier contributor—that farming could have done a lot more to move away from milk as a commodity to a rather more specialist and segmented market?

**Mr Cowley:** On that specific question, by government regulation the MMB and its daughter organisations were not permitted by the DTI to go into the downmarket production of food. Look at yourselves in the past in the round as to why you stopped farmers doing that.

**Q175 Chairman:** That is a succinct answer to a good question.

**Mr Atkin:** The key point is because the old support system penalised people who effectively stepped away from the mainstream, whether they be mainstream crop or mainstream livestock, we have built up uneasiness within the industry of stepping away from the known because the environment has been very certain. We have had instruments in place that have guaranteed certainty for output. As soon as you step into whether it be an alternative enterprise or a non-agricultural enterprise, what we see are issues of risk coming into play, issues of marketing, issues of negotiating supply relationships and contracts. Some of these enterprises are new and un-tested and by default will not work. When we advise farmers on these enterprises you cannot say, “We will guarantee this will work”, that is not the way of the business world. Because the industry has not had to address medium-term business planning issues, market research and the like, it has not been historically used to operating in that kind of environment, it has operated in a very safe, protected environment.

**Q176 Lynne Jones:** My question is also for Carl Atkin. You said that there was a need for clear signals, not a gradual erosion, and a real Pillar 2. Can you expand on that? What clear signals would you like to see being given?

**Mr Atkin:** There are obviously lots of options and I probably have not got time to talk about them all. One of the things in the agricultural economics literature is about whether you have a capitalisation of payments to allow people to leave the industry rather than the slow annuity which other people referred to as the “pension haemorrhage”. That is one option. The other thing I think about the Pillar 2 is a lot of the Pillar 2 schemes, particularly the agri-environment schemes, only work because they are a bolt-on to Pillar 1 and businesses also have their Single Farm Payment, they could not survive on the agri-environment income alone. If we want a real Pillar 2, that is fine, let us do that, but we have got to pay people for the real environmental outputs they are going to deliver and not just have this half-measured income foregone measure we have now, which is a little bit of a fudge, in my view.

**Q177 Lynne Jones:** Mr Cowley, were you disagreeing?

**Mr Cowley:** No.

**Chairman:** Ladies and gentlemen, I think that brings our series of panel presentations to a conclusion. May I thank not just the panel who are in front of us but the two who went before for some of the most committed and genuinely passionate presentations about farming and its future that I, and I think my colleagues, have heard for some very considerable time. It is a genuine benefit for us to hear from people who are not, if you like, in the traditional role of representatives of any of the bodies who have come before us to date but are, as I think everyone of you has said, farmers who are there doing it from five o’clock in the morning until goodness knows what hour late at night, whether it be growing crops, growing people in caravans or growing energy fuels to keep us all going, it has been a truly superb contribution to our inquiry. On behalf of our Committee and my colleagues, I would like to thank you all very, very much indeed. Thanks again to our stenographer for taking it all down, to the gentleman who has done the sound system, to those who organised this and made it possible, and to those in the audience who stuck there resolutely listening to what was being said. It has been one of the best attended sessions we have had for some considerable time. Thank you all very much indeed.
Supplementary memorandum submitted by Steve Cowley (RAS 21a)

1. After the meeting I felt that although I am exactly the average age for a farmer, the other witnesses did not share my view of the future. I seemed to be the only one from the south east of the country where a large percentage of the land is either not farmed, under-utilized or farmed by people who do not rely on farming as their main source of income. One of the witnesses commented that “grass keep” had become more expensive recently. Here on the Isle of Wight there is such a surplus of “grass keep” there is no one to take it. One of the other things that struck me was that most of the other witnesses were producing food from their farms because they were farmers not because they were business men. Farming is a very capital intensive business and if businesses are to survive and be successful they need to provide the farmer and his family with a living wage and a return on capital. Without that return on capital there will never be any money to move forward and make new investments to meet the needs of a changing market. I met David Milliband on Monday and asked him where he saw the next generation of farmers coming from. His response was that we as farmers should encourage our children to take over. Most farmers’ children are well educated and have a wide range of career options that do not require working 12 hours a day seven days a week for pitifully small rewards. Many farm staff come from overseas these days, I have no problem with this, but they are never going to accumulate enough capital to become farmers in their own right. There are very, very few new entrants into the farming industry.

2. I do not believe that the Government’s vision of the future of CAP has any relevance as a way forward as it was rushed out by the Treasury as a ploy to divert attention away from the issue of the UK rebate. It was met with derision by the other EU members because the CAP had just been reformed with this Government’s support.

3. Everybody seems to have forgotten that we have the CAP to ensure a secure food supply for all. Other EU countries still value the security that the CAP brings.

4. Food (wheat, rape and sugar beet), currently in surplus, has more cash value as an energy source than oil, but world reserves of food (wheat) are at historic lows.

5. As China and India become more prosperous they will require more and more food because they will want to eat meat from animals that are fed these crops. Oil is so expensive because of the demand from these emerging economies, the same will happen with food. We will then have to compete for our food in a world market. Where will our food security be then?

6. Will this affect our ability to compete in the world markets for the services that we supply to others?


July 2006

Supplementary memorandum submitted by Hugo Marfleet (RAS 22a)

ROYAL SHOW, STONELEIGH—4 JULY 2006

Thank you for inviting me to CAPVISION and giving me the opportunity to speak. Having been a “witness”, and heard the other witnesses speak and the questions that the panel asked, I feel I would like to put the following three points forward as a reform response. Please may these be put on record and acknowledge that this procedure is satisfactory.

1. RURAL DEVELOPMENT

I feel the way Defra is taking agriculture forward is a good, positive approach. The Rural Development Programme is good, but needs to be expanded and improved so that the grants are easy to obtain and of an amount that will have an impact. Farmers need to amalgamate, by way of co-operatives, (three farmers minimum), and also need to be able to reshape their businesses. I also feel that the diversification grant schemes are a must to help with employment, the rural economy and benefiting/progression of small rural businesses. The environmental grants are a good thing for those in the designated areas and for those that want to do more for the environment on a individual level.

2. PROMOTION OF UK PRODUCE

I feel overall that UK agriculture is lacking a serious attitude towards the promotion of our produce/food. We should promote our food to the general public with an image of enjoyment, sexy and healthy rather than welfare issues. The way to do this would be for every farmer to be deducted a small percentage from their single farm payments to go into a specific fund to go towards marketing our produce. We also want to promote regional foods and form co-operatives with unique brandings. Being part of the EU promotional
marketing of UK products can be achieved in an appropriate way. After all if the housewife goes into a supermarket to buy British food then the supermarkets will stock more British food. However, ask yourselves when you open your fridge door how much produce in your fridge is British.

3. **Administration**

To allow farmers to change or develop their business, to look at diversification, to look at amalgamating, to reform, they need a big reduction in the volume of paperwork which could be, in itself, simplified and streamlined, rather than this mass of complicated systems that we have created. Reduce the amount of gold plating the UK does with reference to EU directives.

I put forward to you these three points which I feel would help UK agriculture.

*July 2006*
Wednesday 12 July 2006

Members present:

Mr Michael Jack, in the Chair

Mr David Drew  Mrs Madeleine Moon
James Duddridge  Sir Peter Soulsby
Patrick Hall  Mr Roger Williams
Lynne Jones

Joint memorandum submitted by Defra and HM Treasury (CAP 30)

1. This joint memorandum provides Defra’s and HM Treasury’s written evidence to the Committee’s Inquiry into the UK Government’s paper “A Vision for the Common Agricultural Policy”.

2. The 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. It raises questions about the effectiveness, sustainability and affordability of the current Common Agricultural Policy, presents a vision for what a sustainable model of European agriculture might look like and considers the implications of further reform. It further examines agricultural protectionism at a global level, with a particular focus on the impact of developed country policies on developing countries.

3. Radical change of the sort proposed in this paper has to be seen in the longer-term perspective. The vision in this paper focuses on where we need to be in 10 to 15 years time, and why. It does not set out a detailed route map for getting there.

4. This memorandum addresses the issues raised by the Committee in its press notice. The evidence and the Government’s position are set out more fully in the paper.

Expenditure on “Pillar 1” of the CAP

5. The Government’s vision questions the justification for existing expenditure in Pillar 1 of the CAP (market support and direct payments) and recommends phasing out all support by 2020. The EFRA Committee is interested in the likely impact of these proposals, with specific reference to:

Food security—does the Government remain committed to UK food production?

6. The Government will always seek to promote sustainable UK food production. This is clear from the work we have undertaken in collaboration with the farming industry to implement the Strategy for Sustainable Farming and Food. One of the key principles for that strategy is the production of safe, healthy food in response to market demands, and we continue to support this. Whilst the Government does not have a self-sufficiency target, in 2003, the UK was 76.9% self sufficient in respect of “indigenous type food and drink,” and of the indigenous type food and drink imported into the UK, the other 24 members of the EU accounted for 72.9% by value. Research suggests (see paragraph 3.44 of the vision paper) that agricultural self-sufficiency of richer countries would decline only modestly as a result of liberalisation. Furthermore, the position of UK farmers at the heart of one of the world’s richest markets should not be overlooked.

7. However, 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. The widening of trade opportunities should be good for international food security, and thus for UK food security.

8. It is also worth noting that the number of farmers or farms is not a direct indicator of food security or self-sufficiency. Over 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.

Potential distortions and inequality of treatment of farmers across the EU

9. Phasing out market support and direct payments would reduce distortion and inequality of treatment of farmers across the EU. The CAP has traditionally favoured certain products over others, and prevented farmers from responding to market signals. As the vision paper notes, the CAP is an inefficient way of supporting farmers, and many of the benefits accrue to landowners, who may or may not be farmers.
Phasing out market support and direct payments and moving towards the more sustainable vision for agriculture presented in the paper would reduce these existing distortions, and lead to a situation where farmers in the EU were competing solely on the basis of price, quality and other market demands.

10. 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.

Possible environmental consequences of the proposals

11. The intensification of agriculture in the EU over the last 20 to 30 years has caused significant environmental problems such as water pollution and damage to wildlife and bio-diversity, as evidenced by the steep decline in farmland bird populations across the EU. Cleaning up diffuse water pollution caused by agriculture is estimated to cost £211 million a year in the UK, another cost ultimately borne by all citizens in their water bills. This intensification has been amplified by the high levels of market price support in the CAP: an incentive our vision would remove. Whilst aspects of the CAP such as cross-compliance and set-aside can have positive environmental benefits, these could be secured in a more efficient and targeted way.

The extent to which the proposed changes to the CAP would result in lower food prices and (through reduced public spending on the CAP) a lower level of taxation

12. The financial costs of the CAP are set out in some detail in the paper, and are estimated by the OECD at around €100 billion for the EU25, half due to higher food prices and half due to taxes. It is difficult to predict the precise extent to which further CAP reforms would lower food prices, as other macroeconomic factors will also have an effect on future food prices. However, as the vision paper notes (p 20), it has been estimated that the CAP is equivalent to a value added tax on food of about 15%. Reform away from price support would lead to a fall in average prices (as measured by the Consumer Price Index) throughout the EU of around 0.9%. It would also enable a substantial reduction or redirection of the EU budget and consequent alleviation of the burden on the UK taxpayer.

How such a revised CAP would enable the EU’s farmers to be more competitive

13. At present the CAP regulatory framework acts as a barrier to entrepreneurship and the natural evolution of the industry. The benefits of the CAP accrue primarily to the initial owners of land and other inputs, inflating costs and making it difficult and expensive for others to enter farming, or for more efficient producers to expand their operations. The support currently provided by the CAP allows farms to continue operating inefficiently at relatively high costs of production.

14. In a liberalised CAP, these barriers would be removed and the industry would adjust, be free to grow and make efficiency gains like any other industry. The reforms of 2003 are a significant step in reconnecting farmers with markets, and further liberalising reforms would carry on this trend. This does not mean that farms would necessarily become more intensive (indeed there are good reasons to believe that many would become less intensive, as explained in the paper).

How the proposals would differently affect the tenanted and non-tenanted sectors across the EU

15. Adjustment in agriculture is the norm. The sector is constantly adjusting, even when it benefits from high levels of support. Policy reform is but one additional (although significant) source of adjustment pressure. A reduction in agricultural prices as a result of reduced levels of support would reduce agricultural profitability in the short term, until agricultural costs are bid back down. As the paper notes, well functioning land markets are critical to the process of structural change, to securing economies of size, to diversification, to maintaining international competitiveness and to securing credit. If the Government’s vision were implemented, the tenanted sector across the EU would experience a temporary fall in profitability before benefitting from lower rents. Owner-occupiers and non-farming landowners would see the agricultural value of their farmland fall, although it should be remembered that the agricultural value of land is only part of the price of agricultural land.

16. The impact on individuals would also depend in part on the time at which the land had been purchased. As explained in the paper, capitalisation of support means that the benefits have accrued primarily to those in farming when the various elements were introduced. Those who have held land all this time have had a windfall gain and would have a windfall loss.
The implications of the proposals for the applicant countries to the EU

17. As it currently exists, the CAP does not provide the right framework for agriculture to restructure and modernise and actually works against sustainable rural development. Like the 10 new Member States, Bulgaria and Romania should gain from a reformed CAP which targets resources at the development of rural infrastructure, services and the creation of diverse employment opportunities. The same applies to Croatia and Turkey.

The Rural Economy

18. The Committee is interested in how the UK’s rural economy would fare under the changes proposed in the report.

19. The paper notes that even in the most rural regions agricultural employment is by no means dominant. In areas defined as “predominantly rural” in the UK in 2001, the rate of agricultural employment was only 7.2% (Table 3.5). While agriculture has strong links with other rural industries, the paper quotes an OECD study which found that while farm employment has been on a long term decline, employment in closely related industries has remained stable or even increased (3.35). And over the past decades there has been a strong trend of a shift of employment from agriculture to other industries. This suggests that the rural economy has already adjusted to changes in the agriculture industry, and will do so in future. Furthermore, the vision paper states (1.32) that future EU spending on agriculture should be based on the current Pillar II. Pillar II funding is directly targeted at agri-environment schemes and other public goods which stimulate the rural economy.

International Issues

20. The Committee is interested in the report’s assessment of the impact of CAP reform on developing countries, and its conclusions about the erosion of trade preferences and the potential benefits of a liberalised agricultural market in the EU and other OECD countries. The Committee is also interested in the effect the proposals would be likely to have on the global economy more widely.

21. The paper sets out (4.4 onwards) how EU protectionism and market price support in particular are damaging to developing countries. The paper cites IMF predictions that suggest that while preference erosion will cause serious adjustment problems for a relatively small number of countries, it is unlikely to be a significant problem for the majority. The challenge will be to ensure that complementary policies and additional finance is provided alongside agricultural reform, in order to alleviate the short to medium term shock of preference erosion.

22. Most of the available studies assume agricultural liberalisation as part of a wider WTO round, and it is therefore difficult to say what the effects on the EU, other OECD countries and the global economy would be. The paper quotes World Bank figures which suggest that global income could increase by $290 billion by 2015 if trade-distorting policies in merchandise trade including agriculture were eliminated (4.3).

The Wider Debate on Future Financing of the CAP

23. The EFRA Committee is interested in how the reforms proposed in the report could be achieved in practice, and how these changes relate to the ongoing debate surrounding the future financing of the CAP. What barriers might be put in the way of implementing such reforms by other EU member states?

24. The Government set out broad parameters of how its vision could be achieved in practice in its paper, particularly in paragraphs 1.33 to 1.37. Gradual and carefully managed change will be important to give clear signals and time for farmers to adjust their businesses.

25. One important component of the Government’s vision is an end to the market support mechanisms and direct payments. The elimination of export subsidies following completion of the Doha Round, a move the Government has championed, will provide a major impetus for reform of the first. Direct payments could be phased out in a number of different ways. For example, the House of Lords European Union Committee recommended that the single farm payment should continue only until 201315. Other approaches might involve different profiles. The vision paper was published to stimulate debate, and these are the kinds of issue which will need to be debated with stakeholders in the UK and in the EU, including with other Member States in the context of the review of the EU budget in 2008–09.

March 2006

Q178 Chairman: We are going to move on to talk about an area where a bit of magic needs to be put in, and that is the reform of the Common Agricultural Policy. Secretary of State, let me just ask you, in the eight weeks you have been in post, what do you think the purpose of the Common Agricultural Policy is now?

David Miliband: Is or should be?

Q179 Chairman: You can answer it whichever way you like. Should be would be more acceptable.

David Miliband: Sometimes it is quite difficult to answer the question about what it is in diplomatic terms, but in terms of what it should be, I think it should provide a framework for agriculture in the European Union, a regulatory framework and a financial framework for agriculture in the European Union. That is in simple terms what it should provide.

Q180 Chairman: When you say a regulatory framework, what would you envisage those regulations covering in a 21st century redefined CAP? You mentioned finance; let me put the same question to you about what should it finance?

David Miliband: It will not surprise you to hear that I am a strong supporter of Government policy in this area. In respect of the regulatory system, obviously that involves questions of tariffs and integration of world markets. It also involves issues of animal health and welfare. It also involves issues of health and environment in terms of the way in which food is produced. In respect of finance, I think we have been pretty clear that there has been significant progress, much of it achieved under Margaret Beckett’s leadership of Defra, but we have to make sure that the decoupling process is seen through. The vision that was set out in the document you are studying is that subsidy should be for the delivery of public goods and that food should be sold in open markets on the basis of quality and customer preference. So we certainly see the finance being directed towards the delivery of public goods, the so-called Pillar 2 agenda, with its three axes, and certainly not Pillar 1.

Q181 Chairman: The reason why I ask that question, Secretary of State, is that when the CAP was originally designed, food security issues, sustainable food supplies within Europe, were a major post-war objective, and the latter one may have gone. The document does deal with matters connected with food security, but you mentioned decoupling. The nature of the CAP, because of decoupling, that is, payments not being linked to what farmers produce for commercial purposes, fundamentally alters the landscape from the old CAP, where there were 38 separate payment schemes, to one where under Pillar 1 effectively there is one payment scheme with an objective to move more of that money in the long term towards Pillar 2, and therefore the debate has moved to a question as to whether under those circumstances the Common Agricultural Policy should even have the name “Common Agricultural Policy” and whether the policies to achieve the objectives that you have just enunciated should in fact be repatriated to member states. Have you had a chance to reflect on that?

David Miliband: To reflect, yes, and to conclude that I do not think the re-nationalisation, as it is called, or the nationalisation of the CAP is the logical consequence. I think that there are, especially in a Europe of 25, Europe-wide issues and benefits from a Europe-wide framework. Obviously, the European Union represents all of the Member States in trade and other negotiations. That is one obvious linkage, but I think that there are benefits from a European framework. Obviously, there is flexibility within that and different countries will operate different mechanisms in Pillar 2, and they will make different decisions about how much money they want to put in themselves. That is perfectly legitimate. I think there remains a strong case for a European framework. The food security question: you can see why in the early 1950s, when the pioneers of the European Union were thinking about these issues, to state the obvious, it was a very different Europe and you can see why issues of food security were seen not just in more European terms but in much more nationalistic terms. People talked about self-sufficiency in a way that they do not today. A Europe of 25 at peace and trading within itself is a huge guarantor of food security. Equally, there are issues of food safety that are important, and I think that a European framework is beneficial in that context.

Q182 Chairman: Are you, in taking forward the vision document, going to produce, if you like, the framework you have described? The CAP reform vision document has a list of attributes that it almost says “Well, if we reform what we’ve got, with the following changes, we’ll get to where we want to be.” You just defined the CAP as needing a European framework and a framework for financial controls, but should it have a purpose? Should there be some definition?

David Miliband: A PSA target for the CAP, or the equivalent thereof.

Q183 Chairman: It is up to you to define that, because it seems to me to be a missing element in the vision document, in terms that you gave us a list; you said, “Well, we’ve got to sort out tariffs, we’ve got to sort out animal welfare, we’ve got to sort out animal health, the environment,” and yet you could argue that because you have 25, 26 diverse countries, their idea of what they wanted to buy as environmental goods for their people might be very different from what we wanted to buy.

David Miliband: That is an important and good point. I do not think it is necessarily at odds with the idea that you should have a framework. The whole point of a framework, perhaps with a founding constitution—you did not quite use the word “constitution” but a founding set of purposes—I can see that, but I do not think that means that you...
Q184 Chairman: I think you can. I think the point I am making is whether you need to redesign and re-speak in the context of the European treaty, because the actual bit that sets out the CAP at the moment. Article 42, that is the definition, and I am asking the question as to whether that should be redefined taking into account, for example, some of the characteristics that you have just spelt out.

David Miliband: You could do that. It is always difficult to lead these debates and that is what . . .

Q185 Chairman: You have led it. You are in charge. You have issued your document. You are number one in the field with reform.

David Miliband: You are taking the words right out of my mouth. What I was saying is it is always difficult to lead these debates because you are involved in day-to-day negotiations as well as trying to get the long-term vision right. We took the decision as a Government that it was right to lead that debate, to be, as you put it, number one out there doing so, but equally, there are tactical and strategic issues about how and when and in what way one leads that sort of debate. I have been struck by one thing, and I do not know if Andrew or Simon want to contribute to this; they are welcome to. I have been struck that while I noticed a sharp intake of breath when I was sitting in the Cabinet but in a different position in December when the document was published, what I have actually noticed over the last eight to 10 weeks is real engagement in national capitals, real engagement not just in agriculture ministries and finance ministries and trade ministries, but actually, real engagement in parts of civil society: I have had reports back on seminars, discussions, and TV programmes. Because it is out there, it has established a benchmark by which the debate should be judged. You can make the argument would it have been better to have just gone straight in and said, “We need to rewrite the constitution in the following way”? That is a tactical judgment. I am struck by the extent to which this document has not gone for new names, has not gone for new constitutions. What it is trying to do is engage people in the substance in a very direct way, and I think it is doing that actually.

Q186 Chairman: I will just conclude this line of questioning. If the title at the moment is the “Common Agricultural Policy” and agricultural decisions are being made under a modulated and decoupled environment by farmers, then you could argue that this policy should have a different name.

David Miliband: My approach would be to get the substance right and then we can have a great argument about the name, but in the end what matters is . . .

Q187 Chairman: We are going to see vision two published eventually, are we?

David Miliband: I think vision two is going to be your final report. We are quite happy with vision one and we want to try and drive on with vision one.

Q188 Chairman: Are you doing any work as a Department on analysis of the food security issue just looking in global terms? You mentioned that you thought in an enlarged Community there was sufficient opportunity for food security to be achieved, but are you doing any analysis on that?

David Miliband: Simon, would you like to talk about the research that is going on.

Dr Harding: Yes. We are at a sort of formative stage in thinking about doing some research on that issue. At the moment we are addressing the problem in a conceptual fashion by trying to think what are the types of risk that give rise to fears of insecurity in food terms.

Q189 Chairman: Do you not think you should have done that before the vision document was written? It is rather dismissive of this subject.

Dr Harding: No, I do not think so. We were aware before we published the document of these issues. The thing to do now is to analyse those issues in a way that enables us to carry out empirical research into them. It is a matter of clearing the decks and getting our minds clear about what we think the important issues are so that we can actually commission a research project on these.

Mr Lawrence: I do not think the document is dismissive of food security. It recognises food security. What it talks about is whether food security is the same as self-sufficiency. That is the line in the document.

Chairman: I am grateful for that clarification.

Q190 Mr Drew: There is one problem with your strategy, and that is that when we go round the new states, the central and eastern Europe states, they are now being offered a system on a historic payments basis which is creating a degree of dependency culture. That may be inevitable, that may be a stepping stone, but are they going to vote for the UK vision or are the nice French people going to come along and say, “You’ve got what you really wanted”? We have seen political parties change their stance, both in terms of who their supporters now are and what they see as the benefits of the CAP, and certainly now coming into government in countries like Poland, that is quite an uphill struggle. These are people who actually were counting on us to get them in, and now the reward is they are more likely to be in the opposition camp when it comes to reforming the CAP. How do you overcome that?

David Miliband: You can only overcome it by persuasion in the end. I heard with interest of your visit to Romania and the challenges that the Romanian Agriculture Minister will face, assuming things go forward. In the end, this is about persuasion, it is about clarity, because it is easy to paint a straw man of what we are proposing, but when you look at what we are proposing, there is an integrity to it in respect of the rural communities but...
also the farming community. I am not keeping a score board on columns of who is for, who is against, who is in the middle . . .

Q191 Chairman: Not yet.  
David Miliband: Not yet.

Q192 Mr Drew: It would not look very good at the moment.  
David Miliband: What I sense is a debate that is shifting. I do not know if, Andrew, you want to come in on this, but I think that there has been the sharp intake of breath and there is now the engagement. When people engage, they actually have to come to terms with the substance of the argument. Politics is politics; there are always populist campaigns for and against things; governments come and go; but I think it is striking that there is not another vision out there. There is not a vision two; there is vision one, which is our vision, and I think that is striking.

Q193 Chairman: What about the French paper though that was issued in March this year? That is an alternative view, is it not?  
David Miliband: It is certainly an alternative view; I would not describe it as an alternative vision.

Q194 Chairman: But it is a paper. There is more than one page to it and it does have a narrative, sort of.  
David Miliband: I would maintain that this is the only long-term vision of the CAP that is yet on the table.  
Mr Lawrence: On the question of the new Member States, of course, it is true that if you are giving them an increasingly large amount of money, it will be difficult for their governments to take decisions to take that away. That is absolutely right. One thing we are noticing, as the Secretary of State says, in terms of the debate: not all new Member States are not talking to us, if you see what I mean. It may well be that the balance sheet, if we were to draw one up, would not be entirely in our favour but that is not to say that there are not countries amongst the new Member States who are very open to what we are saying. What is more, when it comes to the debate, it is quite interesting that both the Czech Republic and Hungary, in hosting conferences recently, have asked us to contribute on the basis of our vision, have asked us to go and talk to them about it. So we recognise the challenges but they are open to the discussion. I think, and they are open to our arguments. We will have to be persuasive and we will have to deploy them well, but our argument that “Is Pillar I the best way for you? We don’t think so. That is the question we put to you,” and they are open to a discussion about that.

Q195 Lynne Jones: Are you happy that the vision document is based on sound principles and sound use of statistics?

David Miliband: Yes.

Q196 Lynne Jones: You are?

David Miliband: Yes.

Q197 Lynne Jones: So have you heard any criticism of those statistics and principles?

David Miliband: I heard the Chairman—I do not want to put words in his mouth but when he did his interview at the Royal Show, he said that he felt that the document did not have enough statistics in it, or had too many statistics in it and did not reflect the passion . . . What did you say that I rather liked? You said the document looked as if you could substitute washing machines for farmers. It is about humanity, community, passion and commitment.

Q198 Chairman: It was one of our witnesses who said that.

David Miliband: I see. Sorry. The allegation has been that there are too many statistics.

Q199 Lynne Jones: I am not talking about the quantity; I am talking about the quality.

David Miliband: Is there a particular aspect of the quality that you are worried about?

Q200 Lynne Jones: For example, Sir Donald Curry, Chairman of the Government’s Sustainable Food and Farming Implementation Group, said, “The economic analysis is based on OECD analysis that took place before the reform in 2003 and I find that unacceptable.” There are many other criticisms. I suggest you actually look at the document produced by the House of Commons Scrutiny Unit on the use of statistics in the vision document. It talks about statistics being used in a misleading manner, support estimates used inappropriately because they make assumptions that if you reduce direct support, that will not make any changes in the amount of production.

David Miliband: Have you seen this?

Dr Harding: Indeed. I am aware that several criticisms have been made of our use of statistics and I am happy to say that nearly all those criticisms of our use of statistics are actually ill-founded and misconceived and in fact, where we have used OECD studies that are a little bit out of date, nevertheless, the results of those studies are still valid, and the way that we have used them is equally valid, and on the point about producing support estimates and so on, again, we have the assurance from the OECD themselves that we have made appropriate use of those.

David Miliband: Maybe we should send you a little commentary on the House of Commons Scrutiny . . .

Q201 Chairman: We will send you the document, because I do not think you have seen it actually.

David Miliband: You have seen it, have you?

Dr Harding: I have certainly seen something very similar to what Lynne Jones said.
Q202 Chairman: We will make certain we are talking on common ground. Can I just ask you for clarification’s sake, because one of the figures that is oft quoted is the calculation for the family, the average family of four, what the cost per week is. Does that include all aspects of expenditure currently sanctioned under the present Common Agricultural Policy, in other words, all the Pillar 1 and all the Pillar 2 expenditure?

Dr Harding: It does not include Pillar 2. It includes only Pillar 1 expenditure.

Q203 Chairman: One of the things that struck me is that your Department has told us that you have done a lot of extensive research to value or to assess what the public put as a value on the outputs of farming, yet when you talk about the cost to this average family of four of the CAP, there is never a contra-count of the benefits which the CAP brings which you yourself have analysed. Do you not think it would be fairer to produce a net figure of what the cost is?

Dr Harding: Indeed, if we were able to accurately value the benefits that Pillar 2 produced.

Q204 Chairman: Last time we had a witness from your Department we were told you had done extensive work and that you had got that, because we were probing on the value of environmental goods that were being purchased under the entry level and higher level schemes, and it was put to us very clearly that you had talked to the public, you had got the values that they attached to these outputs of farming activity, and that guided you in terms of your environmental programme. So if you have it, why do you not net it off?

Dr Harding: It is one thing to say that we have estimates of the value that the public place on these goods; it is another thing to do an accounting exercise which tots them all up and nets them off against a financial figure, which I think is a much more challenging objective, and one that we do not think is quite appropriate.

Q205 Lynne Jones: I think it would be useful if we actually had your response to this document, and it is not just people in this country, NFU and Sir Donald Curry, but obviously there have been criticisms in Europe. There are the criticisms from the European Commission’s Directorate-General for Agriculture and John Bensted-Smith, which you are probably aware of. It would be very useful to have a response to those. In your dealings with your EU counterparts, what sort of response have you had, and particularly, would you like to comment on the response from Mariann Fischer Boel?

David Miliband: You are meeting Mrs Fischer Boel. I think it would not be right for me to comment on what she said to me in private. You should ask her.

Q206 Lynne Jones: She says “The vision of a merely industrial agricultural sector as presented in the UK paper is not a vision I share.” Many people will think that people highly value the countryside and the environmental impacts, and are we not heading with this document towards just ever larger farms?

David Miliband: I am very happy to deal with the substance. I do not think it would be right for me to say what I think Mrs Fischer Boel believes or what she has told me. I am confident that the Commission will play a constructive and engaged role in CAP reform, both in 2008 and beyond. I do not believe that Mrs Fischer Boel has said that there is this blighted future of a dehumanised countryside. If anything, you can make the case that for the first time the promotion of Pillar 2 takes seriously the environmental stewardship role of farming and actually is a very positive vision for the future of the countryside, precisely reflecting the sort of value that you are referring to and that we strongly share.

Q207 Lynne Jones: But you are proposing to phase out direct payments in favour of developments to the rural economy, and the impact of those on farms will be tremendous.

David Miliband: Let us be absolutely clear about this. Pillar 2 directs the large majority of its funding to the second axis, which is about environmental stewardship. It has minima of 10% in respect of the rural economy and rural social life.

Q208 Lynne Jones: That is at present, but the vision is that it moves away from direct payments.

David Miliband: No, sorry. You are absolutely right; we want to move from Pillar 1 to Pillar 2. Yes, we want to decouple and move away from direct payments, but within Pillar 2 you are right to say that there is some support for the rural economy. There is some support for the rural social life, axes 1 and 3 of the second pillar, but the heart of Pillar 2 funding is on environmental stewardship, which is precisely giving the sort of support to the countryside that it has not had and using farmers as the delivery agents for that.

Q209 Lynne Jones: Only if Pillar 2 increases substantially. Do you envisage a substantial shift of the amount of expenditure in Pillar 1 into Pillar 2?

David Miliband: Certainly, we have talked very clearly about a rise in size of Pillar 2.

Q210 Lynne Jones: A rise, but to the level that you actually reduce Pillar 1?

David Miliband: The EU has to make a judgment overall about how much money it puts into agriculture compared to other things and that is a discussion to be had, but we have been absolutely clear that we want to see rising sums spent in the second pillar, and I think that is very positive for the countryside.

Q211 Lynne Jones: Yet the outcome of the last negotiations was a reduction of Pillar 2.

David Miliband: No, the outcome was a reduction only on a figure that they could not get agreement on, so let us be clear about that. The 1.05% and the
final agreement under the British presidency involved a reduction from a level that the Union could not get agreement on.

**Q212 Lynne Jones:** Do you not think we should have actually found out what the impact was of the current reforms before heading recklessly into advocating massive changes in the future?

**David Miliband:** That is an interesting point, and one has to strike a balance—you are right—between seeing reforms through. I agree with you that the reforms that have been agreed in 2000-2003 are substantial. One has to strike a right balance between seeing those reforms through and going further. To be fair to the document that was published by Margaret Beckett, it is a vision document. It talks about 2020, so given that there was major reform in 2003 now coming on board, I do not think the change is either reckless or headlong. The CAP has been going for only 50 years, and we are talking about a 15-year transition. That seems to me to be pretty judicious and careful.

**Q213 Lynne Jones:** It has rubbed a lot of people up the wrong way though, has it not? It has not actually helped.

**David Miliband:** Which people are you thinking of?

**Q214 Lynne Jones:** I have not heard anybody speak positively about the document, quite frankly.

**David Miliband:** We are talking to the same people and I do not think it is a one-way traffic at all. As I said earlier, I think that there was a sharp intake of breath, but there is now real engagement with it, and frankly, it is the only show in town at the moment.

**Q215 Lynne Jones:** What does that mean, “real engagement”?

**David Miliband:** People see the power of the vision, they see the potential attractions of the vision, they also see real issues that have to be worked through in order to deliver on it, and I think we have gone beyond the sort of knee-jerk reactions and people now are engaging in a way that recognises there is real intellectual and political and social coherence and credibility and integrity to this vision.

**Q216 Lynne Jones:** I will defer my judgment on the intellectual validity of it till I have seen the response. . .

**David Miliband:** There was one name that you mentioned.

**Q217 Lynne Jones:** John Bensted-Smith.

**David Miliband:** Would you like to respond to that in particular?

**Dr Harding:** I think he referred to a World Bank study which he thought had been discredited. We certainly do not feel it has been discredited at all and do not know anybody else who does really. He referred to that as a discredited study and that we had inappropriately drawn upon it as evidence. We rather reject that criticism on the grounds that no-one else seems to think that study was discredited and that we made appropriate use of it.

**Q218 Chairman:** Let me move on to the next steps in this particular process, because there is what has been described as a health check coming up in 2008-09. Did the Commissioner give you a publicly quotable indication as to what she understood that health check to contain?

**David Miliband:** No, nothing beyond what she has said publicly. I think it is a major opportunity to look at the structure and organisation of the CAP and I think that is the position. It is all to play for.

**Q219 Chairman:** It was not quite the impression that we got during our travels, that it was very much a check to see how the 2003 reforms were working and not a grand opportunity to re-open the whole dialogue as far as the future of the CAP is concerned. You had a discussion with your French opposite number a short while ago. The official French position as confirmed to this Committee by their Department of Agriculture was no change until 2013. Did you get an indication that they might just be a little more flexible and forward-thinking rather than waiting until 2013?

**David Miliband:** I will let Andrew talk about the official level contacts. I had a very enjoyable dinner at the French Agriculture ministry with my opposite number, Mr Bussereau, who managed to get me from Charles de Gaulle airport to the Agriculture Ministry in about 12 minutes, which was a record speed.

**Q220 Lynne Jones:** In an environmentally friendly way?

**David Miliband:** I would not want to calculate the carbon footprint, never mind the human footprint of the trail of dust that we left on the way there! There is no point in pretending that we are in the same position as the French government on the CAP and its reform. He set out the French position in a very clear way, I set out ours, but we had a good dialogue. I hope I was able to explain to him that we were not just a bunch of desiccated calculating machines who did not care about either the countryside or about people who live there or about farming communities, and I think he was able to explain to me that he was not stuck in the mud, unwilling to think about the future.

**Q221 Chairman:** What do you think that this health check should be about?

**David Miliband:** I think it should be about the organisation and finance of agricultural policy in Europe.

**Q222 Chairman:** Have you found anybody else who agrees with that definition?

**David Miliband:** There are a number of like-minded souls who want to see that. I think there will be a good debate in the Agriculture Council about how to take that forward.
Q223 Chairman: Do you have as a strategic objective the production, as the French did, of a paper which indicates at some point a coalescing of a view with which you can find sympathy for further change?  
David Miliband: Which French paper?

Q224 Chairman: This was issued in March, the one to the Council.  
David Miliband: I see. We have not taken a strategic or a tactical view that we want to publish a new paper. Obviously we will bear that in mind.  
Mr Lawrence: The mid-term review of 2003 became rather more than a review, as we know, so the Commission are being careful about how they present this, and they are not being particularly drawn on what it might include, but it is a review of the CAP mechanism which exists following the 2003 reform, and so that would cover things like decoupling and modulation and so forth. They are not being drawn yet, but I think it is quite interesting, particularly in terms of the debate we are hoping to stimulate, that the Finnish presidency have said that the topic for discussion at their informal council in September will be challenges for European agriculture, challenges ahead, and our vision is quoted as a reference document in the paper they have produced, as is the French one and a Dutch one. Mariann Fischer Boel will be invited at that point to give a presentation to spark the discussion off. I suspect she will not want to say very much publicly before that event—I am sure of that—but it is quite possible that at that event she will start to signal where she thinks this health check will end up, and we do expect the Commission to come forward with something more fundamental on paper next year. They will probably have to, given the timeframe.

Q225 Chairman: It would be your objective to try and influence the way in which the Commission are going to evaluate the effect of the 2003 changes?  
Mr Lawrence: I think that is a fair way of putting it, yes.

Q226 Mrs Moon: I have a number of questions, Secretary of State, in relation to Pillar 2. I wonder if we can start by looking at the UK presidency and the setting of the budget. We set a budget just short of €70 billion for rural development. The Commission, however, on a conservative estimate, suggested there was a need in fact for round about €89 billion. Does the setting of this lower budget and the cut to Pillar 2 spending reflect a lack of government commitment to rural development and agri-environment schemes?  
David Miliband: No, I think the answer is to that. Of course, these are seven-year figures, are they not, the €69.7 or something billion? What it reflects is the Government’s commitment to ensure that the overall EU budget was contained within limits. That is the reason why we were not happy with the June proposals this time last year, at the European Council this time last year, and we worked very hard under the British presidency, obviously bearing the responsibility not just of articulating our own views but of having the presidency, to deliver a budget deal, which many people thought was not going to be possible. I think the benefits of that have been significant. As I said to Lynne earlier, I think it is slightly unfair to say it is a cut. You can say it is a lower figure than a figure that had been put forward but had not been agreed, so it is not a cut in the existing budget from €89 billion to €70 billion over seven years.

Q227 Mrs Moon: The UK Government has taken up the ability for voluntary modulation to facilitate and move to Pillar 2. Has the Treasury put forward any new money to co-finance that move and to allow future moves to Pillar 2 to increase in the UK?  
David Miliband: Obviously, there is a single government position that we are going to be discussing with the European Commission in the run-up to November, when there has to be a final conclusion of the position for the 2007–13 period. A significant part of that period covers the next Spending Review period and we are working very closely with the Treasury to make sure that we get the right outcome.

Q228 Chairman: Can I just interrupt and say that I want to probe you a little bit more about that? You negotiated on behalf of the United Kingdom the ability to have a 20% voluntary modulation, which effectively, I presume, reflects the fact that historically we never got as much money as we would like out of the CAP for our rural redevelopment programme. So if you have that 20%, what is the track to using it?  
David Miliband: The current level of compulsory modulation, I think I am right in saying, is 5%, and our rate of voluntary modulation is six. We have got to get the balance right between our position and the amount of flexibility that we use that has been put in. I think it is helpful to have the flexibility that is there but obviously we have to judge the environmental and the income impact.

Q229 Chairman: How are you going to form that judgment? I am interested to know what work you are doing that is going to inform how you exercise that flexibility, because effectively, with having a budget of up to 20% which you can top-slice off what farmers were getting to spend on things that will benefit the rural economy, it is clearly, in the nicest sense, a rather cheap way of getting a rural redevopment policy, but it has some implications on the farm balance sheet. What work is being done to evaluate that effect?  
David Miliband: Fortunately, there are publicly available a large number of statistics on farm incomes and on incomes from farming, which of course are not the same thing. We are obviously drawing on those. This is something of a Rubik’s Cube—I date myself rather as a child of the Eighties by referring to a Rubik’s Cube. There are a rather large number of squares that have to be got into the right level. You are right that there is an issue about voluntary modulation; there is obviously an issue about co-financing; there is obviously an issue, just
before Roger comes in, about different regional impacts, and how the system is operated across the UK; there are issues to do with what is known as the axes minima, because you referred to the rural economy. That is obviously axis one, but the environmental stewardship, axis two; the social support, axis three. You have a pretty big Rubik’s cube already. We are trying to draw on as much data as possible to get the right judgment and obviously, we have to agree our proposal with the European Commission. That is obviously an important part of the discussions.

Q230 Chairman: You have been very good at learning the language, and I congratulate you that in eight weeks you have all the buzz-words, but what I am not quite certain about is you say you have to agree a policy with the European Union, but what you are describing is quite a fundamental further change internally to the way in which those living in rural England are going to obtain their money. I deliberately side-step the use of the word “farmers” because there are land owners now who have access to funding for various reasons under the new decoupled arrangements. But what kind of dialogue is there going to be with the farming industry about this? Is the programme that you have just given us the headlines of going to manifest itself in some kind of document where we can see the evolution of the policy that you want to agree, and over what time scale is this going to be done? Have you decided any of that yet?

David Miliband: A lot of this is not for us to decide, in that we have to submit our programme for rural development to the European Union and it is agreed in November or by November. That will have the full workings.

Q231 Chairman: It is for you to decide because you are going to decide what you submit by definition.

David Miliband: It is, but we equally have to agree the rules by which the game is played, so to speak, with the European Union.

Chairman: That is very true.

Q232 Lynne Jones: If I can just ask about farm incomes, my recollection is in the document it says something like the average farm income is 150% of the average UK income. Is that net income or does that include any expenditure being disbursed on the business?

Dr Harding: The figures that we have given for farm incomes are to do with disposable income, so it is income in the same sense that you or I would understand it.

Q233 Lynne Jones: A lot of people have expressed amazement that it is so high.

David Miliband: I am afraid I did not learn my lines as well as I should have done. The current rate of compulsory modulation is 4%, not five. It goes up to 5% next year.

Q234 Mrs Moon: I am intrigued about this whole debate, whether in fact you feel that you have made life a little bit more complex for yourself—and I appreciate it was your predecessor’s decision and not yours—by the move to an area-based system for single farm payments. Has that made it actually more difficult to move to further reforms, to move to Pillar 2, and to argue that Pillar 1 is not sustainable when there has been so much trauma with the single farm payments?

David Miliband: “Trauma” is a good word to use, an appropriate word to use, and I understand exactly where you are coming from there. I do not think it has made more difficult the shift from Pillar 1 to Pillar 2. It has just been very difficult and traumatic in and of itself. I do not see a direct impact there, but I do not seek to minimise and have never sought to minimise at all the difficulties and the hardship that have been associated with the problems with the single payment.

Q235 Mr Williams: If we accept the figures on farm income as disposable income and on the same basis as other incomes are calculated, what calculation have you made about the residual farm income if there were no subsidy paid to farming businesses?

David Miliband: Let me just pick up one thing and then I will let Simon talk about the working he has done. As with all averages, you have to be very careful of it. You have to be very careful when you are talking about a farm, because one farm and another farm can be very different; one is a multi-million pound business, the other is a family business that is just about keeping going. I do not want to seek refuge in averages that neglect the huge tale that exists in this area.

Q236 Mr Williams: What I am looking for is the net profitability of English agriculture if there were no subsidy payable.

Dr Harding: We have not actually done that calculation because we feel it is not really a practical calculation to do at present. What we would expect to happen in relation to a reform programme as ambitious as this is that there would be a series of adjustments going on in agricultural markets which would see farmers reducing their use of inputs and being willing to bid lower amounts for land rents and for land purchases and so on, and there would therefore be ongoing adjustments that would take place in other sectors of the economy upstream of the agriculture sector itself, and that in the end all those things would net out to some new level of farm incomes. The likelihood perhaps is that it is a little bit lower than at the moment, but even then you cannot tell, because in New Zealand, for example, where a similar kind of reform took place, I understand that incomes actually rose as a result of the reform process.

Q237 Mr Williams: But after large-scale restructuring of the industry.
Dr Harding: Exactly.

Q238 Mr Williams: The reason why I ask is because in France we encountered huge scepticism about how farming incomes could be maintained by moving support from Pillar 1 to Pillar 2, in the sense that Pillar 1 money goes to the farmer, whereas Pillar 2 is for engaging in other activities which would be a cost to the farmer before a net income was achieved. The message then from our French colleagues who we talked to was that there were large areas of France that were not going to be farmed in the future. I know you have previously expressed the view that that would not happen in Britain but perhaps you could take us through the reasons why you do not believe it would happen in Britain.

Dr Harding: I think it is true to characterise Pillar 2 in that sense. Obviously, Pillar 2 is a scheme that pays money to farmers in return for doing something, whereas Pillar 1, putatively at least these days, is a scheme for giving money to farmers for doing nothing, and therefore, from their point of view, Pillar 1 would seem to be preferable, but what we do know from a lot of research done by the OECD that when income support is given to the farming sector, very little of it actually stays in that sector, and most of the support actually flows through that sector like a sieve and ends up in other sectors, chiefly the land owning sector and also suppliers to agriculture, such as the machinery sector, the agro-chemical sector, veterinary services, fuel, etc, where those kinds of industries are more capable of capturing the economic benefits than the highly competitive farming sector itself, which is generally composed of very small businesses. I think the basic point is probably broadly right that Pillar 2 will always have a larger cost to the farmer than Pillar 1 does, but let us not be very sanguine about the benefits of Pillar 1 itself, because most of those do not end up in the pockets of farmers, and particularly not in the pockets of tenant farmers, which I believe are very numerous in France.

Q239 Mr Williams: One of the problems with Pillar 2 as well is that not only is there an element of investment required from the farmer, so the benefits accruing to the farmer are less, but of course, administering Pillar 2 is more expensive as well, in order to ensure that what is required from the farmers has been achieved. Have you made any estimate about the cost of changing from Pillar 1 to Pillar 2 in increased administration?

Dr Harding: I believe we have. I do not have those figures at my fingertips, but we have previously done evaluations of past schemes which are similar to the present stewardship scheme, and those do show fairly high proportions of administrative expenditure for the reasons that you cite there. But obviously those are schemes that are producing real benefits for the community in terms of the environment and so on, rather than just dishing out money in helicopter fashion.

Q240 Chairman: Can I draw the session to a conclusion, because I am aware that you have a time deadline? One of the views that was certainly put to the Committee about French and German visions of the future of the CAP was that they saw in Europe higher animal welfare standards and higher environmental standards being a requirement of European farmers in comparison with those outside the European Union, and there was a clear wish to sustain that difference. If that is a correct assessment, what is your advice to French and German farmers as to how that picture could be sustained in an evolving policy for agriculture in Europe, or should it be sustained?

David Miliband: Should the level of animal welfare be sustained?

Chairman: Yes.

David Miliband: We would say that the high standards of animal health and welfare in the UK are ones that we are proud of and that also reflect where consumer preferences are going, so I think there is a growing imperative on farmers wherever they are in Europe to rise to these animal health and welfare standards not simply as a response to European rules but also as a response to the way consumer taste is going. In a world of freer trade in agriculture, which obviously we support, I think that value added from European farmers and their higher animal health and welfare standards is going to be an important selling point.

Q242 Chairman: It is an important selling point. I think there are many farmers who would question whether the returns they get through the farm cash box are sufficient to enable those positions to be sustained and, in the context of the United Kingdom, against a background where modulation may make a further reduction. Whilst Pillar 1 remains in farm incomes there is a conjecture as to whether those higher standards can be sustained at a time when you may well be arguing farmers should be earning more money through their commercial activities but where because of the pressure of the marketplace that may not be so easy to achieve.

David Miliband: The marketplace is moving in a number of directions at once, is it not? I certainly know more about this country than I do about the other European countries but it is pretty clear to me that you are going to see rising demand for animal health and welfare standards, not lowering ones, that you are going to have rising demands for quality and taste and locality, and those are all things that play to British farming strengths, and competing on quality is an area where we should have a lot of confidence that our farmers could benefit.
those things that we did not have the pleasure of doing today. May I thank you and your colleagues for contributing not only to outlining your own agenda but also your initial observations on the reform programme for the Common Agricultural Policy. Thank you very much.

Supplementary memorandum from the Department for Environment, Food and Rural Affairs (CAP 37)

The Chairman agreed to send Mr Miliband a copy of a note prepared by the House of Commons Scrutiny Unit on the use of Statistics in the Vision for the CAP document so that Defra Officials could send the Committee detailed comments on it.16

SUR (1)

The recent reforms provided for the (partly optional) decoupling of the bulk of direct payments but they did not change the level of import tariffs for the main commodities, nor did they end the use of export subsidies. This has two implications: first, the level of gross transfers remains broadly stable (OECD, 2004, estimates the 2003 reforms would reduce the PSE by around 2%); second, the benefits to economic efficiency of removing the more distorting market price support instruments have yet to be realised.

The continuing importance of market price support, which the OECD estimated will still contribute over 50% of the PSE after the 2003 reforms, suggests that studies of the effect of the CAP on the environment are still relevant.

Whilst the report does cite Nagarajan (1999), the estimated gain of $290 billion from merchandise trade liberalisation is referenced to a recent analysis: Anderson, Martin and van der Mensbrugghe (2005).

SUR (2)

This quotation is taken from the executive summary and is therefore inevitably compressed. Chapter 2, paragraphs 2.32 to 2.37 cite several sources of evidence and make it clear that the £211 million cost of diffuse water pollution from agriculture is not attributed entirely to CAP. Diffuse water pollution from agriculture (DWPA) is caused by a number of factors. Other things being equal, however, more intensive production results in greater loss of pollutants to water. The vision paper makes the point that DWPA has increased along with the intensity of agriculture over the last two to three decades. Studies commissioned by Defra to assess the environmental impacts of the 2003 reforms indicated positive effects of reform on water quality nationally, but with risks of local environmental damage where further intensification occurred.17 This risk of localized harm led us to establish the Agricultural Change and Environment Observatory, which is commissioning further research on the impacts of recent reforms.18

In terms of the impact of further CAP reform on water pollution, we would expect that as the remaining incentives to maintain production are reduced, and there is financial pressure on farmers to cut variable costs (including chemical inputs), water pollution is likely to fall on average. However, the vision paper does not make any claims as to the magnitude of this effect, or whether it would be uniformly positive. Further research is required in order to estimate quantitatively the agricultural and environmental implications of further CAP reform.

SUR (3) & (4)

The quotations cited are taken from the Executive Summary. Chapter 2 explains the estimates in the section entitled “Economic and Fiscal Costs”. Paragraphs 2.6 to 2.8 describe the costs of the CAP to the economy and state: “taking the most conservative of recent estimates, a cost of 0.2% of GDP... implies the CAP will leave the EU economy around €100 billion poorer over the period of the financial perspective (2007–13) than it would otherwise have been.”

At paragraph 2.10 the text states “The costs set out above are the net economic costs to society as a whole. The total value of the transfers to consumers and taxpayers to producers are much higher. The OECD estimates the cost at around €100 billion a year...”

16 See Ev 224
18 See http://www.defra.gov.uk/farm/policy/observatory/research/results.htm
SUR (5)

It is well recognised that elimination of production-linked agricultural policies will tend to generate an increase in the world price of the affected commodities. However, studies that have estimated these effects tend to report that the impact on the domestic EU price will be very much greater than the impact on the world price. For that reason we believe it is a reasonable simplification to use the current world price as a proxy for the world price in a liberal trading environment. We assumed, wrongly as it turned out, that anyone familiar with the first point would also be aware of the second.

We have included the OECD’s PSEs to provide an indication of the level of gross transfers associated with the CAP, not to infer the trade-distorting effect of support. We have set out the composition of the PSE clearly in Table 2.1 and associated footnotes. This table provides the reader with information on the kinds of support which are included and the relative magnitude of the gross transfers associated with individual types of measures.

 SUR (6)

The discussion in the Vision paper on the distribution of the benefits between landowners and farmers is based on OECD analysis (OECD, 2003). The paper does include some data on the structure of land tenure to provide an indication of the importance of the landowner/farmer distinction by member state. This data was presented in the Commission staff paper (Wichern, 2004) and sourced originally from the Farm Accountancy Data Network. It is true that data on tenure may not be precisely reliable but the data presented is broadly consistent with separate estimates from the Farm Structure Survey published by Eurostat. In any case, any inaccuracy in estimating benefit shares in aggregate is beside the more general point that a given accrual of support will benefit an owner-occupier significantly more than a tenant, other things being equal.

The Vision argues that the CAP has environmental impacts because of the effects it has on the level of output and input use. The paper also argues that the CAP has a relatively small effect on farmer incomes. The poor income transfer efficiency arises precisely because so much of the financial transfer is dissipated by the costs of the additional inputs or increases in land rents. There is therefore no contradiction between real impacts on the environment and small impacts on farmers’ incomes.

SUR (7)

The OECD statistics on the consumer costs do relate to the first consumer beyond the farm gate. If the equivalent figure at the retail level were significantly lower, this could only be the result of anti-competitive practices in the intervening stages of processing and distribution, which would themselves trigger the attention of EU and member state competition authorities. Hence, it is doubtful whether this distinction would be useful.

SUR (8)

The paper was intended to stimulate debate and research, especially in other member states, rather than provide precise estimates of agricultural parameters post reform. The paper does however provide a range of evidence including the recommendations of the Curry Commission, the actual experience of reform in other countries, such as Sweden and New Zealand, and results of various economic modelling studies.

SUR (9)

If a farm ceases to be viable, we would expect in most circumstances that its land would be farmed by another business rather than abandoned. This kind of restructuring with a consequent increase in farm scale and efficiency has long been observed. In respect of the provision of public goods, including preventing land abandonment where desirable to do so, the Vision paper argues that we need specifically targeted policies which are more efficient than the current system, which gives the majority of support where land abandonment is least likely and where other environmental impacts are as often harmful as beneficial.

 Dr Harding told the Committee that Defra had done some work estimating the costs of administering schemes under Pillar 2 as compared to Pillar 1. It would be helpful if Defra were able to provide some information about this work and its conclusions

The context of Q239 was the benefits to farmers from Pillar I and Pillar II payments respectively. We estimate the current publicly funded administration cost of Pillar I schemes at £88 million per annum.\(^{19}\) In addition, we estimated the costs to farmers in England of cross-compliance at £40 million.\(^{20}\) As Pillar I expenditure in England amounted to £2.1 billion for 2005, the proportion of total public expenditure accruing as a financial benefit to recipients is 94% (£2,060 million ÷ £2,188 million).

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\(^{19}\) Business Plan 2005-08, RPA. Page 18 and 19.

\(^{20}\) Final RIA for cross compliance (July 2004), Defra. Page 76.
The Mid Term Evaluation of the ERDP\textsuperscript{21} estimated running costs at around 20\% of scheme payments. However, given the more complex requirements of the ERDP, running costs would be expected to be higher than for Pillar I, and indeed an earlier study highlighted the important contribution that scheme administration makes to environmental output.\textsuperscript{22} Running costs of Environmental Stewardship (ES) should be lower, thanks to the lessons learned from this evaluation and because the ELS was designed to minimise these costs.

In considering impacts on farmers’ incomes, two important issues arise: these are “deadweight” and unemployed resources. “Deadweight” is the excess of any subsidy over the least amount needed to achieve its intended effect. In principle, the compliance cost of ES ought to be 100\% of scheme payments, so that deadweight, hence net gain in farm income, would be zero. One would not expect to achieve zero deadweight cost, since estimates of income foregone are based on averages, and while farmers for whom compliance costs are greater than the payment are unlikely to participate, those for whom costs are lower will gain a net benefit from doing so. The ES evaluation plan\textsuperscript{23} highlights that future work will look at deadweight costs in terms of the excess of the payment compared to the costs of compliance.

However, even in the absence of apparent deadweight, some payment will accrue as “farm income” to the extent that the farmer complies with the scheme using on-farm resources that would otherwise be unemployed, or buys such resources from other farms in England. In addition, of course, the fact that farmers are willing to enter the schemes implies that they derive a benefit at least equal to the cost to themselves and will choose scheme options that give them their preferred mix of income and non-pecuniary benefits.

With the information currently available, there is no basis for accurate estimation of the proportion of Pillar II that accrues to farmers as additional income. It is clear, however, that Pillar II is likely to be much less efficient than Pillar I payments in transferring income from taxpayers to landowners and much more efficient in achieving environmental gain.

\textit{October 2006}

\textsuperscript{21} “The mid term evaluation of the England Rural Development Programme”, December 2003, ADAS and SQW.
\textsuperscript{22} “Economic evaluation of agri-environment schemes”, University of Cambridge and CJC Consulting, September 2002.
Monday 16 October 2006

Members present:

Mr Michael Jack, in the Chair

Mr David Drew
James Duddridge
Lynne Jones
Mrs Madeleine Moon
Mr Dan Rogerson
Sir Peter Soulsby
Mr Shailesh Vara
Mr Roger Williams

Witnesses: Mrs Mariann Fischer Boel, European Commissioner for Agriculture and Rural Development, Mr Klaus-Dieter Borchardt, Deputy Head of Mrs Fischer Boel’s Cabinet, and Mr John Bensted-Smith, Director, Economic Analyses and Evaluation, European Commission’s Directorate-General for Agriculture and Rural Development, gave evidence.

Q243 Chairman: Good afternoon, ladies and gentlemen. Welcome to this further evidence session on the Committee’s inquiry into the future of the Common Agricultural Policy. May I extend particularly warm greetings to Commissioner Fischer Boel who has very kindly come to give evidence to the Committee. When we visited Brussels earlier in the year we talked to Mr Bensted-Smith when he was there and others and expressed a wish and a hope that the Commissioner would come personally to talk to us. We are delighted, Commissioner, that you have been able to accept our invitation, particularly as we know that you genuinely do have a very mobile diary. Some of us had the pleasure of seeing and hearing you in Helsinki last week when parliamentarians from throughout the Community had an opportunity of debating a similar subject to the one that we are going to be putting questions to you on this afternoon. You spoke with clarity and you answered with clarity so I look forward very much to what you are going to say. For the record, in addition to the Commissioner, Klaus-Dieter Borchardt, the Deputy Head of her Cabinet, is with us and, as I mentioned a moment ago, John Bensted-Smith, the Director for Economic Analyses and Evaluation in the Commission’s Directorate-General for Agriculture and Rural Development, is also here. He has been a longstanding friend of the Committee. Every time we go to Brussels he makes himself available and he is always candid and straightforward with his views, for which we are very grateful indeed. Commissioner, we know you have a limited amount of time with us. Our words are being broadcast and will be recorded and those insomniacs on a Saturday night with nothing better to do will be able to watch you on national television, but in the meantime you are available on Parliament’s intranet. Without further ado I would like to put a question to you. As you know, the United Kingdom Government, and I should emphasise that this Committee is independent of the Government, did publish a paper at the end of last year on the subject of its vision for Common Agricultural Policy reform. I got the impression when we came to Brussels that it had not exactly gone down a wow with your good self and your officials. I know you have to be diplomatic about what individual governments do and you will no doubt tell us, amongst other things, that it was a very important contribution to the debate, but now you have had a chance to chew it over perhaps you could start our proceedings by giving us your assessment as candidly as you can about what it has to say.

Mrs Fischer Boel: Mr Chairman, ladies and gentlemen, thank you for giving me this opportunity to appear before this important Committee and give you my view and, I must confess, some criticism of the paper on the UK vision for agriculture in future. To begin with, there are things in this paper that I can agree with. Regarding the broad objectives outlined in chapter one, I think that many across the whole European continent could agree with seeking, for example, international competitiveness, market orientation, respect for the environment, animal welfare standards and non-distortion of international trade. However, I sincerely hope that all of us in Europe will rally round these objectives since, with one important exception, they completely correspond to the principles endorsed in the recent reforms, notably the big reform carried out in 2003 and the European model of agriculture approved by all Member States some 10 years ago. The important exception to which I refer is that the UK paper refers to international competitiveness without reliance on subsidy or protection. Overall 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. I think there is a complete lack of analysis behind this paper and I would like to encourage analysis that can support the views of the paper. I think it would be important, for example, to know which effects on the environment are attributable to the Common Agricultural Policy as opposed to the commercial pressures of the modern or more liberalised farming. If it is a catch-all then why are some of the areas we have the biggest environmental problems essentially unsupported areas? Here I would target specifically the pig sector and the poultry sector which are non-supported areas. More fundamentally, there are various estimates given of what is the price of the CAP. The clear and unavoidable conclusion to be drawn from these estimates is that if we should be in a position to get completely rid of the direct payments, of price support, of import duties, then European
agricultural production would remain unchanged in quantity and prices would be completely in line with the prices that we see on the world market. No other outcome can be reconciled with these figures. My analysts tell me that we cannot be so categorical about what will happen under a liberalised situation. We do know now that there are regions in Europe which, in a situation where they had to be able to produce at world market prices, could not cover production costs, not even if the land were given for free. In this situation we would clearly see land abandonment; that would be the result. In a situation where we had no direct payment then we would have no cross-compliance and this would not even be the requirement to maintain good agricultural and environmental conditions, so we cannot put pressure on the farmers to comply with these good environmental rules if there is no direct payment; this is clear. In that case how much should we then spend on the Second Pillar if we did not have cross-compliance and if we wanted to avoid set-aside land becoming completely scrubland, which in my view would be the result? On the other hand, if we had land abandonment in some regions then we must expect drastic structural changes and intensification of farming where production would be viable from an economic point of view. I do not think you could draw any other conclusions on the estimates of costs. But then, in those areas where it would be profitable to produce in the future, you would face the environmental effects of such production, so I think you have to go through all the calculations. As I said, we need some impact assessments on all these different scenarios.

**Q244 Chairman:** Commissioner, you will, I am sure, have communicated this line of thinking to the United Kingdom Government. Have you had any reaction from them in terms of your observations and have they committed themselves to undertaking the work streams that you have just outlined with such clarity?

**Mrs Fischer Boel:** If you want to defend a paper that has such dramatic consequences then you need to be able to sustain it with impact assessments, with calculations, with studies that show that this is right and that you can document that this will be the outcome and the consequence. Here I think there is a lack of impact assessments to be able to say that this would be the effect of a system where you liberalised completely. I doubt whether this is what will be coming out of an impact assessment or an analysis of the consequences but that will be up to the UK Government, to get these analyses done within due time.

**Q245 Chairman:** Is Britain on its own at this stage in putting forward a visionary document about the future, and I put aside for a moment the response paper that the French produced in, I think, March this year, because some have suggested that Britain was a bit quick off the mark with this paper and they have damaged its position rather than improved it? What is your assessment?

**Mrs Fischer Boel:** I think it is very important. We saw that in Finland last week. We saw that in the informal meeting for the agricultural ministers in September, now that we have launched this discussion: what is the agricultural sector to be like in future? I welcome all contributions to this very important discussion. We say we have one vision for the future but two steps, and I might come on to that a bit later.

**Q246 Chairman:** We will touch on a number of the things that you have kindly talked about today, but let me ask you a very simple question. It is one which I raised in Helsinki but which we seem to walk past in discussing reform issues. Let us go back to Article 33 of the treaty which lays down the objectives of the Common Agricultural Policy. In the light of the future challenges and demands on Europe’s farmer what do you think the purpose of the Common Agricultural Policy should be now we are in 2006, health check time 2007–08, possible consideration of reform 2013? What do you think the purpose of the CAP should be?

**Mrs Fischer Boel:** First of all I am very happy to hear that you listened carefully during my speech in Finland because it is very important that you explain these two steps, and I think it is very important to send a clear signal that there is not going to be a new reform in 2008. We implemented the 2003 reform in 2004, and I think the farming sector now needs to adapt to this new situation and then, during the discussions that we will have on the mid-term review on the financial perspectives, it is important that we give clear signals to the farming society on where we are going, because what farming society wants and needs is predictability so that they can plan their investments. If you have a sector with no investments you will not have any future, so I think this is desperately important, but when I look at the agricultural sector and what I should personally want it to look like in future, it is first of all a sector that can produce a high quality product for the European market and for markets where I am quite sure we have a future even in a situation where we have a European high cost area, high environmental costs, high animal welfare costs. I am sure that there will be countries, especially maybe when we look east, that will be willing to pay a high price for our high quality products, because you have an emerging middle class in those countries where we can see that already they are looking for the reputation of the high quality products that we can deliver. Then I want a farming sector that can take care of the rural areas. I do not think, if we asked throughout Europe, that anybody would be interested to see a situation where we have abandoned land, as I mentioned earlier, where we have only forests. I am quite sure that people want a situation where they can go out into the rural areas and have a nice look at well-kept areas. It is quite clear that with the cross-compliance system you have an obligation to keep the land in a good environmental condition. Then I want a situation where there is space for the big, efficient producers and also for the small farmers that might have
difficult production facilities in, for example, the mountain farming areas. I do not want a uniform agricultural sector in Europe. I think there should be space also for the family farm, knowing that it will be important to have a decent living. I do not think that the young farmer will manage to find a wife if he is working 365 days milking his cows. I think that modern young people want to have a holiday now and then, so therefore it is important that they can live a normal life.

Q247 Chairman: Does this imply that as part of the eventual process of considering reform you will rewrite Article 33 in some terms other than currently stated?
Mrs Fischer Boel: I think that the 2003 reform was a major step in the direction where you set farmers free to produce what the market wants and I think we should go in that direction. I think it is desperately important that we have a discussion in 2009. Do we have to increase our modulation to have a much stronger rural development budget? Should we have a discussion on set-aside, which from my point of view will be outdated in future where we have a decoupled system. Can we imagine that the intervention system can survive in future? We have a very good example on the abolition of the intervention system for rye in 2003 where the result was that, if you compare the rye price in 2003 and the price for rye this year, it has been going up because suddenly it was a question of finding an outlet and if there was not an outlet you tried to produce something else. This is a discussion that we need to have. In the dairy sector the quota system from my point of view is old-fashioned and there are other areas where we have quota systems where I think it is old-fashioned, but this will all be for discussion so that the sectors have time enough to adapt to a new situation.

Q248 Chairman: So will you be producing some form of evaluatory document where you will look at the current definition of the objectives of the CAP as laid down in Article 33 to tell us whether what has happened to date, including the reforms that you have outlined, has achieved what this part of the treaty says or whether there is a need for reform in the words in Article 33? Will that be part of the process?
Mrs Fischer Boel: Of course the world has changed since 1957. It was tried in the discussions before the final papers were drawn up to introduce competitiveness and respect for the environment into the treaty text but it was not possible and therefore it is still the old definition that is on the table. I do not know why it was not possible to find wording that could be a bit more modern than 50 years ago.

Q249 Chairman: I am going to take it as implicit that you might like to see some better, more modern, words.
Mrs Fischer Boel: Yes, but after the Second World War it was a question of supply for the domestic market so that nobody would see a repetition of the period after the Second World War where there was a lack of food. I still remember that to get sugar or to get butter you had to present some stamps.

Q250 Chairman: Coupons, rationing. Some of us remember it.
Mrs Fischer Boel: Yes, there was limited production and nobody wanted to go back. We have been so successful, almost too successful, and then we started to reorganise our agricultural sector back in the eighties when we introduced the quota system for dairy, and now in the 2000 and 2003 reforms we are aware of the fact that of course we want a national, domestic, within Europe production of agricultural products, but I think that we have to realise that it is not the same situation now as it was in 1957.

Q251 Mrs Moon: I want to raise very quickly, and to an extent you brought it in right at the end there, that Article 33 does not talk about environmental protection or biodiversity. How critical a role do you think in rewriting those should play in being added to the role of the Common Agricultural Policy?
Mrs Fischer Boel: I think nobody today would consider an agricultural sector or an agricultural policy without taking into consideration the consequences for the environment. It is clear that it is part of the basis on which you produce in the agricultural sector. Animal welfare and biodiversity is a very well known basis of the discussion so we will never step back on this, not even if it is not in the original text from the 1957 treaty.

Q252 Lynne Jones: A few moments ago, Commissioner, you were talking about the fact that there needs to be space for the big producers and the small farmers. When we went to Poland and Romania they felt that they were being treated as second-class citizens. We visited some farms and we have a lot of small subsistent farmers there. How can we have a Common Agricultural Policy that suits the needs of both the large industrialised farmers in the north and the small subsistence farmers in the accession countries?
Mrs Fischer Boel: When we opened our Community for 10 new Member States in 2004, one of which is a big agricultural producer, and I of course think of Poland, the situation was in a way completely different from the situation in many of the old Member States. The average size of the farms in Poland at that stage was very low. There were a lot of subsistence farmers, and therefore you need, of course, some sort of adaptation of the structures of the farming sector, but you cannot do that overnight. If you imagine that the average size of the agricultural sector in Poland or in Romania and Bulgaria will be tripled within a very short period, then you will face other sorts of problems in the rural areas. I think you should try to find a balance, and you have done so by introducing the direct payment, not at the full speed from the very beginning but starting with 25% and then increasing by 5% a year up to 40% and then by 10%, so at a certain stage you reach the same level as the 15 old Member States.
Q253 Lynne Jones: Would not the UK Government’s vision do that, of an EU framework that is there to ensure that there is no distortion of markets but that then essentially it is up to each individual country to support farming as they see fit?

*Mrs Fischer Boel:* To me this step is a very dangerous one. If you imagine that you have a re-nationalisation of the common policy then, of course, there will be no common policy any more. Secondly, I think that farmers in different Member States will face completely different production possibilities because then it will be a competition between ministers for finance more than a possibility because then it will be a competition between agricultural ministers on how much to subsidise your farming sector. I think 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.

Q254 Lynne Jones: Do you think it is possible to have that kind of policy, with just a broad framework and deal with market distortions?

*Mrs Fischer Boel:* I think we have managed quite well, actually.

Q255 Lynne Jones: I meant to go down the route of having a much looser CAP as the British Government advocates because the Government line is that they want to see market forces working and an effective market at the same time as they want to repatriate large elements of the CAP. The question is, are those two objectives compatible?

*Mrs Fischer Boel:* I think we all want an effective market. The 2003 reform gave this possibility of de-linking the direct payment to the farmers from the production, so that farmers now can shift from one year to another where they see there is a demand for products and they can move easily because it will no longer influence the direct payment from the Community. I think this was a huge step that facilitated a much more market-oriented agricultural policy than you have seen ever before. I am in favour of a Common Agricultural Policy which I think you can only maintain as long as you can orchestrate a way to do it in all the different Member States.

Q256 Lynne Jones: So people move simultaneously?

*Mrs Fischer Boel:* Yes.

Q257 Mr Drew: If we could move on to decoupling, which is one of the areas where the British Government tends to differ from other countries within the EU, and obviously it has a major part to play in the vision statement, I just wonder where you see the British approach fitting with regard to the train of thought, given that you have said that you do not see any major renegotiation of agricultural policy for the foreseeable future. How is it possible to fit Britain’s approach, which is for decoupling, with those of other countries who would be much more reserved in how quickly they wanted to go in that direction?

*Mrs Fischer Boel:* On fuller decoupling, this is clearly the target that we are heading towards because the Member States in 2003 got this possibility to implement different systems for decoupling were they, for example, to maintain 25% in the cereal sector in some Member States and then the beef market you could also link a part of the direct payment to a continuous production. I want 100% decoupling. What the UK paper wants is a situation where the farmers have to compete at world market level without any direct payments. Here it is quite clear, and that is why we need some impact assessment on the paper, that if farmers have to compete without any direct payments and in a market where they have zero tariffs worldwide, then farmers in some parts of Europe simply will not be able to continue production because even if they have the land for nothing they will not be able to make a profit for living.

Q258 Mr Drew: What about this idea of some form of support to farmers in a different way? The Dutch have talked about this idea of a bond scheme whereby people would be guaranteed payments for being on the land, but I know, having talked to some of our tenant farmers in the last week that they are attracted to it because, one, it gives stability, and, two, it gives value to the land but not to what the land is being used for, so it cuts away that dependence upon production and upon, as you have already said, following up whatever next year’s whim is in terms of whatever someone says you should be planting. Is that a viable and sensible way forward?

*Mrs Fischer Boel:* When we have this mid-term review of the financial perspectives in 2009 let us put all the ideas on the table and have a discussion on what will the future be looking like, but today with the 2003 reform we have this decoupled system where farmers can produce whatever they want without taking into account the change in the value of the cheque that they get from Brussels. When I look into the future, and the future for me is after 2013, it is quite clear that we will not have the same funding available after 2013. There will be, as far as I can look into the different messages that we get from the political level, a cut in the budget available for agriculture. That is the reason why I say let us have this discussion in 2009 and let us send the signals through the farming society about what they can expect to be the future for them so that they can adapt. In the farming community in Europe they have always been very good at adapting if they have a certain period in which to do so. As I said previously, I am very much in favour of a big purse for rural development policy. That is the reason why I say let us continue with a transfer of money from the First Pillar to the Second Pillar as we started in 2003, but we could only agree on 5%, which is the reduction in direct payment in 2007, but let us have a discussion. I should like to see this increasing but it has to be compulsory for all the Member States so that you have equal opportunities.
Q259 Chairman: But it will not come from an equal base, will it, because Britain regards itself as the poor relation when it comes to rural development budgeting because in previous times we have not perhaps taken it as seriously as we could have done. I presume that that is also open for debate in the process in 2008–09 that you described a moment ago.

Mrs Fischer Boel: The way that we distribute the rural development funding has always been according to historical figures and then it is quite clear that some Member States have been more skillful, I would say, because that would be the wrong—

Q260 Chairman: That could just be absolutely right.

Mrs Fischer Boel: I try to be very polite here today. I could give you examples of Member States that have been using to the full the possibility of the rural development schemes. Austria is a very good example because they have had very little direct payment because of their previous contributions to the output from the agricultural sector and therefore they had to do something else and they targeted from the very beginning the rural development policy. Because I think the rural development policy is so important and because I feel that nobody disagrees with me, I was so disappointed when I experienced last December that the heads of state had decided to cut €20 billion off my budget for rural development policy. Obviously they did not have any other good ideas for savings than the rural development policy but I think this was a wrong signal to send. Therefore we need to continue this transfer into the Second Pillar.

Q261 Mrs Moon: I would like to pick up the issue of food security. The Vision document is putting up the argument that we do not necessarily need direct payments to bring food security standards to European citizens. Where do you stand on this? Do you think we need direct payments to farmers to ensure food security and safety for the European Union?

Mrs Fischer Boel: In the present stalled WTO negotiations we had discussions with some of the members of the WTO on the specific costs that we have in European agriculture, the so-called non-trade concerns. The wages are higher, our care for the environment is considerably higher than some of those countries with whom we have to compete, and animal welfare is a completely unknown factor in some of the countries that can produce at a very low price. Therefore, I think that one way or another we might need a certain level of direct payments to finance these so-called non-trade concerns, and then maybe have building blocks from the rural development policy to build on top of the direct payment but at lower levels than we know it today, that is obvious to everybody, and that is what we need to convey to the sector, that there will be changes after 2013.

Q262 Mrs Moon: I wonder how much you feel that the Commission does and should involve itself in non-food production issues such as logistics and the actual moving around of food throughout the European Union. Is that something that the Commission should become further involved in and should take an interest in?

Mrs Fischer Boel: It is quite clear that the whole possibility of agriculture to contribute to the renewable energy production has been highlighted much more efficiently than we have ever seen before after the situation last winter where there was suddenly a shortage of energy in Europe. We have had this discussion previously with the Biomass Action Plan that was published last year and within DG Agriculture we have launched a plan for bio-ethanol production where we will push this production to see whether it is possible to make it more interesting for farmers to produce renewable energy. We have a scheme of €45 per hectare available for farmers that want to go into renewable energy production. On bio-diesel we are at this stage competitive with oil. We can produce bio-diesel at about €60 per barrel but when we talk about the first generation of bio-ethanol produced on cereals we cannot compete with the present price. The calculations that we have made estimate about $90 per barrel for bio-ethanol but we are investing heavily in research in this area as well. I can only support the possibility of agriculture to be deliverable for renewable energies. We have some targets for mixing into the transport sector with 2% to be part of the fuel mix in 2005, last year, and a target of 5.75% in 2010, and then I think 8% in 2013, but we are not at all there. The only Member State that has really been pushing this is Germany. We are now discussing at the end of this year whether we will make these targets mandatory and if this is the final solution then we will really boost the production. If we should meet 5.75% mix in renewable energies from agriculture in the transport sector we would need 80 million hectares out of 104 million which is the total amount. I do not think this is possible and therefore we have to rely to a certain extent on imported bio-ethanol from some of the big suppliers, very competitive suppliers. I think it would be a mix of domestic production and imports. Then we have to make specific efforts in the second generation of bio-ethanol where you can produce ethanol on waste, on slurry, on manure, on straw, all these products that are not used specifically nor of high value today. Yes, there are possibilities and I encourage the sector to produce, and, of course, on the condition that the Member States support it, but at this stage you cannot produce ethanol without a willingness from the finance ministers.

Q263 Mr Williams: You quite rightly identified the extra costs that European farmers suffer as a result of society’s expectations in terms of environmental protection and animal welfare and the direct payments they receive mitigate against those extra costs, but European farmers also have extra costs in comparison with other producers in the southern hemisphere as a result of climatic and geographic
disadvantages. It does seem that post-2013 if they lose the direct payments and also lose the protection of tariffs the outlook for European agriculture is going to be particularly difficult. Beef tariffs at the moment still run, I think, at £1.70 a kilo plus 10% of the value of the product. Has any work been done about the outlook if both those forms of protection are removed in terms of food production?

*Mrs Fischer Boel:* But that is exactly what I miss in the UK paper. There are no background explanations of how you conclude as you do in this paper. That is why these impact assessments will be from my point of view needed, because with the estimations that we have on the consequences of a trade situation with no direct payments, with zero tariffs, most European farmers will be kicked out of the market.

**Q264 Mr Williams:** Most reform of the Common Agricultural Policy has taken place as a result of international trade negotiations, internal budgetary pressure from the EU itself and enlargement. At the moment the Doha Round has stalled, the budget has been fixed to 2013 and with Romania and Bulgaria coming in that will be the end of enlargement in the very near future. What pressure exists, do you think, for fundamental reform from some of the nation states? Some nation states would like to see a fundamental reform in the 2007–08 review.

*Mrs Fischer Boel:* First of all, on the stalled Doha Round, I hope that we will manage after the mid-term elections in the United States to bring these negotiations back on track. I think it will be to the benefit of the European Union as a whole. We have agriculture but we have services and we have industrial products as well, so clearly a balanced outcome is to be preferred. If we do not take this window of opportunity which might be seen after the new year for a fairly short period, I think, then we will face a situation where the next possibility will be when the next administration in the United States takes office and that is 2009. The world is not standing still. Even if there is no reform I am quite sure that we will face problems in Europe and in the United States from meeting panels from Member States. There will be extreme pressure on our export refunds to be phased out anyway, and then in 2009 it will be a completely new reform because I am not sure we will manage to sell the CAP reform from 2003 again in 2009 and export refunds. If possible, therefore, we should take advantage of finalising these negotiations at this stage. On the mid-term review of the financial perspectives, yes, I am sure there will be pressure on reforming agriculture again, but I remember clearly 2002 when heads of state agreed on a budget for agriculture in Brussels. They set a limit on the expenditures. Actually, it is a decreasing ceiling because the inflation rate is calculated at 1½% and as it is two then it is a natural decrease and we finance also Romania and Bulgaria underneath this ceiling. I think that if we cannot stick to an agreement by heads of state it will be difficult to plan anything for the future. We need to have a political discussion on that occasion on the future to send clear signals: yes, there will be cuts in the direct payments but this is not going to take place until after 2013, so let us have a fair planning period and let us put on the table and discuss the consequences of all these ideas: the intervention system, the quota systems, more rural development policy, et cetera. I think this will be a huge opportunity, to take this discussion in due time and not at five minutes to 12.

**Q265 Mr Williams:** I am sorry to press you on this, but in Finland you made it very clear that you see 2007–08 as a review rather than a major radical reform, and I think you said it would be a health review, not an amputation, which I thought was a very good way of looking at it. Yet when Commissioner Fischler, your predecessor, introduced the mid-term review, we did not expect such a radical reform as we received and there is concern that there will be a radical reform, the outcome of which is unclear at the moment. Perhaps you would like to reaffirm your commitment to a lighter touch rather than a more radical approach.

*Mrs Fischer Boel:* I was very careful when I chose the name of this health check because I had memories of being a minister in Denmark at the time when this mid-term review became a completely new reform, which was good, but nobody had prepared themselves for such radical reforms. Therefore, yes, let us have a discussion on the health check but it is not a new reform. We have to digest the 2003 reform with the possibilities of simplifying. I think we are all interested in making things more simple without losing the idea behind cross-compliance, for example. Yes, it is a health check and you were in Helsinki so you know why I called it a health check. It is not because you are sick; it is because we all need sometimes to have a check of our blood pressure and whatever to be sure that we are completely fit for the future. That was the reason for choosing that name.

**Q266 Chairman:** But I suppose if the check revealed that there was something wrong with the patient you might be forced to take rather quicker action than to send the patient on their way with a pat on the back, saying, “Everything is okay till 2013”, so how fundamental is the analysis going to be when you do the health check into how healthy the CAP is? Are you going to produce a document that, if you like, is a review of the state of the health of all or parts of the CAP because you are already agreed, for example, to reassess the dairy regime, the implementation of the single farm payments and certain other specific items, but it would not take much more work to go and do a complete check on how the whole thing is working? How far is this check going to go?

*Mrs Fischer Boel:* We committed ourselves in the reforms to making these health checks on specific areas such as the cross-compliance and the decoupling, and we can add a number of the items that we want to look into as well, simplification, for example. It is not a one-off discussion; I think it is an ongoing exercise, how can we make things more simple. Then I said, “Let us look at the set-aside. Is that interesting or important or necessary in the situation where you have the decoupled system?”
They are two separate exercises but they are running in parallel and back-to-back if possible, but that depends on the discussion on the treaty. Will we have a discussion on the treaty in 2008 or, if this discussion on a new treaty is running into the mid-term review of the budget, then I think it could be difficult to have a serious discussion on specific issues. I think that if you have good ideas on the health check do not hesitate. I have invited all the European young farmers to a conference in Brussels next May to hear their views on what needs to be done now and what is the view for the future because they are very entrepreneurial and very ready to face the challenges for the future.

**Chairman:** We are glad already that we have sold at least one copy of the report that will come out of these discussions.

**Q267 Lynne Jones:** How is the notion of a health check compatible with the wide-ranging financial review?

**Mrs Fischer Boel:** On the health check it is based on the commitments that we made on the reforms — on the reform in 2003, the big one, on the Mediterranean products in 2004, we made a sugar reform in 2005, and we will look into how does it work, how does it function, where do we need to change.

**Q268 Lynne Jones:** At the same time as a wide-ranging review that affects the CAP is there not going to be pressure for more major reforms than are implied by a health check?

**Mrs Fischer Boel:** Of course, from some Member States and others there will be a huge resistance, a horror of touching the ceiling of the 2002 agreement and sticking to the fact that yes, we committed ourselves to a reform on the condition that we had this planning period up till 2013 on the budget. We need to send clear political signals in 2009 on what the future will be like. They are two different exercises and that is why I say one vision but two steps. They might be going back-to-back but they are two different steps. If we do not introduce our ideas for the future, and the future again is 2013, then others will decide for us. I feel more competent than some others to have ideas and to send clear political signals. Then these will be discussed in the Council because I do not decide; I can just propose ideas to be discussed and then the majority in the Council decides at the end of the day what is going to happen. It is clear when you look into the Council meetings that there are huge differences of opinion on what needs to be done. There are some Member States that are very reluctant to discuss anything and there are others that are very open to having a new reform in 2009. Therefore we have to find the right balance. This is the obligation from the Commission, to present something that is long-lasting (and long-lasting is until 2009) with the necessary changes because if we send signals in 2009 that there will be no prolongation of the quota system in the dairy sector the value of these quotas will be decreasing over the period. If farmers know that there will be fewer direct payments available after 2013 then you can imagine that the value of the land will be decreasing, not dramatically. I think, but you adapt to a new situation because you have had the capitalisation of the direct payment more or less into the value of the land, so nobody would be taken by surprise but they can adapt their investments, their considerations for the future, in a decent way.

**Q269 Lynne Jones:** I understand all those arguments but if at the end of the day there is a fundamental review of the budget, unless it is going to agriculture, agriculture being the biggest area of expenditure, it is inevitably going to have a knock-on effect. You are determined to resist such pressure. I gather, and you would hope that the outcome of the review would not bring in any major changes to your budget.

**Mrs Fischer Boel:** But would you expect me to lie down on the ground and say, “Yes, I am willing to give 50% of my budget to reduce the British rebate”? That is what we are talking about.

**Q270 Lynne Jones:** How do you see the balance moving though in the next couple of years? Where does the power lie within the Commission?

**Mrs Fischer Boel:** It is two years since I took office and I feel a much more open mind to discuss changes in the agricultural sector than I did two years ago, and I think this is a huge positive approach, that you do not say, “No, we do not want to discuss it”. Yes, Member States want to discuss it in a much more open and transparent way than previously because I want to give this predictability to the sector and not decide or keep my cards so close to my body that nobody knows what I intend to do. You could feel in Helsinki and during the informal meeting that there was not the automatic pilot resistance to discussing changes, and that I think is very positive.

**Q271 Mr Drew:** But there are those who have to undergo much more radical surgery and they are the new entrants and the potential new entrants. In what way are we looking at quite a difficult process in as much as you cannot pretend that the existing Community can do things by apparently trying to rationalise what it has done in the past and change because there are those new countries that are going to find that very difficult to encompass?

**Mrs Fischer Boel:** We have now introduced a new rural development policy for the next period up till 2013 and there is a variety of different possibilities compared to what you saw previously. You have this different axis of rural development policy where we are much more diversified than ever before. We have now introduced innovation into the rural development policy to give clear signals that this is very important for the future. Let us continue to make things more simple. We have a SAP system in the new Member States, a simplified system, which I think they should keep because it is the simplest way for paying money that you link the same payment to all the hectares, the same level. This is crucial.
Q272 Mr Rogerson: Commissioner, you have said that you will simplify the policy at the top of your agenda. Do you think that the universal adoption of a flat rate system and a moving away from a historic based payments system is part of that simplification process?

Mrs Fischer Boel: Trying to imagine a situation in 2017 where you are going to explain why there are entitlements of different value because the former owner of this farm occasionally had a dairy production in 2001 I think will be difficult. Therefore, one of the discussions that we should have on the mid-term review of the budget is, should we be targeting a much more flat rate system with our payments, and I presume it would be very well accepted everywhere to try and make things more simple. There will, of course, be a resistance to this discussion because simplification sometimes means that all the privileges that you have been putting into some areas once upon a time, historical based from 2000 to 2002, will disappear and they are not very fond of getting rid of their specific profitable rules linked to a previous production but I think we need to have this discussion, so yes, I am in favour of having a discussion on whether it is possible to go towards a more flat rate system and that is the reason why I have been very willing to prolong the possibilities for the new Member States to keep their SAPS system, their simplified direct payment system.

Q273 Mr Rogerson: Do you think that a logical extension of that would be to move towards a common hectare payment across the Union ultimately?

Mrs Fischer Boel: Across all the European Union? But then you would make it even more difficult. If you could make a flat rate system, a single farm payment system, within the Member States linked to the original calculations on the output then I think it would be a huge step forward. It is too early to imagine that you could have the same flat rate all over Europe. If we can just make it a flat rate country by country it would be a huge contribution to the simplification.

Q274 Chairman: But how are you going to answer those Danish farmers that we met who said, “Please do not forget it is more difficult to farm here. The costs are higher than in the easier areas of other parts of the Community” with a flat rate scheme?

Mrs Fischer Boel: You must know that now I am the Commissioner for the European Union and not the Danish Minister.

Q275 Chairman: I should have said Finnish farmers. You heard them at the meeting. I apologise. It should have been Finland.

Mrs Fischer Boel: I am also very cautious when you mention Danish farmers.

Q276 Chairman: You carry on being cautious, but let us move a bit north. I got it wrong. Finland—they made that point very clearly, that they believed that they had special circumstances which merited additional support, so a flat rate scheme would not be easy as soon as you had a long queue with exceptions.

Mrs Fischer Boel: With a flat rate system you would need a rural development policy to facilitate the specific difficulties that you might face, for example, in the very northern part of Finland where it is quite clear that the summer is very much shorter than you see in other parts of the European Union, but, of course, there are differences in production. If you ask a Portuguese farmer he will say, “Of course you have difficulties up in the northern part of Finland but I have difficulties here. I have no rain, I have droughts, and therefore my production facilities are very difficult and so you should have a different system for those who face these problems”. You have one way or another to embrace these very diversified possibilities for production within the European Union. A rural development policy targeted to the specificities of different Member States could solve these problems, I am quite sure.

Q277 Sir Peter Soulsby: Commissioner, can I return to the issue that you touched on earlier amidst concerns about land abandonment and related environmental issues? There was something that we heard very strongly from Commission officials in January when we visited and heard subsequently when we visited both France and Germany, and no doubt you have heard it elsewhere as well. Am I right in understanding that this is a very specific concern that you have about the UK Government’s vision for the future, that there are issues there that perhaps have not been adequately thought through?

Mrs Fischer Boel: If you try to make an impact assessment on the consequences of the UK paper with no direct payment, with zero tariffs, free access, then I am quite sure we would see a situation where first of all the least developed countries would face huge difficulties. Sometimes you think that you solve their problems by reducing tariffs within the European Union, but the fact is that the least developed countries in the world, the 50 poorest countries in the world, today have free access to the European market, zero tariffs and no limits on quotas, so they can sell today. The more you lower the tariffs the more they will say, “We face erosion of preferences”. I am so sure that Benin will never be able to compete with Brazil in a situation where you lower the tariffs. Therefore you have to be a bit careful when you say, “Lower tariffs. It is always better for the developing countries”. Yes, for the most developed developing countries it is, but for the poor countries they can today produce whatever they want and sell it into the European Union. By the way, Europe is today by far the biggest importer of agricultural commodities from the least developed countries. We are bigger than Canada, the United States, Japan, Australia and New Zealand all together. We have shown that trade is a possibility to increase the standards of living for these poor countries. If we look internally at what will be the consequences for European Union agriculture with the calculations that our economists have made, it will not be possible in some areas of the
European Union such as mountain farming to compete at zero support, at zero tariffs in the future, and that is the reason why if we do not want abandonment of land we need a level of, as you say, direct payment. I have said that we will have a discussion on how low can we go, but if you have no cross-compliance you cannot ask the farmers to keep their land to good environmental standards. I think we should try to find a decent balance and then give time for the farming society to respond to the new situation.

Q278 Sir Peter Soulsby: To what extent do you think that properly targeted agri-environment schemes under Pillar 2 will have the potential to prevent land abandonment and mitigate environmental consequences?

Mrs Fischer Boel: If we try to imagine that there is no direct payment then the million dollar question is how much do we need in rural development funding to compensate or to secure that farmers will not leave the most vulnerable areas in Europe? This calculation has never been made but I think you have to face the fact that considerable funding would be necessary in the rural development policy. Therefore, let us have these calculations that I hope have been the basis for these fairly far-reaching proposals. I am clearly in favour of changes. Do not look upon me as a person that does not want to change anything.

Q279 Lynne Jones: A conservative!

Mrs Fischer Boel: I am trying to be careful and not offend anyone. You need to be aware that you will be facing changes, so let us decide in due time.

Q280 James Duddridge: Can we turn to the issue of capping? Your predecessor seemed to be very much opposed to capping. You seem warmer to the idea. Could you give us more details of the type of capping that you are considering and the justification for using that particular tool?

Mrs Fischer Boel: Capping was introduced at the end of 2000 in the CAP reform 2003, where there was no support, including from the UK, to introduce a capping on the direct payments. I think it could be valuable to have another discussion again, again, on this issue and I have not said anything about where you could eventually cut, at which level you could cut. I think we need further calculations because I am not interested in a situation where the only result you get from capping is a split of farming into different production areas or different units, so I am very open to having this discussion. I think it is worth it and I am quite sure that with the transparency initiative from my colleague, Commissioner Slim Kallas, there will be increased pressure on direct payments.

Q281 James Duddridge: If one of the reasons behind capping is to look at the social security elements of CAP to help those that most need the help, would another alternative be rather than capping to have a more fundamental reform of that social security element of the Common Agricultural Policy?

Mrs Fischer Boel: It is not a question of who needs the help the most. In the 2003 reform we introduced a clear franchise which means that all farmers receiving less than €5,000 will not participate in the modulation. Here you send a clear signal that there are farmers of a certain level who need not contribute to the modulation but they might be beneficiaries of the Rural Development Policy.

Q282 James Duddridge: The Agra Europe Journal reported when you were asked about the UK support for the Common Agricultural Policy that you said with a smile you hoped the UK would support the proposals over time. What laid behind that smile?

Mrs Fischer Boel: Normally by nature I am a very positive person! The reason for this smile could have been that when we discussed the capping in 2003 the UK did not support the proposal to cap the direct payments.

Q283 Mrs Moon: I would like to go back to my colleague’s question in relation to Pillar 2. To what extent is there now a consensus that a move towards Pillar 2 is appropriate for a future Common Agricultural Policy? If we are saying that the 2002 deal is not going to be changed and is not going to be altered until 2013, at what point do you see us being able to raise Pillar 2? What are the other ways that we can make that move before 2013?

Mrs Fischer Boel: I think we should take the opportunity in the health check to have a discussion about whether we could continue before 2013 on an increased modulation from the 5%. I think this could be worth exploring whether in the Council there could be an interest in having this discussion. I must say that of course it is not really supporting my views that heads of states cut our Rural Development Policy because it might be more difficult to find support for this transfer of money from the first to the second pillar. If there is a risk of being punished later on in a cut of the rural development pillar, then it is in vain or savings on the first pillar via the backdoor, which I think nobody at this stage would like to do unless it is with open eyes. I hope we can have a discussion. I think we could be a bit more aggressive on the 5% figure. As far as I remember, the proposal in the 2003 reform was 20% and we ended up with 5%, so let us give it another try.

Q284 Mrs Moon: You said earlier that you were concerned at the watering down of a Common Agricultural Policy and allowing Member States to develop their own interpretation of agriculture. Can I ask you how you feel about the concept of voluntary national modulation in the absence of matched funding? Could individual states choose to increase their move to Pillar 2 individually?

Mrs Fischer Boel: It already has been a possibility or it will be a possibility by the voluntary modulation up to 20%. Here Member States can choose whether they want to co-finance or not. It was on the basis of the discussions in the European Council last December that this idea was introduced to have a voluntary modulation, and it will be valid when
finally accepted from 2008. I am not in favour of voluntary modulation, I am in favour of a compulsory modulation at a higher level than we have today. I think it is more decent that we have the same possibilities all over Europe to increase our second Pillar Rural Development Policy. I hope the ground will be prepared to have this discussion to continue in 2008.

Q285 Chairman: Can you explain a little more clearly why you are against the kind of voluntary modulation which the United Kingdom Government faces? Do you think, going back to your earlier comments, this is a potential area for distortion between Member States?

Mrs Fischer Boel: I think if you have two farmers at either side of the border line, it could be the Netherlands and Germany, if you imagine that one of those countries decided on a 20% voluntary modulation and the other decided on zero, then the fairness between those two farmers might be difficult for them to find. That is the reason why I am very much in favour of an increased compulsory modulation.

Q286 Chairman: Let me press you about this term “Rural Development Programme” because I just happen to have sitting on my desk a copy of the annual report that Defra produced for the England Rural Development Programme. When you actually get into what we mean by this term, it is a combination of environmental programmes, programmes concerned with forestry and programmes concerned directly with the economic development of the rural economy. That is not a single programme, it is a very diverse programme. What work is the Commission undertaking to evaluate the worth of the different elements of what we call, at the moment under this one label, the “Rural Development Programme”? Going back to your original argument, you could argue that the penalty of the Member State who went for zero modulation is that a range of programmes in their rural economy would not happen because there would not be any money for it, but for the one who went for a higher policy, because they perhaps had a more diverse view of what money should be spent, they might get a better return for the rural economy because they could do more things, either environmentally or economically, to generate activity. Going back to the question of the well-off farmers, you could argue it is a way of taking money from those people in a greater amount to compensate for the areas which were more difficult to farm in. That is an argument. I wondered how much internal analysis and debate was going on within the Commission to evaluate more carefully what we mean by rural development?

Mrs Fischer Boel: It is quite clear that you have a specific situation in the UK because of the fact that from the very beginning you have not been very interested in using the Rural Development Policy.

Q287 Chairman: We are getting more interested. Mrs Fischer Boel: Yes, I know that, and that is the reason why you asked for voluntary modulation. Other Member States have been much more targeted on the Rural Development Policy from the very beginning and, therefore, they have had a tradition of spending money in rural development. At this stage we are looking into all the national programmes to see how they want to spend money because we have this toolbox with our framework for rural development where Member States can pick and choose what they consider to be the most suitable for their specific situation. Here I am really looking forward to seeing how the Member States spent the money. We introduced these different axes because we did not want Member States to target all their money on one of these areas, so we have the competition area where you have to spend 10%, the environment where you have to spend 25%, land management where you have to spend 10% and then you have got the leader axis as well. Apart from these figures, there is complete freedom to do whatever you want. We are looking into all the different programmes that we will get in soon. I try to encourage Member States to come forward with their programmes, with great interest to see how the ideas can flourish in the programmes. Usually I will take any opportunity to say that rural development is where the music will play in the future.

Chairman: We heard that very clearly in Finland, so thank you for saying it again here.

Q288 James Duddridge: The Single Payment Scheme really had an unprecedented level of discretion in terms of how the Member States implemented, and we have heard and have experienced that various members did it better than others, and I think there are lessons to be learned on our part. From the Commission’s viewpoint was too much discretion given to individual Member States in implementation? Will that diversity make it more difficult for you going forward in bringing forward the next stage of the reform proposals?

Mrs Fischer Boel: I would be desperately in danger if I expressed my specific views on the programmes implemented in different Member States, therefore I will resist doing so, especially in the UK. It was clear that to make a common reform supported by the major part—I think only one Member State voted against the 2003 reform—it was necessary at that stage to give certain freedom to implement in different ways. I think we should give the possibility at a certain stage in the different Member States to review whether there are other possibilities of making things simpler.

Q289 James Duddridge: There would not have been a possibility of a deal going back if there was not that flexibility given?

Mrs Fischer Boel: In 2003 it was necessary to give this flexibility to have a political compromise on the 2003 reform; it was obvious.

Q290 Lynne Jones: Are you able to comment on the Danish system which you have set up?
Mrs Fischer Boel: No.
Chairman: That is a very clear answer.
Lynne Jones: Why not?
Chairman: I think the Commissioner made it clear earlier why she could not. I want to go back to an earlier point because I think Madeline has a point she wants to make in addition.

Q291 Mrs Moon: I wanted to ask you, in terms of the Commission’s role, whether you thought it had a role, whether it should have a role, in relation to food logistics in terms of food miles and food distribution and whether that should become part of the food logistics in terms of food miles and food distribution?

Mrs Fischer Boel: First of all, I have always been in favour of a very high level of animal welfare during the transport of live animals. My personal opinion is clearly why you have to move live animals around Europe, can you not move animals killed in a way that we would avoid those very unhappy situations that we always see at prime time on television which gives the agricultural sector a very bad image. There are always transport companies that do not apply to the ruling and this is falling back on the agricultural sector. I think that is a very unlucky situation. In the future, if we want to compete and be strong in the market I think one of the reasons for targeting our customers is to have the possibility of telling the story behind the product. That is one of the marketing promotion tools that we can use because we cannot compete on bulk production with Brazil—I am sorry to mention Brazil again but they are so strong in agricultural production—so we need to do something else. We need to present a higher quality, we need to say that we are better at delivering animal welfare, that our food safety is extremely high and that we take care of our environment at the same time as trying to produce high quality products. This promotion should be much clearer from the consumer’s point of view because at the end of the day it is the consumer who decides what is in the basket in the supermarket. If we do not tell them that there is a difference or a reason for paying a higher price then we will be worse off.

Q292 James Williams: Again, coming back to simplification, which we were talking about earlier on, you have already referred to how you could see the quota system coming to an end. Can you tell us any more about how you see that process taking place?

Mrs Fischer Boel: With the present reform the quota system will expire in 2014–15, so if we do nothing there will be no quota system. If I look at the dairy sector in Europe, in the Netherlands the price for the right to produce one litre of milk is two and a half euros. I think it must be very difficult to make a calculation where it pays off after 10 years to write down the value. In other parts of Europe, in Ireland you have 12 cents, and in the UK it is very cheap as well, as far as I know. When you have a situation where you want to keep prices high the quota system could be useful, as it was back in the 1980s, but I think it is outdated now so let us get rid of it. If we send a clear signal that we will not prolong the quota system after 2014–15 you will see a decrease in the value of the quotas.

Q293 James Duddridge: I am struggling to understand why the UK Government produced the Vision document when it did. Did they explain to yourself, as Commissioner, why they were producing the Vision of the CAP reform at that specific time?

Mrs Fischer Boel: It could be for internal reasons.

Q294 James Duddridge: Following on from that, has the crass and past simplistic nature of the Vision document fundamentally damaged the UK’s position for 2009 and 2013 potentially irreparably?

Mrs Fischer Boel: I do not think you can say that this Vision paper has damaged the situation; I think that is too strong. There are different papers on the table from different Members States and there are different reasons for publishing those Vision papers, so I do not think we should be too dramatic.

Q295 James Duddridge: Whatever the UK Government has done for internal domestic reasons has not been damaging to our position in Europe over the Common Agricultural Policy?

Mrs Fischer Boel: I have very good co-operation with all the ministers in all the Members States. I think we have a common goal, one way or another, to have a sustainable, competitive, environmental, responsible agricultural sector in Europe. With this goal in front of us, of course there are differences in approach but, no, I have excellent co-operation with your new Secretary of State, David Miliband.

Q296 Chairman: Commissioner, one of the factors we touched on earlier in our questioning was about food security, and it is an issue which is dismissed out of hand in the Vision document. The argument from the Treasury, Defra analysis, is that the world has got plenty of supply and if in any area Europe ran into problems somehow somebody else would be able to provide us with the missing food stuff. One of the justifications for the Article 33 version of the CAP was, as you yourself remarked earlier on, post-war shortage and, therefore, to try and make certain that Europe is self-sufficient but had a security of food supply. In terms of looking to the future, if we took time horizons of ten, 20 and 30 years, what risks does the Commission analyse as being potential dangers which Europe has to respond to in terms of its supply of basic food stuffs?

Mrs Fischer Boel: I think with an agricultural sector where production can adapt quickly to demand, taking areas into production that had previously been used for products where the demand has not been strong enough to maintain a decent price level, the agricultural sector will be able to adapt immediately. The biggest risk I see is animal diseases in different parts of the world with the damaging consequences that you see not only with supply.
think we have the avian flu in mind, not in the UK but in other parts of Europe, the consequences of production for consumption. Here I see a future where we would have to adapt immediately. With the rapid alert system that we have in Europe for animal diseases, I think we are very well equipped to handle situations like this. The action taken in the BSE crisis in the UK was bringing it back to I would not say the normal level of production and consumption but it was less dramatic than we should have expected, and now we have been abolishing the over-30 month scheme without any drastic or dramatic drop in prices. I think we are now back to normal. Animal diseases are always a risk and we should be fit and able to handle these. I think we are quite well off.

Q297 Mr Vara: A brief question on animal diseases. Certainly the European Union is very strict with its Member States in terms of prevention of diseases but to what extent is there monitoring of diseases in other countries, not Member States, which are imported into the UK and other countries and those diseases can then be passed on? Particularly I think when we have foot and mouth in this country there is a very rigorous process but there are other countries, Argentina, South Africa, where perhaps things are sometimes put under the carpet and as a consequence the world meat market can suffer if there is not proper policing?

Mrs Fischer Boel: First of all, we have control on imports of all our agricultural products coming across border from outside the European Union. We have invested specifically in the two new Member States, Romania and Bulgaria, to secure the border eastwards to avoid a situation where we have imports of live animals without any controls. I think we are fairly well off. With the avian flu, we face this challenge every six months when the migratory birds are going north and now they are going south again. I think we are much, much better prepared this time to avoid a situation where we have another avian flu crisis within the European Union.

Q298 Mr Vara: Certainly you speak of control at our borders, but are you trying to encourage those countries to rectify the problem in the first place so that we do not have to police it at our borders as rigorously?

Mrs Fischer Boel: We need to have this border control to avoid any imports of any animal disease which might come from outside the European Union.

Chairman: Commissioner, again, may I first reiterate my thanks for your coming here today. I think we got a flavour of the amount of travelling you have been doing around the European Union and we very much appreciate you having spare time to come to this Committee. I think we also appreciate your candour and indeed the openness with which you are approaching the forthcoming debate, both about the terms of the health check and eventually what may emerge between then and 2013. We hope very much, as you are going to be talking to many groups over this period of time, the Commission might themselves think of inviting members of national parliaments to come to a meeting so we too might be able to present our views to you along with other colleagues because clearly what happened in Helsinki in Finland was limited by virtue of those who attended. We will be producing a report on the Government’s Vision for CAP reform in due course and we will be very happy to send you a copy of that and discuss our findings with you. May I again thank you and your two colleagues for coming this afternoon and giving so fully of your time and your answers. They have certainly helped us a great deal in the report that we are writing. Thank you very much indeed.
Wednesday 18 October 2006

Members present:

Mr Michael Jack, in the Chair

Mr David Drew Mr Jamie Reed
James Duddridge Sir Peter Soulsby
Patrick Hall David Taylor
Daniel Kawczynski Mr Roger Williams
Mrs Madeleine Moon

Memorandum submitted by the National Farmers’ Union (NFU) (CAP 12)

EXECUTIVE SUMMARY

1. The NFU represents over 55,000 farmers and growers in England and Wales. The Common Agricultural Policy (CAP) provides the environment within which our members operate. As such, policy developments, proposals or position documents related to the CAP are of the utmost interest.

2. HM Treasury and DEFRA jointly released on 2 December 2005 a document setting out “A Vision for the Common Agricultural Policy”. Given the potential impacts of the proposed changes on British farmers, the NFU has analysed the document. The NFU thanks this Committee for providing an opportunity to present this submission.

3. The NFU does not quarrel with most of the objectives of agricultural policy as outlined in the document. But it fails to present a “roadmap” of how those objectives are to be practically achieved and whether progress at the national level is conditional on developments at EU level. This is a particularly problematic issue taking into account the difficulties usually associated with policy reform at EU level and the distortions to competition and resulting inequality in the treatment of farmers across the EU that might result from the implementation of different policies and differences in support in different member states.

4. Also, and worryingly, the document fails to present an accurate picture of the current CAP and its effects. In this sense, the slanted use of statistical sources and the failure to recognise the positive reforms already undertaken appear as fundamental faults. These issues are developed in paragraphs 5–39 below.

5. The timing of the document (just before the Hong Kong WTO Ministerial meeting and EU budget negotiations) has only further contributed, through the reinforcement of certain misconceptions, to unproductive controversies. Moreover, the lack of a clear indication as to the audience (European or national) and the ultimate objective of the publication further add to the unease with which the NFU (and the farming community at large) has received this document.

ANALYSIS OF THE UK GOVERNMENT’S DOCUMENT “A VISION FOR THE COMMON AGRICULTURAL POLICY”

6. The document presents a vision for the Common Agricultural Policy based on a number of objectives (document para 1.5). Although these objectives are broadly accepted by the NFU, the wording would gain from the introduction of further nuances and clarifications. For instance, when referring to a sector that should be “internationally competitive without reliance on subsidy or protection”, the document could benefit from the recognition that the agricultural sector of the future also needs to be profitable. Similarly, the document envisages a sector “rewarded by the market for its outputs” but fails to mention the peculiar character of agricultural markets and the role that agricultural policy should have in addressing any potential failures. Furthermore, the document fails to acknowledge the linkages and potential conflicts between some of the objectives (eg will a sector “producing to high levels of animal health and welfare” and “maintaining and enhancing landscape” be also “internationally competitive without reliance on subsidy or protection” or will “compensation” for the additional costs brought about by higher standards be needed?).

Domestic impact of the CAP

7. The document (paras 1.9 and 1.10) makes a series of assertions concerning the cost of CAP. The arguments presented are inconsistent, to say the least. Figures referring to the cost of CAP are bandied about rather indiscriminately: first we get the bold assertion that CAP costs €100 billion each year (OECD) then a statement that, on “the most conservative estimate”, it will cost €100 billion over the period 2007–13—a difference by a factor of seven with respect to the previous figure. This is then compared with the average household gain of €5,700 from the single market over the period 1992–2002 but no actual data is to provided to effectively undertake the comparison (figures provided related to different periods and are expressed in a different way).
8. The document (Box 1.1, page 11 and also pp 20–21) presents data that can be qualified as misleading. Firstly, the OECD figures provided as an estimate of total costs associated with CAP are meant only to be used as a comparison between countries and for the purposes of a static analysis. Therefore, they should not be used to put a value on the benefits from removing agricultural policy. For instance, by considering these figures as costs of CAP, the document fails to take into consideration the effects that any elimination of protection would have on supply levels and on prices. Also, it needs to be taken into consideration that the figures refer in their majority to studies previous to recent (substantial) reforms of CAP.

9. Secondly, the claim that CAP equals a 15% VAT rate on food is very confused. Certainly the consumer cost is nothing like as high. In the UK the total food market (excluding catering) is less than £100 billion and total producer market returns are less than £15 billion. Should the 15% VAT refer to the consumer cost of CAP, it would lead to the somewhat nonsensical result that producer market become zero. It remains, thus, unclear whether the 15% relates to both taxpayer and consumer cost. Most crucially, it should be noted that the figure has been obtained from a 1997 study that does not take into consideration any of the successive crucial reforms that CAP has undergone in recently. As such, this argument criticises the “old CAP” and not the current state of affairs!

10. Thirdly, the reduction in total inflation of 0.9% as a result of the elimination of CAP looks very exaggerated, especially as, given the workings of the food supply chain, it is very doubtful whether a downward shock will be fully transmitted to consumers across the supply chain.

11. While it is true that food represents a higher proportion of expenditure for people on lower incomes, it is also the case that there is ample statistical evidence that people on lower incomes levels consume a higher amount of processed rather than fresh food. As such, it can be argued that the impact of CAP on final prices must be put in the context of the relatively small share that the cost of primary products represents on the price of the final product.

12. On the issue of whether CAP is efficient in delivering benefits to farmers (para 1.13 and ss and also p 22 and ss in the document), there is some truth in some of the argument put forward, but a number of serious criticisms need to be levelled. Firstly, a substantial part of the data used to back the argument that only a small percentage of the support actually reaches farmers refers to out-of-data analysis referring to coupled payments (mostly eliminated in the EU post-CAP reforms). Moreover, while we recognise the dichotomy landowner/farmer, it also needs to be acknowledged that in the case of England, the potential for capitalisation of the entitlement has actually been increased by the specific form of implementation of CAP reform chosen by DEFRA. Furthermore, it can be argued that there is also a contradiction in the logic of the paper: on the one hand, the paper argues that CAP results in a number of negative consequences (environmental effects, effect on other countries, etc) because of its impact on farmers and farmers’ behaviour; on the other hand, the paper denies that CAP has any real impact on farmers.

13. The paper goes on to argue (para 1.15 and p 26 and ss) that CAP is an inefficient policy at redistributing income—this is undeniable, but the premise here is wrong: CAP is not designed for that purpose and, as such, should not be criticised for not achieving it. Moreover, we need to take into account that the current system of decoupled payments are part transitional/part land management payments, and in neither of those roles is expected to have a social dimension.

Impact of the CAP on other countries

14. It is possibly the section of the document dealing with the effect of CAP on other countries that some of the strongest criticisms of the paper need to be levelled. Firstly, the paper argues (para 1.18) that farm tariff barriers are much higher than for manufactured goods. While this cannot be denied, it needs to be taken into consideration that while the process of reducing manufacturing tariffs started in 1947, for farm goods this started in 1994. On this trajectory it will take until 2050 to reach parity. Obviously, we would agree to a quicker process, but the historical differences are not fully taken into account.

15. While the NFU would not dispute that in some respects the CAP has had negative consequences for some developing countries (para 1.20 and ss and p 51 and ss), the analysis in these paragraphs is blatantly partisan, for a number of reasons. Firstly, the document does not recognise that fact that the EU, through Everything But Arms, has already opened all its markets to Least Developed Countries (including most of Africa), with the EU leading other developed countries.

24 Incidentally, the paper continually refers to how post Fischler reform, around half of the support provided to EU farmers is still in the form of market price support. This figure is somewhat misleading and does not recognise the great transition from coupled to decoupled payments (the EU Commission estimates that by 2006 some 90% of direct payments will be decoupled) and makes certain (questionable) assumptions as to the extent to which market mechanisms such as intervention prices or export subsidies influence prices.

25 By choosing (against the opinion of, among others, the NFU) a system where, by 2013, all entitlements within each English area (England SDA Moorland/England SDA non-moorland/England non-SDA) will be worth the same and, therefore, discouraging trade, the regional averaging system encourages the capitalisation of entitlements.
16. Secondly, there is no consideration that the many developing countries are net food importers. The effect of eliminating export subsidies will be detrimental to these, as it will increase food prices.

17. Thirdly, and very importantly, there is no real examination of the issue of trade preferences and the impact of the erosion of preferences on poorer countries. It is significant that while the document argues for unambiguous trade liberalisation, the UK Government has been prominent within the EU in arguing for higher tariffs on bananas (all of which are imported from developing countries) to maintain the preference for our former colonial suppliers. It remains to be clarified whether this dramatic change is due to the paper representing a change in British Government policy or whether the Government’s position depends on the existence of domestic growers. Similarly, the statement that “trade preferences have been of limited value to developing countries” (p 55 of the document) seems to contradict recent policy statements (such as the arguments in favour of the granting of compensation to ACP countries for their loss of preferences resulting from the reform of the EU sugar regime).

**CAP and the environment**

18. On the environment front (para 1.24 and ss and p 29 and ss), the arguments are familiar ones, as the paper follows the line that CAP has intensified farming and intensive farming is responsible for environmental damage. These propositions are not robust: they deserve proper analysis rather than being presented as self-evident.

19. It is not clear that CAP has intensified farming. The most intensive sectors (poultry, pigs, horticulture) have had the lowest levels of support while sectors previously highly supported are more extensive.

20. The argument that CAP has intensified farming is undermined by previous assertions that most of the value of support has gone to landowners and the supply industry. If this has really been the case, the supposed pressure for intensification would have been diluted.

21. The correlation between intensity and prices is weak. Cereal prices have fallen dramatically in the last decade but this has not reduced the intensity of production.

22. Although there is no denying that some modern farming practices have caused environmental problems, the one is not an automatic consequence of the other. Most indicators point to significant environmental improvements in recent years, mainly as a result of improved knowledge, techniques and technology. It can be argued that the main causal link between environmental degradation and farming is the quality of the management. This is not necessarily linked to CAP.

23. As a further point, the environmental arguments used in the paper concentrate on (a) resource protection and pollution, and (b) bio-diversity. The NFU would not deny that in some cases modern farming has caused problems in those areas (although the causal link to CAP is much more tenuous). But opinion surveys indicate that the public’s main concern is landscape and there is a generally positive recognition of the contribution of farming in this area. Whereas it is dubious to ascribe the negative environmental consequences of agriculture to CAP; it would be more tenable to assert that, by keeping more land in farming than would otherwise have been possible, CAP has had a (generally) positive effect on the countryside.

**Implications of further CAP reform**

24. On the policy structure for the new CAP (see para 1.27 and ss), the NFU broadly supports the ambitions put forward for the document. However, and despite our acceptance of the transitional steps towards this structure, some important issues seem to have been overlooked.

25. Firstly, any change to CAP needs to be undertaken at EU level and implemented in the same manner by all member states. Crucially, the paper fails to address how this is to be achieved. As such, it fails to assess the feasibility of the vision presented. This is particularly important given the distortions to competition and inequalities in the treatment of farmers across the EU that might result from the implementation of different policies and differences in support in different member states.

26. The document fails to recognise that the potential effects of CAP reform will be conditional on whether our principal trading partners, within the framework of current and future WTO Rounds, also disarm their own trade distorting support systems to ensure a “level playing field”. Otherwise, the future of the agricultural sector will be placed in jeopardy.

27. Any opening up of agricultural markets will also need to take into consideration the regulatory environment faced by the agricultural sector. As such, a review of CAP can only be undertaken in conjunction with an assessment and/or review of the regulatory regime in which farmers operate.

26 CPRE survey in 2004 identifying working farms as the main feature associated with the English landscape.
28. Any reform of CAP must recognise the need for a properly functioning food chain, competitive and free from abuse from dominant parties, allowing producers the opportunity to be profitable and fully rewarding the production of competitive high-quality produce.

29. The document attempts to exemplify the potential benefits of liberalization by using the examples of a number of countries, most notably New Zealand. These examples are somewhat misleading as they refer to either partial processes of deregulation (e.g., Sweden where, although price support was significantly reduced at the beginning of the 90s, trade barriers remained at a high level and where, moreover, the long-term consequences of the “experiment” did not materialize as the agricultural sector became part of CAP) or to countries with markedly different conditions to the UK. A case in point is that of New Zealand. While it is fair to point to some of the similarities between New Zealand and the UK, and some of the advantages enjoyed by the UK (proximity to markets); some very significant differences have been completely overlooked in the document.

30. The comparison with the agricultural sector in New Zealand fails to acknowledge, among others, the following factors:

- New Zealand agriculture is more productive than the average of the rest of the economy, i.e., New Zealand has a comparative advantage in agriculture. In that respect there was an economic perversity in the pre-1984 subsidisation of NZ agriculture. That is not the case in Europe.

- Agriculture in New Zealand is not subject to the same regulatory pressures as in the UK, nor to comparable levels of land prices.\(^{27}\)

- Deregulation of New Zealand agriculture took place at the same time as the rest of the New Zealand economy, which gave significant advantages to agriculture in terms of transport, the waterfront and inputs such as machinery prices. The same would not be true in the EU.

- The ending of subsidies in New Zealand coincided with the decision to devalue the New Zealand dollar by 20%. A similar devaluation of the £ in return for the end of CAP support might be an attractive bargain for British farmers, but it is not a realistic policy option.

31. On the issue of whether agriculture can prosper in a free market, and focusing on the issue of risk management, it is true that farmers do manage risk in a variety of ways. But the document itself implicitly recognizes (see paras 3.14–3.23) that a number of factors can potentially prevent farmers from engaging in these activities (e.g., lack of future contracts for some commodities, lack of information, etc). Given the lack of market instruments, it is easy to envisage an institutional role in order to address the market failure/absence. This is more the case in view of the potential consequences (social, economic and environmental) that land abandonment could have.

32. When referring to the part that farmers should play in this process of reform (paras 3.22–3.25), the document stresses the scope for efficiency gains. The NFU recognizes that this scope does exist; this view, however, is over-simplistic and fails to recognize that differences in performance are significantly explained by physical differences between areas. As such, to argue that efficiency levels across the country should converge is tantamount to arguing that agricultural activity should not be undertaken in areas such as LFAs—the obvious economic, environmental and social consequences of such an outcome cannot be obviated.

33. The document explores the link between agricultural activity and the economic performance of the rural economy (paras 3.29–3.37). While recognizing the linkages between agriculture and other economic activities, the assessment that, so far, a decrease in the number of people employed in the agricultural sector has not been mirrored on the number of people employed in related industries is over-simplistic. Firstly, a minimum level of economic activity (or “critical mass”) is required in order to maintain activity in those industries linked to agriculture. Thus, the lack of link between agricultural employment levels and levels of employment in related industries does not disprove the strong links between a healthy agricultural sector and the performance of related industries.

34. The link between agriculture and other activities is not necessarily established through the number of people employed in the agricultural sector but through other factors, such as the level of production (e.g., transforming activities) and/or the area devoted to agricultural production (e.g., tourism). The NFU firmly believes that any abandonment of production can have crucial consequences on those industries directly or indirectly dependent on agriculture (or on industries dependent on those) and that this is not recognized in the document.

35. Although we can accept some of the arguments given in the paper concerning food safety and security (para 3.38 and ss), some of the arguments on food security seem misplaced. For instance, the paper states that barriers to entry in agriculture are low—as such, that would mean that if there were food security concerns, prices would rise and people would return to agricultural production. However, barriers to entry in the agricultural sector are not low, with not only sunk costs but also skill levels being an important issue.\(^{28}\) That would also have an impact on environmental stewardship.

\(^{27}\) Capitalisation of support may explain the difference in part; but the main factor is land availability and population density, as a comparison between land prices in the Netherlands (high); the UK (medium) and France (low) under a common support system demonstrates.

\(^{28}\) This is especially the case as lack of skills has frequently been identified as one of the problems being faced by the agricultural and land management sector in the UK.
36. A slump in domestic agricultural production would send shock waves up the entire food chain, doing enormous damage to the UK’s multi-billion pound food manufacturing sector as well as driving farmers out of business. While we can expect some of the food manufacturing to continue in this country regardless, a significant part will move off-shore if raw materials are not available in this country.

37. Although some voices argue that food security was a concern in the third quarter of the last century due to a combination of factors that are unlikely to recur, we must acknowledge that recent developments in areas such as climate change, geopolitical events and pandemic health scares, should be kept under close review and need to inform any potential policy review. Food security concerns also need to play a role in the design of any future agricultural policy.

CONCLUSIONS

38. Farmers are still acclimatising to the largest ever reform of CAP. 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.

39. Environmental issues (notably climate change), food security concerns, landscape management issues and the role of farmers in rural communities need to be fully considered when assessing the feasibility of any proposals. Similarly, the important links of agricultural with other economic sectors should be carefully analysed.

February 2006

Further memorandum submitted by the National Farmers’ Union (NFU) (CAP 12a)

The NFU welcomes this opportunity to update its written submission to the EFRA Committee Inquiry into the UK Government’s document “A Vision for the Common Agricultural Policy”.

The Government’s “Vision” was that by 2020 farmers would receive no public support and would only receive public payments for delivering specific non-market goods. The NFU highlighted in its original submission in February that the document failed to present a “roadmap” of how the objectives outlined in the text were to be achieved in practice and also neglected to explore the accompanying measures that would be required to allow British agriculture to survive as a profitable industry. In brief these were that:

— changes take place uniformly across the European Union;
— there is significant progress to reduce support worldwide; and
— there is a properly functioning food chain.

There have been developments on these three issues this year. The Commission is now explicitly saying that the CAP “Health Check” in 2008–09 is the opportunity to make the CAP simpler and more uniform and that this will require changes not only on technical issues but to underlying policies. This is welcome. The WTO talks have been suspended and seem unlikely to resume in the near future. On balance this is unwelcome because the EU risks losing the credit it would have claimed for the 2003 CAP Reform and could lose its leverage to reduce the domestic support of its competitors, notably the USA. The Competition Commission has begun a new investigation into retailer practices. This is welcome as far as it goes, but there is a wealth of evidence that the food chain is currently dysfunctional.

The NFU predicted that the lack of focus, the content and timing of the document were likely to antagonise some member states and the Commission. Regrettably, recent policy and political developments have confirmed our concerns.

While the document proclaims the importance of a CAP focused on the environment and on rural development, this seems to have been somewhat contradicted by the stance of the UK Government. 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.

The consistency of the UK Government’s strategy has been further brought into question in view of its attitude concerning the debate on national modulation. Despite the uncertainty that surrounds the issue at this stage, the UK appears unique amongst EU Member States in considering the introduction of national modulation rates. Moreover, the UK appears as the clear instigator of the concept of national modulation without a requirement of associated co-financing from the national budget, signalling its willingness to “go it alone” in the CAP reform process. This strategy seems to demonstrate the intention of the UK Government to follow a reform path regardless of developments in other EU countries and to the obvious consequences for the UK agricultural sector.
In the past DEFRA has justified the use of national modulation as a manifestation of its commitment to rural development that would eventually result in an increased share of EU Rural Development funds. Recent developments have proved that this strategy has not succeeded and is unlikely to succeed in the future, partly as a result of the confrontational approach adopted by the UK Government. Moreover, both the European Commission and the European Parliament have expressed their opposition to the concept of national modulation with no compulsory match-funding and taken actions in order to prevent an implementation of national modulation along the lines desired by the UK Government. These developments further exemplify the danger of the antagonistic approach adopted by the UK Government.

One of the main criticisms levied by the NFU to the “Vision” document was its lack of detail concerning the “roadmap” for achieving the objectives outlined in the paper and as to whether progress at the national level was to be conditional on developments at the EU level. The NFU’s concern with the 2003 CAP Reform is that it opened the way for very different policies in different countries, which risk causing serious distortions in a single market.29 The NFU’s priority now is to move to a simpler and more uniform policy.

The NFU very much welcomes the way that the Commission is approaching the CAP Health Check. In our view, the British Government’s negotiating position should be to emphasise the objectives of simplicity and uniformity, since these will, in fact, logically lead to significant modification of the underlying policies. This approach is far more likely to be productive than the approach hitherto adopted of starting the dialogue by demanding further radical reform, which simply convinces many of our partners that our Government’s goal is to dismantle the CAP as soon as possible.

In summary, recent developments have confirmed the lack of success of the UK Government strategy to date while highlighting the shortcomings of the “Vision” document. Given the challenges ahead, it can be argued that a reconsideration of Government strategies and priorities should be considered, with simplification and reduction of differences across EU countries as priority items.

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29 Indeed, the fact that there are now three different policies within the UK has seriously weakened the consensus within the UK, both at Government and farmer level, about the desirable future direction of the CAP.

Witnesses: Mr Peter Kendall, President, Mr Martin Haworth, Director of Policy, and Ms Carmen Suárez, Chief Economist, National Farmers’ Union, gave evidence.

Q299 Chairman: Can I welcome our first set of witnesses from the National Farmers’ Union to this further evidence session on the UK Government’s Vision for CAP documentation. Can I formally welcome you, I think for the first time, to the Committee—is that right, Peter—in your role as President?

Mr Kendall: I came the day after I was elected actually on renewable fuels.

Q300 Chairman: You did. Forgive me. I will not say that you made no impact at all! I had it firmly fixed in my mind that this was going to be your first outing. This is your first outing on the CAP since you took over. Forgive me for having a momentary lapse of memory but, nonetheless, as always, you are very welcome. You are supported by Martin Howarth, the Union’s Director of Policy, and Carmen Suárez, the Chief Economist. Thank you all very much for coming. I think you are going to start with a short statement to set the scene and then we will ask some questions. So, Peter, fire away.

Mr Kendall: Thank you very much indeed for inviting us to come and share some of our views with you. To pick up, first of all, on the document as it was presented, I think we were disappointed that it failed to recognise immediately the reforms that had gone on in 2003 which, I think, from the National Audit Office Committee at the moment, we know still hang over the industry very significantly, the fact that we also now have Commissioner Fischer Boel talking about a simplification and looking at that reform of 2003, how the Health Check in 2008 and the major reform of 2003 will impact. We think it was a disappointing document in as much as it did not set out any route map on the direction of travel we were going in other than an end position. Certainly, from listening to Mariann Fischer Boel speak and the train of thought she develops, we share the view of simplifying CAP, we share the view of making steps that will help move towards that simplified CAP which we feel is a more constructive debate. What we also consider about the publication of the Treasury/Defra document was the timing. It came, just after we had had the unfortunate discussion on the CAP budget, which again I know caused significant animosity within Europe about the way that had been done as part of a bigger deal. The tactics involved with these documents always looking at very a radical reform, in contrast to what Mariann Fischer Boel says about setting out any programme of simplification and moving to a better place, we think does alienate our European colleagues quite significantly. It always goes for major reform and scrapping of CAP support for the farming industry, and when we look at the simplification again, the Health Check in 2008, I have tried to suggest that engaging with our partners within Europe, having a discussion about where we are heading and the way we want to move, is much more helpful than just by saying that our aim is to do away with all agricultural support.
We, of course, as an organisation that represents both England and Wales, have some dilemmas on the fact that we now have a regional system in England and we have an historic system in Wales. I talked to farmers in Wales. I was down there only recently. Concern of farmers in Wales, when you talk about simplification and moving the whole CAP debate forward is one that, without doubt, leaves them in absolute horror and fear. They see what has gone on in England. Again I refer to the National Audit Committee Report of how much late payments have caused damage to the industry, the bureaucracy that has been involved in it and also the redistribution that has gone on through the very wide-ranging making of payments to all sorts of classifications of land. So, members in Wales are concerned about how the CAP evolves in the same way that we are, but they come from a different position, and so I think it is important that I acknowledge, when we look at how we respond to this, that Wales comes from a position of seeing a badly implemented English scheme, they see a lot of redistribution and they are nervous of how fast we move forward. And from England, certainly having been pushed as a guinea pig (and we feel we are suffering quite significantly from poor implementation), we would like to see uniformity and, when we look at Mariann Fischer Boel’s proposals, we are very keen on simplifying the whole system of CAP. We would go as far as looking at the removal of intervention, looking at the removal of set-aside, trying to get towards a place where there is less distortion. We support full decoupling as a major part of that. As an organisation, we want to see industry prosper on the back of less distortion, less meddling, and so we are going to be coming into the issue of modulation. We want to see that as uniform as possible throughout the EU and not having very wide distortions between Member States. So, we very much endorse what Mariann Fischer Boel is trying to do with simplifying the CAP.

Mr Kendall: While you were in Helsinki I was in Sweden last week, and they share very much a simplification path that I have been advocating and talking about, and certainly the Danes would be similarly minded. I think the Germans, when you talk quietly to them, accept the need for a simplification of CAP and support a large amount of what Mariann Fischer Boel is talking about. You have made reference to COPA. COPA is a thorn in my side. I am new to this job, as you pointed out in the introduction, and an organisation that has little or no input to the Commission on constructively trying to have a dialogue about reform is not very valuable, and Martin, as Director of Policy, who has a lot of involvement in Brussels, will know that one of my key objectives is to make COPA much more effective in helping us have a dialogue with the Commission.

Q302 Chairman: Let me ask you a straightforward question that I have put to everybody that we have talked to about this. What do you think the purpose now should be of the Common Agricultural Policy? It is defined in Article 33 of the Treaty but nobody is talking about changing the words in Article 33. Is there now another purpose? Here we are, in the early years of the 21st century, facing a different world, a different farming environment, than the one when the original words were conceived, the original purpose was decided. What do you think from the NFU’s point of view is the purpose of the CAP?

Mr Haworth: When we look at the original words of Article 33, I do not think that we would expect or would wish to see a big change in them. I think they have been flexible enough to admit changes over time. It is clear that the time we are living in is very different from the time when these words were written, but we would not necessarily think that there is a need to change the text of the Treaty in order to have a further evolution of the policy.

Q303 Chairman: That does not answer my question. What you say is that you are happy with some words that were written down quite a long time ago. Do I infer from that that the purpose, as in the Treaty, is what the NFU thinks the CAP should be? I ask this in the context of now a world where decoupling has entered in, where decisions on land use are becoming more commercial and where the environmental agenda is being established under rural development plans. It is a different scenario, but I would be interested to know what you think the purpose of it is.

Mr Kendall: If I could, as a farmer, reply to that, someone who wants to achieve my returns from the market place, and I am keen to be seen to be earning from my sales of crops, that is what helps me run the business and keeps the business viable, but I have to acknowledge that in the world of agricultural products it is not a perfect market place, there are distortions. There are other countries around the world that see agriculture as very important to their national economy and,
Therefore, offload or have export restitutions that distort the global market place. I think when you have that position the global market of wheat often reflects the surplus value of wheat rather than the actual cost of production. I think there is a need to have some sort of protection, some sort of cushion, for when you face the environmental constraints that I have as a European farmer. I do have constraints; I do have quite a populated island. I am competing with people from the Ukraine, from the United States, where export restitutions are commonly used. I need some sort of protection; otherwise I think we would see, as I saw Mariann Fischer Boel refer to, large land abandonment because we would have our industry at too large a risk. It is a desire to move to that market place, but I think the world has yet to move and the whole agricultural global market place is not in a position for us to do that.

**Q304 Chairman:** Do I impute from that that your purpose is to maintain active use of the current cultivable land base, taking into account external cost pressures and environmental and regulatory requirements within the European Union?

**Mr Kendall:** Representing farmers, I certainly am very excited by the opportunities that land can fulfill. I think we have lots of uses. I spoke to this Committee last time about renewable energy. I think it would be very short-sighted, particularly with the Government and the whole of Parliament having such a priority on climate change at this moment in time, to in any way downgrade the resource of land and farming and the agricultural industry. I do think we should find a proactive way of making sure agriculture, the industry and the ancillary trades, is ready and waiting for when we need it, and in the short-term, through renewable energy. I know that Mariann Fischer Boel again talked about bioethanol production. If that can be a way in which we can keep the industry in a good, healthy state, we are using the land in a sensible, pragmatic way to save CO₂ benefits and keep the infrastructure in place. I think that is a very worthwhile use for agricultural land.

**Q305 Patrick Hall:** I can understand the attraction, and probably the good sense, of not frightening the horses by sticking to a step-by-step simplification, but is there still no case for a vision of the CAP? You may not like, in fact you do not like, the Treasury/Defra one, because I have read your evidence, okay, but does the NFU have a vision for the CAP. I have been looking for this, not just from the NFU, but when we went to Germany and France, and lots of words are used but I wonder if really, when it comes to it, it is a status quo and protection that is, emotionally at least, what people are wedded to?

**Mr Kendall:** I hope you would see a very different response from the NFU in England and Wales. I think we have always tried to be forward thinking. We advocated decoupling. My very first outing when I was Deputy President a couple of years ago was to go and bat amongst COPA. Our colleagues—you might not think it a concern—are not very adventurous. I was asked to go first on the issue of decoupling and I was the only one out of 25 who advocated full decoupling. I very quickly realised what a lonely place it was to be, but it need not always be. People are trying to acknowledge the need for reform and change. I think what we see out of the 2003 reform is a more distorted and a less agricultural policy than we have ever seen before. So, we are very keen to see a simplification and a bringing back, a reuniting, of the Common Agricultural Policy. We look, as I mentioned previously, at the whole basis, the fact that some sectors are still coupled, the fact that we have set-aside, the fact that we have intervention. I think we have been on record as saying that the failure of the WTO round might look good on the outside of farming, but, again, on the inside we think we need to have a multilateral agreement. So, we are trying to engage as proactively as possible in progressive reform of the CAP.

**Q306 Patrick Hall:** When it comes down to basics, as your colleague has said, there is no need to change what it is all about.

**Mr Haworth:** I am sorry, I thought I said there is no need to change the words of the Treaty as a prerequisite to changing the policy. As far as the ‘Vision’ is concerned, I think we said in our document, we did not necessarily disagree with the end point of the ‘Vision’ that Defra and the Treasury had given. As Peter Kendall has said, every farmer would like to live from the market and not from public support. That is a disposition that everybody has. The question is how we get there. It seems to us maybe more important and tactically a better way of proceeding than announcing a vision which is antagonising people by leading them to believe that we want to get there very quickly or want to get rid of all support as soon as possible.

**Q307 Patrick Hall:** The Government’s document talks about an end of support by 2020?

**Mr Haworth:** Yes.

**Q308 Patrick Hall:** As I think Peter was saying, there is a case for continuing some form of protection beyond that. That CAP has to remain reformed but keeping protection.

**Mr Haworth:** Yes.

**Mr Kendall:** I have made it a condition that the rest of the world needs to move with us, and what we cannot have is unilateral reforming arm CAP while other countries around the world use our market as a dumping ground. Having mentioned what I said about climate change and the ability to produce renewable energy and making sure we had a strong supply base of good, healthy, nutritious food, that would be, I think, a very detrimental policy to take. So, yes, I think we are very keen to move. As I said, as a farmer I would like to earn my money from the market place, but while other countries continue to treat agriculture as looking after their own market
first and then using surpluses elsewhere, that would be a damaging goal to set that we just want to be free of support. It is a condition.

**Mr Haworth:** We would not necessarily see 2020 as being unachievable. The question is, if farmers are going to live by the market without support or protection, what steps are needed to get there, which was singularly lacking from the document. We would say, firstly, there has to be a worldwide movement, we cannot remove support and protection in Europe whilst the Americans continue, in fact, to increase their support and protection. We should move there more or less together at a European level. We cannot have a single European market with very different levels of support, which we have got at the moment. Thirdly, and perhaps most importantly of all, if farmers are going to earn their living from the market, the market has to work far better than it does at the moment, because at the present time there are significant problems with the functionality of the food market.

Q309 Chairman: I presume, Martin, that you mean both from the supply well as the buying side of it.

**Mr Haworth:** Yes.

Q310 James Duddridge: To what extent is food security regarded by the NFU as a policy objective of the Common Agricultural Policy?

**Mr Kendall:** I think food security is a useful goal for us to set without getting hung up on targets. The way I would view it would be to look at the ability of the land to be ready and in a fit state to produce as much food as we require. One thing we have seen out of decoupling is that markets now drive what we grow and produce on our farms; so by saying we should be self-sufficient in a certain number of key products I think would be a wrong idea, but (apples for example) if we can find our land, our natural comparative advantages lie in certain different crops. I think we are a fantastic country for growing grass and producing milk, for example. I would hate to see that erode because of a poorly functioning supply chain. I think I would want to see the infrastructure of agriculture, I would want to see the land base kept in a really healthy, vibrant state so that we are in a position where we can feed the needs of the country, but setting goals and targets, specific numbers of what we should meet in different sectors, I think would be going back to an old-fashioned form of agricultural policy.

Q311 Chairman: The question of food security comes in here, the word “risk” also appears. What do you think are the risks that Europe faces in maintaining a sufficiency of food supplies from within its own borders for the people who live there?

**Mr Kendall:** I think there are many challenges, but I do think, if we are removing agricultural support, while having a market place, as I say, that is imperfect at this moment in time, we could see large areas of Europe not farmed. I have concerns about some of the disadvantaged areas of the United Kingdom where they do deliver, I think, very genuine public goods. My farm in Bedfordshire, probably nobody would not argue that that is of great outstanding natural beauty, though some might tell me off for that. When I look at some of the disadvantaged areas, some of the hill areas—I was up in Staffordshire recently—some of those areas, I am sure, will need continual support to thrive producing public goods. I do not want to see abandonment of land on the basis that it cannot produce some agricultural by-product as well. It is very important that we use our natural resources where we need to.

Q312 Chairman: Can we be absolutely clear what you are saying. You are saying that you think there would come a critical mass of land abandonment that would effectively then influence the level of agricultural production for food crops, and that would, if you like, present an internal threat to the secure supply of food from within Europe’s borders. Is that the correct understanding?

**Ms Suárez:** That is certainly true, and I think it is quite important also to highlight that that critical mass is important, not only in terms of the actual land that is devoted to production but also in terms of the infrastructure that is necessary for the agricultural sector. We have had examples in this country, for instance what has happened during the 1990s to the Pig sector, that proved the importance of maintaining the infrastructure in place, and you can enter, as you indicated, into a kind of vicious circle in which, despite the increased efficiency of the sector, the infrastructure is not there. Therefore the efficiency is not reflected in an increase in the availability of food.

Q313 Chairman: But the ‘Vision’ document is pretty strong on saying, “You need not worry, oh, Europe about the food supply situation because the world food market will take care of any problems that we have.” How do you rebut that view of the ‘Vision’ document?

**Ms Suárez:** I think that it is quite interesting that since the ‘Vision’ document has been released there seems to be a change in the Government’s vision about what is involved in the agricultural sector. We have had very recent statements by the Secretary of State himself declaring the importance of agriculture as a productive sector, as a sector that goes beyond the role of managing the landscape, but being as important as it is, it is a goal that needs to go together with the production of food and non-food products. I think those statements in themselves show that there is more to food security than initially meets the eye. I think that recent developments in terms of climate change, in terms of geopolitical events in terms of the pandemic health scares and also we cannot forget that when we talk about some of the main agricultural communities, we talk about, for instance, combinable crops, the level of stocks to consumption, the ratio of stocks to consumption, has been reduced very much in the last years. So,
we are coming to a situation in which agricultural commodities have much tighter markets than they have had in the past and that change in the situation grants a review to the policy that we need to adopt.

Q314 Chairman: It would be very helpful if you could send us a supplementary note on the subject of stocks that you mentioned.

Mr Kendall: Absolutely.  

Q315 Mr Williams: The capacity to produce food does not just depend upon the quality of the soil, though, does it, it depends on the presence of breeding flocks and herds, of buildings and machinery. Do you think that the present reform, the decoupled support that farming receives at the moment, is going to result in a reduction of capacity, because breeding herds, breeding flocks will be reduced?

Mr Kendall: We are already seeing it. I was at a meeting of the NRC last week and we are seeing probably a 10% fall in the suckler cow herd since the decoupling introduction, which is, of course, worrying. It is one of the reasons why I think it is so important that we have an even-handed implementation of CAP, but to have a situation where we have coupling of the beef sector in France in suckler cows and we have full decoupling here, the fact we have very distorted systems throughout the whole of Europe means that we could see, I think, faster running down of capacity in parts of England, and maybe other parts of the devolved regions as well, than we think would be wise; hence the enthusiasm for our organisation to see a common agricultural policy again, to see that people actually do produce the market in a fair way without too much distortion.

Q316 Daniel Kawczynski: I am very concerned about the way that the CAP is being implemented across the European Union and the huge differences that there are in its implementation. Last week when I met with the Secretary of State in my capacity as Chairman of the All Party Parliamentary Dairy Group he was somewhat surprised when I mentioned to him that the Irish Government had recently spent £300 million of their own money and of EU money on subsidising Government had recently spent £300 million of the dairy industry. 31 With farmers in Wales in their own money and of EU money on subsidising Government had recently spent £300 million of

Q317 Chairman: Does that mean that on the question of reducing the regulatory burden, you support Mrs Fischer Boel’s line about adopting the simplified Area Payment Scheme. Are you happy with that?

Mr Kendall: Again, as I pointed it out in my introduction when I commented on the fact that I represent Wales and England, it causes a dilemma for me on that because at the moment my Welsh members view what has happened in England, I would not say with amusement, with astonishment. They will have all their money probably in the first week of December, and you know the situation that is happening in England, and so to persuade the Welsh at the moment that they want to move to a simplified system, they want some reassurances about how the areas might be defined, how their payments might be shared with non-agricultural land. The notion of having less distortion between agricultural sectors in different countries is one of our priorities, but the Welsh at the moment are far from convinced that is even in the offering.

Q318 Mr Drew: Perhaps we can move on to the crux of this, which is all about decoupling. I suppose the good news is that Mrs Fischer Boel was absolutely four square behind the notion that we should be looking for decoupling, but the reality is, if other countries are looking at what we have been through as a road map to how it can be done, I imagine they are somewhat hesitant about going through exactly the same process as ourselves. Talking to farmers in other countries, what encouragement would you give to them that there is a life after the dependency culture of direct payments for production?

Mr Kendall: Martin has got a better knowledge of what is going on in other European countries where they have actually implemented regional schemes significantly more ably than we have in the UK so far.

30 See Ev 112
31 See Ev 224 (CAP 38) note from Irish Embassy correcting these figures.
Mr Haworth: The Germans have implemented a scheme which is actually more complicated than ours initially, going to a simpler system in the end, and they have managed to do it more successfully than we have.

Q319 Mr Drew: Can you say why? We keep hearing about the Germans. I know they have got the most methodical defence in world football, but they do not always win games. Why are the Germans so successful in this area?

Mr Haworth: I think it would take me a long time to answer in full, but I would say some of the reasons are that the Germans have a Civil Service which has probably retained a greater capacity for implementing policies than we have as being one issue; and another issue would be that I think they were far more pragmatic in the way that they addressed this. They saw that they were having the same problems as we were in England on the complexity and the technology, computer back-up to implementing the policy, and therefore they took an early decision that they would make a part payment and then reconcile it afterwards, whereas I think (and this is one of the things that has come out in the National Audit Office Report this week) there was a certain amount of prevarication in this country waiting to see if it would come right and it did not. Those are the two immediate answers I would give.

Q320 Mr Drew: Presumably they did not take the practice from Accenture, but we will pass on from that quickly. In terms of decoupling (and what I asked Mrs Fischer Boel), the difficulty I have is that one could understand if the EU was a static organisation and you could move all the vehicles on the track eventually in the same direction, but it is not a static organisation. We are, by definition, now about to see another group of new entrants coming in who have a view, at least initially, on getting support, direct payments to their farmers as an incentive to enter into the EU. How can we pretend that we can see, within the foreseeable future, full decoupling? She was very honest and said 2008 will be a mixture of review and it will be exactly that, there will be no principal alterations, but she then qualifies that by saying we will get to full decoupling, but how and when and where is the evidence that this is going to start moving quicker rather than at the very slow rate at which it is happening at the moment?

Mr Kendall: I think it is easy enough to do. I do not see because we are an expanding EU that should be break-off point. We have always had countries that have joined the European Union, we have accession periods. What we do have is a single market where we have single regulations. We do have tariff protection around the whole European Union. That is what makes it so important that we do have a single set of rules within that European market. We know that as countries join the EU they sometimes have a six or eight year period of transition where they have a chance to adapt to our CAP rules and regulations. So, I think we should set a bold target when we move to full decoupling. As a country (and we have had it in the United Kingdom) that has absorbed full decoupling, I would like that to be sooner rather than later, and I think we should encourage all the Member States to do that. The accession countries would obviously be given time to adjust to that as their payments increase.

Mr Haworth: Could I add a supplementary as well. I do not see the enlargement of the European Union as making it more difficult to get to a common policy; indeed, I would say it would make it easier because eight of the ten new Member States have got an even more decoupled system than we have, the two new Member States coming in next year will also have that, and the direction of travel is clearly that, in fact, all Member States will move over to the system which is now being implemented in the new Member States. That is the only way in which you are going to get back to a common policy. The question really is one of timing, when that can be achieved. I think you have to acknowledge that the new Member States have got a far more decoupled policy than even we have in this country.

Q321 David Taylor: Two brief questions, Chairman, to Mr Kendall, I think. I hope I am not going back too far. You referred to the dilemma that your Welsh members will encounter. Are you at this point actively promoting or hoping for a cut in those area payments for your Welsh members so as to achieve uniformity and parity with their English counterpart?

Mr Kendall: No, we are not. We have a relationship with Wales where they have their own policy-making council, but I certainly acknowledge their concerns about moving to a flat-rate system. I think they acknowledge that, in the fullness of time, they will make adjustments to their system to receive payments based on 2001–02 history. When we get to 2013 it is going to become increasingly untenable, so they accept that at some point this debate will have to occur. At the moment, and you can understand their real concern, they see a system implemented in England that gives them absolutely no confidence whatsoever that this is realistic or even welcome, particularly when you see in England we had 40,000 new claimants, which has acted as an absolute bottleneck to the delivery of a single payment this last year.

Q322 David Taylor: I take that as a, “No”, then. There is obviously quite a wide range of single payment models and rates of modulation across the EU. Does the existence of that position significantly affect the production decisions of your own members and, if so, how?

Mr Haworth: One thing that is absolutely certain is that, once you have got lots of different systems operating across a single market, there is a strong perception that these things are affecting competition. It is actually often quite difficult to pin it down. There are some things that certainly do affect production, and the clear ones here would be
different levels of cross-compliance where some countries have much more onerous levels than others, there would be differences in that some countries have decoupled fully and some have not. These are clearly distortions. You come into more difficult territory where you have got single farm payments being implemented in a different way which, on the face of it, probably seem to advantage some people and disadvantage others in some Member States and against others. From an economic point of view, it is quite difficult to pin that down and say this is definitely a distortion, but certainly all farmers across Europe think there are distortions, and maybe that amounts to the same thing. For that reason alone, we are keen to get back to a much more common system.

Ms Suárez: I think that there are two issues that we need to distinguish. One is what is the implication of land abandonment for the countries that do stay in production in those areas? There you could argue that it is going to be lack of access to facilities of production, lack of infrastructure, and so on, that would actually make things more difficult for the people that stay in production. In terms of what is the actual social and environmental value of maintaining land in production, there have been studies that have been done by Defra and other government departments, and that informed the revision of the HFA Policy Review, that have put a value to that land and to that land being maintained in production. In my view that short answer is yes, we do believe that land abandonment does matter.

Mr Kendall: The figures I have seen certainly indicate the value of rural tourism is rated at about £14 billion, and I think that is a big indication of the way the land is managed and looked after. I see certain parts of the country. In my part of the world I have seen where set-aside has been poorly managed and the papers are full of criticism of land being managed in a laissez-faire manner; so I do think we produce a fantastic British countryside, as farmers, and that is valuable to the tourist industry.

Q323 Chairman: I think I sense that you think that farming in the United Kingdom could not survive without any kind of Pillar 1 support. Is that right?

Mr Kendall: I think I tried to point out that while the rest of the world is supporting its agriculture, we would not want to see the UK agriculture thrown to some New Zealand—

Q324 Chairman: When you say “the rest of the world”, the Cairns Group might take issue with that statement, might they not?

Mr Kendall: I am sure they would.

Q325 Chairman: You cannot say “the rest of the world”, some bits of the world.

Mr Kendall: Absolutely correct. I am sorry.

Q326 Chairman: There has been a lot of emphasis on movement into Pillar 2. Do you think that the environmental payment structure as currently constituted is going to be sufficiently robust to address the land abandonment issue that you mentioned in your opening remarks?

Mr Kendall: We are still awaiting a review of the HFA scheme which is currently being talked about within Defra. I am not aware of what the full implications will be of agri-environment schemes for the hill farming areas, so I cannot really comment. I do think we now have a problem with funding of Pillar 2 and the agri-environment schemes and I do not see it necessarily is a key part of preventing land abandonment. I think the hill farming replacement scheme would be absolutely critical and how we can find ways of supporting production in more remote areas, but I think for tourism and land management they deliver very real public goods. That is the challenge we are going to face.

Ms Suárez: I think that there is another question that do stay in production in those areas? There you could argue that it is going to be lack of access to facilities of production, lack of infrastructure, and so on, that would actually make things more difficult for the people that stay in production. In terms of what is the actual social and environmental value of maintaining land in production, there have been studies that have been done by Defra and other government departments, and that informed the revision of the HFA Policy Review, that have put a value to that land and to that land being maintained in production. In my view that short answer is yes, we do believe that land abandonment does matter.

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Q327 Mr Drew: Just answer the question. Does land abandonment matter, in the sense that we are talking about very isolated land, because otherwise, by its very nature, there will be alternative uses? Have you done any work on the implications for farmers who remain of the impact of land abandonment?

Mr Kendall: I certainly favour Mariann Fischer Boel’s idea of an increase in modulation but a statutory one up to 10%.

Q328 Chairman: Could we move on to your assessment of the move towards Pillar 2. First of all, the United Kingdom, until fairly recent times, was not wildly interested in rural development activities. It now is, and you are presented with the UK proposal to have up to 20% voluntary modulation as a way of funding, as I see it, the deficit in the rural development budget. Given the emphasis in the ‘Vision’ document on Pillar 2, it would be interesting to have your observations, if you like, on the short-term over the 20% modulation issue. The second one is perhaps to give us a flavour of how the NFU sees the overall rural development programme. I recently had a look at the 2005 report, and I think that my initial concern was limited amount of jam spread thinly, particularly when it came to economic activity other than those programmes which were specifically focused on environmental outcomes. The question really is: is Pillar 2 a viable vehicle for helping to sustain the rural economy in England and Wales either (a) in the way it is presently funded or (b) taking into account the kind of modulation proposals the Government has or (c) Mrs Fischer Boel’s idea of an increase in modulation but a statutory one up to 10%?
bothers me about 20% modulation is, I have talked already about disparity between systems, between favouring one country against another, and if I could see an English farmer having 20% modulation and on a regional trajectory, he could find himself receiving half the payment of a farmer doing exactly the same in the Paris basin, for example. That is a big distortion. You talk about whether the Pillar 2 money is the correct way forward. I still see, as a priority, profitable agricultural production as being important vehicle. So, to take money off a farmer who is doing exactly the same in the same market place (the European market) as a competitor I see as a dangerous move that could risk us losing production within that market place. However, the entry level scheme and the higher-tiered scheme, I think, are delivering real benefits. They are certainly now a part of a lot of our work on managing nutrients more effectively, on reversing the decline in certain farmyard bird numbers; so we see the entry level scheme and higher tiered scheme as valuable tools. But it does worry me, because of historic rural development funding, because of the fact that money now does not have to be match-funded because of the bad CAP budget deal that was done prior to Christmas—we can have 20% take-up for the UK with no match-funding—that is very worrying. So, as to your point about the Commissioner’s proposal of uniform modulation to fund Pillar 2, it is certainly beneficial. I think, because of historic rural development funding, we cannot do the additional work you talk about where the jam is being spread thinly. We cannot do that because of our poor historical allocation, but we should be able to fund, I hope, our agri-environment schemes, which I see as being very important to the plans we have for agriculture.

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**Q329 Mr Williams:** The Single Farm Payment goes straight on the bottom line of farmers’ accounts. Pillar 2 expenditure is not so simple. We know how much is spent on Pillar 2, but have you done any work estimating how much sticks to farmers’ profitability in terms of the percentage of the total expenditure?

**Mr Haworth:** You are right to say that there is a much bigger cost involved in Pillar 2 than there is in Pillar 1. So, yes, less of it goes to the bottom line, but the agri-environment schemes, so long as co-funding is maintained—I would emphasise that—that we do think there is a net benefit to the farmers involved here.

**Mr Kendall:** As somebody who is engaging at the moment on looking at entry level schemes—I still have not been accepted into an entry level scheme, but we are doing the work—in the early years the costs are more significant. Preparing margins in a good and fit state: they actually want managing pretty intensively for the first year—the seed the planting and all the rest of it. I do not see any positive gain from my entry level scheme probably until year three, and so I think it is a very valid point that Pillar 1 does stick to the bottom line and is helping contribute to my income.

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**Q330 Mr Williams:** Have you any plans to try to estimate what the effect on profitability of Pillar 2 expenditure is?

**Mr Haworth:** We have done some work and Carmen may want to comment on it, but by and large I would say the costs involved to a farmer in Pillar 1 are probably around 5%, in Pillar 2 they would vary, and, as Peter said, they are probably higher in the earlier years, but we would say that they would not be higher than 40%.

**Ms Suárez:** The other issue that is probably quite interesting to point out is that, as you have indicated, Pillar 1 goes to the bottom line of the business and as such the existence of Pillar 1 supports itself and makes the uptake of Pillar 2 programmes more likely, i.e. if Pillar 1 payments were not there in the first place people would not be signing up to an entry level scheme, to a higher level scheme at the same level of payments and at the same level of uptake that we have right now. So the separation in the ‘Vision’ document between Pillar 1 and Pillar 2 payments is to some extent simplistic because there is a connection between Pillar 2 payments and the delivery of public goods and services.

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**Q331 Chairman:** In other words, you cannot have one without the other.

**Ms Suárez:** You cannot have one in its present form without the other. If so, one of the things that is quite interesting, for lack of a better word, in the document is that it does talk about the delivery of public goods and services through Pillar 2, but it does not define what is the kind of Pillar 2 that we are likely to have in place by then, and it does not indeed define what is understood by public goods and services. How do we define them and how do we go about rewarding the provision of public goods and services?

**Q332 Chairman:** We have made this point in our reports before. Defra, as I understand it, has made some attempt to quantify the value that non-agricultural people put on these public goods, but I am not aware of any effort to define what the public good output should be, how much of these things that we want and, therefore, how much should we pay for them. Do you think that there should be an exercise to try and answer that question in the context of developing Pillar 2 activity?

**Ms Suárez:** I have not got any exercise whether it derives to an act or a number or not and whether there are going to be questions around that number, but I think that is an intellectual exercise. It will, indeed, be very valuable and I think that it will help to focus the debate about the original document, because at this stage it is very difficult for us to talk in very general terms about public goods, public services, Pillar 1, Pillar 2, without having more detail of what it implies.

**Mr Haworth:** Your question is a very good one, and what we must avoid is to repeat the mistakes of the old CAP, where people were encouraged to produce physical goods which actually there was...
not a market for. We do not want to make the same mistake, encouraging people to produce what are called non-market goods for society which actually society does not value. So, I think it is a very important point that you made.

Q333 Chairman: Forgive me; I am going to stop your evidence session at this stage. We have got two other sets of witnesses we have to get through and I am very conscious that, if we do not try and squeeze everybody in by about half past five, we are going to find ourselves in a series of votes which will disrupt everything for the rest of the day. Thank you very much indeed for your contribution and also for your supplementary evidence which I think brings up to date some of your commentary on particularly the remarks that Mrs Fischer Boel will be making, so thank you very much for that.

Supplementary memorandum submitted by the National Farmers' Union (NFU) (CAP 12b)

FURTHER INFORMATION ON GRAIN MARKETS

1. At the oral evidence session on the inquiry into the DEFRA/Treasury document “A Vision for the Common Agricultural Policy”, the Environment, Food and Rural Affairs (EFRA) Committee expressed its interest in obtaining additional information on the current situation concerning grain markets, with special emphasis on the reduction of stocks experienced in recent years.

2. The NFU highlighted in the oral evidence session its belief that recent changes in agricultural markets should inform any review of agricultural policies. The data below confirms the reduction in stocks-to-consumption ratio in recent years.

3. The grain market shows a marked decrease in stocks in recent years, from a high of 423 million tonnes in 1998/99 to a forecast level of 243 million tonnes in 2006–07.

**Figure 1**

GRAINS—PRODUCTION, CONSUMPTION AND STOCKS

![Graph](image)


4. The concerns arising by the decreasing level of stocks are further compounded by the increase in world demand. Figure 2 (below) analyses the “stocks-to-consumption” ratio, expressing it in terms of days’ equivalent. While in 1986–87, world grain stocks were equivalent to 128 days of consumption, current forecasts estimate that by the end of the 2006–07 season world grain stocks will be equivalent to 55 days of consumption. The decline has been especially pronounced in recent years, with the stocks-to-consumption ratio declining by 48% between 1998–99 and 2006–07.
INTRODUCTION

1. The Tenant Farmers Association (TFA) welcomes the opportunity of providing written evidence to the Environment, Food and Rural Affairs Committee as part of its inquiry into the Government’s “Vision for the Common Agricultural Policy” report. The report is a detailed piece of work and necessitates a detailed response. However, the TFA acknowledges the constraints the Select Committee needs to impose on those submitting written evidence and has therefore attempted to keep within those limits in preparing this paper. However, we would hope to have the opportunity of expanding on this written evidence in an oral evidence session with the Committee.

CONTEXT

2. It is important to bear in mind the context for the report which the TFA believes to have been the EU budget debate on-going through the British Presidency of the European Union through the second half of last year. The UK’s firm position was that a commitment by Member States to further CAP reform was a necessary prerequisite to a full budget deal. The document was 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.

3. What resulted was a commitment only to a review of the CAP in 2008–09 which, we understand, is already built in to the 2003 reform in any case. Therefore little was gained through the publication of this document in any real political sense.

4. Despite the fact that the primary goal of the document failed it remains in our view a very important document. This is not because it breaks new ground in fact the TFA finds little which is new within the document. The themes, policies and proposals are those with which we have become well acquainted in

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**Figure 2**

GRAINS—STOCKS EXPRESSED AS DAYS’ CONSUMPTION EQUIVALENT

Source: NFU calculations on the basis of historical data from US Department of Agriculture and of 2006/2007 forecast from International Grains Council

Memorandum Submitted by Tenant Farmers Association (CAP 23)
our on-going discussions with Defra and wider Government. However, we believe for the first time, the document goes into a greater level of detail than ever before enabling us to have a clearer view of the Government’s deeper thinking and to have a more informed debate with the Government about the future of the CAP.

QUALITY OF LIFE

5. The report starts with the premise that the aim of any change in the CAP must be to improve the quality of life “for all” (paragraph 1.2). This is a high goal to which to aspire and one that the TFA supports to a point—but we should not underestimate the difficulties in achieving it. It means that farmers, consumers, taxpayers, and populations in third countries should all benefit from any change. At the very least the TFA would want to be assured that any change in policy would not be to the detriment of the farming community as has so often been the case with past reforms. The farming community has experienced a significant reduction in quality of life of late through, amongst other things, the increasing burden of regulation, reduced returns and longer working hours. Looking further into the Government’s document we do not believe that it will be possible for the Government to achieve its aspirations without causing greater hardship the farming community. This is partly due to the naivety of some of the assumptions made by the Government and partly because of the Government’s unwillingness to tackle issues such as regulation, supermarket dominance and the lack of a free and fair market place.

6. We are also, somewhat concerned with the concept that the quality of life of existing generations should be constrained to ensure that we do not compromise the quality of life of future generations. The TFA does not necessarily share the view that the quality of life for future generations needs to be given a higher priority than the quality of life of existing generations. We do not know what technological advances will be made to benefit future generations and we should not be judging their needs against the technology that exists today.

GLOBALISATION

7. The report claims that the CAP is out of step with the need for Europe to respond to the challenges of globalisation (paragraph 1.4). However, this is not the only challenge that Europe currently faces or will face in the future. It is written here as if it is perhaps the most important challenge, however in the view of the TFA there may be more important challenges above it. In particular the challenge of feeding a world population which is set to see exponential growth over the next 50 years. It seems strange to be reducing the EU’s food producing capacity (as these reforms will do) in the face of such an immediate challenge.

8. There is also the concern about increasing global terrorism and the surety we have in our supply lines in the face of threats to our nation and its food security. The Government seems little concerned by potential problems of food security (see paragraphs 3.41 to 3.50 of the report). In a footnote to paragraph 3.44 the report states that the current level of self sufficiency in indigenous food and drink in the UK is 76.9%. The report does not set out the level of self sufficiency that would worry the Government. The reforms envisaged by the report will lead to a large reduction in UK and European agricultural production which will lead to a worsening of the self sufficiency ratio. If the ratio fell to under 50% should this not be cause for concern?

9. The Government sets out its vision for agriculture over the next 10–15 years (paragraph 1.5) and food security/self sufficiency does not feature. Whilst the TFA would accept that there is a need to ensure that European agriculture is internationally competitive, it is also important to ensure that strategically we have the basis upon which to secure our food supplies into the medium and long term.

CONSUMER COSTS

10. The report often makes the assumption that consumers will benefit from cheaper food prices through CAP reform (for example paragraphs 1.6, 1.11 and 2.10). We disagree with the view that substantial costs are incurred by consumers through the CAP. Whilst we accept that tariff barriers keep international prices artificially higher than they would otherwise be, the TFA believes this is not transferred into higher consumer costs. Retail prices are hammered down by the operation of the retail market within Europe and in particular the UK such that prices to the consumer are already at unsustainably low levels in comparison to the costs of production. The TFA does not believe that loss of the CAP would lead to a reduction in consumer prices.

11. However, there may be a greater degree of price volatility if we have to rely more heavily on a fickle world market where structural shifts in demand or supply due to weather, war or other unpredictable events impact on both supply and demand.
12. Paragraph 1.17 develops further the idea that consumer prices are maintained at artificially high levels by virtue of the CAP. However, even a cursory glance at recent figures shows that international factors do have a great bearing on the prices of some of the major internationally traded commodities including cereals, beef and sheep meat. It is incorrect to say that much of EU agriculture is "largely insulated" from world market forces.

13. Therefore, the TFA does not share the conclusion as set out in paragraph 1.6 that CAP reform will necessarily lead to cheaper, more diverse and better quality produce. The Association believes that the linkages between support, production and consumption are more complex than that and are worthy of a more detailed analysis than provided for in this report.

ENVIRONMENTAL COSTS

14. We also disagree with the statement made at the end of paragraph 1.4 that the CAP still has a negative impact on the environment. It is too easy for the Government to use such a throw-away remark without providing a more detailed analysis of the interaction between support and the environment. This theme is repeated throughout the report (for example paragraphs 1.9, 1.25, 1.26 and 2.32 to 2.48). The TFA believes that increasingly it is becoming apparent that agriculture support through pillar 1 has a major plus factor on the environment. This is most aptly demonstrated in hill areas where the loss of coupled subsidy on livestock is leading to producers making decisions to de-stock their hill farms. Environmental groups are now becoming increasingly concerned about the environmental damage that may be caused to sensitive upland landscapes. The TFA shares these concerns but believes that it was the fault of too much anti-CAP propaganda by environmental organisations that has led us to where we are. If there were any environmental costs being incurred by the CAP then decoupling has dealt with them. It is only in the light of that that some of the major benefits of pillar 1 funding to the environment have become clear.

15. In paragraph 1.26 the report quotes the misleading line, promulgated by the RSPB that there has been a 50% decrease in the population of farmland birds in the UK between 1977 and 2003 (this is repeated in paragraph 2.38 and by Chart 2.5). In fact, the RSPB has focused on only a small handful of bird species (19 in total) that use agricultural land. When all species of bird that use agricultural land are taken into consideration, the picture shows that there has been an increase in the amount of birds of bird species (19 in total) that use agricultural land. Environmental groups are now becoming increasingly concerned about the environmental damage that may be caused to sensitive upland landscapes. The TFA shares these concerns but believes that it was the fault of too much anti-CAP propaganda by environmental organisations that has led us to where we are. If there were any environmental costs being incurred by the CAP then decoupling has dealt with them. It is only in the light of that that some of the major benefits of pillar 1 funding to the environment have become clear.

MARKET AND ECONOMIC ISSUES

16. Paragraphs 1.13 and 1.14 argue that the CAP is inefficient in providing support to farmers because much of it does not reach them as it is capitalised into land values and taken by others who supply inputs to farming. The TFA accepts that this is an issue. The TFA has long argued that the CAP does create a high cost environment within which production decisions are made. In particular we are greatly concerned about rental costs for land. We have already seen that decoupling has created situations where grass, for example in the South East is being let by owners for zero rent as farmers no longer see the benefit of having extra grazing if their subsidy is no longer dependant on taking that extra ground.

17. However, whilst we note the Government’s concerns in this area, it is somewhat surprising to us since the Government chose a system to implement the Single Payment Scheme (SPS) which relies more heavily on the linkage to land than others. The TFA argued long for the simple system based on history whereas the Government has chosen a hybrid which, the TFA is concerned, will lead to some of the benefit of the SPS passing to landowners through the link to land and rents.

18. It is because of these land effects that the TFA’s preferred policy choice is a bond scheme where farmers are provided with a completely decoupled bond which they can either sell in the market place or retain to receive annual payments over a set period of time. The TFA believes that this way of reforming the CAP should have been given more prominence in 2003.

19. The TFA is comfortable with the concept of farmers being rewarded by the market so long as the market is fair. However, we know all too well that this is not the case. Certainly in terms of processing and retailing, farmers face two very concentrated sectors as well as a concentrated supply sector. This therefore does not lead to the sort of market movements that would be associated with a more competitive market. This leaves agriculture at a competitive disadvantage in the chain.

20. The authors of the report appear to be operating under a misapprehension that the agricultural sector should be treated no differently to other sectors of business. There appears to be a belief that as agricultural returns reduce, the costs faced by agricultural producers will fall and a new equilibrium level of production will be found. However, this is not the case. Farmers are both price takers on their production and on their inputs. Reductions in farm gate prices do not lead to commensurate reductions in input prices. There has been no objective analysis anywhere which proves otherwise. Many of the inputs used by agriculture are oil or chemical based and the prices of those inputs more reflect what is happening in global oil and chemical markets than they do global or domestic agriculture markets. Other costs include labour and land and their levels too have little to do with the profitability of agriculture.
Farmers are unable to pass on increasing costs to consumers and are also largely unable to reduce their input costs in the face of declining returns. This seems to be completely missed in the Government’s document.

21. The vision of a sustainable CAP as set out in paragraph 1.32 of the report falls down on its very first premise. It requires 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. The TFA believes that this is unachievable for the reasons set out above. We will only begin to approximate a situation where this occurs if we have a major reduction in regulation in Europe, a major levelling of the environmental, animal welfare and public health considerations on a global basis, regulation of supermarkets and reformed competition laws which enable farmers to club together in meaningfully sized marketing groups.

22. The TFA is interested in the remarks made in the report (paragraph 1.33) concerning the regulation of land markets. The report does not go into any detail as to the nature such regulation may take. The TFA believes that the Government may be considering some form of regulation through the agricultural tenancy system. The TFA would welcome a further discussion with the Government about what it intends by its suggestion.

23. The TFA is greatly alarmed that the Government should be quoting research which is now quite dated to justify its position that the CAP creates economic and fiscal costs on society (paragraphs 2.6–2.11). It quotes research dating from as early as 1985 and as recently as only 2001–05 to 20 years behind the current day situation and certainly pre the last major reform of the CAP in 2003. The position at the end of 2005 when the report was drafted was very different to that viewed by the researchers quoted here.

24. In terms of the adjustment process, we have already noted that the market for agricultural commodities does not work in the same way as the market for other commodities. There are also structural issues which need to be borne in mind. Looking at the UK, the report correctly identifies that as much as 45% of the land area of the country may be farmed by individuals who do not own the farms that they run. Many of these individuals will be in rented accommodation which they could not very easily do without if they had decided to give up their businesses. The TFA believes that there are many individuals on farm tenancies that are stuck in farming. As they do not have the necessary resources, they are unable to make the rational economic decision to leave farming. Housing is a particular problem in this regard. That is why the TFA has long supported a retirement scheme which would help with the transition of getting older, perhaps less efficient, farmers to leave the industry with dignity whilst providing opportunities for new entrants.

Social Issues

25. The report argues that farm support is not justified because farm households are not necessarily the poorest in Europe particularly when compared with some employed households and households without employment (paragraph 1.15). The TFA believes this completely misses the point since farm households are characterised by entrepreneurs, businesses and risk takers whereas the comparison is made with those with or without employment who are not entrepreneurs and who do not take investment risks. Agriculture provides a basket of benefits to society and it is a shame that the Government feels it appropriate to make comparisons in this way which do not adequately reflect the contribution that agriculture makes to society.

Issues for Developing Countries

26. The report makes what is now a well-worn assertion that the CAP damages the poorest countries in the world (paragraph 1.20). The TFA does not accept this broad-brush analysis. In the first instance the EU has developed a complex system of trade preferences for some of the less well-off countries on the globe. This is most aptly demonstrated through the sugar regime which has now been reformed by the Council of Ministers. Many of the least developed countries complained that their coveted trade preferences would be seriously devalued following the reduction in the EU’s internal price. Because of this, the EU had to put in place a complex mechanism of compensation payments to the African, Caribbean and Pacific Countries with which they had trade preferences in place. All this as a result of CAP reform. These countries did not see reform in the sugar sector as a plus point.

27. The TFA has not seen any evidence which shows the CAP has a significant impact on developing country agricultural markets. In the light of the 2003 reforms, which will see a reduction in EU output, the TFA believes that this is now very much a non-issue.

International Experience

28. The report looks at international experience and tries to draw significant parallels with the process of reform in New Zealand in the mid-1980’s. However, agricultural reforms in New Zealand were coupled with a devaluation of the country’s currency and a massive reduction in the amount of on-farm regulation. It was for those reasons that the reform process in New Zealand was successful and whilst the
Government is clearly keen to see a reduction in support for agricultural activity it would be extremely unlikely for it to want to roll back the amount of regulation or to devalue the currency in the way that New Zealand did.

**EXPORTING OUR ENVIRONMENTAL PROBLEMS**

29. The TFA is greatly concerned that in reducing our dependence on domestic production and increasing our reliance on imports from countries that do not share our high, self-imposed, environmental standards that we simply export environmental problems overseas. The report seems to overlook the importance of working with others. The report suggests that creating local environmental damage in another country is a matter of 'sustainability'. We do not think that is correct. If the public require a high environmental and animal welfare standards of home produced food it is likely that they require the same standards in imported food. If the environmental and animal welfare implications are hidden from consumers then they are unable to make a fair choice. It is also unfair to make domestic producers compete with international suppliers who do not have the costs of complying with the higher level of regulation imposed at home.

**CONCLUSIONS**

30. Whilst this document gives a deeper insight into the Government’s internal thoughts on the CAP it makes for depressing reading from a farmers perspective. It is riddled with false illusions, rocky assumptions and dated thinking. There are also huge inconsistencies the biggest of which is the failure to conclude whether we want an industry that is globally competitive or struggling under the weight of domestically imposed legislation. We cannot have both.

31. A fundamental concern is the unrealistic expectation that farmers could use a combination of lower input prices, futures markets and increased technical efficiencies to offset the full effects of the removal of the CAP. Input values will not fall, futures markets have a role but they are overstated by the report and technical efficiencies will not keep pace.

32. The message that the report wants to convey is “get better or get out”. However, given the major barriers to seeing improvements, readers in the farming community will only receive the message “get out”. Is that sustainable in any sense of the word?

*February 2006*

**Further memorandum submitted by the Tenant Farmers Association (CAP 23a)**

**INTRODUCTION**

The Tenant Farmers Association has previously submitted written evidence to the Select Committee by way of its memorandum of 27 February 2006. The Association was invited to provide an update on its current thinking prior to providing oral evidence to the Committee on the 18 October 2006.

This supplementary evidence focuses primarily on two aspects. Firstly, the TFA’s view of, and aspirations for, the Common Agricultural Policy in the medium to long term and secondly, reflections on possible issues for consideration in the forthcoming CAP Reform “Health Check” in 2008–09.

**TFA VISION FOR THE COMMON AGRICULTURAL POLICY INTO THE LONG TERM**

The TFA believes that the fundamental justification for any agricultural policy which supports primary producers should be to correct apparent market failures. In this respect the TFA does not believe that the debate on agricultural policy can be starkly defined on the basis of CAP or no CAP. The issues are far more complex than that. The TFA believes, with all its failings that the CAP is essentially attempting to address market failures. The question ought to be how the CAP should change to adequately address those failures rather than taking the UK Government’s line that the CAP should effectively be abolished because of its inefficiencies.

The TFA believes that there are five principle areas of market failure that any agricultural policy should seek to address:

1. As economies grow and individuals become more prosperous, they will tend to spend a diminishing proportion of their disposable income on food. This means that those who are responsible for producing food (ie farmers) will see a decreasing proportion of national income spent on the products which they make. This is why farmers as a group find it difficult to reap the benefits of economic growth enjoyed by others in society.
2. The structure of food marketing, particularly in the UK, has become such that producers face an unfair and wholly unbalanced platform upon which to do business with processors and retailers. For example, in the sugar sector there is one, single, monopoly processor in the UK which, of late, has used its monopoly position to the disadvantage of sugar growers throughout the whole of England. In the milk sector, there are only a handful of processors and a handful of large retailers purchasing milk from those processors. Evidence produced by the Milk Development Council shows that both processors and retailers have managed to maintain or increase their margins over recent years while producers have seen reductions in their margins. Across the whole range of agricultural products, producers face a very small number of large, retail outlets. This unbalanced structure leaves most producers unable to pass increased costs of production up the food chain. Whenever farmers are thrust with new regulations on animal welfare, environmental issues or health and safety matters, they are unable to reflect the costs of compliance with those in the price that they obtain for their commodities and this leads to the market place not fully recognising the benefits to the nation of the new practices being employed by farmers and growers.

3. The Market cannot deal effectively with issues of long-term food security. The UK is already in a position of only being able to satisfy 70% of its temperate food needs from domestic sources. There is no indication from Government as to when it would begin to get worried about the level of food security nationally. The TFA is concerned that the current structure of food marketing takes too much of a short-term approach to this issue and feels that there needs to be a more adequate expression of the Government policy towards food security in the long term.

4. It is inherently difficult for the market to factor in increased animal welfare and environmental benefits into the pricing structure for food. UK farmers, as noted above, are facing a large degree of regulation in these areas and they are unable to pass the costs of this up the food chain. Many farmers are working hard to meet environmental and animal welfare standards and yet they have to compete for retail space with producers from elsewhere on the globe who do not necessarily have to meet those standards.

5. Connected with the fourth point above, there is a general lack of awareness amongst consumers about the differences in quality of the products which they are purchasing when comparing UK sourced and internationally sourced products. Whilst they might see beef from Ireland, Brazil or Argentina as beef with a different label, it is the case that products from those countries are not perfect substitutes because they have been grown under different conditions and different regulations. More effort needs to be put into making sure that consumers are aware of these differences when purchasing their food.

**The Forward Vision**

The TFA believes that given the issues outlined above, support through price and income should remain a key feature of the CAP for a long time to come. It will, however, need to deal with some of the issues of inefficiency including the problem of capitalisation of subsidy payments into land values. In this respect the TFA has always preferred the idea of a bond scheme to area payments as this ensures that the benefit of support goes to the recipients and is not filtered away into other parts of the system. The TFA believes that in any future reform proposals, the concept of an agricultural bond scheme should be given prevalence.

The TFA also believes that the EU should set down common rules for Member States concerning the appointment of a food industry regulator to ensure that relationships between producers, processors and retailers are fair and reasonable. The regulator should be charged to ensure that no part of the chain is making abnormal profits in comparison to other bits of the chain.

The TFA also believes that Members State Governments of the European Union should be allowed and indeed required to set food security standards for their own countries. Common rules should be drawn up as to how this should be implemented at Member State level, but it should be a cornerstone of a renewed CAP.

The EU’s rules on state aid should be relaxed as to their impact on para-fiscal money, such as levy money, collected by the likes of the Meat and Livestock Commission, Home Grown Cereals Authority and Milk Development Council. Currently, these bodies are restricted in how they can use levy payers’ money so as not to fall foul of EU State Aid Rules on domestic promotion of domestic production. These rules should be relaxed to allow producers through a statutory scheme, like the MLC levy, to market their own produce to their consumers.

The EU should argue for globally recognised standards for production of food on the basis of health, welfare and environment. These should be the standards by which every country should be required to produce and those standards need to be audited at national level. Where countries are unable to reach those globally agreed standards, then other nations should have the ability to restrict trade from those nations. Once those international standards have been achieved, if the EU or national governments wish to apply higher standards domestically, then producers should have access to direct funding from the state to help them meet those higher standards.
CAP REFORM HEALTH CHECK

There appear to be five issues under active consideration in relation to the CAP reform health check to take place in 2008–09. They are:

1. A possible ceiling of €300,000 on direct support payments.
2. Tighter rules on voluntary modulation.
3. Abolition of dairy quotas.
5. Full decoupling of direct aids.

The TFA sets down its views on these issues below:

CEILING ON DIRECT PAYMENTS

This, of course, is not a new concept as it did form part of the negotiations around the 2003 CAP reform package. Having previously rejected the idea of a ceiling on payments, the TFA believes that there is now merit in considering how such a CAP could be applied taking into consideration the different structure of farming in each of the 25 Member States of the Union. The TFA would be minded to support a ceiling so long as it was assured that any money saved by this process was filtered back into the industry through other accessible means.

VOLUNTARY MODULATION

The TFA has always been concerned about the ability of Member State Governments to set voluntary levels of modulation. We are aware that the UK has been arguing for maximum flexibility for Member States to use voluntary modulation. The TFA’s concerns about voluntary modulation are the lack of required matched funding from the Member State wishing to use voluntary modulation and the distortions that can be caused between Member States operating different levels of voluntary modulation. We are also aware that the UK has been arguing for the removal of the €5,000 franchise below which modulation does not apply. The TFA has concerns about this aspect too. The TFA believes that rates of modulation should be set at an EU level and Member States should only be able to derogate from those where it is giving an assurance that matching funding will be provided from the Member States exchequer.

ABOLITION OF DAIRY QUOTAS

The TFA believes that there is merit in considering the removal of dairy quotas with compensation for their capital value. We would however wish to be assured that it would not leave dairy producers exposed to unhealthy pressure from milk processors and retailers who may wish to manipulate production to restructure its production base. This is an area which we believe the regulator would have authority to deal with.

ABOLITION OF COMPULSORY SET ASIDE

The TFA has always supported the abolition of set aside particularly in the context of a single payment scheme. The TFA does not see the logic of the Commission wishing to keep its foot on the brake when it has already taken its foot off the accelerator. It is no longer a useful supply management tool and should, in our view, be abolished at the earliest possible opportunity.

FULL DECOUPLING

The TFA believes it is right to insist that Member States fully decouple their direct aids in the way that the UK has done. The TFA believes that a major weakness of the 2003 reform package was the ability for Member States to opt in or opt out of various bits of decoupling and to delay decoupling in their national interest. This is clearly causing distortions across the EU and a move to full decoupling would be supported.

October 2006
Mr George Dunn, Chief Executive, Tenant Farmers Association, gave evidence.

Chairman: On his own, I think for the first time, before the Committee, Mr George Dunn, the Chief Executive of the Tenant Farmers Association. Somebody had the temerity to suggest, George, that in some way there might be brevity in the TFA’s evidence if you were on your own. I conjectured that this would definitely not be the case on the grounds of your extensive knowledge and ability to respond to any question that we put to you on the basis of your previous very helpful performance.

Mr Dunn: That is very kind of you.

Chairman: Can we send our best wishes to Reg for his recovery and hope that his sure footing is quickly restored and that we have the pleasure of him coming before us again. In the meantime, can I thank you very much indeed, not only for your initial written evidence but also the supplementary evidence which you have sent to us to bring us up-to-date about developments since the first item was written. I would like to start our questioning in exactly the same way as I did with the National Farmers’ Union and to combine two questions. Obviously it would be useful for you to put on the record a short statement about your reaction to the ‘Vision’ document and, secondly, perhaps to follow that up with your answer to the question I posed about what do we think is currently the purpose of the CAP. George, welcome again. The floor is yours.

Mr Dunn: Thank you, Chairman. Can I say how sorry I am that you are short-changed today and that you do not have my national Chairman, who wanted to be here. He has given me his short statement, which he has required me to read on his behalf. So, if you would indulge me, I will read his statement and then I will answer your question. Chairman, Committee members, I am grateful for the opportunity you have afforded the TFA to address you as part of your inquiry into the Government’s CAP ‘Vision’ document. Whilst our own intelligence informs us that the Treasury is not minded to take your inquiry particularly seriously, I am at least pleased that the Select Committee has chosen to look carefully at this document, as I am sure, as you have in the past, that you will produce insightful conclusions that we would all, Government included, be foolish to ignore. The issues addressed by the Government’s CAP ‘Vision’ go to the very heart of the future of my members and the tenanted sector as a whole. To put it bluntly, we in the Tenant Farmers Association reject the Government’s vision. It is unviable, dangerous and not in the best interests of our nation. I say this not because it uses the results of outdated survey work, predating the current reforms, or because it lacks any concern for food security, or that it will allow us to export our environmental problems, or even that it is selective about what it considers to be public benefits, all of which are true, but that it is naive in thinking that we can simply roll back the current support systems and allow the free market to sort out the consequences. The Government does not appear to understand the basic truth that the market to which our producers will be exposed will be far from free, in the economic sense, and certainly far from fair. Recently experience in the milk and sugar sector should act as an important wake-up call in that regard. Whilst the Tenant Farmers Association is not saying that the Common Agricultural Policy is not broken, neither are we saying that it is beyond repair. It is less intellectually challenging to tear down, even if that takes place over a period of time, than to build up and we would ask that the Government needs to think again.

Chairman: Would you like to go on and respond to my second question. What do you actually think is the purpose now of the CAP?

Mr Dunn: The purpose of the CAP has a number of elements that we need to take into consideration. Firstly, as economies grow it is very clear that consumers spend less of a proportion of their growing income on food products, and, therefore, those individuals who are responsible for producing those food products get a declining share of national income spent on what they are doing, which means they do not have the ability to take advantage of economic growth in the same way that other sectors of society can. Secondly, which I think is a more modern conundrum, is that the marketing of food has become very difficult for our producers. They face a very concentrated processing sector and a very concentrated retailing sector, and that leads to problems, and in some sense the CAP at a European level needs to deal with those. Also, the CAP should deal with matters of food security, and we note within the Treasury’s document that they do not appear to be concerned about food security in temperate products, from our own resources which is currently about 76%. We have failed to get from the Treasury when they would start to get concerned. Is it at 70%, 60%, 50%, 40%? There does not seem to be any understanding of where that level is. Also, I do not think that it is easy to factor into the market place the benefits of high animal welfare, high environmental standards in terms of price that people are willing to pay for their commodities. I have evidence of this. If you look through some of the food assurance schemes, the crop assurance schemes, the dairy assurance schemes, all they have really done is protect the previous historic prices. Those people who have not been able to meet those standards have not received a lower price, they simply cannot sell their products going forward. Also there is a lack of awareness amongst consumers about the difference in quality of products that they are consuming. They think that a piece of beef, whether it is produced in Brazil, in the UK or in Ireland is exactly the same, they are absolute substitutes, which, of course, they are not, so the CAP needs to have some element of education in it as well. Those are the major elements we consider to be appropriate and important in any CAP going forward.
Q337 Chairman: Those mirror points one to five in your supplementary evidence. It might just be worth spending a moment or two to examine those. You said at the beginning that farmers as a group find it difficult to reap the benefits of economic growth enjoyed by others in society. There is a whole potential industry for bio-crops, and one might say that demand for fuel is a reflection of economic growth. Farmers have an opportunity to take advantage of that, but you conjecture that somehow, and your remarks are predicated with a focus on food, farmers cannot take their part in the dynamic market place and that somehow the CAP is going to fix it. Well, how?

Mr Dunn: Dealing with the issue of food and fuel first, I have been around this industry now for a number of years and the issue of the ability of the farming community to provide fuel for our nation has been held up as the saviour of the sector for a very long time, and I have yet to see it actually come to fruition. Certainly in recent times there have been some moves forward, including government policy commitments on fuels, and also the plan that it is now looking to develop some bioethanol from cereal production. So we are beginning to see some green shoots now in that field, but I would suggest they are still green shoots and we still remain to be convinced that that is going to be an important market for farmers going forward; but, yes, I agree that there are some elements within that that may prove beneficial for the farming industry.

Q338 Chairman: To tease you out, in a reformed CAP, should the CAP be more aggressive in the way that it encourages the development of these new opportunities and, if so, how should it do it?

Mr Dunn: The CAP cannot do it by itself, because obviously there is a taxation framework within which decisions are made in terms of fuel choice and other aspects, such as planning matters, that need to be brought into consideration when you build a new plant, et cetera. So, there is a whole range of issues that need to be thought about very carefully. I guess the CAP could perhaps be geared more towards providing support for individuals who want to go down that route, but there are wider issues that need to be brought into consideration which have not yet been properly resolved.

Q339 Chairman: Let me bring you on to the second point you make, which is about the structure of the food market place. How should the CAP be modified to address that issue? Is it the right vehicle for it?

Mr Dunn: If it is what we have had in the past, certainly not; but what we believe that we need to look at in relation to the CAP going forward (and I know it is not particularly politically correct and I know it is not particularly well thought of in some circles), is that it is time for a food regulator to be appointed under European rules to ensure that the market place that farmers and processors and retailers operate in is fair and is reasonable and that there is a reasonable sharing of rewards within the market place.

Q340 Chairman: How are you going to define terms like “fair” and “reasonable” in this context, or have you not got to that level?

Mr Dunn: To be perfectly frank, we have not yet got to that level of understanding, but it is an element which needs to be considered. We have regulators in other sectors which consider what is fair and reasonable. We should certainly hold a debate within UK agriculture and European agriculture about where those levels are. What we have had up to now is encouragement to get closer to our processes and the end suppliers. That is a bit like saying to somebody that is being bullied in the school playground, “You have got to get closer to the school bully”, because we are finding that the closer we get to these individuals the less benefit we have from them.

Q341 James Duddridge: When you talk about having a regulator, what other marketplaces have you seen which have effective regulators where you would like to transpose those benefits on to the food marketplace across Europe?

Mr Dunn: The problems that we have with the regulators in other sectors—from our look at things like energy and water and others—is they are there primarily to benefit the consumer only. We are talking about a regulator which is looking at the relationships between players on the supply side: the producers, the processors and the retailers. From our perspective there is not yet a model that could be used adequately to slot into place but the debate needs to happen.

Q342 James Duddridge: Does any other European country have such a regulator?

Mr Dunn: If there is I am not aware of it, but that does not mean to say that there is not.

Chairman: There are some regulating markets in places like Italy for the price of coffee and bread but that is about the limit.

Q343 Mr Drew: The problem is, George, that our national situation, which we have talked about privately on many occasions, is very different from elsewhere in Europe. Largely it becomes that we tend to be a bit of an anomaly. I want you to wear your tenant’s hat because I think there is a great benefit of having tenant farming. I have always believed that, because it gets movement on to and off of the land which is not true where you have got complete private ownership or an estate having control and deciding to some extent who the tenants are going to be. We have got some greater opportunities to have some choice in that. Where do we fit in to a revised CAP in terms of the role that tenant farmers in particular could play? Can we export the idea? We have not been very successful so far. Are there any countries where they would see the value of the more diversified marketplace that we have rather than just seeing
Mr Dunn: I am unashamedly parochial in my view that I represent tenant farmers in England and Wales and that is my concern. Whenever we approach an issue like the CAP or any other policy we look at the differential impacts of that policy depending on whether you are a tenant or an owner occupier. Of course in terms of the forward vision that Mariann Fischer Boel has set down, moves to flat rate area payments across the whole of the EU would be disastrous for our members because that would immediately increase the costs to them of access to land. We are already seeing that within the scheme which we have in England now where land with entitlement goes for a higher value when it is rented than land without entitlement. Land which has been given to someone to farm under some form of licence where the owner is holding on to the entitlement to claim virtually goes for nothing or very low levels of rent. That sort of movement in the CAP would be retrograde as far as we would be concerned. We would want the maximum decoupling and that means decoupling from land completely.

Q344 Mr Drew: Which I had the opportunity of rehearsing with Madam Fischer Boel, again the difficulty is where is the coalescence of use that we could begin to build to get some greater support because, in a sense, our agricultural sector, despite the problems we are going through at the moment, has many advantages, but the continental system has never seen this. Okay, they have in theory at least a much more diversified system of many more smaller farmers but they are all owner occupiers in name at least and then, of course, they have also got many big farmers which they do not tend to talk much about. It does not really appear at all. There is a mention about tenant farming in the Vision document but it is a sort of superficial, “Well, we have that but that is something where we are a bit different”.

Mr Dunn: We were just glad to get a mention.

Q345 Mr Drew: There is always some hope! We have to get out there and do some proselytising because otherwise as one of the number of different EU states, we would get so far down the road. How would you sell the idea of this different approach to farming given this Vision document really looking at a much more marketised system.

Mr Dunn: You mean how would we convince the rest of Europe to go to a landlord/tenant system that we have in this country, is that the question you are asking?

Q346 Mr Drew: Yes.

Mr Dunn: I think it would be inherently very difficult to go to the rest of Europe and say, “What you need to do is roll back the revolutions that you have had over many years and create some large landlords and allow them to lease the land out”. The UK has been held in aspic to a certain extent because it has not had that sort of revolution, we still have large landlords who are still willing to let. I think it would be very, very difficult to replicate the landlord/tenant system abroad. However, having said that, there is a great concern within the Commission about producers and they are keenly aware that producer does not always mean landowner and they are clearly aware of flying flocks and things like that in other parts of the Union. In the past we have had very good engagement with the Commission, particularly with the 2003 reforms when they originally were considering an area payment. In our conversations with them we believe we were partly responsible for convincing them to move away from an area payment on a flat rate basis to allow for a producer payment. Okay, it got somewhat changed over time in the final regulation, but it is still essentially a producer payment. Yet again, as an association we need to roll that bandwagon and get our views heard in Brussels, but creating a landlord/tenant system in Europe I think is beyond even us.

Q347 Mr Drew: You have heard the previous session where obviously NFU were talking about the danger of abandonment. Surely in terms of a fully privately-owned system with very many small farmers who just do not need any more to raise money from the land there is a greater danger of abandonment there than there is under our system where tenant farmers in the main are always looking to increase their holdings provided the producer payment. Yet again, as an association we need to roll that bandwagon and get our views heard in Brussels, but creating a landlord/tenant system in Europe I think is beyond even us.

Q348 James Duddridge: George, can I say you are absolutely wonderful. I want to set up your fan club. All too often we get people here who, I do not think, are completely open and honest. When you say you are taking a parochial view, and you are blunt and I think that is brilliant and we invited you here to give us that view. All too often I think
Mr Dunn: I am waiting for the “but”.

James Duddridge: I do not necessarily agree with absolutely everything you said, but I appreciated it.

Chairman: This is page one of the Duddridge blog for today!

James Duddridge: Now I have put that on record, we will move to food security. You have made it very clear that you do not believe—and this is in written evidence—the market can effectively deal with our long-term food issues, but to what extent do you think the Common Agricultural Policy should play a role within food security or do you think it is a separate issue?

Q349 Chairman: Can you tell us what you think the risks are to our food security in the context of that question?

Mr Dunn: There are many. For example, we have concerns about global warming and what that will do to production patterns in Europe and the rest of the world. We have an increasing world population which will want to be fed and where will they source their food from. We have increasing concerns about global terrorism and what that might do to our ability to feed ourselves in the long-term. We do not have a handle on those issues properly yet. Certainly in our own little office we have not got a handle on it but there are some serious issues we need to address in terms of the risks to our own food security. Looking at how the CAP can help, I am not necessarily suggesting that there should be a food security subsidy or something like that, but there needs to be within the framework of the CAP the ability and even the requirement that Member States in the EU should look to their own food security and develop policies for their own food security long-term which are set within certain parameters. We believe that should be an element of the CAP, that Member States should be allowed to look at their own situation within the context of Europe and develop its security policies.

Q350 Chairman: Can we move through the analysis that you have put forward about the implications to UK agriculture of the ending of Pillar 1 payments as preaced by the Vision paper. It would be useful to have your observations as to how you might see that impacting particularly on the tenanted sector and perhaps take us through then into some discussions about Pillar 2 and the importance that will have on the rural economy, whether it be from the point of view of the production of environmental measures or the general economic development of the rural economy.

Mr Dunn: Let us start with the Pillar 1/Pillar 2 dichotomy. Pillar 1 is almost a swear word. Pillar 2 is almost treated as a holy text. I am concerned that there are elements within Pillar 1 which provide public benefit which we do not recognise. I think some of the decoupling that occurred in 2003 indicated some of the environmental good that Pillar 1 payments were doing. The rolling back of those payments have caused some environmental damage in the hill areas which I said earlier were a case in point where people took decisions to destock and that had environmental impacts. I do not necessarily think we have got the balance of public benefit right between Pillar 1 and Pillar 2, there are probably benefits within Pillar 1 which we need to identify. I think Pillar 1 support is going to be essential going forward for a large number of years. I have just been to some of our members’ farms in East Anglia and some of those farms are quite sizeable units. It was quite depressing for me to look at some of the sets of accounts they were producing, and these farms are barely washing their faces with the Single Payment in their accounts. If you take the Single Payment away they are making massive losses and there is no money there to re-invest. If we are unable to gain our return from the marketplace, which I believe is the situation at the moment, and we do want to retain an industry in this country—there is a question mark, from my perspective, and that is do we want to retain it or not—Pillar 1 payments are going to be essential going forward.

Q351 Chairman: Those nice people in the Treasury, who are not going to take any notice of what we say, is your advice to them that they ought to be working on a further extension of their vision to quantify the effects on the rural economy of land abandonment, the further degradation of the agricultural sector, so that they have some idea of the economic impact to the extension of the argument that you have just put to us? Do you think they should be doing that?

Mr Dunn: I think absolutely they should be doing that. The vision is a tunnel vision and it is a vision which we have heard many times before, all they have done is expanded the previous rhetoric in more detail. They have not thought about the wider concerns or the wider issues, they have not really looked at how the marketplace operates today, let alone tomorrow, and they have looked at analysis in a static way. They have not been dynamic about the way they have looked forward. Much, much more work needs to go on before we understand this properly.

Q352 Chairman: I know you are a very discreet man, so in whatever way you might care to do, perhaps you could point us in the right direction to your interlocutors in the Treasury so we might engage them in some way or another.

Mr Dunn: I could suggest you invite Rebecca Lawrence and Brendan Bailey to come and speak to you.

Chairman: Indeed. We would want to tease out a little more from them, their perspective on our activities and the excellent quality of information that we are receiving.

See Ev 235
Q353 Mr Williams: At the previous meeting of this Committee taking evidence I asked an official—I am not quite clear in my memory whether it was a Defra official or a Treasury official—what would be the effect on profitability of UK agriculture without the Single Payment. He said that was a rather silly or pointless question because in that circumstance his farmers would be farming much more efficiently and in a much more business-like manner.

Mr Dunn: You tell that to the members that I have seen around East Anglia over the past couple of days and they would lynch you. It goes to the very heart of the profitability of the businesses of my members still today. They have not properly addressed the thing going forward. They talk about efficiency, the number of members I have spoken to in the past couple of days who have shed labour, who are sharing machinery, who are using contractors more because it is more efficient, who are trying to earn money doing other things, and yet the farmers are still only washing their faces financially. It is not a silly question at all, it goes to the heart of what we are talking about.

Q354 Chairman: For the benefit of the Committee, I would like to ask you to say a little bit about the effect on the tenanted sector of the process of capitalisation of the current Pillar 1 type payments into land values. Obviously they have a profound effect on farming, the opportunity of the tenant, the rent level that they pay, because the next thing that I want to probe with you is your bond idea. I would rather you stopped at the boundary of the bond, but talk to us about the capitalisation impact from the tenanted sector point of view.

Mr Dunn: It is true that when you make a payment to an individual to carry out some economic activity, in this case farming, a substantial amount of the benefit of that will go to individuals who have supplied that economic business because they can foresee that there is a greater need for their services. Certainly those who have the most inelastic supply are the ones who gain most and those are the landowners. We have seen through the old IACS System and through the old Suckler Cow and Extensification Payment Systems and now through the Single Payment Scheme that we have an element of capitalisation to landlords. I mentioned earlier that already we are seeing land with and without entitlement being let at different levels of rent. We are already seeing land where the landowner is claiming the entitlement being let for something a lot less than what he would have done if he had the entitlement in his hands. It is pretty obvious to us that this support does become capitalised which is why—and now I am going to stop—we prefer a completely decoupled system which is the bond scheme.

Chairman: Before we move to that territory, James.

Q355 Mr Reed: Can you give us an indication of the differential in the land value?

Mr Dunn: It depends on where you are, but if you are looking at grassland, for example, you could be talking about the difference with entitlement paying something in the region of £50 to £60 an acre and without entitlement paying zero to £10 an acre. If you are looking at arable land, you may be looking at an acre of arable land on a FBT with entitlement letting for £70 or £80 and without that entitlement £10 or £15 per acre.

Q356 Chairman: For the record can you define FBT?

Mr Dunn: Sorry, FBT is a farm business tenancy.

Chairman: Thank you. I should immediately have leapt to an answer that since I took the Bill through the House.

Q357 Chairman: Even with the recent RRO, Chairman!

Q358 Chairman: Let us move on to this bond scheme. From the point of view of the straightforward tenant who provides the labour to farm the land, pay a rent and have some entitlement to receive public monies, the idea of rolling this up into a financial instrument, because they are directly “the farmer”. I can see that working, but we are moving into a world where there are many different ways in which land is now managed and farmed and there are some people who employ contractors to undertake their farming activity, there are some people who may well be opting out of farming and opting in to entire units being down to environmental production, if I can put it that way, therefore I struggle, perhaps, to understand how your system works against that background.

Mr Dunn: What we wanted to achieve was the ability to support individuals who were actively engaged in farming activities whilst attempting to completely remove the distortions that we are told time and time again are repugnant in terms of the distortions on land, the distortions on price, the distortions at borders, et cetera, and the decoupled system takes us some way, the bond system takes us the whole way. Yes, you are right, there is a myriad of different ways in which land can be farmed, by contractors, by share farmers, by partnerships, by licensees or whatever, but we believe there will be more opportunities for individuals to farm in that way if the person who had the legal right to occupy, either by the tenancy or by owning the land themselves, had their income stream outside the farm business because they would be able to offer the land, as we have seen in some circumstances already, at a much cheaper basis to a new entrant or to a contractor or to a licensee or whatever. It would allow for a greater extent of economic flexibility.

Q359 Chairman: Try and take us in simple steps through how you would move from a straightforward tenant farmer currently receiving a sum of money under Pillar 1 in terms of the decoupled payment and a sum of money for
membeship of an environmental programme. So it is two streams of money, we come along and we want to move from there to a totally decoupled bond-type world that you have advocated. Take us through the mechanisms that would be involved in getting from A to B.

**Mr Dunn:** The bond system which we initially put forward was pre the 2003 reforms. Obviously we now have the complication of the fact that we are on a bit of an escalator towards a regional average payment, and moving from where we are today to where we think we would like to be in terms of a bond scheme would be much more difficult. Again, talking parochially from a UK perspective, we would not believe it would be possible to move to a bond scheme until we had got down to the bottom of the escalator and we were on the regional average payment across the piece so that from there you would then create the shares, or whatever, in the bond which could go into the share accounts. Let us not kid ourselves, today there are tenant farmers and landlords and owner occupiers receiving Pillar 1 money and yet they still chose to do their farming through a licensee, a grazier, a contractor, a partner, a share farmer, so we are not changing the ways in which people will do their farming, we are just changing the mechanism.

**Q360 Chairman:** The reason I am being very pragmatic in asking the question, we have now got 25 countries in the European Union. We have got the new entrants on a simplified area payment scheme. At the other extreme we have got the French who have got a bit of decoupling and still some of the old system. We have got us in the middle and we have the potential for quite high levels of voluntary modulation. I am looking at the practicalities of how you are going to gather up the finances that are involved in all these different models because if I have understood it correctly, the bond scheme would have to work universally throughout the European Union. I am saying to myself, “How do we get to a position . . . ?”, and I think you basically said we would have to get to a unified system of area payments before we could start to do this, but then you are going to say to each Member State, “You are going to have to fund this”. If I have understood it correctly, Member States are going to have to roll up a series of forward entitlements into a financial instrument that would then provide some form of income to farmers of different categories, is that right?

**Mr Dunn:** Mrs Fischer Boel has already said that she would like to see simplification for a flat rate scheme across the whole of the Union. We are saying, “Why not go the extra mile and completely decouple so rather than have it as an area payment have it as a bond payment”. It is not a million miles away from a flat rate simplified system across the whole of the EU. In terms of funding, once you have created the bond the Member State concerned would not have to get involved in buying the bond or providing the capital element for the bond, they would continue to provide the annual payment in respect of the share that was part of the bond scheme. If the person who owned the bond or the share within the bond wanted to capitalise that they would have to sell it in the marketplace, so the money for the capitalisation would come from selling it within the marketplace or those people who were able to buy or sell shares in the bond.

**Q361 Chairman:** It is a bit like the gilt repo market where you are selling the stream of an interest rate away from the capital which forms the basis of the gilt edged security. Is that right?

**Mr Dunn:** Correct.

**Q362 Chairman:** All I can say from my time in the Treasury is it was unbelievably complicated. You think this is a genuinely deliverable and sellable concept with the whole of the European Union? Have you tested it out?

**Mr Dunn:** Chairman, better minds than I have thought about this for a long time. Indeed previous and maybe even existing advisers to this Committee have thought about it long and hard before. I think it does have the intellectual rigour to stand.

**Q363 Chairman:** You happen to be the person who has written about it in terms of our evidence so that puts you in the hot seat as far as that is concerned. Do my colleagues have any other further points they want to raise? I just wanted to raise one small point going back to an issue which James Duddridge raised with you. On the second page of your supplementary evidence you say: “The TFA also believes that Member State Governments of the European Union should be allowed and indeed required to set food security standards for their own countries”. What do you mean by that?

**Mr Dunn:** I think I answered that question earlier when I said our concern is that the Government’s document has no concern about food security within a reformed CAP. I believe food security must be an element within the regulatory framework and that Member States should be required—and we need to have the debate about the constraints within which Member States should be able to do this—to ensure that it is looking long-term to its food security in developing policies to ensure they can maintain their food security.

**Q364 Chairman:** I got that bit, it was these “standards” implies some kind of prescriptive list, some objective statement by which you could rate whether you were food secure or not.

**Mr Dunn:** Our thinking on that has not been developed to that extent. All we are saying is we need to find a set of common standards within the Common Agricultural Policy which would allow Member States of the Union to have regard to their own food security long-term.

**Q365 Chairman:** For clarification let me also go to page three of your supplementary evidence where you say: “The EU rules on state aid should be relaxed as to their impact on para-fiscal money, such as levy money collected by the likes of the Meat and Livestock Commission”. Can you tease
out, for the benefit of my understanding, exactly what that means? What do we mean by relaxing state aid? For example, there are some people who have observed that in countries like France, Spain and Italy their governments have always funded the promotion of their nation’s foodstuffs in many ways, so you could argue that is a state aid. It is a bit like having the old nationalised marketing boards for whatever it was. Is that the world in which you wish to direct to form the CAP?

Mr Dunn: Absolutely not. What we were talking about in this regard was if you look at the Meat and Livestock Commission, the Milk Development Council, the Home Grown Cereals Authority and the others who are all now going to be reformed into one new levy board, we understand, they are statutorily required to levy primary producers so they can use that money for developmental research and other requirements. That money is not coming from the Member State, it is coming from those people in the marketplace who are trading in livestock, trading in cereals or whatever. When that money hits the coffers of the MLC, the HGCA or whatever, it is treated under the state aid rules as if it were public money, and therefore you are not allowed to use that money freely in terms of supporting your own producers, in terms of promoting products from Britain, which is why we have ‘Beefy’ and ‘Lamby’. We do not necessarily have British beef, British lamb, we have ‘Beefy’ and ‘Lamby’ supporting British meat. What we are saying is let us roll back the rules on that type of money. Yes, it is collected by statute but this is industry money which is being held.

Q366 Chairman: It is more flexibility for farmers’ money basically?

Mr Dunn: Correct.

Q367 Chairman: It is helpful to have that. Thank you very much indeed. As always, you have given us some very stimulating and challenging thoughts. I sense a little bit of work in progress.

Mr Dunn: You are dead right.

Chairman: It is certainly very helpful as far as our inquiry is concerned. Thank you very much indeed. Again, our best wishes to Reg for a speedy recovery.

Memorandum submitted by Natural England Partnership (CAP 19)

ENGLISH NATURE, THE RURAL DEVELOPMENT SERVICE AND THE COUNTRYSIDE AGENCY

BACKGROUND AND SUMMARY

1. This consultation response has been produced jointly by English Nature, the Rural Development Service and the Countryside Agency’s Landscape, Access and Recreation division who are working to create Natural England, a new agency for people, places and nature. Natural England is being created and will have responsibility to conserve and enhance the value and beauty of England’s natural environment and promote access, recreation and public well-being for the benefit of today’s and future generations.

2. The creation of the new organisation, Natural England, has already begun, with English Nature (EN), the Landscape, Access and Recreation division of the Countryside Agency (LAR), and the Rural Development Service (RDS) working together as partners. This natural partnership is delivering joint outcomes and paving the way for Natural England, whilst continuing to deliver their separate and respective statutory duties:

— English Nature is the independent Government agency that champions the conservation of wildlife and geology throughout England.

— The Rural Development Service is the largest deliverer of the England Rural Development Programme and a range of advisory and regulatory rural services.

— The aim of Countryside Agency’s Landscape, Access and Recreation division is to help everyone respect, protect and enjoy the countryside.

3. The Government is tasking Natural England with securing environmental benefits and championing the environment. A large part of this will be achieved by Natural England delivering environmental schemes under the England Rural Development Programme as part of the new Environmental Land Management Fund.

4. Our evidence relates to the Committee’s questions that most closely illuminate how the Government’s “Vision for the CAP” might impact on Natural England’s core purpose and the Government’s environmental priorities. In summary we:

— support the overall critique presented and welcome the Vision as far as it goes but consider that it lacks any explanation as to how parts of the vision could be achieved. For example achieving sustainable agriculture will require more than regulation and the existing Pillar 2 support. We, therefore, recommend 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;
— caution that the new Vision will need 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;
— recommend that a more developed Vision will need to collate and present convincing evidence and arguments to persuade other EU Member States of the need for the CAP to evolve rapidly into a substantive EU environmental or rural policy that ensures sustainable rural land management that delivers environmental and other public goods which cannot be secured through the market; and
— advise that Natural England will wish to assist the Government in developing the Vision as set out above.

COMMENTS ON THE GOVERNMENT’S OVERALL VISION FOR THE CAP

5. The Government’s Vision, questioning the justification for existing expenditure in Pillar I of the CAP and recommending phasing out all such support by 2020, is a key issue for the Natural England partners. Natural England will want to engage in and inform the debate that will take place ahead of the 2008–09 review of CAP financing.

6. We support the broad critique of the current CAP presented in the document, and welcome the Vision as far as it goes. However, the Vision set out in paragraph 1.5 is stronger on what intervention is not required in agriculture, rather than setting out a bigger vision of the role of agriculture and more sustainable land management in contributing to Europe’s environment, cultural heritage and rural communities. It will be essential to develop a clear “bigger vision for sustainable agriculture, land management and the rural environment in Europe” if we are to persuade our sceptical European partners of the overwhelming case for reform.

7. As part of setting out this bigger picture we think it would be helpful if the Vision (as set out in paragraphs 1.5 and 1.32) also reiterated the key principles underlying the Government approach to intervention in agriculture, land management, the environment and the local economy in rural areas. In particular this should highlight key environmental principles and commitments including:

— the polluter pays principle, underpinned by appropriate regulation;
— the need to deliver on international environmental commitments including the Natura 2000 network, the Convention on Biological Diversity, the Water Framework Directive and the European Landscapes Convention;
— the need for specific incentives to address identified market failure;
— relevant England Government policy objectives including the Strategy for Sustainable Food and Farming, the Rural Strategy and the England Forestry Strategy; alongside other Government objectives such as the need for intervention to be non-trade distorting and respect the Single European market in agricultural goods.

COMMENTS ON THE POSSIBLE ENVIRONMENTAL CONSEQUENCES OF THE PROPOSAL TO PHASE OUT ALL PILAR I SUPPORT BY 2020

8. There is evidence to support the basic contention that commodity intervention has encouraged over-intensive agriculture and thereby loss and damage to habitats in England. This is not solely associated with the CAP: the Nature Conservation Review of 1977 referred to “the steady eradication in arable areas of all habitats... extraneous to the crop itself” and this started long before the UK accession to the CAP in 1973. A recent English Nature SSSI condition report highlights agricultural practices as the single major factor in unfavourable condition of SSSIs. Particular problems were associated with headage payments encouraging overstocking on upland SSSIs and diffuse pollution of riverine SSSIs associated with overuse of fertilisers. We thus strongly support the analysis in paragraphs 2.32–2.38 and 2.43–2.46 of the Vision.

9. However, the UK perception of the largely adverse environmental impact of the CAP is not necessarily typical in Europe. As the Vision sets out, in the UK the general impact has been to support a damaging over-intensification of production, but this pays insufficient attention to the issue that in parts of Europe, Pillar I 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). The issue is not only one for continental Europe: maintenance of grazing in some habitats in England (most particularly low-intensity meadows and heaths) has also been assisted by the CAP incentives to keep livestock. Although these benefits are not intrinsic to Pillar I they have been associated with it and strategies for managing the change in policy context should be set out in the Vision.

10. The Vision states that “liberalisation will not necessarily result in the loss of the systems. In fact, in some areas the CAP has been insufficient to maintain the viability of particular systems”. This is insufficient. It fails to register that retaining these HNV areas and other cultural landscapes (which cover large

11. Some other EU Member States, notably France, promote the view that that price support through the CAP has provided cost-effective support for a multi-functional agricultural and rural economy. They regard traditional High Nature Value farming with the associated social outputs as a key component of this multi-functional agriculture. The UK vision for the CAP will need to provide reassurance that these benefits can be retained, or of the merits of alternative scenarios. UK arguments for further reforms will also need to be underpinned by a much clearer understanding of both the UK- and EU-wide environmental impacts of CAP reform. This is particularly important in the context of the New Member States and the applicant countries which generally have large tracts of areas of High Nature Value and other cultural landscapes linked to low intensity farming practices. Access to CAP Pillar I income support is seen as important in these Member States, some of which are choosing to top this up with funds from their rural development budget.

12. Decoupling of support will have implications wider than High Nature Value areas. All commercial farming decisions will be made in the face of a more uncertain market and hence actual choices about crops and livestock enterprises may change more rapidly than previously. Work for Defra by GFA-RACE35 on the Potential Environmental Impacts of CAP reform work highlighted the very variable impacts that decoupling might have. It could result in intensification in response to high prices, and running enterprises with limited inputs in response to low prices as well as simply changing enterprises more quickly. This will mean that the measures needed to secure appropriate environmental management may be very different—and need to change in response to market changes much more quickly than has been the case historically. The Vision will need to spell out how these changes will be addressed to secure environmental benefits. This may not be a straightforward process but is likely to entail step-changes in farm enterprises and require much more responsive environmental schemes.

13. Interestingly the Vision does not address the impact of the 2003 “decoupling” of farm payments. Assuming that in the longer term the Single Payment Scheme is largely production-neutral, decoupling should remove a large proportion of the incentive for over-intensive production. This suggests that the reliance in the Vision on the argument that the CAP leads to over-intensification may rapidly look dated and the emphasis will need to shift to a critique of Pillar I as it now operates if we are to convince EU partners of the need for continuing reform. Paragraph 1.30 implies that once the Single Payment Scheme operates as a truly decoupled support the chief objection to the CAP will be overcome but this requires that the Vision needs to set out a more robust critique of the Single Payment Scheme. This offers the opportunity to present a case that the Single Payment Scheme is a highly inefficient mechanism for securing the multifunctional benefits that other member states claim to be seeking. In respect of the environment, it cannot support beneficial management methods by definition as it is decoupled from particular sorts of agricultural practice. At the same time, although the UK will not be making the case that the CAP should act as an income support, it is likely that in other Member States the income effects of support will continue to be a key issue. There is a also strong case to be made that the Single Payment Scheme is a highly inefficient income support, and that targeted support through Pillar II could be more effectively used to help underpin rural economies and rural incomes, whilst delivering the environmental benefits that Europe seeks.

14. The fact that many Member States (eg France) have not adopted full decoupling and are likely to resist further decoupling complicates this situation and raises important issues over the political landscape of further reform.

COMMENTS ON THE EXTENT TO WHICH THE PROPOSED CHANGES TO THE CAP WOULD RESULT IN A LOWER LEVEL OF TAXATION (THROUGH REduced PUBLIC SPENDING ON THE CAP)

15. The Vision contains an assumption that CAP reform will necessarily yield a public expenditure dividend. We consider this assumption premature for a number of reasons explained below.

16. The Vision acknowledges that even after abolition of Pillar I of the CAP there will be a continuing need for non-trade-distorting intervention to ensure more sustainable land management: this will be required to underpin the delivery of agreed and legitimate EU environmental objectives for climate change, the Natura 2000 network, the European Landscape Convention and the Water Framework Directive. The cost of securing these objectives remains to be determined, but is likely to be substantial and will need to be addressed if a more detailed vision for Pillar II is developed as we propose.

17. There is considerable uncertainty about how costs of agri-environment schemes will change as a result of different levels of agricultural activity. Whilst the cost of securing less intensive production may fall, the cost of securing positive grazing outcomes on marginal land may rise steeply since farming infrastructure itself may decline significantly. This is likely to be a particular issue for countries with large areas of HNV and Natura 2000 land where grazing will be needed to secure favourable conservation status. Furthermore if the “income foregone” model were to shift towards payments for benefits delivered this might have a significant impact on the costs of securing these outcomes. The Land Use Policy Group, of which we are members, is proposing to undertake work on this issue.

18. Pillar II can be used in ways that encourage sustainable farming and land management to become more competitive. Such activity needs to be integral to viable business activities, and the sort of non-distorting support that might help develop these could include identifying niche markets and helping develop the capacity to fill them through environmentally linked food products, as well as linking farming and land management businesses to tourism and leisure services, and facilitating the development of proposals that can secure commercial finance. There is considerable potential for CAP reform to encourage the building of environmental payments into thriving rural businesses and imparting an environmental competitive edge to rural businesses. A socio-economic report on agri-environment schemes in Wales to the Welsh Assembly Government and the Countryside Council for Wales (2005) has highlighted that for many farms such funding is now an essential part of their farm business.

GLOBAL ISSUES

19. If sustainable land management is to be made central to the Vision as we argue, this will need to be done in the context of other Government objectives, notably global trade and competition.

20. We agree that “reform will mean changes in patterns of production” (paragraph 1.27) and that many of these could be desirable. There is a need to avoid exporting environmental production problems (particularly in respect of environmental issues such as climate change and global biodiversity). Free trade will not in itself result in the most “sustainable” production patterns (paragraph 1.27): such a benefit would need a global approach to setting environmental production standards and real-cost pricing of fuel. Whilst for reasons outlined above, we support the argument (paragraph 3.59) that “using high levels of agricultural support . . . as an instrument of environmental protection is likely to be highly inefficient and ineffective” this needs to be accompanied by a commitment in the Vision to ensuring a WTO framework that addresses the issue of food imports produced cheaply at the expense of environmental degradation. This should also help convince partners that the UK is seeking an agricultural model that is genuinely sustainable. We consider that the Vision needs to assess global environmental issues: doing so is essential to underpin the case for reform.

21. We would like the Vision to draw a distinction between competitive distortion—which we agree must be avoided—and equal treatment for landowners in all Member States, which cannot be achieved since Member States may legitimately want to use different approaches. Different states (both within and outside the EU) will have different domestic policy priorities for intervention. In England this is likely to include the desire to secure particularly high environmental benefits. This requires that there should be nothing to stop individual Member States differentially supporting farmers and land managers in a non-distorting way if they choose to. Such a stance would reinforce the UK position that individual Member States can modulate the Single Payment at different levels and speeds, even if this results in unequal treatment, so long as it does not lead to competitive distortion. 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.

COMMENTS ON HOW THE REFORMS PROPOSED IN THE REPORT COULD BE ACHIEVED IN PRACTICE, AND HOW THESE CHANGES RELATE TO THE ONGOING DEBATE SURROUNDING THE FUTURE FINANCING OF THE CAP

22. The dichotomy between the Government’s Vision and what was actually achieved in the 2005 EU budget deal, and the resistance of many Member States to adopt full decoupling, indicates that it could be very difficult to persuade other Member States of the benefits of further CAP reform. Whilst much resistance to reform may be linked to distributional issues or a desire to see the 2003 reforms “bed in”, there is also scepticism that the environmental and other benefits of the Pillar II model being developed in the UK will be replicated elsewhere. Convincing EU environmental and other groups of the benefits of reform is thus essential. For the next reform the UK needs to demonstrate to a European audience that environmental and other benefits will be delivered and enhanced through its alternative model for the CAP, and present more convincing evidence that CAP reform can be achieved whilst maintaining Europe’s rural economies and distinctive landscapes. A debate on a common framework for the delivery of a high quality European environment, with all the social and economic benefits this will bring, could enable a broader coalition of support to be built across the EU for CAP reform. Natural England will want to be central to making that case.

23. The Vision at this stage does not put forward a clear model for an alternative agriculture and land use policy for Europe, or demonstrate how it will more effectively deliver the multifunctional objectives that many Member States believe have been delivered through the failing Pillar I model. The “Vision for the
CAP” needs to be developed further if it is to become the main cornerstone of the Government’s approach to further CAP reform. In order to deliver environmental objectives it needs to become a Vision based on the positive delivery of public goods in rural areas rather than the (current) model which considers environmental benefits to be a by-product of agricultural production. This will require development of a parallel “Vision for sustainable agriculture, land management and the rural environment in Europe” alongside the Government’s Vision for the CAP. It is important to avoid any assumption that dismantling the CAP and freeing CAP resources for other (largely non-environmental) purposes is an end in itself.

24. The Vision hints at this in suggesting (paragraph 1.32) that EU spending should “be based on the current Pillar II”. But the Vision for Pillar II needs to be better elaborated at this stage to make a clear case for continuing European intervention in land management in order to address European environmental commitments. These include the pressing challenge of reversing biodiversity decline, implementing the Water Framework Directive and addressing climate change, along with the issue of maintaining the characteristic landscapes, wildlife and settlements which underpin tourism and the cultural identity of Europe. At the same time it needs to demonstrate how the commitment to removing barriers to agricultural globalisation, trade and growth can be done in a sustainable way.

25. Natural England will want to work closely with the Government in articulating this next stage of the Vision, both to ensure the maximum environmental benefit is secured from CAP reform, and in helping to convince environmental, land management and other rural stakeholders in the rest of Europe that the UK has a vision for Europe’s environment and rural areas that represents the best way forward.

February 2006

Further evidence submitted by Natural England (CAP 19a)

KEY POINTS

1. The key points that we would like to bring to the Committee’s attention are as follows:

— Natural England agrees with the critique of Pillar 1 of the Common Agricultural Policy (CAP) in the “Vision” document. State support for agriculture has had major adverse environmental consequences in England during the past 50 years. Recent reforms to Pillar 1 have greatly reduced these impacts and the introduction of Single Farm Payment promises further improvement. However, this part of the CAP still produces relatively little positive benefit. Good Agricultural and Environmental Condition is based largely on the minimum standards already required by regulation. We recognise that the impact of Pillar 1 payments has varied across Europe and that in some areas they have helped to maintain small-scale traditional farming.

— Natural England is concerned that the “Vision” does not go far enough in describing the mechanisms by which competitive, market oriented agriculture can be combined with the effective stewardship and conservation of the Natural Environment.

— The “Vision” assumes the environment can be safeguarded through a combination of the free market, regulation and the current modest level of expenditure on Pillar 2. We are not convinced that this will work.

— We think that a strengthening of Pillar 2 will be needed alongside the running down of Pillar 1 payments. This is mainly in order to ensure that the environment is protected whilst farmers either adapt their enterprises to seek new markets and increase competitiveness or choose to allow land to lie unmanaged. This will require large-scale public support for a considerable period, certainly beyond 2013. We do however believe that it should be possible to make some financial savings from reform and we will be working to quantify these.

— Our faith in the effectiveness of Pillar 2 is based mainly on the proven track record of agri-environment and forestry schemes, which have delivered a range of tangible environmental benefits in England since their introduction in 1987.

— Although we believe that a progressive shift from Pillar 1 to Pillar 2 is in the interests of all member states, we recognise that not all countries need or are ready to make this journey at the same rate. We consider voluntary modulation to be a vital tool for allowing the member states to make the same journey but at different speeds. Without it, the effectiveness of the next Rural Development Programme for England will be seriously compromised.

— Although we think voluntary modulation will be a vital tool in the short to medium term, we hope that it may gradually decline in importance as other member states agree to higher rates of compulsory modulation.

— We think that there may also be a role for Pillar 2 in helping to support the structural adjustments that farmers and land managers will need to make to comply with a suite of new environmental obligations and standards. This could be a focus for the use of Axes 1 and 3 within the Rural Development Programme.
WHERE HAS NATURAL ENGLAND MOVED SINCE SUBMITTING ITS ORIGINAL WRITTEN EVIDENCE?

2. Our position has evolved rather than fundamentally changing. In consequence, it is not necessary to rework much of the detail of our original evidence. The original written evidence was however submitted before Natural England’s statutory Purpose was finalised and before our Strategic Direction was agreed.

3. Natural England is now clear that it wants to work towards a new social contract between farmers and the rest of society, where farmers see one of their primary roles being to manage the environment, including its landscape, biodiversity and natural resources, and where the public sees farmers as guardians of the environment and agrees that they are happy to pay farmers for these “public goods” through taxation. This contract would also involve farmers moving towards more environmentally and economically sustainable production of food that consumers want to buy and for which they are prepared to pay a fair price.

4. This evidence has a sharper focus on key messages, and presents a solution which we believe would work in England whilst standing some chance of being acceptable across Europe.

COMMENT ON THE RESULTS OF THE INFORMAL AGRICULTURE COUNCIL MEETING HELD ON 28 SEPTEMBER

5. We accept the Commissioner’s view that the 2007–09 “health check” is unlikely to lead to the dismantling or radical restructuring of the CAP, and that a strong CAP is likely to be in place well beyond 2013.

6. We fully agree with her continued drive to encourage member states to decouple payments from production and to review mechanisms such as export refunds and other forms of market distorting intervention.

7. We are encouraged by her recognition that budgetary pressures mean that there will need to be some policy changes as part of the health check process. The changes she is reported to have talked about, including compulsory modulation and aid capping would be consistent with the solution we are promoting. We think voluntary modulation could play a significant short to medium term role in helping to prepare the ground for higher rates of compulsory modulation.

8. We are also encouraged by her description of the mid-term financial review as “one vision, two steps”. Clarity over the long term strategy and direction would be particularly useful for the multi-speed model we are proposing. It would help some member states to go faster than others, by providing some reassurance that other member states were at least travelling in the same direction.

A SUMMARY OF OUR CONCERNS OVER MODULATION

9. We have concerns relating to voluntary modulation at both the European and National level:

   — At the European level we fear that the combined effects of the requirement for a single rate of voluntary modulation for each Member State, the franchise, and the requirement to split the proceeds of modulation across all three axes will leave us with insufficient funding for our Programme. We also fear that wrangles with the European Parliament will result in serious delay in agreeing the Regulation on voluntary modulation. If this means we have to suspend the issuing of new agreements, this could lead to a serious loss of confidence and goodwill by farmers and land managers.

   — At national level we are concerned that the Government will set a rate too low to fund a Rural Development Programme that is adequate to meet the scale of need. This fear is compounded by uncertainty over the rate of co-financing that the Treasury will agree to.

October 2006
Q368 Chairman: Natural England are our final set of witnesses. Can I welcome Dr Helen Phillips, Chief Executive Officer, Poul Christensen, the Deputy Chair who very kindly looked after us when we came to the Royal Show and we looked at your instant piece of meadow land and various other environmental features which we enjoyed very much, thank you and Mr David Young, the Executive Director of Strategy. I indicated to you that we are under a time constraint because in 29 minutes the House will vote. We will try and rattle through our questions as quickly as possible. I do not know whether you want to make any kind of opening statement, that might be a good way to do it. Dr Phillips, would you like to start?

Dr Phillips: Thank you very much. I suppose the first thing to say is that Natural England agrees with the UK Vision document in so far as it goes and, in particular, we support the critique of Pillar 1. Recent reforms have done much to eliminate the damage caused to the environment by Pillar 1 but it is still producing relatively little benefit. Good agricultural and environment condition in reality goes little above and beyond the requirements of regulation. The Vision does not go far enough in describing the mechanisms by which competitive market orientated agriculture can be combined with the effective stewardship and conservation of the natural environment. Where we disagree is that the Vision assumes that the environment can be safeguarded through a combination of free market, regulation and the current very modest levels of expenditure on Pillar 2, and we are far from convinced that that can work. We believe that there is a requirement for the strengthening of Pillar 2 alongside the reduction of Pillar 1 payments and that is to ensure that the environment is protected whilst farmers adapt their farm enterprises. That is going to require public support for a considerable period, in our view beyond 2013. However, we do believe that it should be possible to make some financial savings from the reform albeit we have work to do to quantify what they would be. Our faith in the effectiveness of Pillar 2 is based mainly on the proven track record of both the agri-environment and forestry schemes which have delivered a range of tangible benefits since their inception in 1987. Characteristic landscapes have been protected, access has been improved and with that the economic benefits that flow, in particular from tourism and from recreation. Of course, it is the intrinsic value of the natural environment that attracts that economic activity. Agri-environment schemes are delivering for both habitats and species. I know the RSPB in their evidence cited to you the population increase of curlew bunting. I would add to that: bringing stone curlew back to central southern England from the brink; contributing to 69% of SSSIs now being in favourable condition; slowing, and in some cases reversing, the 30% decline in butterflies on farmland. We believe a progressive shift from Pillar 1 to Pillar 2 is in the interests of all Member States but we recognise that not all countries need, or, indeed, are in a position to make the journey at the same rate. Voluntary modulation is going to be a vital tool to allow Member States to make the same journey at different speeds. If it is not available then, of course, the effectiveness of the next rural development programme in England will be seriously compromised. We recognise that the impact of Pillar 1 payments has varied across Europe and in some areas they have helped maintain and improve the environment, particularly where we have small scale and traditional farming but even in these areas, Pillar 1 cannot safeguard against future change. Voluntary modulation is going to be a vital tool in the short to medium term but we hope can decline in importance as other Member States agree to the higher rates of compulsory modulation that Commissioner Fischer Boel said she favoured in her evidence to you on Monday. There may also be a role for Pillar 2 in helping to support the structural adjustments that farmers and land managers will need to make to comply with the suite of new environmental obligations and we would suggest that might be a legitimate focus for payments under Axis 1 and Axis 3 of the rural development programme. In summary, our view is that the long term direction of CAP reform, as discussed by Commissioner Fischer Boel, to increase compulsory modulation should be more strongly supported than is the case in the current UK Vision document and in the shorter term, that we ensure the resources are sufficient and available under Pillar 2 to fund the full range of public benefits envisaged by the rural development programme which we estimate to be in the region of £500 to £700 million per annum by 2013. We would encourage you to be both supporting and advocating voluntary modulation as a flexible tool for all nations in Europe to adapt to new and emerging challenges on the industry, what we would describe as one journey, several speeds.

Q369 Chairman: You put a lot of emphasis on resources. I suppose you must think it is a bit sad really, you have just come into existence and had £12 million knocked off your budget from those nice people in the Treasury who you think have got a proper vision as far as the future of the CAP is concerned. Have you taken a cockshy yourself at responding to the question I have asked everybody, what do you think the purpose of the CAP should now be? What do you think it should be?

Mr Young: I think building on what Dr Phillips has said, we see really that the long term evolution of the Common Agricultural Policy needs to be towards a funding of public benefits.

Chairman: It looks like the vote has come a little earlier. We will try and come back in 10 minutes.

The Committee suspended from 5.07 pm to 5.23 pm for a division in the House.

Q370 Chairman: Mr Young, I hope your mid sentence point can now be resumed.
**Dr Phillips:** Just before we go to that, if I may, you asked about our view of the purpose and future direction of CAP which David was just about to respond to. I have just twigged that you referred to those nice people down at the Treasury, just for the record, so we are absolutely clear, we are very supportive of parts of the UK Vision, namely the critique of Pillar 1. Much less so in the not going far enough to grow Pillar 2 and provide a basis for looking after the environment at the same time as helping restructure. There we part company with those nice people down at the Treasury.

**Q371 Chairman:** That is all right. I usually say at the end of each evidence session that you cannot undo that which you have said but if you wish to add, you can, so you have managed to cheat me out of my little end bit so thank you for that clarification.

**Mr Young:** Thank you. I will start from the top. Basically, we think the purpose of CAP 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. In the long-term we think that the CAP reform should progress to essentially establish a sustainable land use funding stream and how that is connected to land or to the farming or the land based enterprise is perhaps to be determined but we have some ideas on that. We think that there is a need for both a vision but also a pathway because there are significant changes that are ahead for the agricultural sector and land management in general. As has been given as evidence by others, farmers are increasingly having to compete on global markets and when combined with the pressures of climate change, we think there is a need for a Common Agricultural Policy to provide a level of investment certainty to underpin both the structural adjustment necessary for the agricultural sector but also to provide the certainty of outcomes for the environment which we might note at the moment are only rented rather than secured for the long-term. We think that in practice to do that, as we have articulated, there is a need for the progressive move of funding from Pillar 1 to Pillar 2 as outlined in the vision but that we should pursue the line Commissioner Fischer Boel indicated which was to expand the compulsory modulation substantially with ultimately perhaps the complete reform of the Common Agricultural Policy just to be centred around a revised Pillar 2.

**Q372 Chairman:** Can I stop you there and say what you seem to be describing is the evolution of not a Common Agricultural Policy, but a common environmental policy.

**Mr Young:** A common sustainable land use policy because I did draw the earlier distinction that we recognise the need for significant structural adjustment in the way that the agricultural sector operates and we are not sitting here only saying that this is all about the environment. We recognise the context in which the natural environment is protected and the role that farmers and land managers play today and will continue to play in the future in delivering those environmental goods and services. It is a vision that sees land managers and farmers as part of that delivering a suite of environmental goods and services as well as the products of agriculture.

**Q373 Chairman:** One of the issues about environmental goods which has been raised is that those who are out of the European Union but seek to supply agricultural products to the Union, and this is a general statement, do not adhere to the same kinds of high standards environmentally that we do. It is a very interesting issue because it is an issue which I suppose treads on to the question of protection of Europe’s markets to enable the model you have described to be sustained but, on the other hand, that gets into the difficult areas in the WTO where to date they have found it very difficult to take into account things like environmental protection and high animal welfare standards which do not easily lend themselves to quantifiable discussion. Have you given thought to that external dimension in the context of the future role of the CAP?

**Mr Young:** Yes, the risk of reform which simply exports environmental degradation beyond the boundaries of Europe is something that we are very alive to and, in fact, our whole proposition around a significantly expanded and, indeed, redesigned Pillar 2 centres on achieving competitive agriculture in Europe whilst at the same time providing those environmental safeguards. It would be our assertion, and we think many in the farming sector’s assertion as well, that competitive agriculture and sustainable practices are not mutually exclusive.

**Q374 Chairman:** I do not want to put words in your mouth but is it a necessity for an element of sustainability to become part of the operation of the WTO, for example?

**Mr Young:** I do not think we would have a position on it except to say that currently we are very aware that World Trade Organisation’s rules do not permit that and world trade law would not sustain arguments around that, in fact, cases have been brought against countries that have done that.

**Q375 Chairman:** You talked in general terms about the objectives of the revised policy and you specifically said that the budget for Pillar 2 should be enlarged over time to between £500 and £700 million a year, by 2013 was the figure that you put down. That implies that you have done some kind of modelling to suggest how you get to £500 to £700 million as being the right numbers and you equally will have decided what we would get for this expenditure. Could you expand a bit upon that and help us to understand, is that what you think should happen within the United Kingdom by the adoption unilaterally of an aggressive modulation...
approach or is it something which you feel should be the general direction of travel within the European Union?

Q376 Chairman: The reason I am probing that is we have got the short-term agenda of what happens in the period up to 2013 when a substantial change could come about and thereafter, or in the run up to 2013, how the policy should be developed that would be applicable throughout Europe to achieve some of the objectives which you have described in the United Kingdom context. One of the issues that has to be addressed is re-nationalisation of the CAP and most of our continental interlocutors do not like the idea of re-nationalisation. I suppose in terms of the 20% modulation proposal which our Government has put forward, that represents a fairly extreme form of what the current policy allows, or that is what they would like to have but that is met with certain resistance from our continental counterparts. How much do you see the problem in terms of developing the Pillar 2 and the agri-environment schemes, taking into account that there does not appear to be in the discussion about reform any move away from historic keys as determinants as to how much Pillar 2 money would come to us. The Commissioner in Helsinki last week made it very clear that she had no intention of advocating a change in the basis of Pillar 2 funding from European Union sources so by definition that means a deficit that has got to be met from national funding. Have you given thought as to this sort of deficit argument and how it might be met if that is the direction of travel of reform of the CAP?

Q377 Chairman: Just out of interest, we have got various measures of environmental degradation in this country and in sustainability targets which the Government has, an indication of some of the ways they would like to repair that situation. As an organisation, have you done any work to compare the relative state of the agri-environment, if I can put it this way, between ourselves and other “agricultural” members of the European Union. Are we better, worse or whatever. What is the overall position?

Mr Young: I think we are safe in saying in many cases worse. The impact of the previous coupled agricultural support payments pre-reform had devastating impacts. Just to give you some statistics, since the 1930’s, 97% of species-rich lowland grasslands have been lost, lowland heaths have suffered 82% loss of area from the 1800s to the 1980s with more than a 40% loss since the start of the Second World War.

Q378 Chairman: That is in the United Kingdom?

Mr Young: Yes, that is right. We have transformed our landscapes in Britain, and in England in particular, on a very vast scale. In other parts of
Europe, for example, the Spanish were able to put a very significant physical area of Spain into the Habitat’s Directive largely because they have semi-natural environments on a very large scale which are being farmed or used in low intensity low impact ways. I cannot sit here and confidently say we have got empirical evidence giving exact comparisons but certainly we know the degradation that has occurred in the UK and we see less problems in some of the countries of Europe.

Chairman: The reason I asked that question as to whether you thought it might affect the climate of discussion is because whilst there has been a lot of talk of Pillar 2, if you have already got quite a lot of environmental goods, you might be less attracted to put more resource into that particular route than if you have a big repair job to do on the natural environment. That is enough observation from me, Madeline?

Q379 Mrs Moon: I am going to simplify my questions, if I may, because time is going on. You have talked a lot about what your vision of the CAP is. Dr Phillips, I wonder if I could take you back to your introductory remarks and also the written comments you made in terms of the need to look at the negative impact of division and one of the things that is of concern is that we have had areas of high nature value, cultural landscapes you referred to, we have had grazing in areas in the UK that might otherwise not have been brought into use thanks to funding from Pillar 1. One of the issues that the Commissioner raised with us was an issue of concern about land abandonment. Do you see land abandonment as being a consequence of the Vision document and if you do, where do you think it will impact both in the EU and in the UK? Where can you see that happening?

Mr Young: I think we see a significant difference between the UK and Europe. I think in Europe it is a real possibility. The uncoupling of the Pillar 1 payments from production subsidy has created a somewhat unstable environment where it is unquestionable that some of the agricultural industries in Europe are not trading economically and there is going to be substantial change facing them going forward and that may lead to land abandonment. It is also why we believe our vision for an expanded and redesigned Pillar 2 is essential at a European scale because it will be necessary to have such an instrument to prevent that land abandonment in Europe. In the UK we do not think that is going to be such a significant problem and particularly not in England. There will be changes in patterns of land use but not abandonment.

Mr Christensen: Can I add to that, if I may. I am speaking as a tenant dairy farmer in Oxfordshire so very much at the sharp end, and a lot of George’s comments resonated very much with me. In terms of abandonment, if you go back to the 1920s and look at the pattern of what happened then in the previous real Depression, it was also a period of great opportunity for a lot of farmers. A lot of the farming dynasties that we see today were formed at that time of opportunity because people went out and started from scratch so there is an element of potential abandonment which other people see as an opportunity. To answer your question more directly, where would it happen, it would happen on the land of the lowest natural inherent fertility so the South Downs, some of the Brecklands, you go up into the hills and we have seen the stone walls go up and down the hills over the centuries and at the moment they will be coming back down again very fast, that is where it would happen. We would lose, particularly on the Downlands, some of our most treasured and valuable habitats where there is a multitude of diversity.

Q380 Mrs Moon: Therefore, is that one of the reasons why we are going to find difficulty with the European Union accepting this Vision? Is that going to influence their fear of land abandonment, is that going to be why they will cling to the current practices?

Mr Christensen: I think our view on that is one of the reasons, of course, is the social context in which that happens is much greater than in the UK. If you go to large parts of southern Europe in particular very many very small businesses, if that was abandonment and they just walked out, there would be a massive social problem. I think Europe see it a bit more as a social problem whereas I think we are looking at it very much as an environmental problem.

Dr Phillips: I think the other reason why it is a harder vision to sell in Europe is probably more to do with the view that it is the UK that are squeezing Pillar 2 payments and at the same time seeking a domestic mechanism through voluntary modulation to bridge that gap for the UK. I think that is in many ways part of the essential stumbling block to us being able to get wider ownership and “buy in” to the UK Vision.

Q381 Mrs Moon: Buying into the vision, as outlined by David Miliband at the Royal Show, was the statement that we currently have 40% of land in England under some form of agri-environment scheme and that part of your task was to move that up to 60% at least at entry level scheme by the end of 2007. How important to Natural England’s success is the implementation of agri-environment schemes? Is success best measured by take up of agri-environment schemes, either at entry level or the higher level, or by the provision of the environmental goods and services that you talked about earlier?

Dr Phillips: I think we are in a position at the moment where we are spending quite a lot of time measuring take up and other forms of inputs and not sufficient time on measuring outcomes. The first thing we did in terms of corporate strategy for Natural England was describe the fact that we need to be able to explain not only to the public, and particularly the 80% of the public who pay for these benefits that the rural communities are delivering,
and live in cities and towns. There is a loss of connection between those public benefits that are being delivered by rural communities, not only in terms of what it is doing for biodiversity but what it is doing for resource protection and what it is doing in terms of downstream flood risk management (which can be proved to the extent of 20% if we are getting sensible management of the natural environment in the uplands). That connection is missing and I think we are going to have to work hard not only to emotionally connect people with what is being delivered by land managers but also so that we are having negotiations not only for more concerted action across the board but the right level of resources and funding to go into it. I think it is difficult for us to be able to describe at a UK level and particularly at a European level with sensible metrics what precisely the benefits are. We can point to the examples we have given to you earlier about the stone curlew, the characteristic landscapes and the characteristic patterns of land management but, frankly, it needs to become much more fine grained sort of descriptions that we can give.

Q382 Mrs Moon: I just wonder if you could talk a little bit more about how we know what the public wants in terms of the environmental goods and services. We are talking about engaging the public with it. How do we do that and how do we actually ascertain from them what it is they are wanting, and how do we educate and inform that opinion and view so it is not just a case of this but that they fully understand the implications of what they are proposing and desiring?

Mr Young: From our point of view, the first position is to ensure that the public is aware of what the benefits are that are being delivered through the programmes. As Helen has said, we think that is far from the case. We think there is a complete lack of awareness of the wildlife conservation benefits and contribution to the rural economy that these schemes actually deliver. Just by way of example, research done in 2004 shows that about 60% of rural tourism and recreation is underpinned essentially by healthy and attractive rural tourism. We heard today from the National Farmers’ Union that their view is that nearer £14 billion in updated terms, so it is a very substantial underpinning especially by healthy and attractive natural environment in the uplands. That connection is missing and I think we are going to have to work hard not only to emotionally connect people with what is being delivered by land managers but also so that we are having negotiations not only for more concerted action across the board but the right level of resources and funding to go into it. I think it is difficult for us to be able to describe at a UK level and particularly at a European level with sensible metrics what precisely the benefits are. We can point to the examples we have given to you earlier about the stone curlew, the characteristic landscapes and the characteristic patterns of land management but, frankly, it needs to become much more fine grained sort of descriptions that we can give.

Q383 Mrs Moon: If I can stay with the money questions and how we make our choices, there have been reports in the media that entry to the higher level scheme has actually been racked up and the difficulties of actually entering it have been increased as a result of you having to meet your budget limitations. Is that true? Is that what is affecting entry into the higher level scheme?

Dr Phillips: It is a slightly distorted version. The first thing to say is that while it has been well-publicised the fact that Natural England and our founding bodies have been subject to budget cuts in year, the very first thing we did when we had discussions with officials about that was to say that we needed to set aside the resources to pay for entry level schemes and higher level schemes, so everything you have read about budget cuts in Natural England does not apply to our delivery of agri-environment schemes. That was an agreement we reached early on with Defra. Within that we have had a much higher level of application to the entry level scheme than we anticipated initially, which has caused us to have to take some judgments around the rate at which we can approve Higher Level Stewardship agreements. Of course in Entry Level Stewardship the whole idea is that you have open applications and in many ways, I suppose, that helps the farming community relate to voluntary modulation in the way that there is an opportunity for everybody to not only share the pain but to take the benefits of it. Higher level schemes were always designed to be much more targeted and consequently they are competitive, not only in terms of us being able to make sure that the resources go round but that we are getting the right level of targeting about the species and habitats that we are trying to protect, so the bar has indeed been raised.

Q384 Mrs Moon: There is that bar and the restriction on the budget. Can I deal with the question of monitoring of outcomes because you talked about the importance of actually looking at outcomes. Is some of your budget restriction going to impact on the NGOs, who are party to that monitoring who actually look at the outcomes that you are talking about? How much is the impact going to be on them if you cannot actually see what the outcomes are of agri-environment schemes so you are not able to track the changes and improvements that you need to then go back to justify them. You are in this cycle, are you not?

Dr Phillips: We spend between £900,000 and £1.1 million a year on monitoring the benefits of agri-environment schemes. That budget was part of the same negotiation we had with Defra officials about it being ring-fenced and kept separate from other funding revenue streams that we had to apply
the in-year budget cuts to, so that is protected. That is not to say that there are not a lot of NGO partners and other partners we have who are being directly affected by budget cuts in other parts of our budget, but not in that particular regard.

Q385 Sir Peter Soulsby: Can I just return briefly to the discussion about the fear of land abandonment because it was something that the Committee heard from Commission officials earlier in the year when we were in Brussels. We heard it in France and Germany and we heard it again from Commissioner Fisher Boel earlier in the year. It obviously is an issue in itself but I wonder to what extent it is symptomatic of something else that has been put to us which is that the vision statement put forward by the UK Government really has not thought through a lot of these issues adequately, and that that is a fairly major weakness in it. In your early evidence you talked about gaps in provision and the need for further sophistication. I just wondered whether that was a rather polite way of agreeing with the criticism that there were major elements in the vision that had not been properly worked through.

Mr Young: Our vision for a revised and redesigned Pillar 2 is what we think is missing from the UK’s vision. That is the big gap that we think is absent. I suggested earlier that our vision for Pillar 2 is a European vision for Pillar 2. We think that the redesign of Pillar 2 can overcome the problem that Europe faces with land abandonment, whilst giving the UK the opportunity to progress its agri-environment schemes at a pace that we decide, so we think it is a gap. We certainly think it is something that needs to be addressed and we think we have some ideas around how it could be done on a Europe-wide scale.

Q386 Sir Peter Soulsby: I think that is perhaps an agreement that there are elements of the vision that do need further refinement if it is to be made credible. I understand that. Can I just ask you about your own budget; is your budget for the current year now fixed?

Dr Phillips: It is. If your question is around the Natural England budget—

Q387 Sir Peter Soulsby: More generally but obviously with this specifically in mind.

Dr Phillips: The Natural England budget in round figures is £500 million. In response to Mrs Moon’s questions I have talked about the protection we sought to get around the £300 million very early on in those very lengthy negotiations. Of the remaining £200 million we experienced an £8 million cut last December, which of course was prior to the arrival of the Executive Board of Natural England which was at the end of February. Shortly after our arrival we were faced with a further £12.9 million cut to our budget. We have now reached a situation where £6.4 million of that has been restored this year and a further allocation of £1.685 million specifically for the marine survey work over two years has been restored, and we have been given some certainty in terms of planning assumptions for 2007-08 going forward, most notably in respect of the costs we will incur having been the first NDPB to enter into Defra shared services, entering into IBM-enabling contracts and also experiencing some of the vagaries of VAT payments now as an NDPB as opposed to some of the exemptions that the founding bodies enjoyed.

Q388 Sir Peter Soulsby: I know this is taking this rather beyond our inquiry today but it is too good an opportunity to miss; can I just ask what degree of certainty has been given for future years and, in broad terms, what sort of proportion is actually there and guaranteed?

Dr Phillips: I think it is only appropriate to refer to the certainty that we have had in writing as opposed to discussions we have had and clarity we have sought about assumptions. The certainty we have had in writing is effectively around those components I have described to you which is cost neutrality in respect of shared service costs, in terms of IBM enabling and in terms of the VAT burden on Natural England arising from those specific issues in terms of shared services and IBM enabling, and also third party costs in respect of some of the advice we get from other organisations to deliver advice to farmers and to land managers.

Chairman: Jamie?

Q389 Mr Reed: Given the CSR implications and given the CSR review that everybody is going through and the straits that all Whitehall departments are in, that sounds like a pretty good deal to me. Nobody likes to lose anything from their budget but it seems whether by good luck or good judgment or arm twisting or whatever that you have done pretty well.

Dr Phillips: I think it has been a very difficult time for Defra for all the reasons that you will be too familiar with, and it has been—well, I would say this would I not—a particularly painful time for us as a new organisation, number one, having to cope with our ambitions for the natural environment, which were signed off by a new ministerial team pretty early on in their tenure in their new roles, with the fact that we were not going to have enough to deliver on that. Speaking frankly, when you push me about what level of certainty do we have, I would like certainty that the cuts the founding bodies have experienced this year will not be rolled into Natural England’s budget for next year. I do not have that certainty. In the absence of that certainty, I think we are going to have to be prepared to adjust our expectations and our stakeholders’ expectations of what it is we can deliver. The elements I have described to you that we do have certainty on are, in effect, a reflection of the fact that we have delivered three major changes simultaneously, not only the vesting of Natural England as a new organisation but Natural England being the first NDPB to go into government shared services, Defra shared services, and accession to an IBM enabling contract. I think
it will be very difficult for Defra to be put into the position where you had 17.5% VAT disincentive for entering into shared services, particularly where the whole business case was predicated on you not having to face that. So I think we have managed to reach some practical solutions for, frankly, impossible scenarios but, I am sure like many other Defra NDPBs, I would like much more certainty about what it is we are going to be able to do in respect of our environmental programmes because this year’s budget cuts have gone, unfortunately, to the heart of our environmental programmes. I said in response to your question that we were focusing on the £200 million. Of that £200 million, £130 million approximately are salary or fixed costs so the burden of that £8 million cut and £12.9 cut has effectively been falling at this late stage on the uncommitted environmental programme, which at that stage was left at about £70 million, so it has been exceedingly painful, and I hope not to be in that position in future years.

Q390 Mr Reed: With that in mind, do you have any understanding of what future fluctuations might be and, if so, do you have any clear understanding of how they might aggressively impact upon your body of work?

Dr Phillips: Returning to the subject matter of the Committee and the UK vision for CAP, the huge unknown is around—

Q391 Mr Reed: Sorry, my caveat would be with regard to CAP.

Dr Phillips: Absolutely. The huge unknown is about what is going to happen in Europe about levels of voluntary modulation, how much of it we are going to see in the UK, and what level of co-financing we have. Mrs Moon asked how central is agri-environmental delivery to what it is that Natural England achieves. The reason that English Nature, the Rural Development Agency and the Countryside Agency were brought together is because we are genuinely a happy marriage. People enjoy precious landscapes and nature as a unified experience, not with access over here and nature over there, and then having the vehicle which actually helps us deliver improved access, improved bio-diversity, improved habitats, improved species through the agri-environmental schemes, is effectively the underpinning of what it is we are about. If we do not have a sensible level of funding around that, it is going to make delivery of our statutory functions very difficult. That would lead you to say that we are here supporting Pillar 2 payments because it is essential to Natural England’s budgets going forward. That is certainly something we feel strongly about, but certainly not the reason why we are suggesting that you need to be supporting and advocating not only sensible levels of funding in Pillar 2 but also voluntary modulation. We do genuinely believe that it will help unify and get better and more sustainable land management practices across Europe.

Q392 Mrs Moon: Just taking up the issue that you were talking about in terms of the impact on the staffing, do you feel that your budget is going to allow you to retain and recruit the professional skills base that you need, both to carry out your current requirements in terms of monitoring and rolling forward agri-environmental schemes, but also if we actually move to this vision where we move more to Pillar 2? Would you actually have the professional staff with the skills base or would you also need to expand to carry out your duties of monitoring and regulation?

Mr Young: Natural England was formed with an additional challenge as well as the three that Helen has outlined and that was also delivering some major efficiencies. Those were a total of £11.5 million over three years, and that has necessarily meant that we have had to take some pain. We are at the moment going through some voluntary (I hasten to say) redundancies, and that is not a pleasant experience. There are also necessary adjustments that need to be made in terms of skillling. We are partly taking the pain of voluntary redundancies now so that we do not simply have to put a salary freeze on in perpetuity so that will allow us to recruit the necessary skills both to deliver our programmes today but also to prepare us for the sorts of programmes that we anticipate and will be delivering in the future. So we will be recruiting and we will be reskilling and we will be retraining, but it is also true that we are going through some pain at the moment as a result of the merger and the efficiencies that we were required to make.

Q393 Mrs Moon: All this pain must be having a tremendous effect on staff morale. How is it impacting on the staff and their capacity to focus on the task rather than the structures and the changes within the organisation?

Dr Phillips: The skills and quality and calibre of people at Natural England and the founding bodies are tremendous. Our staff, virtually to a man and woman, are vocationally motivated. They get out of bed in the mornings to come to work to make the natural environment a better place. We have been through a six-month long change programme simultaneously delivering three major changes. Our staff have experienced the best part of three years of some degree of uncertainty. That is a pretty difficult environment to work in. I think that has been fairly publicly commented on, in addition to our financial situation. It has also been quite challenging (which is probably a euphemism) in that the new leadership of Natural England has been closeted away in an office not so far from here whilst we have been looking to people in the founding bodies to lead people through a period of change while they themselves have been exposed to some uncertainty, and that has been tremendously difficult. Over the last three or four weeks we have been out and about talking with staff as part of the launch of Natural England, both internally and externally. I have to say that I feel a huge groundswell of enthusiasm for what it is we need
to do. Staff are necessarily a bit ground down from the change process, they are very anxious about the implications of the budget cuts and what it is we are going to be able to do for the natural environment in the long-term but their professionalism and their enthusiasm for the job in hand continues to shine through.

**Mr Christensen:** Just in case you think that is coming from the Chief Executive, let me give you a non-executive view. I have been on half of these staff road shows and they have been incredibly enthusiastic. You have seen the enthusiasm and the passion with Helen and that is reflected right through the staff. That is not to say that there are not pockets of real concern and anxiety and a feeling of loss because that is inevitable. On the road shows that I have been and looked at from the outside, I have been really enthused by them. I can give you some examples which I will not bother you with now, given the time, of what they were doing on those days and they were looking at tomorrow all the time and they were looking at our vision and that is so enthusing for me as a non-executive.

**Q394 Mrs Moon:** I have got absolutely no doubts about the commitment of your staff, I have got no doubt about their desire for the job, what worries me, looking at this Common Agricultural Policy vision, we have just finished a review on climate change and what we are seeing is increasingly pressure on the professional staff and cuts whether it is in Natural England or whether it is in work and that does worry me, that we are building up a skills deficit in the area that we need to focus on and be the champions for the changes that face us. That is my concern.

**Mr Christensen:** Very quickly, may I say I share that concern right across the whole industry. A lot of the research and development resources are also under threat and we are in danger of losing scientists. We are a science based industry and I do share your concerns.

**Q395 Chairman:** Thank you very much. I am sorry that our session has been somewhat disrupted by the division bell but I think we have got a clear flavour of where you come from. If there is anything you want to add, please do not hesitate to write but that which you have said, subject to your correction Dr Phillips, remains on the record. Thank you very much for your contributions both this afternoon and for your written submission.

**Mr Christensen:** Can we thank you very much indeed for the opportunity to come.

**Mrs Moon:** A lesson for you, always get your retraction in before the Chairman!

**Chairman:** Thank you.
Written evidence

Memorandum submitted by The Prime Minister (CAP 01)

1. Thank you for your letter of 2 November on reform of the Common Agricultural Policy (CAP). I am sorry for the delay in replying—I wanted to cover the agreement reached at the December European Council on the next Financial Perspective, given the important implications this has for future CAP reform.

2. I agree with you that significant progress has been made in addressing the worst impacts of the CAP. For example, the reforms of 2003 and 2004 could boost UK farm incomes by as much as £100 million over the next few years by bringing farmers closer to the market. And on 24 November, after three days of intensive discussions under the UK Presidency, the Agriculture Council reached overwhelming agreement in the first major reform of the EU sugar regime since it was introduced nearly 40 years ago. These reforms are important steps forward for European agriculture. But they do not mean that we should now stop advancing down the path of reform. Despite the significant progress made, the CAP remains expensive and it is inadequately geared towards protecting and enhancing the environment.

3. The Government accepts that further radical changes to the CAP cannot happen overnight. Any change must take account of the legitimate needs of farming communities, and build on previous reforms. This means a period of reflection for all in the EU to reconsider how and why we spend the money we put into the CAP.

4. The agreement we reached at the December European Council on the next Financial Perspective provides an important catalyst for this debate. It mandates the Commission to undertake a full, wide ranging review covering all aspects of EU spending to report in 2008–09. The agreed text makes clear that it is possible for changes to be made to the budget structure, including the CAP, before 2014. This will allow us to take account of any changes agreed in the Doha development trade round, including the decision to phase out all export subsidies for agriculture by 2013. The agreement is a significant improvement over the proposal put forward by the Luxembourg Presidency in June 2005, which specifically endorsed the agreement of 2002 on CAP expenditure ceilings. Now it is clear that all aspects of the budget, including the CAP, can be examined in the review.

5. The UK has long advocated reductions in CAP subsidy levels, the end of export subsidies, greater market access for developing countries, the removal of market-distorting measures such as production quotas and greater transfer of CAP funding to schemes which bring environmental benefits. On 2 December a joint paper was published by DEFRA and the Treasury, setting out our vision of the CAP in the future, and aiming to stimulate a debate with our EU partners—I understand that your Committee was sent copies. The Government is currently considering how the CAP might be developed in line with this vision, and would very much welcome your Committee’s views.

January 2006

Memorandum submitted by Scottish Branch of the British Veterinary Association (CAP 02)

Members of the British Veterinary Association in Scotland who are still heavily involved with agricultural livestock production wish to respond to this latest consultation on the future for the EU Common Agricultural Policy (CAP). The response follows the layout of the EFRA committee announcement on 15 December 2005.

Members wish to highlight that the constant review processes of agricultural policies in the UK and EU do nothing to inspire confidence in an industry which seems under greater threat from UK Government policy than climate, disease and world economic forces.

1.1 Food security—does the Government remain committed to UK food production?

The UK is still “in reality” an island and could become wholly dependent on home produced food in the event of a natural disaster or international event which cut ties with the rest of the EU. To source all foods from overseas would leave the country very vulnerable to a siege type status whether enforced naturally or by unfriendly attack. Even closure of the Channel Tunnel or major airports for a relatively short period would see present food supplies compromised especially in the urban south east of England. There should be careful consideration of the impact of civil unrest when supply lines are interfered with. The present Government does not seem committed to any food production in the UK, indeed it positively encourages imports against home production.

There is also the question of what would happen to the environment if it was not farmed and there were no livestock of consequence. The present Government policies do little to encourage livestock production and much of the imported produce which is consumed now in the UK is produced to lower animal welfare and food hygiene standards. As a nation we have little credible evidence of what diseases other countries in the world have and this is unlikely to change as global competition for food production increases.
1.2 Potential distortions and inequality of treatment of farmers across the EU

It is unlikely that all EU countries would apply any novel version of the CAP similarly, one only has to look at France and Eire in contrast to the UK. However if the whole subsidy system was dismantled and there was no payment at all then there would only be national aid (possibly against EU state aid rules but these rules are impossible to enforce). It is also unlikely that all 25 or more EU countries would give up non-subsidised agricultural activities leaving these countries open to control of food supplies by other non EU nations. An open world market would be healthy but never likely to materialise for many reasons and not all CAPs.

1.3 Possible environmental consequences of the proposals

Any further reduction in livestock farming in the UK would see the countryside change beyond recognition and there would be less access as has been seen in areas of Scotland where sheep and cattle production has ceased in favour of environmental projects. In these areas scrub has taken over which is difficult for animals and humans to access and also changes the ecology of the area. There would also be many fewer people staying in the countryside on a permanent basis resulting in less amenities for the general public and tourism and leisure activities would decline. The groups of people who would leave would include engineers, transport service providers, millers and grain store merchants, agricultural wholesalers, abattoirs, food processors and others. Veterinary practices would also suffer from reductions in both farm and companion animal work. There would be no advantages to the UK in reducing agriculture further.

1.4 The extent to which the proposed changes to the CAP would result in lower food prices and (through reduced public spending on the CAP) a lower level of taxation

This is debatable given the increasing cost of fuel for transport. Reduced spending on the CAP would not result in reduced taxation since the amounts involved are insignificant in national budget terms. There would also be the extra financial support for the rural areas if there existed a desire to maintain them without formal agricultural practices.

1.5 How such a revised CAP would enable the EU’s farmers to be more competitive

To compete globally would never happen since there are areas of the world where feed for animals, fish and birds can be produced at a significantly lower cost than in the EU. This results in livestock production at lower prices with labour costs well below those in most of the EU. It is quite possible that competition will diminish as we progress towards a marketplace controlled by one or two major companies. With global warming it is impossible at present to predict where food production will be most economic in the future, Brazil may become desert and the UK temperate with different cropping possible and probable.

1.6 How the proposals would differently affect the tenanted and non-tenanted sectors across the EU

With increasing land ownership in the EU this will probably not be of significance. One concern would be the value of land if it were not involved with agriculture which could make tenancies worthless and some land unsaleable.

1.7 The implications of the proposals for the applicant countries to the EU

There will need to be support for the new countries to supply the other EU countries at competitive rates which most could achieve at present labour and feed production costs as seen in Poland, Hungary and Ukraine. The support would be for marketing but could not prejudice the existing supply lines if they are already economic and desirable.

2. The Rural Economy

As far as the UK is concerned the total demise of the CAP would result in only extensive systems of livestock production surviving and these only in remote areas such as Northern England, Scotland and Wales. Even these might not be economic and vast areas of land could be abandoned with the resultant loss of jobs and services. The overall effect would be dramatic and be similar to the process already underway in parts of Scotland where forestry and national and international environmental projects have replaced farming along with the subsequent fall in human habitation and services. The present skilled population would diminish further and could not be replaced within a short time. Eventually there would be no rural economy to be concerned with.

It does appear that the UK Government wishes to see landowners paid to care for the countryside and not for food production. How this is achieved is open to debate and for how long will any such payments be sustained. To give up livestock production in favour of tourism needs some concrete basis to secure income for the future and not until the next review of subsidies. The damage which could be done in the
interim period would be incalculable in terms of losing animals accustomed to the environment concerned and also the loss of skilled people to look after them. There would also be the loss of support industries such as feed production, animal transport and veterinary services most of which could not be re-instated without investment.

3. **The Committee is Interested in how the UK’s Rural Economy would Fare under the Changes Proposed in the Report**

There would be changes in all countries but until national support mechanisms are known it is not possible to accurately predict the impact. It is unlikely the UK Government would offer support in any form to farmers and what funding existed would be based on environmental sustainability and not livestock or crop production. The present policies do not encourage young people to seek livelihoods in the countryside and this seems unlikely to change. Global warming will also play an important part in this.

4. **International Issues**

The great unknown—international issues will have more to do with energy than with food production since even the so called third world countries need energy to survive and food can be produced at present globally to meet demand (supply lines and tariffs are the problem). The predicted increase in human population of the planet may compromise these supplies in future and the effect of climate change is unknown. As with any industry only the most efficient and advanced systems with appropriate operators will succeed.

5. **The Wider Debate on Future Financing of the CAP**

If the UK is to produce food to sustain the population in times of need then the infrastructure needs to be maintained as a framework to do this. If we lose further skills in the rural areas it will become impossible to recruit people to work in agriculture and thus food production could be directly affected. At present the UK employs an increasing number of eastern EU workers in the dairy and fruit industries and in some areas without these workers the industries would be uneconomic.

We also need to look at the increasing vice like grip that food hygiene regulations are imposing on UK producers since in the UK legislation is enforced “to the letter” whereas in other EU countries there is a more relaxed interpretation of EU law.

There needs to be serious debate about where does the public wish its food to come from. A consultative group based at Reading University (on behalf of Sir John Marsh and DEFRA minister Margaret Beckett) has already demonstrated that almost all the food consumed in the UK could be acquired at a third of the present cost from overseas rather than home produced. This looks attractive at first sight to Government but then there is the question about what is done with the countryside. Consideration must also be given to the food miles involved and global pollution.

A more balanced approach is needed.

Scottish Branch British Veterinary Association
North of Scotland Division BVA
Vets in the Highlands and Islands Veterinary Services Scheme

*January 2006*

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**Memorandum submitted by the Organisation for Economic Co-operation and Development (OECD) (CAP 03)**

1. The report published recently by the Department for the Environment, Food and Rural Affairs (DEFRA) of the United Kingdom “A Vision for the Common Agricultural Policy” draws extensively on several recent OECD analyses to develop its arguments for policy reform. While an overall assessment of the merits of the policy strategy favoured in the report is a matter of political judgement, the OECD is happy to comment on the usage of OECD work in the report.

2. The OECD is pleased to see that the work is useful to Member countries and that, in this case, it is reported clearly, accurately and to the point, with appropriate nuances.

3. The value of transfers from the Common Agricultural Policy (CAP) is described using the most recently published OECD indicators of support in agriculture, mainly the Producer Support Estimate and the Consumer Support Estimate (OECD, 2005). The terms used to describe transfers are consistent with OECD definitions and the use to which the indicators are put is appropriate. In particular, they are, rightly, not used to draw conclusions on the impact of CAP reform on markets and income.
4. OECD indicators, including the Consumer Support Estimate, are measured at the farm gate and the consumer in question is defined as the first-hand user—sometimes a processor or compounding. This assumption could be made more clearly in the DEFRA report to avoid misunderstandings about the size of the impact of market price support on consumer expenditures. Nevertheless, the argument made that higher domestic prices to consumers are a burden on poor households is valid.

5. Table 2.1 which reports support estimates, is accurate and well-documented. It would nevertheless be appropriate to indicate that the Producer Support Estimate per family of four is calculated by DEFRA and is not published by the OECD. In general, when describing the producer support estimate, DEFRA does not make a distinction between area/headage payments and more decoupled payments. However, the implementation of the 2003 reform does not change the argument: after the reform, market price support is still half of all support and payments based on land, whether decoupled or not, go to landowners.

6. Another OECD study on the efficiency of support in transferring income to farmers is used extensively and accurately. OECD results were published in 2003 (OECD, 2003) but the nature of the analysis means that they are still valid. Moreover, they concern categories of measures (market price support, coupled or decoupled area payments) that will all still be in place after full implementation of the 2003 reform, even if their relative importance will change. Similarly, the conclusions of the OECD 2003 CAP reform analysis (OECD, 2004) on the composition of support to agricultural producers are still valid.

7. The OECD shares DEFRA’s general analysis of income issues, which reaches similar conclusions as the OECD Report on Farm Household Income (OECD, 2003). This is a domain in which it is extremely difficult to obtain recent data. For example, Table 2.3 on income comparison reports Eurostat data that are quite old. More recent information available on-line from Eurostat and quoted in the OECD report could have been used, although even that information can by no means be called up to date. In any event, usage of this data does not affect the overall conclusions on the financial situation of farm households.

8. Overall, the OECD finds this DEFRA report very clear and well presented and in particular is pleased to see that the work OECD has undertaken and published is accurately and appropriately drawn on.

January 2006

Memorandum submitted by J Cresswell (CAP 04)

Enclosed are a farmers “worm’s eye” comments on the Treasury paper published in early December 2005. I start with some general points and end with specific points which are related to the document’s paragraphs.

Overall, I find this document really depressing. But starting with the positive:

1. They acknowledge that much more must be done to encourage EU partners to move more fully to decoupling.
2. They also acknowledge that current land tenure arrangements in the UK are not satisfactory for a sector to be exposed to global forces.
3. They acknowledge the importance of clear and early direction to producers so they can make changes, and the role of transitional arrangements in some situations.

On the negative:

1. There are plain inconsistencies: if so keen on Pillar 2 measures as this document makes clear, why in early December was HMG trying to abolish co-financing which could well lead to less Pillar 2 funding in 2007 than 2006? Do they want to save the maximum amount of taxpayer money (as abolishing co-financing would suggest) or do they want to see more funds available for rural development as implied in this document?
2. Another major inconsistency is to be found in the fact that the authors cannot make up their minds if they would like a farming industry that is globally competitive or festooned with environmental regulation. The two objectives are clearly not reconcilable.
3. There is little or no recognition of environmental improvements which happened long before MTR was thought up. The authors appear to have a grasp of the damage that farming is doing to the UK Government a full 20 years out of date.
4. The document fails to make a convincing case as to why allowing more access to our markets would improve the plight of some of the poorest in the world. It even concedes that: “Selective preferential access (ie presumably higher prices) . . . has not assisted long term development or increased the integration of poor countries into global markets”.
5. They have an unrealistic expectation that farmers could use a combination of lower input prices, derivatives and increased technical efficiencies to offset the full effects of the removal of the CAP. We believe that input values are unlikely to fall in response to a removal of the CAP, we think that technical efficiencies are actually likely to fall compared to those of global competitors in the future, and we think that the possible role of derivatives in alleviating the trading position of growers is overstated.
We are therefore seriously concerned that the Treasury’s conclusion (that the impact of CAP removal “would be relatively modest”) is flawed—certainly in terms of commodity production in the UK.

We would be happy to expand on our reasoning if this was of interest.

6. Hence their suggestion that levels of European farm production would not be greatly affected by these changes seems most unlikely. There appears to be no real thought or analysis given to the effects that a reduction in farming activity would have on the more rural areas of the UK. They fail to acknowledge the negative and dominant effect that a strong currency has on the fortunes of commodity producers.

7. The “Vision” says remarkably little about the desirability of “reconnection” (ie the creation of a market environment in which UK producers can sell their produce to UK consumers at higher than world values) which was accepted by the Curry Commission as essential if UK farming is to thrive in a more “global” environment. We hope that this omission does not mean that the Treasury regard that the Implementation Group, levy bodies and other agencies tasked with the job have succeeded.

CONCLUSION

I. So the key element of the Treasury’s “Vision” for commodity producers appears to be on the one side to remove some 25% of their income in the form of CAP subsidies whilst at the same time exposing them to world markets (ie generally lower and more variable prices).

II. They seem to be of the opinion that these effects will be counteracted by improved technical efficiency, use of derivatives and lower input values, although very little evidence is cited to support the assertion that this will occur.

III. Since it is fairly common knowledge that commodity production in most sectors has been on the edge of viability for some time, it would appear that the Treasury’s “Vision” is seriously flawed on the basis that they would like to see farmers end up as “internationally competitive” and “rewarded by the markets for their outputs”.

IV. What makes the “Vision” even more extraordinary was the publishing last October of a sizeable survey of the British public, paid for with public money and commissioned by Don Curry’s Implementation group. It was executed by the Institute of Grocery Distribution—not renown as a pro farming organisation. The survey revealed that 75% agreed that “without farming Britain would be a worse place” and 86% thought that “Britain should remain a strong farming nation”. So at the same time as the Treasury has a plan to dismantle British farming, their own survey work reveals that this is the last thing that the public appear to want.

POINTS OF DETAIL

1.11 Lisbon Agenda. Didn’t the Lisbon Agenda also have quite a lot to say about the effect of regulation on the global competitiveness of the EU? If they are going to invoke Lisbon to argue for the liberalisation of markets, then to be fair it should also be invoked to rein in the massive amount of regulation (much of it environmental) currently sweeping the countryside and making EU agriculture less competitive.

1.13 “OECD has estimated that up to 90% of the value of COUPLED area payments is rapidly capitalised into land prices . . .” So logically, now that in England payments are decoupled, we can expect land values to “rapidly” decapitalise. Haven’t seen this yet, and the experts are not predicting such an effect. Could the OECD be wrong?

Also this paragraph states: “. . . the benefits accrue mainly to the landowner . . .”. This seems to assume that any element of payments that go to a landowner are completely lost to farming. I think that this is not necessarily so—the landowner may well be using these payments to invest in such a way as to benefit the active farmer (eg Storage sheds), or as a landlord the recipient may be picking up costs relating to the land (eg drainage repair/ditching or insurance costs, etc). Just because the landlord keeps payments does not mean that the active farmer derives no benefit at all from them. Or that they are lost from rural areas.

1.14 For many quotas (eg milk and sheep (SAPS)) new entrants have been able to get a very good return on investment in quotas because, with hindsight, they have been undervalued most of the time. Thus without the quota systems, these new entrants would have been worse off. And in addition it is not true to say that these quotas have kept new entrants out on account of scarcity—historically usually there appears to have been a fairly liquid trade in most types.

1.15 and 1.16 Is it really valid to compare farmer incomes with average disposable incomes? I would guess that the activity rates in farmer households—on average—are higher than the average so wouldn’t one expect higher incomes? And in addition farmers—unlike many in society—take risk and have to provide capital. If you are trying to argue that farmers are not starving in western Europe—fair enough. But it hardly tells us as to whether they will get sufficient payment to keep them on the land.

1.21 The EU may account for “over 40% of OECD market price support”, but this is not the method of choice for other countries and trading blocs, surely? They support growers by other means, so is this very meaningful?
1.25 Strange not to acknowledge enormous advances in environmental standards which were taking
effect long before the present reforms were even thought of. For example in 2000 94% of English river length
classified by EA as “good or fair” in terms of chemical or biological quality—10% better than 1990.

1.26 Sad, too, that HMT has been suckered by single issue pressure groups into believing all they are told
on bird numbers. According to DETR when it existed there were more birds and more bird species in the
UK at the end of last century than 100 years before.

1.26 And again strange that the estimated cost of £211 million to clean up diffuse water pollution isn’t
set in context against the cost to the industry of not using fertilisers. Neither is it clear whether all this diffuse
pollution is caused by ongoing farming operations: how much from activities which took place years ago?
How much from other industries? How much is naturally occurring, or from unintensive farming systems
(eg organic)?

1.27 “In a less regulated and supported environment, the agricultural sector will use fewer resources”.
Surely now that support in the UK is decoupled, use of agricultural inputs is logically independent of such
payments? And it seems pretty obvious that production levels will depend not on such factors as climate,
terrain, food safety and quality, but relative exchange rates.

1.30 HMG should certainly be pushing for full decoupling elsewhere in Europe as soon as possible.

1.33 “De-linking such payments from land . . .” A strange call from a Government that insisted on
linking SPS to land in England in the teeth of most of the expert advice given to it not yet two years ago.

1.34 “Entrepreneurial, customer focused EU farmers, using modern risk management instruments and
marketing techniques and environmentally sustainable production methods, would become the norm”. Just
what evidence is there that this would be the case? I would have thought that an unprofitable industry with
even less protection from global markets in which they can rarely compete because of high levels of
regulation and adverse exchange rates is far more likely to simply close down.

2.7 In their frenzy to attack CAP, have the Treasury taken into account the benefits of CAP?
— stability of food prices;
— investment and research which has taken place due to certainty of markets created by CAP;
— the fact that CAP sometimes PROTECTS consumers from higher world prices;
— the fact that CAP has protected rural communities in many parts of Europe, and slowed their
decay. This may not interest the Treasury but it is a matter of concern for many people in
Europe; and
— the fact that CAP has probably made some of the poorest rural dwelling people of Europe a
little richer.

Furthermore even if far from perfectly allocated, presumably some of these payments are “recycled” in
taxes and economic activity that would not otherwise take place.

2.8 Even if removal of CAP was to lead to an increase in total EU wealth, this is presumably an overall
effect. What would be the effect on areas highly dependent on agriculture?

2.11 Price cuts as a reward for removal of CAP are referred to as a certainty. But suppose cereal
production in the EU is halved as a result of elimination of CAP and 100mt is no longer grown in Europe
but is imported. Surely—as a good with inelastic demand characteristics and in a world with historically
very low stocks—there is a perfectly good chance that the EU consumer could find themselves paying
considerably more.

2.13 “… 90% of the value of coupled area payments is rapidly capitalised into land prices . . .”. It was
HMG’s choice to leave these coupled to land under the new SPS system . . . And again, just because
payments go to landlords does not mean that all benefit is lost to farming.

2.14 The things that are most likely to tempt in “farm entrepreneurs” from other parts of the economy
are high prices and stable markets, and these the Treasury seems to want to destroy. And in real life
“entrepreneurs” have not been hindered by quotas, etc, but have gained from them.

2.16 But surely the Treasury must have noticed that the CAP has not prevented agricultural
restructuring. We know from previous experience (look at former East Germany) that CAP will result in
modernisation and restructuring and far fewer people working in farming in Accession States. And it will
be rapid. So why worry on this score?

2.17 I don’t really understand the social equality point. From Chart 2.3 it appears that agriculture takes
far less of the share of GDP than agricultural employment rates would suggest that it should, and this gap
is particularly extreme in some of the Accession States. Surely in terms of social equality this is an argument
to direct MORE spending on farming, not less.

2.18 And again surely the argument on food prices can also be inverted: if 20% of Poland’s poorest people
work in agriculture, should we bemoan the fact that food prices are increasing? As long as some of these
price increases are coming back to the farm, surely this is the way that the market can smooth out the
inequality between farming and other sectors? The argument regarding the percentage spent on food smells
strongly of nonsense too: if you are a poor Accession farmer and spending 15% of your income on food but receive 100% of your income from food, surely the net effect of an increase in food prices is to improve your position?

2.26 Are not comparisons between minimum wages and support payments per farmer more suited to tabloid arguments than rational debate? So what if French farmers receive €17k? As I understand, their payments are pretty much coupled—it is unlikely that these support payments go straight to his bottom line if my accounts are anything to go by. And maybe he deserves a bit more than the average anyway—he takes trading risk, employs his own capital and looks after a national asset. Also, what about activity rates between farmers and their families and the population average!

2.29 I don’t think that £290k net worth on a small farm in the UK is very significant. Neither is it comparable necessarily with net worth of other individuals in other sectors. I have looked at plenty of tenants farm balance sheets on which 50% of the assets are in a combine harvester! Hardly a very liquid asset—or one which is yielding much of a year-on-year return. But the Treasury wants to compare this to—say—a portfolio of listed equities!

2.30 It is not clear whether HMT sees the “key developments” listed here as good or bad. From the tone of the document to date I guess one must assume bad. “Substitution of capital for labour”, however, has massively improved standard of living for those on farms, in terms both of the quality of their lives (less drudgery and better safety) and earning capacity. It is—in my opinion—a very good thing. I don’t understand the point about “reduced level of on-farm recycling . . .” Residues of straw and muck are returned to the ground as much as—they ever were. Could they be referring to the Government’s nutty regulations preventing us from burying dead stock on farm? And “increased use of inputs and services beyond the farm” is also known as “reducing unit costs of production” or “being globally competitive”.

2.36 It is also important to note that the statistics also show that fertiliser usage was falling before MTR, and that water pollution is fading as a national issue—see the EA stats.

2.43 So high prices attract more inputs into farming? It is certainly true that falling prices will reduce the area of land on which it is possible to make a profit—the pool of land that can grow profitable wheat in the UK at £60/t will be smaller than if the price is £70. However what is absolutely NOT true is that once the decision to grow on a given acre is made is that it is possible to increase profitability by reducing inputs. Growing a technically suboptimal crop is an extremely hazardous enterprise to undertake financially, and this effect is well recorded.

2.44 Agricultural intensity is what makes UK farming internationally competitive. We are an inherently high cost area of production, and we can only cut our costs per tonne by growing very heavy yields. If there is a link between environmental damage and agricultural intensification, what does the Treasury want to do about it? Make no mistake: less intensity = increased cost per tonne. It’s very easy to demonstrate.

2.45 Has anyone done any analysis of the environmental effects of growing the food we need overseas? Wouldn’t there be likely to be environmental consequences in South America if Argentina and Brazil broke out sufficient ground to grow the 100mt of cereals required if the EU halved its wheat production? Or perhaps, being out of sight, that doesn’t matter?

2.47 On cross compliance I think they are flat wrong. It is easy to keep land in GAEC. It is wrong to say that complying with the old regs will be cheap—farmers can now afford to take not the slightest risk in breaking these because the financial penalties are so serious. I can give an example of an entire herd of suckler cows being slaughtered last autumn as the farmer simply could not logically accept the risk of contravening BCMS rules. Applying new penalties to old regs certainly does not mean that there is no effect.

3.2 “The evidence suggests that the impact of CAP reform on EU agricultural production would be relatively modest . . . ” Not from where I am sitting. We think in England—with full decoupling—it is actually falling significantly already. Certainly with cereals and beef—not yet sure about sheep.

3.4 “. . . part time. This is consistent with a picture of a relatively small number of large commercial operations and a large number of small . . . ” No. It is consistent with a picture of a large number of people who still think of themselves as farmers being forced to find off farm income.

3.5 “. . . returns to labour and capital employed in agriculture often appear to be depressed relative to returns in the rest of the economy”. No. They ARE depressed relative to the rest of the economy.

3.6 “Theory suggests . . . this process bids up the price of agricultural inputs . . .” Bugger the theory—there is simply no historic correlation between the price of inputs and farm profitability for land or any other input. We’ve looked for correlations between the DEFRA datasets repeatedly for the last 15 years and this effect does not exist. If one takes the trouble to speak to international input suppliers you will discover why there is no correlation—they are simply not forced to sell their wares in the EU and are entirely comfortable with the idea of pulling out or retrenching and redeploying their resources elsewhere. On land, compare rent data with DEFRA’s data on farm profitability over the last 15 years—there is no link. Nice theory, though . . .
3.7 Since the “theory” of 3.6 is clearly flawed, the conclusion of this paragraph is left swinging in the wind. It is HIGHLY likely that the removal of subsidies and import protections WILL lead to a significant reduction in European farming.

3.10 The foreign examples feature the word “deregulation” frequently. Do we really expect to see a reduction in the number of regulations that restrict us? Surely the reverse.

3.11 NZ did their reform against the backdrop of a weak currency and inherently low cost production systems. Plus (at the time) regulation with a very light touch. We have the opposite, so the analogy is truly weak. You ask the commodity producers of NZ how well they have done recently with a stronger currency.

3.15 But let’s not mince words—surely the net effect on the EU consumer will be an increase in price volatility?

3.16 Care over diversification. It has been proved on many UK farms that a good way to INCREASE risk is on a farm is for the principal decision maker to take their eye off the core business. Specialisation = technical competence.

3.17 How do these comments relate to the ½ of land farmed by tenants? With higher costs and very little equity, what’s the prospects for these guys in HMT’s brave new world?

3.19 Farmers are wary of derivatives for good reason. The UK countryside is littered with the casualties of growers dabbling in these derivatives—Viking Cereals being but the latest example. They are playing in a very intense game against people who know considerably more about it than they do. The liquidity of LIFFE is a joke: as an active user of derivatives I know that much of the time that I wish to make a move there is no-one to trade with. Options are very expensive—the premium can easily cost 10% of the strike value—not that attractive when the strike is usually on the wrong side of break even. Derivatives certainly have a role to play in managing risk but they will not substitute for a fundamentally unviable market. And if a grower was able to use them for this purpose, why is he wasting time growing? He could more easily make his money out of the market.

The point about improving liquidity by removing regulation on the basis on experience in RSA is interesting.

3.23 I think that the economic inefficiencies of growers is overplayed. Most UK growers have found themselves repeatedly losing money over the last few years. That is a very good incentive to get technically competent, and I believe most have done so. I suspect that most of these differences in technical efficiencies are as a result of factors outside their control—beef producers in the south east of Scotland probably have six weeks less grass growth than colleagues in the south west, for example. How can you expect them to produce with similar costs? Two years ago I ploughed in ½ of my oilseed rape as a result of exceptional rain at harvest that was not seen in East Anglia—such factors not visible from a desk in Whitehall will make comparative stats look odd.

3.34 I wonder about some of these employment stats. My local County Council did some work at the end of the 90s and estimated that over 40% of the workforce in their area was dependent on farming. I also wonder whether these data sets take into account more complicated relations with farming. My stockman’s wife may run a successful business making crafts—nothing to do with farming—but she would not be here in this area if her husband was not looking after my cattle and sheep. So if he loses his job there will be a double effect on local employment. Likewise many of the jobs in rural communities are surely dependent on farming beyond those in auxiliary industries—the lady who teaches my stockman’s sons (poor woman) or the man who checks out their groceries.

3.35 “...rural communities have already adjusted to major changes, hence proving themselves capable of responding to further change ...” Makes my teeth grind ... of course rural communities will change if they have to, but surely the point is at what cost and what effect will it have on these communities?

3.40 It’s all so unconvincing. If we are concerned about food standards and want to verify production at all stages, then surely it is easier to do this when the food is produced within the UK.

3.46 “...wide range of inputs, many of which are sourced through international markets”. That is not the same as saying that many of these inputs COULDN’T be produced domestically if necessary.

3.52 Of course some extensive, sub marginal farming systems might survive the removal of the CAP. But surely one must accept that they are LESS likely to survive in a climate of no support, lower prices and increased volatility?

3.56 “82% of food miles in the UK food supply chain are generated within the UK ...” Yes, but surely the question is how would this change if as a result of removing CAP we drew our food from overseas?

3.59 “... using high levels of agricultural support in OECD countries as an instrument of environmental protection is likely to be highly inefficient and ineffective”. Surely this is simply not necessarily so. If the objective is to ensure that further rainforest is not turned into productive farm land, then using subsidies and tariffs to keep production in OECD countries could be highly effective. It may not be just effective, it may be the only way of preventing further agricultural intensity in environmentally sensitive areas.
4.5 CAP is slated for keeping food commodity prices unrealistically low. Are there not winners from this effect—ie poor and hungry people? Where is the analysis that shows how they will be affected by increased food prices?

4.6 How many of the crops grown in the most poor countries actually compete with crops grown in the UK? How suitable is much of Africa to grow wheat?

4.17 “Selective preferential access . . . has not assisted long term development or increased the integration of poor countries into global markets”. Doesn’t selective preferential access imply higher prices? So they are saying that higher prices do not lead to improvements in the conditions of poor countries? So why are we worried about prices or market access at all?

December 2005

Memorandum submitted by The Game Conservancy Trust (CAP 05)

EXECUTIVE SUMMARY

1. The joint Treasury-Defra report rightly sets out the costly failings of the current CAP but it appears to lack a proper appreciation of the link between farming and farmland wildlife. Without farming the quality of our countryside, and the biodiversity it supports, would dramatically deteriorate.

2. The Government’s attitude to CAP reform should be informed by a better understanding of the relationship between farming and the environment. The environmental consequences of the report’s proposals are poorly understood and may be counter-productive. Support should be targeted at retaining land in good agricultural and environmental condition, and where land management supports wildlife. We have a number of suggestions as to how the CAP could be improved.

FARMING, THE COUNTRYSIDE AND THE ENVIRONMENT

3. The Treasury-Defra report is right to point out that some aspects of today’s more intensive farming methods, promoted by the CAP and long deplored by the Game Conservancy Trust, have damaged biodiversity in the UK among other adverse effects on the environment. However, in pursuing that argument it is all too easy to overlook the essential point that much of our wildlife actually depends on farming.

4. Farming has not only shaped our landscape but it has engendered and sustained the UK’s biodiversity. Over the several thousand years that Britain’s agriculture has been dominated by growing cereals and raising livestock, our unique flora and fauna has become adapted to it. The current breadth of species in our countryside is to a very large extent dependent on agriculture for its survival.

5. For example, many flowers like poppy, corn cockle, corn marigold and cornflower depend on annual cultivations, while others in hay meadows and pastures like clovers, vetches, trefoils and fritillaries depend on grazing and periodic mowing. Mammals like the brown hare and the harvest mouse live in farmers’ fields, as do birds like partridge, skylark, corn bunting and fieldfare. The report illustrates the impact the CAP has had on some of these by highlighting the decline in farmland birds since the 1970s. However, it fails to point out that many of these species would be in far greater decline if cereal farming were to be much reduced.

6. The report states that “European Agriculture . . . should be . . . rewarded by the market for its outputs, not least safe and good quality food, and by the tax payer only for producing societal benefits that the market cannot deliver”. Given the intrinsic link between farming and farmland wildlife we question whether the two can be divorced to the extent the report seems to believe. If farmers operating “without reliance on subsidy or protection” fail to be internationally competitive, they will cease to farm. Admittedly the 2003 CAP reform seeks to prevent that land becoming wholly abandoned, reverting initially to scrub, and then woodland, by stating that “Member States shall ensure that all agricultural land, especially land which is no longer used for production purposes, is maintained in good agricultural and environmental condition”. By this they mean that land that is out of production should be kept in such a condition that it could rapidly be restored to production. We would question whether large scale non-production can mean “good condition” from a wildlife and farmland bird viewpoint.

7. In “The future of food and farming”, Sir Donald Curry recognised that the environment was something the taxpayer would be prepared to pay for. He recommended the development of a “broad and shallow” agri-environment scheme that could be adopted by most farmers. This idea has been adopted by Defra and the new Entry Level Stewardship (ELS) scheme was launched last year. It promises to be the best conservation initiative on farmland since the war.

However, the logic of the Treasury-Defra proposals would involve dismantling the existing ELS scheme, which is predicated on the fact that the land is already being farmed.
8. It would be helpful if the statement in the report could be clarified: “EU spending on agriculture would be based on the current Pillar II and would support these objectives as appropriate, allowing a considerable reduction in total spending by the EU on agriculture”. Is the report suggesting that EU spending on agriculture should be reduced to Current Pillar II (€7 billion) or that Pillar II spending should increase to “support these objectives as appropriate”?

9. In particular, we believe that future agricultural policy should be based on two objectives: (1) support for land management that retains land in good agricultural and environmental conditions, and (2) ensuring that land is managed in a way that supports wildlife (which may mean that a considerable proportion of it has to be actively farmed). We think the recent 2003 CAP reform, as implemented in England, comes very close to doing just that.

10. However, there is room for improvement, and we would suggest the following:

   (a) Correcting some unfairness that is presently built into cross compliance (particularly 2m field margins) which penalises small traditionally-run farms more than large intensive ones.

   (b) Allowing for greater rewards within the current ELS Scheme so that high value conservation options are taken up on a wider scale.

   (c) Re-configuring set-aside so that it only refers to genuine conservation land.

   (d) More comprehensive cross-compliance rules to reduce soil erosion, diffuse pollution and to improve soil organic matter content.

January 2006

Memorandum submitted by Professor Sir J Marsh (CAP 06)

1. THE GOVERNMENT’S OVERALL APPROACH SEeks

   (a) To normalise relations between agriculture with the rest of the economy making it responsive to:

      (i) the needs of an enlarged Community;

      (ii) the market value of its output; and to

      (iii) non-market values and costs.

   (b) To enable adjustment to be made gradually over a 10–15 year period.

   (c) To develop policies on the same basis as that adopted for other sectors.

      (i) Policies should respond to identified market failure. These include environmental gains and losses, competition issues and the social role of the industry in regional and rural economies.

      (ii) To use EU funding where it will be most efficient in securing maximum benefit for the Community as a whole.

      (iii) To tackle policy issues at the appropriate level the member state, region or locality not always at the EU.

      (iv) To ensure national interventions do not distort competition within the Union.

      (v) To afford agriculture an equivalent degree of protection from international competition as for other sectors.

      (vi) To accept and respond to responsibilities in relation to the developing world.

   (d) This is an appropriate direction of development for the CAP. It responds economic and political situation of EU farming in the 21st Century. It also recognises a key role for a common approach to manage the sensitive frontier between establishing an efficient market and the environmental and social consequences of farming activity.

   (e) However, it will be seen as a British attempt to redistribute the costs and benefits of agricultural policy in a manner more favourable to the UK.

      (i) In fact it is a policy from which the Community as a whole would benefit and this should be an important feature in its presentation.

      (ii) The redistribution of Community funding that would result would strengthen the EU.

      (iii) Economic benefits arise as resources move to uses that do not depend upon subsidies. This will foster investment, higher levels of employment and higher real incomes.

      (iv) Political benefits will arise from the release of budget resources to tackle issues of general importance to the Community, including for example, the convergence programme, environmental policies, transport and energy.

      (v) Savings to the budget, industry and individual citizens will arise from reduced costs of regulation.
2. The Crumbling of Pillar I

(a) The successive reforms of the CAP; in 1992, the MacSharry Reform, Agenda 2000, the Fischler Reform of 2003, the Sugar Reform of 2005 and the commitment to phase out export subsidies, have shifted support from production to farmers. The Government rightly points out that substantial distortion remains in the commodity market. For some key products quotas are still in place. The process of decoupling direct aids from production is incomplete, tariff levels for farm goods remain well above the average charged on other imports. However, policy trends suggest that much of this apparatus will have to be removed or will become redundant. Phasing out export subsidies will mean that EU exports will have to compete at world prices. The demands of WTO partners for better access to the EU market, combined with the undertaking given to the least developed countries to allow everything but arms (EBA) to enter without restriction will remorselessly move internal prices towards world price levels. Allowing markets to function means that surplus will depress prices. A new lower cost equilibrium will result as the least efficient production ceases. Quotas are simply not needed.

(b) Pillar I was the repository of policies designed to maintain commodity prices. It has now become the vehicle for distributing direct payments. These payments are based on past levels of production and past prices. This means that the distribution of CAP expenditure among countries remains tied to historic levels of output. These payments may be seen as adjustment aids but there is no justification for their continuation into an indefinite future. In no other sector do businessmen or their successors receive payments from the public purse because they once produced a product that is no longer needed.

(c) The argument that they are justified because recipients must observe cross compliance conditions is no more than a fig leaf. There is no evidence that the particular amounts or distribution of funds provided in direct payments represents a rational way to spend taxpayers money on environmental or rural social issues. In other sectors where industrial activity may result in environmental damage, the risks are managed by a system of regulation and enforcement. Where cross compliance conditions do no more than this, that is the appropriate approach. Where they impose requirements beyond this they are clumsy costly and unlikely to be good value for money. They tend to be directed at “typical” or “average” situations whereas problems and opportunities are specific. For some farms they will be “over kill” for others they may fail to meet the need. Policies at this level have to be monitored if corruption is not to take place. This in turn creates an additional stream of cost for government and for farmers.

(d) There can be no doubt that in the 21st Century governments will need to devise effective environmental policies. However, the way to do this is to determine environmental need, assess the policy instruments that may be effective in delivering improved outcomes and rank them in terms of overall cost effectiveness in delivering public benefit. It does not make sense to start with a “pot” of money and then decide how to distribute it within a ring fence that happens to comprise former producers of farm commodities.

(e) The conclusion of this argument is that we no longer need Pillar I and the policies it embraces should be discontinued.

3. Living without Pillar I

(a) Food security. The availability of a sufficient and affordable supply of food for the population must concern any government. It was a dominant force in shaping the CAP. For many people it is translated into a need to be able to provide enough food “at home”. To secure this paying more for domestic production is acceptable. However, in the context of the 21st Century this analysis is flawed.

(i) The definition of “at home” is often interpreted as meaning “within the individual member state”. This is clearly absurd within a single market. If we believe our own commitments, then as long as sufficient food is available within the market as a whole, price adjustments will ensure that food security requirements are met in all locations. Individual food security depends now, and in any future situation, not on the production of food but on the ability of people to buy it. In a community in which people who live in poverty do not enjoy food security today. The solution is not to produce more food but to provide them with the means to buy.

(ii) Self-sufficiency is no longer a guarantee of food security. Agricultural production is heavily dependent upon the rest of the economy for inputs and for the processing and distribution of its products. Interruptions in this system, an energy crisis or a transport dispute for example, can undermine food security regardless of how much is produced “at home”.

(iii) Self-sufficiency tends to concentrate production on particular geographical locations. For farm crops and animals there is a continuing risk that severe weather or outbreaks of disease
may decimate local production. To have working access to a diversity of suppliers in differing parts of the globe offers a more solid guarantee of being able to weather such unfortunate events.

(iv) Self-sufficiency arguments have been at their most powerful to counter the risk of a siege. History demonstrates how vulnerable the UK was to U-boat attack during the Second World War. However, the world has changed. Nuclear contamination can destroy or make unusable products grown or stored in any location. The UK now has access to the markets of the whole EU of 25. Faced by shortage in an economy that eats too much an effective rationing system is likely to be the best defence.

(v) The requirement for food is so high in the list of consumer “necessities” that continued shortage will result in investment to increase supplies.

Because food security depends upon the ability to buy food rather than to produce it a policy that effectively reduces real incomes, and leaves more people unemployed diminishes rather than increases the security of the most vulnerable.

(b) Level Playing fields

(i) Faced by farming pressure groups of differing strength within member countries, governments may respond by providing favourable treatment for their producers. Provided these are 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.

(ii) If they are not fully decoupled for example concealed subsidies in the form of preferential tax treatment or access to cheap loans, they should be subject to strict rules of competition. Effective rules would impose penalties on offenders and offer compensation for those whose interests were damaged. They should be monitored as part of competition policy.

(iii) Equality of price, whether as a result of administration or market forces does not amount to equal treatment. Conditions vary, soil types, climate, access to market, farm size and the state of the post farm processing and marketing structure all affect whether a particular price change will have a greater or lesser effect on individual farmers. The CAP has attempted to discriminate in favour of production in the less productive regions. This does not achieve equality or prevent poverty, it guarantees that farm costs will remain high.

(iv) 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.

(c) Environmental impacts

(i) Any change in the level of farm output or in production technologies will have consequences for the environment. Some effects will be local, others may be regional and a few are of global significance.

(ii) The shape of farming in 2020 under the Government’s proposals cannot be foreseen with confidence. We do not know what will happen in world markets. We have no knowledge of major catastrophes that might, but are not likely, to affect farmers. We can make guesses about the development of productivity but we do not know what specific technology will offer or how far it will be accepted.

(iii) Estimating the impact on the environment implies assumptions about all these issues and their evaluation against a diversity of criteria such as climate change, biodiversity, landscape and the management of wildlife. An appropriate policy must be alert, informed and quick footed in responding to unwanted developments. There is a major need for research to ensure this is met.

(iv) Policy must also evaluate opportunities and to seek not to preserve but to optimise. Within a dispersed industry such as farming, the identification of opportunity and application of policies needs the co-operation of local landowners and farmers. Local involvement and participation are essential.

(v) The proposals set out in the Government’s vision should be seen as an opportunity for the Community to release funds to be used in directions that combine coherence, development and environmental improvement.

(d) Impacts on food prices and taxation

(i) Current policies do raise the price of raw material food. This damages most the poorest people, who spend the highest proportion of real income on food.

(ii) However, most food is bought in retail shops and catering establishments. Here the price of raw material food is a relatively small proportion of the total price of the finished product. Consumers spend some £152 billion on food, drink and catering services. Domestic
agriculture contributes £8.0 billion of the total value added to deliver this value. Thus a cut in the price of food as it leaves the farm gate is unlikely to have a substantial impact on food prices.

(iii) Expenditure on household food, food eaten out and alcoholic drinks represents 21% of all household consumption expenditure. This has to pay for all the costs of processing, presentation and transport, for facilities such as restaurants and investment in the food section of hyper markets. Within this framework raw material food prices have a relatively weak impact on food prices to consumers.

(iv) Critics argue that any price cut at the farm gate will simply be absorbed into additional profit for major processors and retailers. This could occur, regardless of the price at which raw materials are bought, if there is an absence of competition. The evidence suggests that competition in food markets is intense. Much of it relates to quality, availability and presentation but a great emphasis remains on price and it seems probable that lower raw material costs will ultimately be passed on to consumers.

(e) A competitive farming industry within Europe

(i) It is important to distinguish between a competitive industry and competitive firms within it. The underlying economic conditions for European agriculture are strongly positive. The climate varies across the EU but everywhere is capable of supporting the production of plants. The market is diverse, wealthy and close. The Community has an excellent infrastructure of both physical and electronic communication. The industry can draw upon scientific expertise both in research and in the training of its staff.

(ii) The political environment has been strongly favourable but is likely to become more restrictive than in other parts of the world. Concerns about pollution, animal welfare, the competition for land for non-farming uses and in many parts of Europe the density of population all suggest that European farmers may have to contend with constraints that do not apply in some other countries.

(iii) An industry is competitive if it can reward the factors it uses at rates at least equivalent to those paid in other sectors. As factor prices rise, for example wages increase, it has to readjust the mix of factors used. Similarly as technology offers new opportunities, the least cost organisation of businesses will change, for example mechanisation permits farmers to cultivate larger areas with fewer people and to cultivate land that would have been unusable using only manual labour.

(iv) The ability of an industry to reward the factors it uses depends upon the prices at which it can sell its output. Opening up the EU market to imports may be expected to lead to lower and more volatile prices. As a result the risk-discounted rate of return to investment may be expected to lead to fewer resources being used.

(v) However, this may or may not lead to a reduction in industry output. If, as may be expected in the light of the protectionist policies that are to be replaced, resources have been retained in inefficient systems, restructuring the industry may more than maintain the level of output.

(vi) A competitive industry implies that those firms that are not competitive adjust or go out of business. Adjustment implies using factors more efficiently, for example by increasing scale or co-operating in the use of specialist plant. In social terms this is a cause for concern, especially when countries where agricultural employment is substantial. The reward to labour for farming becomes too small but some people may choose to remain in farming. In assessing this impact it is necessary to take account of the multiple rewards many farm businesses enjoy. Many have non-agricultural sources of income. Some have diversified into other activities such as leisure or food retailing. For many farmers, the freedom they enjoy and the working environment is itself a real reward. For owner-occupiers the farm business will be assessed not only in income but in terms of anticipated changes in the price of land. There is no prospect of a uniform system of industrialised farming taking over throughout Europe. Change will take place but diversity will characterise farm businesses.

4. Reform and the Rural Economy

(a) The Government paper rightly stresses that agriculture is already a relatively small part of the UK’s rural economy. In the more accessible areas the thrust of policy has been to restrain inappropriate development rather than to sustain the resident economy. However, farming continues to be the major land use with consequences for tourism and leisure industries. Even where it is not dominant, it may form a critical component of a diverse pattern of income generation. If it fails the local economy may collapse.

(b) Some of the real return to the economy from farming in these regions is in the form of public goods that are not rewarded by the market. These include for example landscape, catchment management and access for walkers. If, when the rewards from farming fall to a level at which it
would cease, Government will have to assess whether it is prepared to buy these goods by specific payments to their providers. Essentially these decisions should be taken and paid for by those most closely affected. It is a matter for national and local policy not for management by the CAP.

5. Reform and Trade Preferences

(a) Existing agricultural trade preferences were designed to benefit the former dependencies of EU member states. The benefits of such arrangements diminish when preferences are extended to other countries, for example under the GSP system or as a result of EBA. The recent reform of the sugar regime raised this issue in an acute form because it diminished the revenue of countries that benefited from the Sugar Protocol.

(b) The short run impact of the loss of preferences is negative and can be severe for the recipients. In the longer run, as economic adjustments lead to the redeployment of resources the outcome can be more secure and higher income levels independent of access to a particular market. However, for some of the small recipients of preference alternative activities are not easy to identify or exploit and the long term may be a long time coming.

(c) For competitive countries that do not enjoy preferences their ending must be welcomed. Not only will they have better access to the importing countries but prices in world markets are likely to be stronger.

(d) If as the rhetoric suggests the purpose of preferences is to benefit those who receive them more certain delivery would arise from money transfers of equivalent value. That would support incomes and release resources to seek more profitable outcomes. As with any form of aid success depends upon the response of the recipient population. The EU has to tread a delicate path between defining what such aid might be used for and interfering in the domestic policies of independent states.

January 2006

Memorandum submitted by Professor A Swinbank (CAP 07)

THE NEED FOR, AND THE DIRECTION OF, THE NEXT CAP REFORM

Executive Summary

A Vision . . . is a useful contribution to the debate on CAP reform, and I have no quarrel with the thrust of its argument. In this submission, rather than reiterate the full debate, I outline some of the WTO pressures that are being brought to bear on the CAP, discuss some of the problems associated with the Single Payment Scheme (SPS), and make some suggestions for further reform. With an agreement to the Doha Round, the elimination of export subsidies by 2013, and substantial reductions in import tariffs, will increase the pressure to reduce levels of price support for sugar, dairy, beef, etc. If there is no satisfactory outcome to Doha, a resurgence of litigation can be expected in the WTO that could lead to the piecemeal dismantling of the CAP. Even the new SPS could prove problematic in the WTO. There are other problems with the SPS, particularly as applied in England. CAP reform 2008–2009 should involve significant reduction in the remaining levels of market price support, and an agreement on a phased reduction in the Single Payment. Ideally, the latter would also be decoupled from land. Expenditure on Pillar II should be increased, when this can result in a cost-effective enhancement in environmental provision.

Introduction

1. A Vision for the Common Agricultural Policy, published jointly by Defra and HM Treasury in early December 2005, is a useful contribution to the new debate on CAP reform launched by the European Council on 16 December 2005: the meeting invited “the Commission to undertake a full, wide ranging review covering all aspects of EU spending, including the CAP, and of resources, including the UK rebate, to report in 2008–09” (paragraph 80 of the Final comprehensive proposal from the Presidency on the Financial Perspective 2007–13, emphasis added). There is considerable evidence to suggest that substantial pressures will be building for a new reform of the CAP by 2008–2009. As I am in broad agreement with the Defra/Treasury text, I have chosen in this submission to: first emphasise the WTO pressures that are being brought to bear on the “old” CAP, second outline the problems inherent in the new SPS, and third suggest some issues that have to be addressed in any future reform.
THE “OLD” CAP, AND THE WTO

2. By the “old” CAP I mean the market price support measures of high import taxes, intervention buying and other domestic market interventions, and export subsidies.36 Despite the MacSharry Reforms of 1992, the Fischler Reforms of 2003–2004, and recent changes to the sugar regime, the original market price support measures still form an important part of the CAP, imposing costs upon European consumers and taxpayers, distorting resource use within the EU, disrupting international markets, and producing an uncertain benefit in terms of the long-term sustainability of farm incomes and an acceptable environmental impact. These “old” policies are still very important for sugar, dairy, beef, and other products. Furthermore they are under threat in the WTO.

3. The WTO “threat” is two-fold. First, through negotiation (as in the ongoing Doha Round), tighter constraints on domestic farm policies can be agreed. Second, through the Dispute Settlement Process, existing policies can be tested, and found wanting, as the EU discovered in relation to its export subsidies on sugar, and the US for many aspects of its support for upland cotton. The December 2005 WTO Ministerial in Hong Kong was successful in that the Doha Development Agenda talks continue. If these talks are to be successfully concluded, it would seem that a considerable tightening of the constraints embodied in the existing Agreement on Agriculture will need to be agreed.

4. If the negotiations fail, the existing agreement will remain in place, but without the special protection of Article 13 (the so-called Peace Clause) that has, in the past, allowed certain elements of farm policies to depart from WTO norms. A more litigious future would ensue, which could result in a piecemeal dismantling of the “old” CAP if the EU is to remain a respected member of a rules-based organisation.

5. Reference is frequently made to the three pillars of the existing agreement: market access; domestic support; and export competition. All three raise potential problems for the existing CAP.

6. It is already agreed that, in the framework of any new agreement, export subsidies will be eliminated by 2013. This could be problematic for the CAP, as Table 1 suggests (and this is quite apart from any difficulties the EU may face in its exports of sugar as of 22 May 2006, to conform with the WTO sugar panel ruling). For bulk commodity exports, the EU frequently uses a tender mechanism under which traders bid for the export subsidy they are willing to accept to export product. Table 1 reports the results of three tenders held in January 2006 (as reported by Agra Europe). I have then adjusted these figures to allow for the further cuts in the intervention price for butter (agreed in the Fischler Reforms, but not yet implemented) and in the support price for sugar (as agreed in November 2005).

<table>
<thead>
<tr>
<th>Maximum refund determined by tender</th>
<th>Implied refund after ongoing reform</th>
<th>Revised refund expressed as a % of the new support price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat 9.00 19 January</td>
<td>9.00 625.00</td>
<td>8.8 25.4</td>
</tr>
<tr>
<td>Butter 985.50 12 January</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sugar 359.24 19 January</td>
<td>131.74</td>
<td>32.6</td>
</tr>
</tbody>
</table>

7. It is a mechanistic calculation, that allows for no increase in world market prices, but the implication is that an export subsidy equivalent to 25% of the new support price for butter (and 33% of the new support price for sugar) would still be necessary if these products were to be exported. Now it may be that as a result of increased consumption (particularly in the new Member States) and the policy measures currently being implemented, the new supply-demand balance of EU-25 will eliminate the need for bulk commodity exports by 2013 (failing which a further tightening of quotas could reduce EU production). But where does that leave the food industry? Manufacturers of processed products, incorporating cereals, dairy products and sugar, qualify for export refunds under the Non-Annex I regime, based on the export subsidies that would have been paid on the raw materials. If all export refunds are to be eliminated by 2013, including those on Non-Annex I goods, whilst EU prices for raw materials remain substantially above those prevailing on world markets, EU-based food manufacturers could see their overseas sales jeopardised.

8. In October 2005 the EU offered to make substantial cuts in the “bound” level of domestic support (which of course is not the same as a cut in the actual level of support, given that this is lower than the WTO binding): for example, by reducing the permitted binding on the Aggregate Measurement of Support (AMS) by 70% (Making Hong Kong a Success: Europe’s Contribution, Brussels, 28 October 2005, p 3). The complex

36 The WTO refers to an export subsidy; the CAP uses the term export refund.
set of proposals on domestic support is difficult to disentangle and interpret, but it does seem clear that the EU’s strategy is based on the premise that the new SPS will qualify for the “green box”, and consequently that it will not be subject to expenditure limits. I return to this in paragraph 13 below.

9. On market access, the EU has suggested that import tariffs of over 90% (typical for many core CAP commodities) should be subject to a cut of 60%; but that up to 8% of tariff lines should be designated “sensitive”, allowing a smaller reduction to apply; and that the special safeguard mechanisms should be retained for “beef, poultry, butter, fruits and vegetables and sugar” (op cit, pp 5–6). My guess is that this proposal is on the edge, but that more ambitious tariff cuts, with fewer sensitive products, and the abandonment of the special safeguard clause, would render untenable the proposed domestic support prices for sugar, butter, beef, . . . A group of developing countries are insistent that the Doha Round can only be concluded if more ambitious market access openings are conceded by developed countries.

**Potential Problems with the Single Payment Scheme (SPS)**

10. The Fischler Reforms of 2003–2004 introduced an important decoupling of support with the introduction of the SPS. Potentially it gives farmers greater freedom to farm, enhancing the competitiveness of European agriculture; it could have reduced the administrative burden of the old area and headage payment schemes, paid under the Integrated Administration and Control System (IACS), although Member States seem to have conspired to thwart this ambition; and it moved the EU towards a more WTO-compatible system of support. However, it is not without its problems.

11. Article 1 of Regulation 1782/2003 introducing the scheme, calls it an “income support for farmers”. Quite why “farmers”, as opposed to any other group in society, need an income support funded by taxpayers is unclear; but even within the context of farming its rationale is uncertain. The main beneficiaries of a land-based payment will be existing landowners, rather than tenant farmers or new entrants to the industry (although new business enterprises may emerge, growing crops and raising livestock, and paying a peppercorn rent to the established “farmer” who retains the Single Payment). Furthermore, there is no suggestion that the “income support” is targeted on need or circumstance: instead it is determined, basically, on the area farmed and the country’s historic IACS entitlements (under the regionalised scheme) or the farm’s historic IACS entitlements. It will be some time before we have data which will show the distribution of Single Payments within and between Member States, but data produced by the European Commission on all direct payments made to producers in 2003 suggests that the distribution is likely to be highly uneven. Figure 1 shows the average payment per claimant in each of the Member States, whilst Figure 2 shows the size distribution of payments in the UK. There are lots of problems associated with this data, and its interpretation, and these distributions will not be replicated under the SPS, but—these caveats apart—it is not immediately apparent why the average payment in Portugal should be a fraction of that in the UK, if this is an “income support” measure; or why 0.7% of claimants in the UK should have been entitled to 11% of the payments made.

**Figure 1**

AVERAGE DIRECT PAYMENT MADE IN 2003, BY MEMBER STATE

€/CLAIMANT

Figure 2

DISTRIBUTION OF DIRECT PAYMENTS, BY SIZE OF PAYMENT, UK 2003

Source: As Figure 1.

Note, the horizontal axis indicates the size of payment (in €1,000 euros) per claimant. The size categories across the figure are highly uneven. Thus the first category refers to payments per claimant of less than €1,250, the second of payments between €1,250 and €2,000, etc. It shows, for example, that 20.2% of claimants received payments of €1,250 or less, accounting for 0.5% of the monies paid in 2003.

12. It is often said, with much justification, that European agriculture is multifunctional: that it supports a cultural and visual landscape, and a fauna and flora, that is manmade having evolved over thousands of years of agricultural (and other land use) practice; and it is pointed out that farmers are not directly reimbursed for any costs that they might incur for the provision of these services. Thus the Single Payment might be thought of as a payment for multifunctionality. However, no attempt has been made to link the size of payment either to the cost of provision of, or to the value society places on, multifunctionality. Under the regionalised scheme, it will be a flat-rate payment per hectare; and under the farm-based, historic, scheme payment rates per hectare vary regardless of the multifunctionality of the land. Cross compliance does of course apply, but apparently Defra figures suggest that “the costs to English farmers of cross-compliance... is less than 2% of the value of direct payments made to English farmers under the CAP” (A Vision... , p 33). Furthermore, additional payments are made for multifunctionality: for example “the general expectation in England is that Entry Level Stewardship (ELS) will cover two-thirds or more of English farmland within three or four years” (op cit, p 33).

13. As suggested in paragraph 8 above, and despite the EU’s best intentions, the SPS may not fit the green box. The overarching requirement is that green box policies must have “no, or at most minimal, trade-distorting effects or effects of production” (Article 1 of Annex 2 of the Agreement on Agriculture), and whilst it might be thought that the SPS (at least in its decoupled form, as applied in the UK) readily satisfies this condition, this could be misleading as a series of policy specific criteria must also be met. For example, paragraph d of Article 6 (the heading that the EU is most likely to use to declare the Single Payment to the WTO) specifies that “The amount of such payments in any given year shall not be related to, or based on, the factors of production employed in any year after the base period”. As the Single Payment is an annual payment, paid to farmers, on the basis of the area farmed (or kept in good environmental condition) in that year, and cross compliance applies, it seems that, from a strictly legal perspective, the SPS fails to comply.

Although there has been some talk about revising the green box criteria in the ongoing Doha Round, this has not yet happened; and many participants would be very reluctant to see the criteria weakened. Thus there is a danger (slight, maybe) that the cornerstone of the post-Fischler CAP could be challenged in the WTO.

CAP Reform 2008–09

14. The foregoing discussion has suggested that a further reform of the “old” CAP must be undertaken in the near future, in order to comply with any likely outcome to the Doha Round. This could involve substantial reductions in the support prices for sugar, dairy, beef, and other products, to make an
elimination of export subsidies by 2013 a feasible objective, and permit a substantial reduction in import barriers. If the EU is unable to reach such an agreement in the Doha Round, then the prospect is that of unplanned and piecemeal dismantling of the “old” CAP as the provisions of various commodity regimes are attacked in dispute settlement cases.

15. Reform will doubtless lead to calls for financial compensation for the producers so affected, and the creation of new Single Payment entitlements. The logic of the budget ceiling agreement in Brussels in 2002, reaffirmed last December, is that the money for these new entitlements must come from the existing Pillar I budget. This implies some reduction in the funding of existing Single Payment entitlements, in order to release funds for the new compensation schemes. In England and Germany, under the regionalised scheme, a rather bizarre realignment of entitlements could occur, as first monies will have to be released from existing entitlements to fund the nominal compensation payments of the new commodity specific reform, but then these monies will be used to augment everyone’s Single Payment on a flat-rate basis (further complications arise if this rebalancing takes place at EU, rather than the national, level). Thus, most claimants will be left with more-or-less the same level of payment (despite the reduction in the level of existing payments to fund the new scheme) whilst producers of the affected product will experience a fall in support prices, but receive no product-specific compensation.

16. In passing it might be noted that, although doubtless adopted in good faith, the regionalised system of payment does seem flawed. It is strategically, economically and socially problematic. Strategically, because it undermines the UK’s negotiating position in the EU’s Council of Ministers. The regionalised scheme was justified as a more defensible income support measure in the longer run, and with an enhanced environmental impact over a larger farmed area. But this long-term justification fits uneasily with a vision in which “production-linked support and the Single Farm Payment had effectively disappeared” (A Vision ... p 15). Economically, because the SPS is not fully decoupled, it has brought more land and more producers into the subsidy net. Finally, within agriculture, it is socially problematic because it gives landowners enhanced power (than would be the case under the historic, farm-based, scheme) in negotiation with tenants over the appropriation of the financial benefits conferred.

17. If the SPS is phased out, recipients must be given a clear indication of the timescale involved, rather than the uncertain message that the financial mechanism might be applied after 2007, that modulation can now be applied at 20%, etc, with each “expert” touting their own vision of the future.

18. It would also be beneficial to further decouple payments from land: A Vision ... (p 17) suggests that “time-limited payments to producers to compensate for income foregone, or to compensate for reduced asset values could be considered. In both cases, de-linking such payments from land would better facilitate adjustment.” In essence this is the bond scheme, articulated by Professor Stefan Tangermann in the early 1990s.39 Under such a scheme, compensation payments would not be linked to farmers, land, or farming, but would be completely decoupled (and, I believe, accepted as such in the WTO).

19. A phasing out of the SPS does, however, imply a loss of the limited environmental benefits secured by cross-compliance. However it would release funds for an enhanced and reinvigorated, but cost-effective and WTO-compliant, programme of environmental protection under Pillar II.

January 2006

Memorandum submitted by Centre for Rural Economy, University of Newcastle upon Tyne (CAP 08)

1. Executive Summary

1.1 We welcome the Government’s publication of a vision for the Common Agricultural Policy (CAP). Over recent years, the UK Government’s approach has lacked consistency, and a clear vision should help provide direction and purpose through future reforms.

1.2 There remains a lack of clarity about the rationale for payments under Pillar 1. They could be seen as compensation payments, economic adjustment aids, social assistance payments or public good payments. We agree with the Government’s vision of progressive reform of Pillar 1. However, the document is unconvincing on the question of how Member States might be encouraged along a reforming path that effectively dismantles Pillar 1. The vision needs to be accompanied by a clear strategy for winning support among the Member States.

1.3 The development of Pillar 2 represents the best means of establishing a new consensus around a progressive reform agenda. However, to date, the operation of Pillar 2 has not been given the priority it warrants. A successful Pillar 2 that enjoys widespread support among Member States is the key to ensuring progressive reform of Pillar 1.

1.4 The UK Government played a pioneering role in the recent development of the CAP, especially through its use of modulation. However, at the European level, the experience to date with Pillar 2 has failed to live up to the grand vision projected for it, and this has limited the expectations around what can be achieved in the future. The challenge is to improve Pillar 2 such that it becomes an attractive alternative to Pillar 1. Any strategy for achieving this is absent from the Government’s vision.

1.5 The progressive dismantling of Pillar 1 would, in general, be a good thing for the economic development of the rural areas of the UK. Pillar 1 serves to ossify rural economies and perpetuates the case for special and separate treatment of agriculture. However, some rural areas of the UK remain relatively more dependent on agriculture and tourism than elsewhere and are locked in a low-wage/low productivity local economy. In these areas, a rapid dismantling of the CAP, with swift removal of agricultural support, will require concomitant financial assistance to facilitate rural economic development.

1.6 The Government’s vision for the CAP needs to be accompanied but a detailed analysis of the means by which improving the operation of Pillar 2 can secure further reform of Pillar 1.

2. Introduction

2.1 We welcome the Government’s publication of a vision for the Common Agricultural Policy (CAP). Since the early 1990s, CAP reform has been an almost continuous process. In the past, the UK Government’s approach has lacked consistency. Having a clear and explicit vision should help provide direction and purpose through future phases of reform. The Government’s vision for agriculture over the next 15 to 20 years is for an industry which is fundamentally sustainable and an integral part of the European economy. It should, the document argues, 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; and
— non-distorting of international trade and the world economy.

2.2 We would endorse all elements of this vision except the fourth one—that the agricultural industry, and hence agricultural policy, should be socially responsive to the needs of rural communities. This component of the vision requires more detailed and careful consideration than is evidenced in the HMT/Defra vision document. It is currently rather vaguely expressed and could be argued to be in sharp contradiction to several of the other components of the vision. We would argue that this component of the vision should be expressed as “contributing to the economic development of rural areas.”

2.3 We restrict our memorandum to the Committee’s questions about the rationale for Pillar 1 and the implications of the Government’s vision for the rural economy. We also wish to draw the Committee’s attention to the crucial role of Pillar 2 in facilitating Pillar 1 reform.

3. The Rationale for Support for Agriculture

3.1 We agree with the Government’s analysis of the case for further CAP reform, and especially Pillar 1. The CAP is expensive to maintain. It sits uneasily within the EU’s Lisbon Strategy for improving the productivity and competitiveness of firms and sectors in the European economy. It is an inefficient means of delivering benefits to the very people it is supposed to be directed at—farmers. It also distorts international trade and hampers the economic development of poorer countries of the world.

3.2 Our starting point is a concern for the social and economic well-being of rural areas and communities in the UK and the rest of the EU. From this perspective, we would argue, 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-intensification of agriculture (and resultant damage to the rural environment), economic over-dependence of rural areas on agriculture and ill-adapted rural economies. Rural economic development is hampered by the conservative forces that argue for the maintenance of the status quo with respect to the CAP. Our 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.
3.3 The Government rightly questions the justification for Pillar 1 of the CAP. Since the 1992 CAP reforms, the rationale for the direct payments to farmers, initially through individual commodity regimes but latterly through the Single Farm Payment, has never been clearly articulated. The result has been confusion about what Pillar 1 is actually for. Different Member States and interest groups place different emphases on what the objectives of Pillar 1 might be. We can identify the following four rationales:

(i) Compensation payments, which compensate farmers for losses suffered as a result of some policy change. The assumption here is that individuals had been encouraged to believe that a particular policy system would continue, and had made investments on that basis. Ideally, payments should be related to the losses experienced.

(ii) Economic adjustment aids, where assistance is given to individuals or groups of individuals to facilitate the movement of resources into new uses in response to changed market conditions. In other words, direct compensation payments are oriented to structural adjustment in the agricultural sector and in rural areas.

(iii) Social assistance payments, where payments are made in order to bring about just and equitable treatment of social welfare provision between workers in agriculture compared to other industries.

(iv) Public good payments, where spending is used to support and stimulate the provision of valued public goods (such as attractive environmental features) that might otherwise not be produced.

3.4 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 are not particularly effective as economic adjustment aids because they do not target the farm workers and those in the upstream and downstream industries who bear the brunt of shifts from production to land-oriented payments. The third rationale may be legitimate in countries where farmers are not eligible for unemployment or retirement support. However, this is not the case in the UK. This rationale also raises questions about the inequitable distribution of existing payments in relation to need. The fourth rationale remains a long-term justification for continuing payments rather than production subsidies. It also recognises farming’s role in forming a favourable rural environment. An important implication, however, is that this is not an entitlement and must be related to the public goods provided. Arguably, the other adduced roles of Pillar 1—such as to prevent rural depopulation, protect valued environmental resources or increase food security—are not well-founded and could be achieved more effectively by other means.

3.5 We agree that the key challenge is for the EU to move towards a position where production support and the Single Farm Payment have been effectively dismantled. To achieve the Millennium Development Goals and to comply with WTO rules it is necessary for developed countries to remove agricultural supports that are trade distorting and not targeted at the delivery of social and environmental benefits. All public payments to agriculture should be transparently targeted at overcoming market failures and delivering public benefits. However, the Government’s vision is unconvincing on the question of how the Member States might be encouraged along such a path. Effectively, the European politics of CAP reform has been gridlocked between liberalising and protectionist positions. The UK Government flipped between the neoliberal “scrap the CAP” position of the 1980s to a progressive vision for Pillar 2 to replace Pillar 1 (with the introduction of modulation), but has flipped back again with calls to reduce the whole CAP budget including that for Pillar 2.

3.6 Our view is 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. This requires a clear strategy for winning hearts and minds (and votes) among the Agricultural Ministries and the Heads of Government of the EU Member States. The development of Pillar 2 remains, we would argue, the only means of establishing a new consensus behind a progressive reform agenda.

4. A Pillar 2 CAP

4.1 The launch of the Rural Development Regulation (RDR) as part of the Agenda 2000 reforms was seen by many to herald a new approach towards EU rural and agricultural policies. Hailed as the new “Second Pillar” of the CAP, the rhetoric surrounding the Regulation emphasised decentralised, participative delivery and a territorial and multi-sectoral focus. The RDR was strongly associated with the rhetoric and principles that came out of the Cork Conference of 1996. There Commissioner Fischer talked about the need to move away from a narrow sectoral focus on the agricultural industry and towards a broader rural development policy, tailored to local needs and conditions and drawing in a wide range of partners.

4.2 The RDR brought together a range of existing CAP agricultural, rural development and environmental measures into a single regulation, in principle creating the opportunity for a more coherent and integrated approach. The measures included support for structural adjustment of the farming sector;

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40 For further discussion, see Ministry of Agriculture, Fisheries and Food Agricultural Advisory Group (1999) Europe’s Agriculture: The Case for Change. PB3922. London: MAFF.
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”. In bringing together all these forms of aid under a single menu, to be delivered via multi-annual programmes drawn up at “the appropriate geographical level”, the RDR presented for the first time a coherent, alternative operational model to Pillar 1.

4.3 The UK Government played a pioneering role in the development of a new approach to the CAP, especially through its decision to apply the discretionary modulation measures and redirect a small but growing proportion of payments from Pillar 1 to Pillar 2. In certain crucial respects, however, at the European level the RDR has failed to live up to the grand vision projected for it.

4.4 The EU budget for the RDR has been small in relation to the total CAP and Structural Funds budgets available to the Member States and, by comparison with what countries had been receiving for predecessor measures, it represented only a modest increase in resources. From 1998 to 2006 there was just a 3% growth in funding for RDR measures in EU-15, with an additional modest increase of 15% planned by 2006. Moreover, the individual EU allocations made to Member States under the RDR were based upon past levels of spending on its various predecessor and constituent measures. By avoiding any attempt to adopt alternative, more needs-based criteria, the EU allocations effectively constrained the scope for the development of new policies and schemes.

4.5 Because the advent of the RDR did not herald a significant increase in “new money” for agricultural and rural development, it was often interpreted as offering few opportunities to even alter the balance of funding between measures, let alone to enable the development of new policy approaches or initiatives. Thus it is perhaps unsurprising that officials working in agriculture Ministries in most Member States were inclined to continue to operate the same schemes or policies as they had done before. As a result, in most countries the preparation of the Rural Development Plans became little more than a “repackaging” exercise.

4.6 However, our evidence also suggests that limitations resulting from financial constraints and short timescales were also compounded by an inherent institutional conservatism within the national and sub-national structures surrounding the CAP, which acted against the adoption of a fresh approach to the Second Pillar. The CAP has always been a strongly hierarchical policy, prescribed centrally and offering little discretion to the national and sub-national officials charged with its implementation (compared, for example, with European environmental or cohesion policies). These agricultural officials tend, therefore, not to be used to operating in ways that require initiative and discretion, to foster innovation from the “bottom up” and to tailor policy instruments and delivery processes to local needs and opportunities.41

4.7 Collectively these issues have created an operational climate which discourages those responsible for RDR planning and delivery from seeing themselves as “entrepreneurial actors” in rural development, promoting new approaches and forward looking, integrated strategic goals. It is unfortunate that the weaknesses in the implementation of Pillar 2 in the 2000–06 programming period have limited the expectations around what can be achieved during the 2007–13 period.

4.8 To improve the prospects for Pillar 2 requires progress on three fronts:

*First,* there is a need to significantly grow the resources allocated to Pillar 2 (through shifting resources from Pillar 1). Without significant planned growth in Pillar 2 two resourcing, the approach is likely to stagnate.

*Second,* Pillar 2 needs a radical simplification of its rules to allow much greater flexibility among Member States in how this instrument is shaped and delivered.

*Third,* a Pillar 2 CAP will require institutional reform in delivery structures. (In the English context, Natural England might provide a useful model).

4.9 Thus, while the longer-term prospects for progressive CAP reform hinge on the success of developing the CAP’s second pillar, the experience of Pillar 2 to date is seriously undermining its prospects as a component of the CAP that can look forward to increasing support among a widening range of stakeholders. The challenge is to improve and reform Pillar 2 such that it becomes a viable and attractive alternative to Pillar 1. Any strategy for achieving this is entirely absent from the UK Government’s vision for the future of the CAP.

5. CAP REFORM AND THE RURAL ECONOMY

5.1 There is effectively no such thing as “the rural economy”. The term implies a unitary, perhaps even closed, economy, singular in character. Rather, there is economic activity in rural areas. Agriculture plays only a small role in, for example, providing employment in rural areas. In any case, employment in agriculture is falling while more and more jobs are being created in other sectors. The Countryside Agency reports that, between 1998 and 2002, the number of jobs in agriculture and fishing in England’s rural areas dropped by 26,000, or almost 16%. Over the same period, almost 230,000 net new jobs were created in

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41 This part of our memorandum draws upon the findings of a study of the planning and early implementation of programmes under the RDR that we conducted with colleagues across Europe (Dwyer et al., [2002] Europe’s Rural Futures, Report to WWF and the Land Use Policy Group of the GB Countryside Agencies).
distribution, hotels and restaurants, and in banking and finance—almost nine times as many as were lost from agriculture and fishing.\textsuperscript{42} Overall, the number of jobs in England’s rural areas grew by 275,000—a proportionately greater improvement over the five year period (5.3%) than for urban areas (4.7%).

5.2 The progressive dismantling of Pillar 1 would, in general, be a good thing for the economic development of the rural areas of the UK. Currently, Pillar 1 serves to ossify rural economies and perpetuates the case for special and separate treatment of agriculture. However, there are some rural areas of the UK that remain relatively more dependent on agriculture and tourism than elsewhere. Defra’s recent study of productivity in rural England has highlighted areas locked in a low-wage/low-productivity local economy.\textsuperscript{43} In these areas, a rapid dismantling of the CAP, with swift removal of agricultural support, could have damaging consequences if there were to be no concomitant safety net to facilitate rural economic development. We are not arguing here for the perpetuation of agricultural support, and thus the perpetuation of this relatively higher dependence upon a low-wage economy. Rather, we are arguing that care would need to be taken in how that change is managed. In particular, we are highlighting the need for time-limited structural adjustment programmes, perhaps of the kind developed under the Objective 5b programmes from 1989 to 2000 under the Structural Funds.

6. Delivering CAP Reform in Practice

6.1 The Government’s vision is a useful starting point for a debate first within the UK and then among the Member States about the future direction of CAP reform. However, it suffers from a lack of clarity on how such a vision might be achieved. How can an alliance of interests around a strong reform agenda be built and maintained? Unfortunately, the UK Government has undermined its credibility in the search for a route map through CAP reform by proposing cuts in that part of the CAP budget allocated to rural development.

6.2 The UK Government should press the need to return to the Cork agenda, initiated in 1996. In addition to this, it should press for improvements in the structure, coverage, financing and delivery of Pillar 2, to help ensure that Pillar 2 can more successfully meet its objectives, and become a viable alternative to the case for simply maintaining Pillar 1 as it stands. The Government should play a leading role in promoting a forward-looking vision for the growth and development of Pillar 2. It should certainly cease including Pillar 2 in calls for CAP budget cuts (as this sends a mixed signal to other Member States and the Commission).

6.3 There are a whole series of detailed reforms that need to be put in place to improve the efficacy of the implementation of Pillar 2. Not least among these is that EU allocations to Pillar 2 should be based on objective assessments of need and not simply on the basis of rolling forward historical spending levels.

6.4 The Government should conduct a detailed review of the potential for the development of Pillar 2 (a companion document to its future vision for CAP reform). What ideally should Pillar 2 look like in a world where Pillar 1 is progressively dismantled? It should call for an EU-wide review along the same lines.

February 2006

Memorandum submitted by Professor D Harvey (CAP 09)

SUMMARY

Memorandum 1: Critique of the Vision: The Defra/Treasury Vision is mis-timed and ill-focused. Following the EU Budget summit and agreement in December 2005, there is very little opportunity in the near future to make any substantial changes to the CAP. The promised review of the European Budget in 2008 can be treated as being only about the budget, and not about the underlying policies. Yet the Vision makes virtually no mention of the budgetary arrangements for the CAP. This vision is not a serious option for EU agreement in the foreseeable future. Furthermore, elimination of Pillar 1 support may be a vision to some, but to many countryside interest groups, without any transition provision it will be seen as a nightmare. This is not because the present uses and management of Pillar 1 support are sensible, effective or efficient—they are not (at least not for the UK). Elimination of market support and dedicated farmer support (unconditional direct payments) may be a worthy aspiration. But this “vision” does little to help achieve it.

Memorandum 2: An Alternative Vision: Turning aspiration into reality requires a careful explanation of the means of achievement, and a more realistic assessment of the benefits and costs than is managed here. In particular, it needs to explain more realistically how we might make progress from where we are now to where we might want to be. Incidentally, such a careful explanation and more realistic assessment also turns out to be considerably more sympathetic and sensitive to the critical interests in the countryside than the present document, and hence more likely to foster and improve debate, as a precursor to acceptance and


pursuit of the ambition. But even more importantly, the alternative vision begins with the budget and financial arrangements for the current CAP, and is thus much more likely to be realisable than a vision which concentrates on the policy itself.

MEMORANDUM 1: CRITIQUE OF THE VISION

1. “This paper sets out a vision for the future of the European Union’s Common Agricultural Policy. Its aim is to stimulate and help inform debate.” Against these aims, this a disappointing document. There are four major grounds for this depressing judgement:

2. Firstly, contrary to the title, there is no real vision of the future here, other than a proposal to eliminate Pillar 1 support over a 10–15 year time horizon, and a rehearsal of general principles. These are little more than platitudes, hardly differing from previously agreed statements (see below). Otherwise, the “vision” consists largely of a critique of past policy and a catalogue of its well-documented shortcomings. Rather than being a vision of “where we want to be in 10–15 years time, and why” it is focused largely on where we were 10–15 years ago, and why that was so bad, which is not at all the same thing. The vision—a world without any Pillar 1 support—may well please the Treasury and the taxpayers (who would hardly notice), but it is more like a nightmare to many countryside interests, and complete anathema to many presently powerful EU voices. Its chances to be realised on the basis of this document are small—fundamentally sound though the aspiration might be.

The UK December 2005 Vision

Our vision for agriculture within the next 10–15 years is for an industry which is fundamentally sustainable and an integral part of the European economy. It 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.

The EU June 1998 Vision

“All these proposals together have the aim of giving concrete form to a European model for agriculture in the years ahead. It is worth listing here what the main lines of this model should be:

— A competitive agriculture sector which can gradually face up to the world market without being over-subsidised, since this is becoming less and less acceptable internationally.
— Production methods which are sound and environmentally friendly, able to supply quality products of the kind the public wants.
— Diverse forms of agriculture, rich in tradition, which are not just output-oriented but seek to maintain the visual amenity of our countriesides as well as vibrant and active rural communities, generating and maintaining employment.
— A simpler, more understandable agricultural policy which establishes a clear dividing line between the decisions that have to be taken jointly and those which should stay in the hands of the Member States.
— An agricultural policy which makes clear that the expenditure it involves is justified by the services which society at large expects farmers to provide.”


3. Secondly, the critique of the CAP is substantially out-of-date, referring to previous rather than present policy, and ignoring future policy trajectories (see 3.c below). As such, it re-inforces popular myths and misconceptions, rather than improving understanding of the current issues and problems. The costs of the current (substantially reformed) CAP are over-stated. In particular, the OECD’s estimates of Producer Subsidy Equivalents (PSE) are well known to substantially over-state the extent of policy subsidisation because they are based on current (policy distorted) world prices. As and when support and protection is reduced, world prices are expected to rise, in some cases (eg milk) very substantially (see Colman, 2002). The consequent result for producer support is then substantially reduced. The implication that these costs will persist into the future, unless radical reform is undertaken, is misleading. As a result, the contribution to genuine and constructive debate is compromised.
4. Thirdly, the premise of the “vision” is that it does “not set out a route map for getting there. (Since) That must be the subject of debate across Europe and achieved through gradual and carefully managed change to give clear signals and time for farmers to adjust their businesses, not an overnight upheaval.” (ES p1). This premise is fundamentally mistaken, on three major grounds.

a. From a theoretical point of view, it is far from clear that “gradual and carefully managed change” is a sensible recipe for either efficient or effective business adjustment. The New Zealand case strongly suggests that unambiguous signals and capacity to adjust are far more important than gradual change and time to adjust. The necessary incentives and freedom to adjust are only provided in full on completion of the policy change. Until this point, any signals for adjustment are necessarily muted and very possibly noisy, resulting in inappropriate and costly adjustment. Capacity to adjust depends critically on the transition provisions. This point is further elaborated in Colman, 2002, chapter 9.

b. From a practical point of view, sensible debate and negotiation about policy options requires serious consideration of the means and processes of change. The political problem is not about where we want to be, as the general agreement on the objectives (1 above) indicates, but precisely on how to get there from here (or even whether such a nirvana is possible—see 4 below). Resistance to change is exactly that: resistance to change, not necessarily resistance to improvement or objectives.

c. Change is happening anyway, from the already agreed Single Farm Payments and associated reductions in traditional market support, to the practically inevitable changes as a consequence of current WTO negotiations under the Doha round. Although the details of these changes are not yet known, their general direction towards less market intervention is guaranteed. Ignoring these changes and their consequences reduces the relevance of the present document and further compromises its utility as a platform for debating and agreeing future policy.

5. Finally, the document ignores the critical blockage to reform of the policy: the lack of conviction among either farmers or “pastoralists” (those concerned with the rural environment, countryside, rural cultures and development) that the “vision” is achievable or desirable. Both sides of the countryside debate are far from convinced, though for apparently very different reasons, that the free market in agricultural products coupled with largely unspecified central (EU or UK) intervention can possibly meet the objectives of the vision. Farmers are generally unconvinced that they can survive in a free market. Pastoralists are frequently anxious about the potential ravages of commercial and industrial agriculture (as an apparently inevitable consequence of free trade farming) on rural environments, landscapes, animal welfare and biodiversity, or about the adverse consequences for rural development as businesses and enterprises adapt to elimination of support.

6. Any attempt to relieve these anxieties through regulation further frightens farmers, who see their capacity to compete in a free market being even more restricted. Neither major interest group is prepared to sign up to reform negotiations on this basis without a clear idea of exactly what is involved. They will be even less likely to participate on the basis of a “vision” which largely ignores the recent hard-won and substantial reforms to the policy, and hence, by implication, ignores the interests of those most concerned with earning a living from and having a life in the countryside. As the EFRA Committee announcement recognises, there are important, if not critical questions about “how the reforms proposed in the report could be achieved in practice, and how these changes relate to the ongoing debate surrounding the future financing of the CAP. What barriers might be put in the way of implementing such reforms by other EU member states?” It might have added, what resistance can be expected within the UK? We need an alternative vision to provide answers to these questions.

MEMORANDUM 2: AN ALTERNATIVE VISION

The shape of an unsupported agriculture

1. What would the countryside look like without traditional (Pillar 1) CAP support? How competitive would UK or EU farming be in a free trade world? Would the UK become totally dependent on food imports? What would happen to food prices? Would farming retreat to industrial monocultures in the most favoured lands and leave the rest to become wilderness? Would intensity increase, with consequent pollution problems? Would farmers eliminate discretionary spending on the environment, or would they exploit opportunities to sell their environments, and increase their attention to such environments?

2. These are all very good questions. But none are addressed in the current “vision” document, and none admit of unambiguous or concrete answers. Since European history does not include such a condition, there is no solid evidence on which to base any answer. The New Zealand experience (which is the closest analogy) strongly suggests that agriculture would quickly adjust to become competitive and profitable, at substantially similar output levels as under support, but there are reasons to doubt the relevance to the European condition. The only alternative is to speculate on the basis of some more or less coherent understanding of the way the socio-economic world works.
3. Working from first principles, much of European commercial agriculture would be competitive and profitable in an unsupported world. We have some of the best land, blessed with some of the most favourable agro-climatic conditions, embedded within one of the richest and most populated economies on the planet. Our farm structure is good, well populated with skilled and experienced farmers, blessed with fully integrated and modern supply and marketing chains, and backed up well developed credit and legal institutions. Why would such an agricultural system not be competitive with the best in the world, especially for the home market?

4. Two major reasons are obvious. First, the shock and trauma associated with elimination of support would disrupt these favourable conditions to such an extent that it would take a generation at least to make the most of these fundamental opportunities. Second, the European population would hedge the industry with so many environmental, animal welfare, landscape, planning and employment conditions and regulations that the industry’s costs of compliance would make it uncompetitive. Under either of these conditions, food supplies would fall and prices would necessarily rise, since the rest of the world cannot supply Europe with all its food needs, especially not at prices near current levels. As prices rise, so some domestic EU production would become viable and profitable. This would be greater if Europeans are prepared to pay premium prices in the market for locally produced (and quality) food. Some farming would be profitable. How much and where all depends on the evolution of the unsupported market, but the world food supply/demand balance is such that production levels would probably close to present levels (at about 80–90% on average) and that domestic prices would be enough to make this level of production commercially viable and economically sustainable.

5. So what would the landscape and countryside look like? Lowland prairies and upland ranches and ranges (or wilderness)? Intensive feedlots and animal factories? Huge farms with no woods and hedgerows? Massive machinery? Or wasteland, derelict buildings and over-grown scrub? The answer would probably include examples of all these and more. Some argue that the 1930s depression, with large areas of British agriculture laid waste and derelict, would be the most likely outcome. But current conditions are very different from those of the 1930s. The rest of the economy is rich and prosperous, and accustomed to being very well fed with massive choice and secure supplies. Supermarkets and other food retailers would find that they needed secure supply chains to meet these demands, which require in turn viable suppliers and producers. Furthermore, plenty of people would like a place in the country. Derelict and unoccupied land is not likely to stay that way for long, unless people really don’t want to live and play on it, rather than trying to make a living from it. People who want a piece of the countryside will try and make sure that it looks the way they like it. If hedges, hay meadows and stone walls are valued, then people can be expected to find ways of making sure that they are maintained and provided. In other words, elimination of pillar 1 support would not repeal the basic forces of supply and demand. These forces would operate to produce the sorts of food, landscape and rural environment that people are prepared to pay for, at prices which provide the producers and their resources with a viable living. One guess would be that the countryside would not actually end up looking very different from its present condition. At least, we might expect this to happen in the long run. The problem, as Keynes memorably said, is that in the long run we are all dead.

How might we get there—a practical vision?

6. A realistic vision needs to envisage how we might minimise the difficulties of and maximise the opportunities for such a potentially radical transition. The first and most obvious difficulty is that elimination of support would bankrupt a substantial fraction of the present farming businesses, perhaps as many as 50%. These people have paid prices for the land and capital (live and deadstock) which premises a continuation of support. Remove the support and capital and land values (based on farming) collapse. The present farmers see their pension funds, and their capacity to weather commercial difficulties or develop their businesses, evaporate. They can be expected to make every effort to resist such a prospect—which provides the current CAP support with its most resilient defence. Never mind that the most indebted ones would probably survive quite well—banks are unlikely to foreclose on half or more of their farming clients when the realisable value of their assets has just collapsed, so they would take steps to minimise their losses, often writing off debts and helping existing farmers stay in business (the New Zealand experience). The farmers who would really suffer are those without debts, whose wealth would be severely reduced (the real point of the Defra/Treasury observations on the effects of support). It is politically impossible, as well as being morally questionable, to eliminate Pillar 1 without some form of compensation.

7. Compensation: The implicit compensation offered in the “Vision” document is simply continuation of single farm payments and other support for a finite, limited time (10 or 15 years), presumably gradually reducing each over this period. This is of little comfort or help to farmers. They need a lump sum, once-and-for-all payment—to protect their investment value and provide them with the capacity to adjust, either by changing their business systems or by leaving and letting someone else do it. Furthermore, they need to know what the new unsupported market will look like as soon as possible. Gradual change is much more likely to generate the boiling frog syndrome—drop a frog into a pot of boiling water and it will jump out; put it in cold water and bring it slowly to the boil and the frog will die. Sudden, but reliable change will induce rapid and viable responses; gradual change is much more likely to produce mal-adaptations and responses.
This is even more likely when there is strong political resistance to the changes anyway, and every effort being made to slow them down or reverse them. Even assuming that we could persuade the EU to agree to elimination in the first place.

8. **European Level Agreement?** Four central facts strongly suggest a solution to the present European impasse on CAP and its funding.44

   i. **Fact 1:** The CAP is the only European policy that is both mandatory and 100% funded from the EU budget. All other policies are subject to member state contributions. When the CAP was invented, this made sense, but not now.

   ii. **Fact 2:** Decoupled single farm payments, with environmental compliance, are a radical change from the traditional CAP, with much lower social costs and market distortion. Neither the values of environmental care, nor the costs of providing for it, are uniform across the Union—there is no logic other than historical precedent requiring payments to be the same, or that they be commonly financed. The historical legacy of mandatory spending, exclusively financed from the EU budget, is no longer either legitimate or sensible.

   iii. **Fact 3:** The Central European countries, with large farming populations and low incomes, have joined the CAP on very unequal terms—their farmers are only paid 25% of the payment rates to their richer and more fortunate western cousins, though this proportion is set to rise in the future. There is neither logic nor justice in this glaring inequity.

   iv. **Fact 4:** The British rebate is only justified (if at all) on the grounds that Britain contributes a lot to EU funds (being a large economy), but gets relatively little back through the CAP (being a densely populated and small agricultural country). Other, less glaring, budgetary inequities will persist so long as the EU maintains its present CAP financing system, which absorbs 40% of an already pitifully small European budget for the support of farmers.

9. An answer can be distilled from these facts: let the EU budget pay only a fraction (say 25%) of the costs of the current CAP, instead of the present 100%. Make member states separately responsible for the balance for their own farmers, as they so wish, up to the budgetary ceiling already agreed. Member states would then be free to decide whether and how to make these payments, subject to European and international competition and trade laws and agreements, and subject to the European freedom of movement of (farm) labour and capital. If we wanted to provide limited lump sum compensation, we could. How can France sustain objection? If she wants to continue the CAP, she can (but at her own rather than our expense). Some policy competition between member states would be a good thing—to test different options. At the very least, such a solution might provide some relief from the otherwise destructive British political battle about the EU, giving the UK (and other member states) more discretion and control over their own local policies, in the true spirit of subsidiarity.

10. **But what about the environment?**45 Pastoralists, however, complain (with some justification) that the free market will not provide the right levels of environmental conservation. They often argue that biodiversity, landscape quality, and environmental amenity need government intervention, regulation and support. Continued single farm payments, or something like them, with cross-compliance conditions about conserving the environment and natural resource, seem like a practical and effective way of providing the proper level of care (conservation, amenity, recreation and environmental) goods and services.

11. Markets for conservation, amenity, recreation and environment (care) goods and services fail because the people responsible for providing them (farmers) cannot get their necessary reward from the people who are willing to pay for them (pastoralists). The transaction and negotiation costs are too high. In addition, many of these countryside care goods are “public” rather than private—once we have a pretty landscape or diverse wildlife for one person, it is available for all, regardless of whether or not they pay for it. We end up with less care than we are actually prepared to pay for, because it is in peoples’ self-interest to free-ride on other peoples’ contributions. An answer is to force people to pay (through the tax system) and for government to be responsible for the care of the countryside.

12. But this answer—implicit but not explicit in the “Vision”—misses the essential point of the market failure—the difficulties of getting the beneficiaries of the countryside care to put their money where their mouths are, and of getting these payments, and their associated care requirements and demands, to the people responsible for managing the countryside (the farmers and land users). The care markets don’t work because the effort required is not worthwhile. But, as we get richer, so the benefits of getting care markets to work increase, and they do emerge. Voluntary contributions to the RSPB, the National Trust and wildlife trusts pay land users to do the right things with their land. But there are free riders. There would be more and greater voluntary contributions if we could each be sure that everyone who valued the countryside was making their full contribution to its care and maintenance. We could encourage this by a) allowing such voluntary contributions to be deductible (within limits) from tax bills (rather than simply allowable against tax); b) making ex gratia payments from the Treasury to the care trusts to make good the free-ride shortfall on a pro rata £ for £ basis at some centrally agreed rate. The trusts would then be responsible for reflecting the demands and requirements of their members directly to the land users. Variety and diversity of demands

44 These arguments are elaborated in Harvey, 2006.
45 These arguments are spelt out in more detail in Harvey, 2003.
and supplies would be catered for through the diversity of trusts. If a trust is doing a good job, it will be supported. If not, its donation flow will dry up. The consumers/users/enjoyers of the countryside will be directly connected to the people needed to provide and sustain it.

13. The alternative of government intervention, regulation and payments to farmers separates the people willing to pay from the people who need payment to provide the care by a maze of procedures, rules, forms and disinterested bystanders and bureaucrats, which is neither effective nor efficient, and does nothing to integrate society. It fails for the same reason that all central planning fails—it is not capable of reflecting the real diversity of the market and it is too rigid to adapt and adjust to changing and differing circumstances. It fails because it fails to address the fundamental problems associated with externalities and public goods. In the end, it threatens to undermine peoples’ faith in government itself.

CONCLUSIONS

14. The “vision” offers limited hope of genuinely advancing debate or agreement about the future of the CAP and its funding. This is a pity, because there is a sensible alternative. The authors of the “vision” might complain that the devil is in the detail. But, for the problems of the CAP, the devil is in the conception.

15. We need to reform and develop appropriate policies to improve the match between those trying to make a living from and those trying to have a life in the countryside. We need to remove the existing policies which are not helping and which are costing more than they deliver. The reforms, however, need to work with market forces, and not seek to replace or repeal them. The “vision” presumes that the market will work for food and farming, but ignores the transition, which in practice is what much of the policy division is about. It assumes that government intervention will continue to be necessary for the environment and rural development, but fails to explore the sorts of intervention that might work. 60 years ago, policy makers assumed that government intervention was necessary to secure food supplies and domestic farming. We are now picking up the pieces of that assumption. We should be careful that we are not sowing the seeds for yet another policy rescue problem in the future. At least the alternative outlined here offers the opportunity for UK governments to avoid the counter-productive squabbles about the role and place of the EU in the affairs of the UK, by offering the chance of tailoring our own policy to our own needs and circumstances.

FURTHER READING


Harvey, D R, 2004, “Policy Dependency and Reform: Economic gains versus political pains”, Agricultural Economics, 31, 265–275, which examines the difficulties of reforming traditional farm support policies. Available at: http://www.staff.ncl.ac.uk/david.harvey/DRHRootFolder/DRH_research.html

Harvey, D R, 2003, “Agri-environmental relationships and multi-functionality: further considerations”, The World Economy, 26 (5), 705–725, which examines single farm payments as a means of providing countryside care, and explains the alternative of trusts, with appropriate references. Available at: http://www.staff.ncl.ac.uk/david.harvey/DRHRootFolder/DRH_research.html

Memorandum submitted by Professor K J Thomson (CAP 10)

1. This paper first comments generally on the Vision document, and then takes most of the Committee’s specific questions in turn.

General

2. Only Chapter 1 in the document actually contains the elements of the Vision; the others comprise largely a (good) summary of the economic arguments for further CAP reform, ie the identification, and where possible quantification, of the costs of the existing (or recent) CAP (Chapter 2), and some analysis of the recent UK and international situations (Chapters 3 and 4).

3. The Vision contain no very definite statement of the contents of a future CAP: the closest—and indeed only—statement of this kind may be summarised (from para. 1.32) as:
   — a single EU market, and the same EU competition policy applied to agriculture as to other sectors;
   — “targeted, non production-distorting measures defined and applied at Member State, regional and local levels”;


MemorandumsubmittedbyProfessorKJThomson(CAP10)

1. ThispaperfirstcommentsgenerallyontheVisiondocument,andthentakesmostoftheCommittee’s specificquestionsinnear.
— import tariffs aligned with those prevailing in other sectors of the economy;
— no price support, export refunds or other production or consumption subsidies, and no agriculture-specific social and welfare benefit support or income payments; and
— EU spending on agriculture based on the current Pillar II.

Taking each of these points in turn:

4. The markets for agricultural and food products in the EU are already largely unfettered by national (or regional) barriers, except for production or marketing quotas for a few farm products, and temporary restrictions imposed by national governments for animal health and food safety reasons. With the exception of remaining post-BSE restrictions on beef exports (mainly to France, within the EU), the UK is probably not greatly disadvantaged by these barriers, although pressure to remove them should be maintained. Competition policy already applies to farming, with detailed rules in force regarding (eg) labelling and compensation payments. The relatively small size of farm businesses means that structural aspects (eg anti-monopoly measures) of EU competition policy hardly apply, except of course to food retailing, which has been extensively investigated.46

5. “[T]argeted, non-production-distorting measures” may be hard to find if farming practices (and hence production) are needed to maintain and extend agri-environmental benefits. Moreover, CAP “measures defined at … local level” would be an innovation—though perhaps a welcome one—in the UK, where, for a variety of reasons, agricultural policy has always been strongly centralised and not left to eg local authorities.

6. Tariffs: Table 1.1 in the Vision document defines “bound tariff equivalents”, ie the maximum border taxes that can be applied, except in special conditions, under WTO rules. The actual tariff equivalents applied in some recent years might be of interest.

7. The current Pillar II covers a very wide range of structural and other supports to EU agriculture, including significant expenditure in many countries on “farm modernisation” (and in much more direct ways than are specified in para A.8). If this pattern continues (as it likely to do in 2007–13, though with lower funding following the December 2005 budgetary decisions), several Member States, especially the new ones, will actively promote development targeted towards farm production rather than towards environmental conservation and/or non-agricultural rural development.

8. The time horizon of the Vision is “the next 10–15 years” (ie around 2020), which seems realistic, given that the next seven-year EU budgetary period lasts until 2013. Even assuming a WTO Doha Round “success”, and a powerful 2008 Mid-Term Review, no decisions of the magnitude implied in the document seem likely before 2013. Even a budgetary crisis—which is possible but not inevitable over the next budgetary period—might (and should, according to the financial framework agreed in December 2005) result in cuts to Pillar I funding rather than further lowering of tariffs or expansion of Pillar II. Further, decisions in 2013 would take several years to have effect. On the other hand, much can happen over a 15-year period: in 1991, the Uruguay Round was failing, the MacSharry CAP reforms had not been completely formulated, and the BSE episode had not begun.

9. The stated aim of the Vision document “is to stimulate and help inform debate” (Executive Summary, first para). It may do this, although most of its facts and arguments are already well rehearsed, and its joint Treasury/DEFRA provenance may well raise some continental hackles. It lacks a clear statement of how the Vision might be realised, eg by considering which Pillar I payments should be targeted for reduction (and how, eg flat-rate or differentiated), whether more demanding cross-compliance is a sensible route to follow, and what existing or potential Pillar II measures should be used (and how). Difficult areas, such as organic farming, and what is meant by the “modernisation” of EU farming, are largely avoided.

Food Security—does the Government remain committed to UK food production?

10. The Vision is fairly clear about this: “domestic production is neither a necessary nor sufficient condition for food security” (para 3.45), and the definitions and arguments adduced to this statement in the surrounding paragraphs are those standard to market economics. Objectors to this position need to identify what invalidates the assumptions or conclusions of these arguments, eg the specific risks, the UK’s attitude to these risks, and the likely UK/EU responses to their occurrence, which would alter the standard efficiency solution.

Treatment of Farmers across the EU

11. In the context of the Vision proposal, “equal” or “fair” treatment of farmers might refer to their position once the reformed CAP is in place, or to how one gets from “here” to “there”, ie transitional arrangements. In terms of social welfare, EU governments have explicitly retained welfare policy as a national rather than EU competence, and are therefore likely to differentiate eg poverty and pension payments by social groups, including farmers and/or rural residents. Unless the UK wishes to argue for a

46 Complaints about restrictions on farmer-controlled milk processing have been targeted at the UK rather than the EU competition authorities.
degree of EU competence in this area (eg maximum and/or minimum limits on welfare payments), it cannot easily argue against special treatment once the Vision is in place unless it can show (which would be difficult) anti-competitive effects. Upper limits on single farm (and other) CAP payments have of course been generally resisted by successive UK governments.

**Environmental Consequences**

12. This is a complex area, as the Vision document makes clear. However, some elements seem missing, eg:

- The increasing values placed on environmental assets, and the importance of their locations, eg with respect to residence and tourism.

- Evidence from New Zealand in this area: in environmental terms, paras. 3.11 to 3.13 refer only to changes in land use, and some of these may have had a deleterious environmental effect.

**Lower Food Prices and Taxation**

13. The proposed changes to the CAP should indeed lead to lower food prices, since price competition in food retailing is notoriously fierce, and changes in raw material prices should feed through to the retail level. However, food price inflation is lower than that for most other goods and services. Moreover, most of the changes consequent on the proposed CAP reform would lower the relative prices of foods often associated with unhealthy diets, eg butter, sugar and red meats, making this effect one of ambiguous benefit. By eliminating direct income payments to farmers, the Vision CAP would probably lead to lower taxation, depending on the amounts paid out for “appropriate” Pillar II objectives. If the current CAP restricts EU economic growth, as the Vision argues, then higher growth would allow lower rates of taxation while maintaining tax revenue.

**A more competitive EU agriculture**

14. Almost by definition, EU farmers would be more competitive if the proposals were implemented, since the survivors would be operating with virtually no policy protection against imports. How CAP reform would “enable” this can be answered generally by saying that the less competitive, more marginal producers (in economic terms) would be forced out of the industry. This would usually mean small- or middle-sized operators without significant non-farming earnings, particularly amongst dairy and cropping farms (paras. 3.23-3.25 and Table 3.3 in the Vision document). Apart from scale effects, cattle and sheep farms are particularly dependent on direct payments and indirect support (border restrictions, quotas, etc).

**Tenanted and non-tenanted sectors across the EU**

15. No comment.

**Implications for applicant countries**

16. It is not clear whether this item refers to (i) the ten New Member States (NMSs) which acceded to the EU in 2004, (ii) Romania, Bulgaria, Croatia, Macedonia and Turkey, all of which are at (very different) negotiation stages, (iii) other possible applicants, eg in the Western Balkans, or the Ukraine. As regards (i), most NMSs would probably suffer from the proposed CAP Vision (and so would resist it), since they have expectations of significant Pillar I payments, and many are not well organised to maximise uptake of Pillar II.

**The UK rural economy**

17. As widely recognised, the UK rural economy is now largely non-agricultural, and it is unlikely that the prosperity of farming makes much difference to income levels in these areas. Indeed, abandonment of farmhouses, farm building and farmland by the agricultural industry allows, in many places, investment by incoming households and businesses which would result in levels of economic activity above those of stagnant or marginal farm businesses. These changes would alter the rural economy—probably towards more concentration of services, and more road traffic—and probably lead to further social and environmental differentiation.

18. A recent Newcastle University report argues that UK policy has failed rural economies during and since the 2001 foot-and-mouth disease epidemic, primarily by favouring the farming sector and urban areas, with “rural affairs and rural development . . . having effectively been marginalised by stronger policy

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agendas within a new department” (DEFRA) (p 11). Most of the report is concerned with FMD strategy (which is not the main concern here), but it appears to imply that much greater payments should have been made to non-agricultural rural businesses for loss of business (as opposed to farmer compensation for loss of assets and to encourage disease disclosure). Evidence that such businesses suffered serious long-term damage from the FMD crisis seems scanty.

19. The study (p 14) cites changes in gross value added levels (per head) in Cumbria and Devon (ie the counties worst affected by FMD), and pay levels “in rural areas” in England. However, levels of disposable income and of household expenditure (ie after tax, welfare benefits, etc. are accounted for) are much less dispersed than production or income measures. There are certainly groups in rural areas, as in urban ones, that are relatively income-poor. The small numbers of farmers are likely to be quite asset-wealthy, as shown by Table 3.1 in the Vision document.

20. The Newcastle report criticises DEFRA as a “large and sprawling ministry”, ineffective in helping “weak” and “remote” (sic) rural economies. However, a “Department of Rural Affairs” which excluded the environment (and food?) would also be sprawling, if not large. Criticisms can certainly be made of government support to economic development in rural areas (including whether it is needed at all, given that employment levels and business formation rates are generally higher in rural than in urban areas). However, the national context of a government strategy for regional devolution within England must be faced, as well as the agricultural bias of much EU funding.50 Moreover, since much of the general rural economy, especially tourism, is linked to the countryside (ie an important component of the environment), it is not clear how “integration” and “joined-up government would be maintained” (if sought in organisational rather than procedural terms).

International Issues

21. No comment.

Future Financing of the CAP

22. As shown by the Vision document’s Table 2.1 (which covers all OECD-defined “producer support”, not simply EU and national payments), most current CAP expenditure is for Pillar I payments (now being converted into single farm payments) which would be eliminated under the proposed CAP. Moreover, many input and some other subsidies would (presumably) be declared contrary to a more stringently applied EU competition policy. Thus much of the huge current budgetary cost of the CAP would disappear, relieving the pressure which routinely intensifies towards the end of each EU budgetary period (and sometimes within these periods).

23. A potentially interesting development is the incorporation in the December 2005 EU Financial Perspectives agreement51 of the provision that (subject to limitations) “Sums transferred [ie modulated, from market-related expenditure and direct payments, ie Pillar I] to support rural development measures shall not be subject to the national co-financing and minimum spending per axes rules set out in the Rural Development Regulation”. This, and perhaps other points in the agreement, would seem to have consequences both for the UK budgetary rebate (eg do such sums count as Pillar I or Pillar II?) and for national exchequer calculations.

24. Other Member States are, of course, likely to have different views on both CAP reform and the EU budget. In particular, new Member States have expectations of the current CAP that may be disappointed in administrative practice or in economic effect, and so become more interested in further CAP reform. The retention of a special “UK rebate” is always likely to prove a hindrance to the British negotiation position, and further efforts should be made to find a more universal formula for “rebates” (or for “fairer” contributions to EU “resources”).

February 2006

Memorandum submitted by the Milk Development Council (MDC) (CAP 11)

1. EXECUTIVE SUMMARY

1.1 The MDC is a non departmental body and does not engage in lobbying. The MDC is responding to this inquiry on matters of fact and evidence and is not taking any particular view in favour of or against the “Vision for the Common Agricultural Policy”. We have limited our comments to the questions the committee have asked.

50 It could be argued that this “bias” is perpetuated by the Vision of a reformed “Common Agricultural Policy” rather than a substitute “Common Rural Policy” or a “Common Environmental Policy”.

1.2 Equality of treatment of farmers is essential from an economic efficiency viewpoint. The Vision paper states “production should be allowed to find a more sustainable level, reflecting natural advantages (in terms of climate, and terrain), competitive advantages (in terms of food quality and safety) and rational trading relationships in a more open market”. In order to allow this to happen it is crucial that all trading partners are operating to the same standards (environment, animal welfare, competition rules). Where they are not, any additional costs imposed on UK agriculture (eg gold plating of EU standards, or additional standards—eg EU v developing countries) need to be supported through direct Pillar II payments if an economically efficient outcome is desired.

1.3 Intensification of agriculture is not necessarily a result of support. The pig, poultry, and horticulture industries have all seen massively increased intensification and consolidation despite being unsupported sectors. In addition, the use of irrigation (certainly within the UK) is used on unsupported crops such as potatoes, as well as supported crops such as sugarbeet. In the potato example, irrigation is being driven by market demands for high quality crops, and economic demands for high yields.

1.4 Consequently it cannot be assumed that in every sector, or even in most, that reduction in support will lead to extensification. Whether or not a sector intensifies or extensiﬁes will be the result of the complex interaction of a number of factors: market needs, land values, land availability, labour costs, feed values, environmental legislation, animal welfare concerns, fertiliser costs, spray costs etc. In some situations this may lead to extensification, in others, intensification.

1.5 The assumption that any reduction in farmgate prices is passed through to the consumer through lower retail prices needs to be questioned. In economic theory, with active competition among retailers, you would indeed expect this to happen. However, the evidence of the past few years, does not suggest that lower farmgate milk prices lead to lower dairy product retail prices. All the evidence suggests there is no consistent link between retail prices for dairy products and farmgate milk prices. This does not necessarily suggest you should not cut support, but does suggest that you should not assume consumers will automatically benefit.

1.6 EU farmers may become more competitive as a result of CAP reform due to the creation of opportunities as many farmers leave, land availability increases and rents fall. This would allow innovative and high performing farmers to expand, increasing the overall competitiveness of the EU agricultural sector. However, there is a social dimension to this which policy makers may or may not wish to consider.

1.7 The obvious advantage that non tenants have in any reduction in support is that they have a valuable asset which can be used to secure lending which in turn can facilitate expansion. However, although tenants have less capital to support them, lower support should lead to lower rents, which may mean little net impact on their profitability.

1.8 In conclusion, if the Government wishes to meet its vision for sustainable model of EU agriculture, then removing Pillar I support would probably facilitate that. However, it may not provide all the environmental solutions that the Government wants. In order to both improve/maintain the environment and allow free markets to operate efficiently and effectively then careful planning will be needed. In particular, care will need to be taken not to penalise UK agriculture leading to a loss in revenue/production, and at the same time export our environmental problems to other countries with lower standards. A first step to ensuring this does not happen is to benchmark imposed cost differences between the UK and any other countries with which the UK has, or will have in the future, free and open trade.

2. NO LOBBYING

2.1 This submission assumes that as the Government’s view is in favour of less Pillar I support, trade liberalisation, and a free market, then the MDC’s role is merely to clarify points and offer evidence and analysis that will help meet that goal. There are several points that are made in the “Vision for the Common Agricultural Policy” that are possibly misleading, and need to be thought about carefully when considering how to implement this policy.

3. FOOD SECURITY—DOES THE GOVERNMENT REMAIN COMMITTED TO UK FOOD PRODUCTION?

3.1 Food security is a complex debate, and whether the UK should seek to ensure a minimum level of food is produced within the country is a policy issue on which the MDC does not have a view. It is worth noting that the Vision paper’s own figures suggest that global liberalisation would reduce the self sufﬁciency of high income countries from 98%–93%, a relatively small change, and a level at which a country would in reality be fairly secure in its food supply (taking into account current food wastage levels). However, the paper’s figures show that the UK’s self sufﬁciency is already much lower than that, at 76.9% for indigenous type food drink (63.4% for total food). Any further fall might be of concern to some.

52 Study by Portsmouth University, Dairy Supply Chain Margins 2004/5 (MDC).
53 Source: Defra.
4. Potential Distortions and Inequality of Treatment of Farmers Across the EU

4.1 Equality of treatment of farmers is essential from an economics viewpoint if you want a free market to determine the most efficient outcome. The paper states “production should be allowed to find a more sustainable level, reflecting natural advantages (in terms of climate, and terrain), competitive advantages (in terms of food quality and safety) and rational trading relationships in a more open market”. In order to allow this to happen it is crucial that all trading partners are operating to the same standards (environment, animal welfare, competition rules). Where they are not, any additional costs imposed on UK agriculture need to be supported through direct Pillar II payments. Examples of different rules include: gold plating of EU standards in the UK, or additional standards—eg EU v developing countries.

4.2 If the EU or UK Government wishes to impose higher standards on farmers in order to protect the environment etc then the additional costs of meeting those standards should be paid for by the Government. If they are not, then a UK farmer who may initially have a lower cost of production, due to competitive and natural advantages, may lose out to a foreign competitor who does not have to operate to the same high standards that impose additional costs on the UK farmer. If this is allowed to happen, then all that is happening is that the environmental problem is merely being exported to the foreign country. This is not an economically rational or efficient outcome.

4.3 It would appear that a logical and coherent position would be that any additional environmental, animal welfare, etc. costs imposed on UK farmers that competitors do not have to meet, should be paid for by Pillar II direct subsidies. If they are not, then an equitable position would be to prevent imports from countries with lower standards. This would prevent exporting environmental problems.

4.4 If the approach of paying for any additional costs was used, then as standards around the world improved the amount of support for farmers would be reduced. This would be reduced to zero if all farmers were operating under the same conditions. This would allow farmers to compete on their natural and competitive advantages, leading to the most economically efficient outcome.

5. Possible Environmental Consequences of the Proposals

5.1 The paper states “in particular high levels of market support, has encouraged farmers to intensify agricultural production”. While this is probably true in some areas (eg increased stocking densities on upland areas in order to increase headage payments), intensification of agriculture is not necessarily a result of support. The pig, poultry, and horticulture industries have all seen massively increased intensification and consolidation despite being unsupported sectors.

5.2 The paper also states that “Key developments have included the substitution of capital equipment for labour, the reduced level of on-farm recycling of plant and animal wastes, and the increased use of inputs and services purchased from beyond the farm. Such intensification has had a very significant impact on the environmental impact of agricultural production”. Again reduced levels of support may not affect any of these developments. In fact it may speed them up in some cases.

5.3 The substitution of capital equipment for labour is not impacted by the level of support for agriculture, but by the relative economics of labour and capital, which, as you would expect in a high income country, are increasingly swinging towards replacing labour with machines wherever possible. However, it may be true that high support leads to inefficient production systems with many non adding value activities being carried out because the high support level allows them to continue.

5.4 The reduced level of recycling of animal and plant wastes might be improved by reduced support. With high levels of support, there is less incentive to make the most of the nutrient values of wastes, as using artificial fertilisers is much simpler. Lower returns will encourage the maximisation of the value of all wastes.

5.5 However, practical issues in the use of animal wastes, such as the dispersed nature of land holdings must be taken into account. The economics of moving and applying large volumes of effectively free waste over long distances may compare unfavourably to purchasing artificial fertiliser, but having much lower application costs due to its lower volume. This might be countered in the longer term if reduced support led to a more liquid land market allowing farmers to consolidate land holdings.

5.6 High support may allow some inefficient farmers using too many sprays to continue farming. However, the current economic and environmental pressure on farmers to reduce the numbers of sprays should not be underestimated. In addition, due to market demands for quality, it is questionable how much reduction in sprays can be undertaken. A good example of this is that potatoes—an unsupported sector—are sprayed very regularly and at more cost than a supported cereal crop.

5.7 In dairy, it is questionable that if support is reduced whether much production would become extensive. It is more likely that it could become more intensive. This is because of the primary market demand for a level supply of milk. It is currently not believed possible to keep cows outdoors all year round in most parts of the country and produce the level supply of milk needed. If, because of weather and market demands, housing and expensive feeding and slurry handling systems are needed, then a reduction in milk price could result in an increase in larger, more intensive units with high yielding cows. This is because high milk yields per cow will be needed to spread the fixed costs of the housing, feeding and slurry systems. These
costs per cow will be the same whether the cow is yielding 5,000 litres or 10,000 litres. The higher yielding cow will cut the fixed costs by 50%, giving a clear advantage to a more intensive system. These systems will probably be based on maize and arable silages, increasing the amount of maize grown.

5.8 For some dairy farmers, where they have a market that can cope with seasonal milk supplies (a very small proportion of the market), these farmers may become more extensive. They will keep cows outdoors all year round, will have a low stocking rate and will have to be very careful to avoid serious damage to land in the winter. (This system will probably not work in wet and heavy land parts of the country.) However, this will be a more extensive system.

5.9 The use of irrigation (certainly within the UK) is used on unsupported crops such as potatoes, as well as supported crops such as sugarbeet. In the potato example, irrigation is being driven by market demands for high quality crops, and economic demands for yields. A reduction in support would therefore not necessarily result in a reduction in demand for irrigation.

5.10 Consequently it can not be assumed that in every sector or even in most that reduction in support will lead to extensification, lower use of inputs or irrigation. Whether or not a sector intensifies or extensifies will be the result of the complex interaction of a number of factors: market needs, land values, land availability, labour costs, feed values, environmental legislation, animal welfare concerns, fertiliser costs, spray costs etc. In some situations this may lead to extensification and in others, intensification.

5.11 The payment of Pillar II subsidies to encourage extensification can obviously encourage farmers to produce in that way, but they will have to be of sufficient value that any benefit that intensification can give over extensification is replaced by the subsidy.

6. THE EXTENT TO WHICH THE PROPOSED CHANGES TO THE CAP WOULD RESULT IN LOWER FOOD PRICES

6.1 The assumption that any reduction in farmgate prices is passed through to the consumer through lower retail prices needs to be questioned. In economic theory with active competition among retailers you would indeed expect this to happen. However, the evidence of the past few years does not suggest that lower farmgate milk prices lead to lower dairy product retail prices. All the evidence suggests there is no consistent link between retail prices for dairy products and farmgate milk prices. This does not necessarily suggest you should not cut support, but does suggest that you should not assume consumers will automatically benefit.

6.2 The following graphs show the changes in farmgate prices, wholesale prices and retail prices. There is no real link between retail prices and farmgate prices, with retail margins increasing significantly over the time period. It is by no means certain within the dairy sector that lower farmgate prices will lead to consumer prices. Recent history suggests that any farmgate price falls result in larger retailer margins. This area is being investigated to some degree by the OFT in their ongoing investigation.

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54 Study by Portsmouth University, Dairy Supply Chain Margins Report (MDC).
6.3 The situation in much of Europe seems to be similar, with retail prices not being affected by changes (falls) in farmgate prices. One exception to this might be the German dairy market where changes in farmgate prices do seem to be passed through to retail prices. Whether this is because of the influence of the discounters or not is unclear.55

7. **How such a revised CAP would enable the EU’s farmers to be more competitive**

7.1 Competitiveness depends on having access to resources at a competitive price, having natural advantages and then using management ability to use those resources and natural advantages in the most productive way possible. High CAP support does increase the value of resources (eg rent) and allow farmers with lower management ability to use those resources less productively and still survive.

7.2 A reduction in support should lead to lower rents but perhaps not land values. Land value is often not linked in fully to the agricultural value, due to demand for land from outside agriculture. Lower support would prevent poor managers of resources from continuing to be profitable. This would create more opportunity for better managers to expand and use those resources in a more productive manner as land will be more available and rents lower. This will increase the productivity of the sector. However, policy makers may or may not want to consider the social aspect of creating those opportunities which will be to drive many farmers out of agriculture.

**How the proposals would differently affect the tenanted and non-tenanted sectors across the EU**

7.3 The obvious advantage that non tenants have in any reduction in support is that they have a valuable asset that can be used to secure lending, which can facilitate expansion. However, landowners may lose out with rent values falling, and land values being affected to a degree in the areas where there is less non-agricultural interest in land.

55 Please see Dairy Supply Chain Margins 2004/5 (MDC) for more information.
7.4 Consequently, although tenants have less capital to support them, lower support leading to lower rents may mean little net impact on their profitability. However, this would depend on the time difference between the reduction in support and the reduction in the rent. Any great difference between the two could lead to significant difficulties for tenants. A well functioning and fluid land market would help reduce any problems.

8. Conclusion

8.1 In conclusion, if the Government wishes to meet its vision for a sustainable model of EU agriculture, then removing Pillar I support would probably facilitate that. However, it may not provide all the environmental solutions that the Government wants. In order to both improve/maintain the environment and allow free markets to operate efficiently and effectively then careful planning will be needed. In particular, care will need to be taken not to penalise UK agriculture leading to a loss in revenue/production, and at the same time export our environmental problems to other countries with lower standards.

8.2 One approach to ensure that this does not happen could be to ensure that UK environmental, animal welfare, tax and regulatory standards are benchmarked against any country with which we have free trade/ open market. Any differences in cost created by imposed legislation and regulation should then be paid for by Pillar II subsidies, allowing a fair and level playing field for all farmers. This will probably create the situation the Government’s Vision paper sets out. However, any additional regulation placed on UK farmers compared to EU farmers, or EU farmers compared to non EU farmers (if there is an open and free market) without support to compensate would probably result in environmental and other problems being exported to other countries.

February 2006

Memorandum submitted by the RSPCA (CAP 13)

The RSPCA agrees with the strategy in the Vision for the Common Agricultural Policy that the CAP needs to be reformed to provide support to farmers more efficiently and be responsive to consumer demands. It also agrees that funding should shift from Pillar I to Pillar II if a future CAP is to match developments on improving animal welfare in species specific sectors. However, during the next 10 years agriculture will become more open to global competition as tariffs are reduced. Improving animal welfare standards has clear financial implications. Many studies show the theoretical consequences but there have been few actual models that show what will happen to livestock sectors once decreased support occurs. The examples used in the Vision report are not typical of what would happen if trade is liberalised and welfare standards continue to be raised. So, it is important that social factors such as animal welfare are built into the Rural development programmes in the UK and that it is accepted that the market alone cannot deliver a strong competitive agriculture system with higher animal welfare and health standards.

1. The RSPCA has long felt that the support systems of the CAP have not kept pace with developments to improve the welfare of farmed animals through other mechanisms such as species specific standards primarily laid down under Directives. Many of these Directives have started to phase out certain close confinement methods of farming (eg Directive 1999/74 and Regulation 2001/88 phasing out the battery cage system and the sow stall respectively and Directive 97/2 whose prohibition of the veal crate system is finally fully enacted at the end of this year.

2. The RSPCA agrees with the premise of the Vision for the Common Agricultural Policy that radical change is required to deliver support to farmers more efficiently and reduce the negative impact on the environment and animal welfare. In January 2006 the EU agreed its Animal Welfare Strategy which lays down for the first time where the EU sees animal welfare developing in the 2007–12 period. Defra is also considering, for the first time, an animal welfare component within the Animal Health and Welfare strategy. So there is a real opportunity to align the rural development incentives for farmers and producers with high level strategic goals and ensure that the same strategic goals built into previous ERDP programmes for the environment are now applied to improving the welfare and health of farm animals. This response looks at the main vision drivers of the Treasury paper to assess their impact on improving animal welfare under a CAP in 10–15 years timescale.

3. The RSPCA agrees with the position paper that agriculture should be a sustainable industry and rewarded for its outputs by the taxpayer where these are producing societal benefits that cannot be delivered in the market place. The RSPCA would include animal welfare in these benefits. The RSPCA also agrees that the industry should be producing to higher levels of animal welfare. However the two goals as set out in the paper of producing high welfare standards and being internationally competitive in all sectors without subsidy or protection are often incompatible. There is a causal relationship between raising animal welfare standards (within many instances, an explicit increase in costs) and the risk of being undermined by imports from third countries where standards maybe at a lower level. This will lead to the industry becoming uncompetitive in its own market place let alone in the export market. It is unclear how the Treasury report will ensure that this relationship will be effectively addressed.
4. This relationship has been acknowledged by the Commission and Member States in the WTO Doha Development Agenda (DDA) negotiations by the inclusion in the EU’s negotiating mandate to seek clarification as to whether the Green Box includes payments for animal welfare. This mechanism has also been incorporated as new rural assistance measures under Regulation 868/2005. This allocates many new animal welfare measures for inclusion in the Rural Development Programmes including paying farmers for meeting higher animal welfare standards and to adapt to demanding standards based on EU legislation.

5. There are a number of studies showing this relationship and its effect on competitiveness. In the egg sector, there will be an economic consequence of raising welfare standards under Directive 1999/74. Moving from the standard in 1999 this equates to a price differential of about 11p/dozen eggs moving to the enriched cage system, 15p moving to a barn multi-tier system or 36 p/dozen eggs moving to a free range system. Economic research on laying hen standards in the third countries expected to export to the EU shows that standards are more intensive than the 750 cm² space allowance per bird that will apply from 2012 in the EU. It reveals a competitive advantage from the main exporting countries. Those using a standard of 350 cm² would have a price advantage in the trade in dried eggs of 3p before any changes in the DDA are enacted. Any agreed changes in tariff reduction will decrease the competitiveness of the EU egg industry.

6. Similar economic analysis has occurred in the broiler sector and the pig sector. In the broiler sector, where a Directive is currently being negotiated, economic analysis shows that there will be a 11% increase in cost of production from the present broiler stocking density of 38 kg live wt² to a reduced stocking density of 30 kg live wt². This equates to an annual cost to UK industry of £101 million. Even keeping the present stocking density but not allowing the practice of thinning the birds (taking out birds during the growth cycle as the maximum stocking density is reached) would cost the industry in the UK £42 million annually. In the pig sector analysis of the difference between sow production under a higher welfare scheme in Germany and the baseline standards shows a difference of £8.45 in production costs per weaner.

7. The market place can recoup some of these additional costs but without compulsory labelling and retailers adopting their own standards that ensure they import only products produced at baseline EU standards the market cannot reward entirely for higher welfare products. At present there is only mandatory labelling for shell eggs, and no labelling for egg products where the majority of the competition will occur from third countries. Labelling is proposed for broiler chickens under the current EU draft, but no political agreement has been reached yet.

8. There have not been any long term review studies on the economic consequences on a livestock industry of adjusting to lower levels of support whilst moving from a less intensive system. The four examples in the Vision paper look at the overall effect on farming but not specifically on animal welfare consequences. However in Sweden, used in the Vision paper, moves to outlaw the battery cage system which were agreed prior to Sweden joining the EU were abandoned post accession due to the fears about the effects on competitiveness against other EU Member States. In New Zealand, Australia and Canada, other examples used, moves to prohibit the battery cage system for laying hens have been rebuffed by the industry and Government on grounds of competitiveness. All three countries use laying hen systems that will be prohibited in the EU from 2012. All three countries also permit standards for use in pig production that will be phased out in the EU by 2013.

9. The RSPCA agrees with the Vision for agriculture that the case for continued CAP reform has been made both in terms of reducing the CAP budget and diverting the budget from Pillar I to Pillar II. However, despite agreement in the recent EU Council that the Commission will produce a paper in 2008 to prepare for a new CAP, the agreed budget for the period up to 2013 will see a 22% cut from the Pillar 2 budget, equating to a loss of some €19 billion over the budgetary period that will now not be available for rural development issues. This will have a direct effect on the four RDPs in the UK where financial constraints will mean that new issues under the RDR such as animal welfare will not necessarily get the funding required to ensure that the EU’s agriculture remains competitive. For instance, although Scotland has agreed to put in three animal welfare funding streams under its current RDP, it is likely that England will not prioritise animal welfare as a funding incentive. This will not only penalise English farmers compared to Welsh and Scottish producers, it may mean impact on the competitiveness of sectors against mainland European farmers that will continue to get rural development funding to produce higher welfare products.

10. In Germany, the present RDP provides incentives of grants for investment costs in nine sectors (laying hens, turkeys, pigs, beef and dairy cattle, broilers, suckler cows, goats and sheep) providing certain higher welfare standards are met (eg a stocking density of 25 kg/m² for broiler chickens as opposed to the proposed 38 kg/m² under the draft Directive). There has not yet been a comprehensive economic analysis of the effect of these different rural development incentive programmes in the different Member States (or indeed with devolution within the Member States) on the competitiveness of different livestock sectors.

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56 The Case against Cages 2005 RSPCA. Hard boiled Reality 2001 RSPCA.
57 The economic consequences for the broiler industry of legislatively enforced reductions in maximum stocking density. Centre for Rural Research, Exeter University 2005.
58 Effect of higher welfare standards on the costs of producing beef and pork in the EU. Bondt et al 2004 Agricultural Economics Research Institute The Hague.
11. So the RSPCA agrees with the Vision that social and welfare benefits should be available to farmers on the same basis as other Member States and that Pillar II would support these objectives with a consequent reduction in Pillar I payments. However, if Member States have discretion in determining agri-environment payments it is unclear how this will also involve also precluding unfair competition between Member States.

12. The RSPCA welcomes the cross-compliance measures that will apply for three animal welfare laws from 2007 (the general standards for farm animals and specific ones for pigs and calves). This should ensure that a farmer can only receive a CAP payment if they are applying and meeting animal welfare legislation in these areas. The framework is there for the animal welfare pyramid incentive scheme to become a reality.

13. Agreement on the EU budget in December 2005 and the reduction in Pillar II budget means it is important that any incentives under the RDPs not only have win-win consequences for more than one issue but also deliver measurable goals against the national agricultural strategy. It is not clear that this is being applied in the draft RDPs in the UK.

Memorandum submitted by the Food Ethics Council (CAP 14)

1. The Food Ethics Council is an independent research and advocacy group that aims to make the food system fairer and healthier from farm to fork. The Council is chaired by a farmer and its members include consumer advocates and leading academic researchers.

2. The Council welcomes the Committee’s inquiry and this opportunity to comment, and would be glad to provide further evidence on request.

SUMMARY

3. The Government’s Vision for the Common Agricultural Policy recommends phasing out all Pillar 1 support by 2020. There is indeed a strong case for substantial reductions in Pillar 1 support, for many of the reasons that the Government identifies. These reasons include that current Pillar 1 support is environmentally and socially regressive, in the UK and internationally. However, the Government’s vision raises three questions.

4. First, will totally eliminating all Pillar 1 support offer the best outcome for the different interests (UK consumers and taxpayers, the environment, people in developing countries) that the Government’s vision tries to square? The prospect of eliminating Pillar 1 support is favoured because it appears less “trade distorting”, rather than because it has been shown to deliver an optimal outcome.

5. Second, does the Government see a CAP without Pillar 1 as a CAP that no longer supports productive agriculture? The vision paper is opaque on this point. If the Government intends that CAP support should in future consist simply of a competition between different rural land uses to deliver discrete public goods in return for public funds, it will be frustrated by costly bureaucracy. In practice, the cost-effective provision of public benefits from the countryside will require a considerable proportion of support to be tied to specific activities or land uses, with support for best practice in sustainable agriculture chief among them.

6. Third, how great a reduction in total support for agriculture and rural development does the Government envisage? It foresees “a considerable reduction in total spending by the EU on agriculture... bringing this into line with other sectors”. Rumours that Government is aiming for below 20% of current
spending are a cause for concern—aiming so low would demonstrate a failure to absorb growing evidence, some of it commissioned by Defra, of the massive costs or benefits that agriculture can provide to the environment and public health. By slashing total support, the Government would erode or eliminate some rural public goods—as certain wildlife species go extinct, for instance—and it would broker a poor deal for consumers and taxpayers, who would foot increased bills for environmental clean-up and health provision.

**Food Security**

7. The Government correctly distinguishes food security from self-sufficiency and rehearses the argument that UK food security is currently best served by free trade. However, its rebuttal of self-sufficiency is so strong that it appears to go too far the other way, arriving at a short-sighted vision of the UK’s best interests.

8. Resilience is essential in ensuring food security at a national level. Hence, as the Government points out, it makes sense in face of risks such as climate change, natural disasters, market fluctuations and health crises, for the UK to hedge its bets by obtaining food imports from a range of different places.

9. Yet the same logic of resilience also creates a strong case for preserving and enhancing agricultural resources within the UK, about which the Government says little. The point is not to be self-sufficient but “self-reliant”—to be well-prepared for a wide range of eventualities, including problems that affect imports in general rather than only specific importing countries. Rising oil prices for example, already at $60 a barrel, could severely disrupt international supply chains.

10. From our vantage point atop decades of overproduction, it is tempting to be arrogant about food security. But it is a mistake to assume that all calls to maintain agricultural resources in the UK hide nostalgia for self-sufficiency. The example of coal production is salutary—as Lord Oxburgh described at this year’s Oxford Farming Conference, it would have been cheaper for the UK to maintain productive capacity than it will be to rebuild it now coal is once again becoming economically viable. Maintaining productive capacity in agriculture means actively investing to support good land husbandry, with the skills and natural resources this brings with it.

11. Such confidence is not only misplaced in discussions of national policy, but also at global and community levels. World grain stocks are currently only sufficient to last 45 days—their lowest level for 30 years. The rapid growth in Chinese demand for grain as food and feed, together with climate change altering conditions in the world’s bread baskets, will place mounting pressure on these stocks. Meanwhile food insecurity already exists within the UK, in as much as many people in deprived communities suffer from severe food poverty, leading to malnutrition and ill-health.

12. To assert that blanket liberalisation is the best option for food security at all levels is to underestimate the challenge—both its complexity and the possibility that real global food shortages could arise. In practice, ensuring long-term food security may call for a more subtle approach, including investment in preserving and enhancing the capacity for sustainable agriculture in the UK as one important component.

**Possible Environmental Consequences**

13. A key principle underpinning the Government’s vision is that agriculture should be “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”. These societal benefits include environmental public goods.

14. This is a sensible guiding principle. In turning it into practice, however, the Government will need to recognise that supporting land uses and activities that deliver “bundles” of environmental and social benefits may often offer the best overall deal for taxpayers, even though such land uses might not offer the most cost-effective way of delivering any single specific benefit.

15. In particular, investing in sustainable agriculture in the UK and food production for local consumption promises to be a very cost effective way of:

- Improving energy efficiency and cutting greenhouse gas emissions, by reducing the use of fossil fuel-based agricultural inputs, improving soil carbon sequestration and reducing freight transport.
- Supporting biodiversity, both by providing a habitat for wildlife species that depend on farmland and contributing to agricultural biodiversity.
- Promoting high standards of animal welfare: it remains difficult to enforce UK animal welfare standards for imported products, making domestic production the surest way to ensure high standards; and we can only be proactive in driving standards forward internationally if we have a domestic production base.
- Improving public health, by helping to ensure that the fresh produce that remains the bedrock of nutritional advice is readily available to all.

16. In envisaging that agricultural support would fall substantially from its current level, the Government’s vision appears to assume that farming and other rural land uses already deliver most of the environmental and social benefits that will be demanded of them in future—the only issue is how much they cost and how they will be paid for. In fact, many potential benefits—such as biodiversity conservation and clean water—are not adequately provided at present.
17. The Government’s Strategy for Sustainable Farming and Food demands that it sets its sights high—aiming for a reformed CAP to support the full range of benefits that the public needs or expects of the countryside, not simply to perpetuate current unsustainable practices more cheaply.

**International Issues**

18. The Government is correct to identify the CAP as a regressive force in international development. However, it does not follow that the kind of blanket liberalisation its vision prescribes is the best remedy for current problems.

19. On the one hand, liberalising EU agricultural policy is not sufficient to meet our responsibilities to developing countries. The governments of some of the world’s poorest countries and the groups representing marginal producers argue that any rural subsidies in developed countries will potentially penalise them, whether Pillar 1 or Pillar 2. One reason is that farmers both produce food and manage non-agricultural land, meaning that costs and rewards can be transferred from one activity to the other. Rents for land in different uses may adjust to a similar outcome.

20. The solution cannot be to do away with support altogether. Instead, targeting support at the sustainable production of foods that are not substantially imported from or exported to developing countries offers a possible win-win. Not only does it deliver environmental benefits at home but also, if it allowed sustainable farming for local consumption to outcompete the production of bulk commodities for export, it could make a positive contribution to international development.

21. On the other hand, blanket liberalisation is unnecessary. Economic models of agricultural policy reform in the US suggest that liberalisation would not be as effective as carefully planned Pillar 1-style support in creating the supply drops and international price rises likely to benefit food-exporting developing countries. While the US situation is clearly different from that in the EU, such analyses sound a note of caution against presenting liberalisation as a catch-all solution to the challenges of agricultural policy reform.

22. Indeed, removing tariffs on imports from developing countries while maintaining them on imports from wealthy countries would seem, at least in the short-term, to focus the benefits of international trade in agriculture where they are most needed. Out-and-out liberalisation is undoubtedly an attractive strategy for reform-minded policy makers in the UK and other wealthy nations. That is not primarily, however, because it is the fairest option for developing countries. Rather, it is because it promises diminished direct costs for the state and, it would seem, because it abdicates Government responsibility for any ill-effects that the UK’s agriculture and trade has for developing countries.

23. Thus, by stating as an aim that CAP support should be “non-distorting of international trade and the world economy,” the Government confuses means and ends. The aim should be to promote international justice and the well-being of people in poorer countries. Liberalisation is one tool—and by no means the only one—that could help to achieve this.

**Future Financing of the CAP**

24. Although the Government’s aim to reform the CAP is worthy of support, the vision it puts forward is questionable. Even if it were not, it is unlikely to realised, since it would not command the broad base of support that is required, both within the UK and among EU member states.

25. A more substantial programme of reform could prove both more feasible and more desirable. The key elements would be as follows:

- Rural policy is devolved to EU member states in keeping with the principle of subsidiarity.
- Net transfers between member states are maintained, for the foreseeable future, at current levels. However, they are allocated through a sustainable development fund and member states exert greater autonomy over the ways they are spent.
- The UK Government ring-fences current CAP spending for rural development and commits to investing a substantial proportion of this budget to support sustainable agriculture and food production. It would spend no less than at present, but it would gain much greater autonomy over how that money was spent. Broad UK stakeholder support for this reform package would almost certainly be conditional on such a commitment.
- The European Commission remains responsible for market price support mechanisms, phasing these out. Import tariffs would be selectively removed, providing duty-free and quota-free access to the EU to: all Low-Income Countries; Fair Trade accredited produce; and produce from sectors dominated by small or Low Income Resource poor Farmers, as mentioned in the WTO Agreement on Agriculture (Article 6.2).
CONCLUSION

26. The CAP is so seriously flawed that further reform seems inevitable. Yet current conflicts between interest groups and member states make real change seem a distance prospect. The UK Government is well-placed to take a lead in resolving this conundrum, but the vision laid out by HM Treasury and Defra ill-equips it for doing so.

27. A winning vision for CAP reform—a vision that unites UK stakeholders and EU member states—must include a clear commitment to supporting sustainable agriculture. It should start from Defra’s agenda, set out in the Strategy for Sustainable Farming and Food, not with HM Treasury’s concern to cut costs. In the long run, the vision grounded in sustainable development will be more cost-effective anyway.

February 2006

EXECUTIVE SUMMARY

1. The Government’s vision of a sustainable EU agricultural industry consists of essentially three objectives: an internationally competitive agricultural industry; the adoption of environmentally sensitive and ecologically sustainable farming techniques; and social responsiveness to the needs of rural communities. The Government’s paper does not define social responsiveness but if it is interpreted in the same way as the justification for Pillar II payments—namely, support to develop farm business and farm based employment—the three objectives represent an irreconcilable trinity. The Government’s vision of a competitive industry operating without support and protection is sustainable in both economic and ecological terms. In terms of employment and full-time farm businesses the Government’s vision will do nothing to halt; indeed, it will exacerbate the long term decline in numbers.

2. It is not clear that overall the UK would become more reliant on imports of food, though even if it did this does not equate to a reduction of food security in an era of globalized free trade. As a result of long term support and protection EU agriculture is not as competitive as it could be. The effect of what the Government’s vision proposes would be a more efficient and competitive industry though consumers would benefit more from the scope to reduce taxes rather than reductions in retail food prices.

3. The improvement in the industry’s economic performance would result from restructuring and the concentration of production on larger scale, better managed farms. The available evidence suggests that these changes would be accompanied by an overall improvement in the general care and protection of the environment. The removal of farming support and protection would on balance benefit the rural economy and new members of the EU. Farming support tends to “crowd out” opportunities for other rural businesses and savings in public expenditure could be used to encourage the development of new rural businesses. The opening up of Europe’s affluent food markets to developing countries would on balance aid the development process.

INTRODUCTION

4. Prior to joining the Cranfield School of Management in 1994 I was for seven years Chief Economist for the National Farmers’ Union of England and Wales. In the interim I have acted as a Government adviser on agricultural matters and I frequently write and address conferences on agricultural policy and the economics of farming. I have for several years argued that the benefits for consumers, the agricultural industry and the countryside of the phasing out of farm support over a fixed time horizon outweigh the costs. The plan of this paper is as follows. What follows is divided into nine sections. Each section addresses a question posed by the EFRA Committee. I have changed the order where I believe it helps the flow of my arguments. Space is limited so I have necessarily had to limit myself to statements the basis of which have been developed over more than 30 years of observing and studying the politics and economics of farming.

I: Food Security

5. When the CAP was conceived in the post—war period, food security was defined as supplying the Community’s needs from its own resources. The CAP, with its border protection and high farm—gate prices imparted a boost to invention and innovation, resulting in rising yields and the spread of more efficient production techniques. By the end of the 1970s these had resulted in structural surpluses but rather than take the politically difficult decision to reduce farm support prices agricultural ministers chose to adopt supply— control policies. Initially these took the form of direct quotas eg, sugar and milk, and were followed in the 1992 MacSharry reform by indirect quotas eg, headage payments and set—aside. In all cases the purpose was to limit the extent of price cuts. More recently, the encouragement of organic farming is primarily a device to reduce supply thereby limiting the downward pressures on farm-gate prices. In short CAP policies currently restrict production and since the 1970s it has not been credible to argue that the Community faces the threat of food shortages.
6. This is not to say that the Government’s vision would actually result in an increase in the level of production. There can be little doubt that the removal of farm payments, along with tariffs and export subsidies, would increase the economic pressures though these are frequently exaggerated by a tendency to attach unrealistically high values to farm assets that have no practical alternative use. The heightened pressures would result in an increase in the rate at which full-time farm businesses are leaving the industry but much depends on what happens to their land. The least productive land would leave the industry but better quality land would be farmed by neighbouring (more productive?) farms or contractors and as yields generally would continue to rise it is not clear how much of a reduction there would be in overall output. Since the mid-1990s the economic pressures on UK farmers have been considerable and there have been reductions in the output of some products eg. barley, but these have been matched by increases elsewhere eg. oilseeds and overall production has not fallen.

7. Nevertheless if there was a decline in production this could only be sustained if production elsewhere in the world continued to rise and in a globalizing world this does not equate to a reduction in food security. Globalisation involves more than increasing trade from multiple locations, it also involves integrating food chains across borders and hence a reduction in dependence on any one source of supply. A general freeing-up of agricultural trade would not only stimulate the efficient allocation of the world’s agricultural resources but also it would increase world supply.

II: Would EU farmers be more competitive?

8. The question should be will the EU agricultural industry be more competitive? Approximately 70% of EU agricultural value added (85% in the UK) comes from (the largest) 20% of farms. Even with CAP support the number of farm businesses and farm employment has steadily declined. Although there will be exceptions eg. farms that have borrowed heavily, generally farms that are most vulnerable to these pressures are those with the highest unit costs which more often than not is a consequence of small scale and weak management skills. University studies show a wide range of efficiencies on all types of UK farms. The lowest unit costs are generally found on the larger farms—if not always the largest—and the evidence also points to larger farms achieving a higher price than smaller counterparts which suggests superior quality and/or marketing skills.

9. The competitiveness of farming, like most industries, is driven by new knowledge and the ability of the industry’s farmers to exploit new knowledge. In farming knowledge advances are manifested in new developments in technology, genetics and management. The combined effect of these drivers is the replacement of people with machines, rising levels of productivity, a larger average scale of production and the concentration of production on larger farms. The attempts by the EU policy makers to arrest these trends have failed; but they have been slowed down by the CAP. Consequently the EU agricultural industry is not as competitive as it could be.

10. The removal of all support, border protection and export subsidies would speed-up structural change and encourage the more rapid spread of new knowledge throughout the industry. Importantly, it would impart to farmers the recognition that the survival of their farms depends on their individual actions to improve efficiency and competitiveness. On the assumption that sooner or later there will be a WTO Doha-Development Agreement and this will be followed by further agreements to reduce both trade distortions and support levels, EU agriculture has no choice but to continue to encourage farmers to seek ever higher levels of efficiency and competitiveness. The removal of support would also counter the well documented effect of artificially high asset prices with the effect that there would be more opportunities for new entrants with innovative ideas and new methods. Support does not make farm businesses more competitive it merely allows them to exist at a sub-optimal level of efficiency. The removal of support actually makes it easier for more competitive businesses to expand.

III: Impact on Food Prices and Taxation

11. Since the 1992 MacSharry reform the prices of commodities supported by an intervention regime—eg. cereals, beef and milk products—have been significantly reduced. Nevertheless, they remain above world levels, so a phasing out of border protection is likely to result in further downward pressure not only for commodities with an intervention regime but also for all products currently protected by tariffs eg. pigmeat, poultry, fruit and vegetables. How much is difficult to estimate as much would depend upon the period of time over which tariffs were phased out. Over time other factors such as the growth of world demand and the extent to which non-food alternatives eg. bio—ethanol, become economically viable would lessen the effect on agricultural prices.

12. In principle, any reduction in the prices of agricultural commodities will have a knock-on effect for consumer prices. However, on average raw materials now account for less than one-fifth of retail food prices and a much smaller proportion for foods eaten out of the home. In short there would be very little impact on retail food prices. It would be more correct to view the likely effect as, at most, a slight reduction in the rate of growth of retail food prices. Over the past 10 years agricultural prices in the UK have fallen from a peak in 1995—largely due to the strength of sterling against the euro—but the index of retail food prices has continued to rise; though, at a slower rate than prices in general.
13. Phasing out all types of farm support would save in excess of £3 billion per year; equivalent to a little more than a penny on income tax. However, as will be explained in the following sections, society might want to use some of the public funds released to provide specific environmental goods eg, stewardship schemes and to pump-prime other rural businesses.

IV: Environmental Consequences

14. I would define adverse consequences as a reduction in the management of farm land leading to increasing pollution, an increased rate of loss of biodiversity, an impairment of visual amenity and large areas of land falling into disuse and becoming overgrown with weeds. On this definition I believe the effect of removing support—compared to the outcome of current policy—would be minimal.

15. Section I argued that the removal of support would result in areas of less productive land being taken out of farming but they would not necessarily fall into disuse and where they did eg, upland areas, the result would not necessarily be adverse for the environment eg, the return of heather. One of the consequences of removing support would be lower land prices and this would increase the opportunities for alternative land uses eg, recreational activities and forestry. It should also be noted that a significant proportion of set-aside land would return to productive use and this would reduce the incidence of weeds and visual impairment in many lowland rural areas.

16. What of the land that remains in production? The removal of support payments would be accompanied by the removal of cross compliance but I presume that Nitrate Vulnerable Zones, groundwater and sewage regulations as well as some funding for the provision of specific public goods eg, stewardship schemes, would remain in place. Cross compliance amounts to a code of good agricultural practice and it is unlikely that there would be a decline in agricultural practices as the industry restructured. Studies show that actions detrimental to the environment are always the consequence of farmer behaviour, rather than the scale of farm. The misuse of chemicals, pollution and the mistreatment of animals are always a management issue and studies show that larger farms are generally better managed and devote more resources to conservation. There are no credible grounds for linking structural change and well managed intensive production techniques to a deterioration in the environment.

17. Over the past 20 years the industry has been restructuring along the lines projected above yet many of the measures of environmental quality have been improving as might be expected as a larger area of land comes under better management. For example, the use of fertilisers has reduced significantly, gaseous and particulate emissions have steadily declined, and pollution incidents in general have been decreasing. Trends in farmland bird populations are generally regarded as a good indicator of the state of farming wildlife. For about 15 years commencing in the late 1970s populations declined but since the early 1990s they have remained relatively stable. The evidence points to more awareness of environmental issues on the part of farmers and a steady improvement. If however, progress was deemed to be lacking in some areas then economic instruments eg, taxes or regulations should be employed rather than subsidies.

V: Tenanted and Non—Tenanted Sectors

18. Approximately one-third of agricultural land in the UK is rented and the majority of rented holdings are small ie, less than 25 hectares. The removal of support would reduce rents and also the price of land. The effect would vary according to the quality and location of the land, but according to the OECD, the price of land could fall by as much as 60% in some areas. Thus, the owners of land would suffer a fall in their net—worth whereas tenants would benefit from reduced rents. In principle a fall in asset values reduces a farm’s ability to raise capital for investment, but Government statistics show that on average liabilities amount to less than 10% of asset values.

VI: The Rural Economy

19. In the UK farming directly accounts for 3% of economic activity and 3% of employment in rural areas though comparable figures for the EU show that agriculture accounts for a larger share of economic activity in rural areas, particularly in new member states. With or without the CAP the one thing of which we can be certain is that EU agriculture will go on shedding labour in the coming years. Studies show that in the UK, rural areas in general compare favourable to their urban counterparts eg, unemployment is generally lower and there are more business start-ups in rural areas. Nevertheless, if there is a concern to do more to help the creation of jobs and affordable housing in rural areas then a switch from funding perennial agricultural subsidies to making generally available, targeted grants for business start-ups and management education in rural areas would amount to both an economic and a social improvement.
VII: Implications for Applicant Countries

20. On balance, phasing out of support would be beneficial for new member states. If announced in advance it would limit the rise in land prices but more importantly it would force the EU to concentrate more on its Structural Policies which have the benefit of aiding rural areas in general not just farming. The major structural change facing applicant countries is to reduce the over-manning of their agricultural industries. In this respect, redirecting support away from farming to encouraging new business start-ups in rural areas would be a positive advantage.

VIII: Impact on Developing Countries

21. Broadly I agree with the Government’s Vision document that the phasing out of support and trade distortions would be of benefit to developing and under-developed nations. As is always the case there may be some losers in the short-run, particularly countries that have enjoyed preferential tariffs, but against this must be set the greatly increased opportunities that the removal of CAP protection and support would engender. The opening up of the rich European food markets to agriculture and food industries in developing countries would encourage (foreign direct?) investment with the effect of further boosting development in general.

IX: How to Implement

22. It is very important that farmers are given a clear time table for the transition. A 10 year transition would be appropriate, the longer the period the greater the opportunity for politicians to intervene and the more likely that farmers will not take the phasing out of support as seriously as they should. Although the longer term trend is a steady reduction in the level of support and greater exposure to overseas competition for EU farmers the consequences are never directly discussed by politicians. Following the political “spin” surrounding the recent reform of the CAP, farmers can be forgiven for believing that the basis of support has changed but the commitment to longer term support remains. This militates against the adoption of a business mindset whereby farmers would more rationally consider their economic viability and take decisions accordingly. Some would choose to exit the industry and it is to their advantage to go sooner rather than later. Others would reorganise their business to lower unit costs and there would be a more serious interest in the development of Farmer Controlled Businesses to capture more downstream value. The success of a policy to remove farm support depends critically on farmers believing the credibility of the claims' of politicians regarding the removal of support.

February 2006

Memorandum Submitted by the Environment Agency (CAP 17)

SUMMARY

The Environment Agency welcomes this opportunity to comment on the HM Treasury & Defra “Vision for the Common Agricultural Policy” published December 2005. Our general comments are:

1. We accept the Common Agricultural Policy (CAP) is a far from perfect policy tool, for all the reasons set out in the paper (eg paras 1.4, 1.9). It has led to significant environmental degradation, with subsequent economic and social costs.

2. We have some concern with the comment that agriculture should (eventually) be treated differently from other sectors of the economy (para 1.29). This philosophy ignores the fact that agriculture is multi-functional ie it produces more than just food. It influences landscapes, wildlife, natural resources, rural employment and the quality of life.

3. We consider that radical change (para 1.33) is both unlikely and unwelcome. A carefully managed transitional period is critical if farmers are to adjust their businesses.

4. We agree that the agricultural industry needs to be sustainable on all three fronts—environmental, economic and social. We endorse the recommendation for a common European policy, but want a policy that aims to secure sustainable land management in light of European Union (EU) commitments on climate change, water and biodiversity (para 1.36). This will require adequate funding.

5. We welcome the positive emphasis in the Vision on rural development: “There would be a central rather than a peripheral role for rural development measures including those targeted on protection and enhancement of the rural environment” (para 1.36).

6. The Vision suggests a significant cut in EU spending on the common policy. It portrays a sustainable CAP as one where “EU spending on agriculture would be based on the current Pillar II” (para 1.32). However, the recently agreed EU budget for 2007–13 significantly decreases the proportion of the CAP spent on Pillar II, by over 20%. An ability to introduce up to 20% voluntary modulation with no match-funding is positive, but the UK farming unions are strongly opposed
to this approach unless the Treasury agree to match-fund. However, current Pillar II expenditure plans in the UK will not be sustainable without significant top-up from state aids and/or voluntary modulation. The implications for successful delivery of the Water Framework Directive (WFD) are significant.

1. INTRODUCTION

Almost three quarters of the land in England and Wales is used for agriculture. Whilst there are positive outcomes from farming, there are as many negative outcomes and costs. For example, almost half of groundwaters used for public drinking water supplies now require some form of treatment whilst monitoring and/or removing pesticides from water costs £120 million pa. It has been estimated that agriculture contributes to 14% of total flood events costing £128 million pa. Taken individually, very few farms create huge environmental problems—however there are a lot of them. The combination of small problems from over 160,000 farms adds up to a significant environmental impact. The Environment Agency considers that tackling these issues requires a whole spectrum of solutions, ranging from regulation to advice and including the justified use of incentives, and our work programme seeks to influence all of these issues to improve environmental outcomes.

2. RESPONSES TO CONSULTATION QUESTIONS

Our response to specific questions in the consultation are as follows.

Q1. Expenditure on Pillar I of the CAP: The Government’s vision questions the justification for existing expenditure in Pillar I of the CAP and recommends phasing out all support by 2020. The EFRA Committee is interested in the likely impact of these proposals, with specific reference to:

1.1 Food security—does the Government remain committed to UK food production?

Farming and hence food production has shaped the countryside in terms of landscapes, wildlife and natural resources over hundreds of years. As such, many farmers have an innate knowledge of their own farm and how best to manage the land. If food production in the UK is no longer a primary driver of land management, and alternative policy drivers and support are not put in place that deliver the positive aspects of farmland management, then it is likely that this knowledge and expertise will be lost as farmers leave the industry.

Whilst the Vision does briefly discuss the “food miles” debate, it fails to mention the significant environmental and social implications of air freighting (as opposed to shipping) fresh produce, particularly that which can be grown in the UK, from all over the world to UK consumers. It also overlooks the fact that food customers who value local food production will value the farmed environment, which is critical if we are to justify the continued use of public funds for the provision of public goods. This was a key message in the Curry Commission report, which stated “The key objective of public policy should be to reconnect our food & farming industry: to reconnect farming with its market and the rest of the food chain; to reconnect the food chain and the countryside; and to reconnect consumers with what they eat and how it is produced”.

1.2 Potential distortions and inequality of treatment of farmers across the EU

No comment

1.3 Possible environmental consequences of the proposals

The Vision rightly recognises the many environmental consequences of the CAP to date and also that some steps have been taken to rectify the situation, including the introduction of agri-environment schemes. The EA is supportive of the principle of using public money to deliver public benefits. We were closely involved in the development of Environmental Stewardship, the new suite of agri-environment schemes in England. Farmers can now be rewarded for good soil and water management as well as wildlife conservation, landscape maintenance and countryside access. Agri-environment schemes are rightly underpinned by cross compliance and regulation, and voluntary initiatives where these contain adequate environmental standards.

Agri-environment schemes will be a critical tool in helping to deliver the Water Framework Directive. They are a positive mechanism for engaging with the farming community, and form part of the toolkit for tackling significant environmental issues such as diffuse water pollution from agriculture. Entry Level Stewardship will help improve the general environmental performance of farms across the country whilst Higher Level Stewardship will deliver greater benefits albeit in a highly targeted way. However, the success

of these schemes is dependent on voluntary participation by farmers, which measures are adopted and sufficient funding. It is too early to comment on the effectiveness of either scheme, and HLS is also severely constrained by funding. The EA wants to see more resources going into agri-environment schemes and an expansion of resource protection measures in the new England Rural Development Programme for 2007–13.

Whilst in principle we are not opposed to the Vision’s proposal to phase out the existing policies of Pillar I of the CAP, we envisage a more ambitious EU sectoral policy that aims to secure sustainable land management in light of EU commitments on climate change, water and biodiversity. This would require a significant proportion of the Pillar I budget being redirected towards Pillar II, not being phased out.

The Vision suggests such a common European policy (para 1.37) but also a significant cut in EU spending on the common policy. It portrays a sustainable CAP as one where “EU spending on agriculture would be based on the current Pillar II”. However, the actual EU budget for 2007–13 brokered by the UK government in December 2005 significantly decreases the proportion of the CAP spent on Pillar II, by over 20% in total and over 30% for the EU-15. A large share is also reserved for the new Member States (MS) and accession countries of Bulgaria and Romania. This will put particular pressure on the rural development budget allocation for the UK. Current Pillar II expenditure plans in the UK will not be sustainable without significant top-up from state aids and/or voluntary modulation.

A voluntary mechanism to modulate Pillar I payments under the CAP (mostly Single Farm Payments) at the national level was possibly the only positive outcome of the financial negotiations. This will be permitted up to a maximum of 20% with no limit on the time period, no requirement for national co-financing (a current requirement) and no constraints on expenditure between the Axes of the new Rural Development Regulation. Theoretically therefore, all the additional resource could be diverted to Axis 2 (land management axis that includes agri-environment schemes).

However, the mechanism rules will need to be agreed before this is operational. The Commission, which has been hostile to this proposal, needs to make a proposal and the Council to agree it. UK farming organisations have also expressed a strong opinion that they will only support voluntary modulation if the Treasury match-fund.

In addition, the financial settlement appears to have retained Pillar I expenditure at the minimum compatible with the October 2002 EU financial agreement. This means that Bulgaria and Romania will have to be accommodated inside the sum available. This will squeeze the Pillar I budget quite hard, even if the two new accession countries come in a year late. It may mean a significant cut in MS allocations through the “financial discipline” process (1% ceiling on the annual growth of the CAP budget). Cuts of 7% in MS transfers by 2013 have been mentioned. This, and the operation of compulsory modulation, will limit the political room for voluntary modulation in the UK and elsewhere. Reductions in the Pillar I budget will also reduce the value of modulation.

There is a commitment to revisit the budget, including the CAP, in 2008–09, but it is unclear whether this is likely to result in changes ahead of 2013 (the French Foreign Minister is reported as saying “there will not be reform of the CAP before 2014”). Evidence from this negotiation round suggests that the 2002 deal to protect Pillar I spending until that date is proving extremely resilient.

Alternative scenarios will have to be found if the funding to underpin Environmental Stewardship is not secured. There may be more radical proposals such as making elements of ELS a component of cross compliance. This may be something to consider in due course but should be the outcome of objective evaluation, rather than an economically driven decision. The review of EU spending in 2008–09 presents a further opportunity to influence UK and EU thinking about the CAP and delivering environmental commitments.

1.4 The extent to which the proposed changes to the CAP would result in lower food prices and (through reduced public spending on the CAP) a lower level of taxation

We have no comment on the relevant figures provided in the HMT/Defra document. However, a reduction in public spending on the CAP and any subsequent decline in food prices must not be at the expense of the environment. Consumers and taxpayers are beneficiaries of a well-managed countryside delivering an improved quality of life, clean water and air, flood risk management, healthy wildlife populations and diverse landscapes. As the predominant land use in the UK, these benefits are delivered by farming. The market does not support the delivery of these public goods, hence we are reliant on public funds. A significant proportion of such funds is currently channelled to farmers and land managers via Pillar II, and agri-environment schemes in particular. If we are to deliver sustainable land management, including a range of EU and national environmental commitments, then sufficient funding for such mechanisms is required.
1.5 How such a revised CAP would enable the EU’s farmers to be more competitive

Recent work commissioned by the EA aimed at providing “Business As Usual” projections for agriculture to 2015 in England and Wales, as part of the economic analysis required under the WFD, suggests that major changes in terms of land cover are unlikely. This was despite the industry agreeing that commodity prices are not likely to increase markedly up to 2015. Land use change in the UK has been a gradual process and that 10 years is relatively short term in this sense. However, this scenario masks significant changes within sectors. For example, forecasts of livestock number changes are significant and implicitly the stocking density in 2015 is assumed to be markedly lower than at present, particularly in the uplands. In contrast, for cropping the intensity of production is not predicted to change radically but a more evolutionary reduction in input usage is envisaged. Other key assumptions to come out of the study (which included extensive discussions with the farming industry, academics and other commentators) included:

— Continued pressure on input prices, but no major increase in costs.
— Restructuring will lower fixed costs and make more production viable at current prices in the face of decoupling.
— More land becomes available under a variety of rental agreements enabling more efficient farms to expand, making more production viable.
— Farmers have more objectives than simple profit maximisation and therefore may produce even if they are not covering their current full economic costs. This is for the following reasons—using the Single Payment Scheme to cross-subsidise production, continuing to produce in the hope of increased prices in future, and that such a decision is too major to take on short-run returns.
— The reaction of farmers to future economic and policy drivers is highly dependent on the individual situation of business. In particular:
  — Age of farmer (related to succession).
  — Whether owner-occupied or tenancy.
  — Whether has own machinery or contract.
  — Level of debt.
  — Age of buildings and equipment (especially in Dairy sector).

This is the scenario assuming the CAP remains unchanged from the 2003 reforms. Whilst this may be an unrealistic assumption, this study does indicate farmers are adaptable.

We would argue that any “competitive” economic activity needs to be designed within natural resource constraints. A high quality environment can be a social and economic asset, giving businesses a competitive edge and improving the quality of life for both the rural and urban population. We welcome the suggestion in the Vision that one of the ways Government can assist farmers through a transition to lower levels of support is through investment in human capital (para 3.27). A clear message coming out of a number of research reports is that training, information, facilitation and advice are essential to help inform change, and that investments in improving human potential are a critically important aspect of improving the competitiveness of farm businesses. The use of facilitation and advice is recognised as an essential characteristic of successful rural development schemes in many EU and non-EU countries. A study for the National Audit Office suggests that in many cases it is not lack of capital that is the barrier to farmers adapting their businesses to future needs, but a lack of advice and support in taking forward such adaptation. To deliver environmental priorities, however, the nature of this support must not be dominated by business advice and training but should seek to include the environment as an integral part of sustainable business development.

60 University of Cambridge & Scottish Agricultural College (final draft). BAI projections of agricultural activities for the WFD: Phase II.
1.6 How the proposals would differently affect the tenanted and non-tenanted sectors across the EU

No comment

1.7 The implications of the proposals for the applicant countries to the EU

The Vision notes that the CAP sits uneasily with the needs of many of the new MS and, it can be assumed, for the applicant countries. The CAP does not prioritise rural development and provides strong incentives against agricultural restructuring (para 2.16). Any new European common policy for rural areas needs to maximise opportunities both pre and post accession to deliver regional, national and EU environmental priorities in ways that also strengthen the economies and quality of life in rural areas. We need to demonstrate that a high quality environment can be a social and economic asset, giving businesses a competitive edge and improving the quality of life for both the rural and urban population.

Q2. The rural economy: The Committee is interested in how the UK’s rural economy would fare under changes proposed in the report

As the Vision identifies (para 3.3), agriculture has important direct downstream linkages (food transportation, processing, marketing) and upstream linkages (farm input suppliers). The Vision does not mention however that there are also many indirect linkages, including tourism and recreation. Nationally, tourism accounts for some 4% of UK economy (agriculture accounts for 1.2%), and employs two million people, whilst visitors spend £12 billion per year in the English countryside, supporting some 380,000 jobs.

The outbreak of Foot & Mouth disease (FMD) in 2001 highlighted the constructive linkage that exists between the availability of countryside access opportunities and the economic well-being of rural areas. For example, 80% of accommodation providers nationally had their business affected by the FMD outbreak, with business down by a half or more in some hotels. The worst of these impacts were on small independent establishments in rural areas. In the Lake District and Peak District, retailers of outdoor clothing and equipment had their turnover reduced by up to a half; whilst 80% of licensed outdoor leisure centres had to close. Losses associated with riding, livery stables and trekking centres ran at an estimated £29 million per week.65 This reinforces our argument that any future common policy needs to bear in mind that rural land produces more than just food.

Q3. International issues: The Committee is interested in the report’s assessment of the impact of CAP reform on developing countries, and its conclusions about the erosion of trade preferences and the potential benefits of a liberalised agricultural market in the EU and other OECD countries. The Committee is also interested in the effect the proposals would be likely to have on the global economy more widely

No comment

Q4. The wider debate on future financing of the CAP: The EFRA Committee is interested in how the reforms proposed in the report could be achieved in practice, and how these changes relate to the ongoing debate surrounding the future financing of the CAP. What barriers might be put in the way of implementing such reforms by other EU Member States?

See comments under “1.3—Possible environmental consequences of the proposals”.

3. Conclusions

The Vision for the CAP as set out by HM Treasury and Defra contains a number of positive recommendations. However, the general premise that agriculture is no different to any other sector of the economy and should (eventually) be treated as such is of concern, as it is widely accepted that agriculture performs a multi-functional role in society. We accept the proposal for a common European policy, but want a policy that aims to secure sustainable land management in light of EU commitments on climate change, water and biodiversity. This requires adequate funding, an issue that is inadequately addressed in the Vision and further threatened by the recent EU budget agreement. The implications for successful delivery of the Water Framework Directive (WFD) and other significant environmental issues such as climate change are significant.

February 2006

Memorandum submitted by the Woodland Trust (CAP 18)

The Woodland Trust welcomes this opportunity to respond to the above inquiry. The comments that follow are delivered on behalf of the UK’s leading woodland conservation charity. We achieve our purposes through a combination of acquiring woodland and sites for planting and through advocacy of the importance of protecting ancient woodland, enhancing its biodiversity, expanding woodland cover and increasing public enjoyment. We own over 1,100 sites across the country, covering around 19,000 hectares (47,000 acres) and we have 250,000 members and supporters.

1. Our comments are restricted to the environmental implications of the vision.

2. We are concerned the UK vision, published by Treasury, is 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. High-value countryside (ecologically resilient, able to absorb and respond to changes, thereby sustaining biodiversity and ecosystem goods and services on which our quality of life relies) across Europe might actually cost more to deliver than the current Pillar 1 budget. There seems to have been little thought given to this except that the vision is for a substantial reduction in the agricultural budget.

3. Pillar 2 seems to have a future in the vision, but Pillar 2 is currently under funded in terms of what is required and with recent EU budget negotiations further reducing it, Pillar 2 is now even less able to deliver. High-value countryside will need a strong well funded Pillar 2, not an ever diminishing one.

4. Indeed, given the proposal in the vision is for Pillar 1 to go before 2020, perhaps now is the right time to consider terminology for sustainable land management funding post pillar 1. The terms Pillar 1 & 2 come with all sorts of weighted views in terms of environmental damage, market distortion, food mountains, compulsory modulation etc. If we are to move towards a single support mechanism for public benefit delivery in the countryside, a view not dissimilar to that which we have taken for some time, we should no longer talk about pillar 2, but more simply about a sustainable land management fund.

5. We believe there are issues that require further thought, currently laid out in the vision:

(a) The vision (1.27) strongly suggests allowing a free reign on land use polarisation—allowing production to find a more sustainable level, reflecting natural advantages, competitive advantages and rational trading relationships in a more open market. Such an approach would likely see high value areas protected, and areas, where production is most profitable, exploited. This is not a dissimilar scenario to the current CAP, one which has seen the wider countryside increasingly impoverished of wildlife and one which sees remaining areas of biodiversity value increasingly fragmented from one another. As we face such massive issues as climate change it is how the whole landscape functions ecologically that becomes important if we are to enable wildlife to adapt. The wider countryside must become more sympathetic to wildlife dispersal.

(b) The document states that “evidence suggests that reduced levels of market price support should have the effect of reducing environmental damage caused by agriculture”. We are unclear how such an assessment can be made. The fact is we do not yet know the implications of decoupling subsidy from production as a result of the 2003 reforms. It is true these reforms are likely to lead to marginal areas being farmed more sympathetically, and possibly even coming out of conventional agricultural management, with a change to a conservation focus. However there are also likely to be cases where soils, climate and topography allow for greater intensification. We should not forget that the Single Farm Payment is not compulsory, in which case GAEC will not apply.

6. Whilst we agree that the commercial side of agriculture could be viewed as any industry and should not receive public support, the fact remains that this commercial side is inextricably linked to the high-quality countryside that society wants. In this respect agriculture is different from other industries and sufficient public money must remain available to it for the delivery of public goods. While regulation can prevent the markets doing damage, we cannot expect markets to deliver public benefit.

7. The test of the vision is clearly with European partners. It seems somewhat redundant to produce such a vision, which is untested with other member states. When a UK vision for the future of the CAP has gained currency with other member states in Europe it would be worth taking a closer look.

February 2006
Memorandum submitted by The Soil Association (CAP 20)

KEY POINTS

1. The Government’s paper, “A Vision for the Common Agricultural Policy” published on 2 December 2005 by HM Treasury and Defra is a vision for reducing the cost of financing the Common Agricultural Policy, not a vision for European food and farming. The report may describe what the UK Government is aiming to achieve in terms of European agricultural budgetary reform in 10–15 years, but it provides no coherent vision for the future of British food and farming, nor for the British countryside.

2. Such a vision is urgently required. It needs to update and take forward the initial, positive moves to reform UK agriculture introduced as a result of the work of the Curry Commission and the recent reform of the CAP. It must take account of global pressures (for example to end export subsidies and to increase free trade). It needs to take account of the realities of the constraints on the CAP budget. It needs to take account of the huge changes and new limits in a world threatened by climate change—continuing high oil (and Nitrogen fertiliser) prices, ever stricter limits on greenhouse gas emissions, and the environmental disruptions caused by climate change induced extreme and unpredictable weather conditions. It also needs to take account of, and work with, emerging market trends in food purchasing. Above all, the vision needs to reflect the values that commonly underlie European citizens’ attitudes to the food they eat, and the countryside from which at least some of that food comes.

3. Farming is different from other industries. While we can import food from other countries, we cannot export our farmland, woods, hedges and fields, in the way that factories making manufactured goods have been moved to other countries over the last few decades. We cannot import the songs of skylarks rising over meadows, the call of red grouse across heather moorland or the sight of a bluebell wood or hares boxing in the spring. Nor can we import the smell and taste of carrots fresh from the earth, the traditions and taste of local Cheshire cheese, or the flavour and beauty of beef from traditional Longhorn cattle. The British people have an intimate, long-standing and culturally important relationship with the British countryside. That countryside should and will have a major role in producing local, fresh and seasonal food for the British people.

4. The threat of climate change and the need to reduce greenhouse gas emissions mean that to survive, agriculture must lose it’s addiction to oil, just as, according to George Bush, the American people have to lose their addiction to oil. To be sustainable, farming must use renewable energy from the sun to produce fertility, via nitrogen fixing plants. Low Carbon, not high competitiveness on world markets, must become the main driver of Government policy.

5. The Government’s priorities for CAP reform should serve not lead its vision for the British countryside, food and farming. Further CAP reform should move money from Pillar 1 to Pillar 2. Pillar 2 funding in the UK should aim to do much more than just to protect wildlife. Pillar 2 funding should work with the growing market for good quality food to secure more wildlife and wider environmental benefits (particularly reduced greenhouse gas emissions), the highest possible standards of farm animal welfare, benefits to local economies, and a range of social benefits including food that provides the best possible diet, improves human health and enhances social cohesion.

6. In fact, the latest EU budget settlement suggests that the changes in agricultural policy aimed at securing greater sustainability, introduced following the report of the Commission chaired by Sir Don Curry, are now at risk, because of the financial pressures on rural development and environmental management programmes. So what vision for the future that the Government did have now appears to have been ditched in favour of trying to reduce CAP expenditure by any means, and at any cost to the environment and the British countryside.

7. At present, the outlook for Pillar 2 is dire. Under the recent budget deal, funds available for Pillar 2 (Rural Development) will be some 30%–40% lower than at present, and without substantial modulation, probably up to the 20% maximum, it seems certain that in future Defra will not be able to pay for the just-launched land management schemes, the Entry Level Scheme, the Organic Entry Level Scheme, and the Higher Level Stewardship Scheme. As a result of modulation, paying for new EU members, inflation, and the limit on EU expenditure (financial discipline), some experts estimate that the recently agreed EU budget for the seven years 2007–2013 will result in cuts in Single Farm payments in England of over 50% by 2012.

8. Current policies, such as they are, focus on trying to secure individual public goods through particular (often expensive) schemes or new, and much resented, regulation. The system of organic farming, and organic food, provides a bundle of public goods (healthier food, less greenhouse gases, more wildlife, less pollution, more jobs, better animal welfare, conservation of soils, robustness in the face of drought), all supported by a growing market demand.

9. The Government should promote this positive future for British farming, and should lead the way by changing public procurement to ensure the public sector only uses food that is as climate friendly as possible. The Government should encourage all restaurants, catering in places where people work, pubs and cafes, to follow this lead. Farmers should be aiming to produce food that people want to eat, close to where they want to eat it. Systems which avoid nitrogen fertiliser and rely on organic principles, and which favour fresh food, plenty of vegetables and less and better quality meat, will benefit people’s health and allow everyone
to eat good quality food. This sort of farming will be good for wildlife, good for animal welfare, will create more jobs in the British countryside, will be good for people’s health and will help us protect the future of the planet as a whole.

INTRODUCTION

10. The Soil Association is a charity founded in 1946 to achieve sustainable and healthy food production, based on observations and principles developed by the pioneers of the organic farming movement. The Soil Association is now the main organisation of the organic movement in the UK, and our trading subsidiary, Soil Association Certification Ltd, is the main certifier, certifying about 70% of the organic food sold in the UK. The objectives of organic farming are environmental sustainability and the natural production of healthy crops to produce healthy food.

11. Organic farming accounts for about 4% of UK farmland; there are strong indications that this is set to rise rapidly following a pause in growth pending the introduction of the new Single Farm Payment. Despite the higher prices, sales of organic food are growing each year and are now worth £1.2 billion, with UK organic farmers supplying about 45% of this, compared to just 30% a few years ago. Localised food economies are also a goal of the organic movement, and local and direct sales from organic farms grew by 30% in 2004, compared to an overall growth in organic sales of 11%. While continuing to grow, supermarket sales represent a declining share (down to 75% in 2004 compared to 81% the year before). Overall, sales of organic food were £2 million a week more in 2004 compared to 2003.

12. Organic farming is the most sustainable farming system by far and is applicable throughout the country. The Government now accepts its sustainability, biodiversity and animal welfare benefits. Considerable research in recent years has shown a range of environmental benefits from organic farming including a significant reduction in the energy required to produce food, decreases in carbon dioxide emissions, increases in farmland wildlife, reduction in agrochemical pollution and reduction in waste. DEFRA have published a major paper setting out these benefits.

13. On this basis, DEFRA adopted an action plan for organic food and farming in 2002, committing the Government to expanding organic farming, with a target that 70% of the UK organic food market should be supplied by UK farmers by 2010. The expansion of UK production is currently on course to meet that target. An increase in the area of organic farming is one of the Government’s “quality of life” indicators. DEFRA have supported the inclusion of organic food in sustainable public food procurement, as have the Department of Education’s School Meals Review Panel, that reported last year. English Nature also wants to see more organic farming because of the biodiversity benefits.

GLOBAL AGRICULTURE—FOOD SECURITY

14. The UK Government have been clear for many years that they are not interested in UK food security, in the sense of this country retaining any capacity to feed ourselves from our own resources. Nor do they appear to be interested in assessing what food will be capable of being reliably produced and supplied in a world where carbon, not cash, is the key currency. In any event, food is not like other commodities; the drive for least cost, most competitive globalised food production is misguided on economic, human health, environmental, animal welfare and social grounds. The need to reduce greenhouse gas emissions alone dictates that all countries should aim for self-sufficiency in the foods that they can produce locally and in season. More generally, the outputs of a nation’s agriculture cannot and should not be seen as mere commodities, since farming and farming systems have an influence on food security, energy use, climate change, the wider environment, public health and cultural stability. Bearing in mind all these issues and the current debate about sustainable development, an enlightened policy position for the future of global agriculture would be to encourage national self sufficiency in food and farming products, taking into account the constraints of climate, seasonality and the area of land available for agricultural production. Developing countries should be encouraged to develop self-sufficiency in indigenous food.

15. In the UK, our farming policy should aim to meet demand from consumers for local, good quality, environmentally friendly food, and demand from citizens for a beautiful, productive, wildlife and welfare friendly countryside that welcomes visitors, and provides good jobs and a high quality environment for residents. The aim for UK farming should be to produce high quality, local food, within a food culture that emphasises seasonality, local distinctiveness, fresh produce, less but higher quality meat, all based on a far closer and more direct connection between people and the farms where their food is grown or reared. Organic farming provides multiple benefits because of the nature of the system itself, not because farmers have to be encouraged to put land or labour aside for wildlife or the environment, or told to moderate their operations through regulation. Organic farming and food delivers benefits for human health, for the climate and the environment generally, creates significantly more jobs in the countryside, and improves animal welfare. The growth in organic food sales shows that the market is driving UK farming in this direction in any event, and that these developments are clearly in line with very strong underlying public values.

16. Organic farming produces little or no commodity crops for sale on world markets, and no mass, industrial rearing of chickens, pigs, or beef cattle. Yields of milk are lower than intensive, high protein and grain-fed dairy systems. Much wider adoption of organic production, not just in the UK, but within the EU
as a whole, would bring supply and demand for agricultural products into balance, removing the need for EU farmers to try and compete on world markets increasingly dominated by lower-cost producers, with lower land and labour costs, and often benefiting from better soils and climate, such as the Ukraine, Brazil or Thailand.

17. The impact of adopting this position internationally, and in particular at the World Trade Organisation (WTO), might be to introduce a “licence to trade” system whereby food could only be traded on international markets if minimum conditions were met—including sustainable methods of farming; non-indigenous commodities, for example tea, coffee and bananas for the UK; out of season crops, for example apples in late winter onwards in the UK; and a country’s structural incapacity to meet self-sufficiency needs. The alternative of increasingly free trade based on current, climate-unfriendly, cheap global transport, will benefit major agricultural exporters, generally developed or emerging economies, at a terrible cost to some of the poorest, least developed and most vulnerable countries on the planet.

18. If these new terms for sustainable trade were agreed at WTO level, this would have profound implications for future CAP reform and it would cast a somewhat different light on, for example, the French, Irish and German Governments’ positions, which rightly value their agriculture as contributing far more than merely food to their nation’s security and well-being. In contrast, the UK Government are giving the clear impression that the future of European agriculture hinges on being internationally competitive in world markets whilst at the same time being sustainable and catering for so-called “niche” markets. These two sets of objectives are not compatible, and the UK’s position has, rightly, been strongly criticised in the media by the EU Agriculture Commissioner, among others.

ENVIRONMENTAL CONSEQUENCES—THE NEED FOR CARBON EFFICIENCY

19. The key environmental driver of public policy towards the farming and food industries must be to secure far greater carbon efficiency, focussing on all of the inputs into farms as well as what happens on farms, transport and processing post farm and the packaging, transport and waste involved in the distribution of food to consumers. Although the market for organic food is growing strongly throughout the EU (and indeed globally), the market for food is failing to reflect some key external costs of industrial and intensive food production. As well as the impact of greenhouse gas emissions from agriculture, the use of pesticides imposes significant costs on society as a whole which should be borne by the industry through the introduction of a pesticide tax.

20. In 1999 the UK Government gave an unambiguous promise in Parliament that they would protect organic food in the UK from any GM contamination. Such protection is essential to allow the market to work, and to allow people to choose to buy organic food free of GM contamination. The EU Commission’s recent proposal that organic food can be contaminated with up to 0.9% GM (almost one in a hundred mouthfuls) without any labelling to inform consumers of the GM content, is completely unacceptable.

GOVERNMENT ACTION NEEDED

21. The Government plays an important role in setting the objectives for farming in the UK, because of the long history of farming fortunes being linked to public policy, for example on free trade or protectionism. Since 1935, what farmers produce, and their profits (or lack of them) have been intimately controlled and are still strongly influenced by Government policy. The Government needs to set out a clear and positive vision for the future of British food and farming, for all involved to aim at. The Government should welcome existing positive changes and trends, and allow them to continue, without interfering with them. The Government should be clear that, on climate change grounds, the costs of energy based on oil or natural gas is going to remain high or get higher, so that nitrogen fertiliser costs are likely to rise rather than fall, and that Carbon efficiency not just economic efficiency, will be the criteria against which the success of food production and distribution will be judged. The Government should ensure that agriculture pays for its own external costs, for example through mechanisms like a pesticide tax.

February 2006

Memorandum submitted by Scottish Natural Heritage (CAP 21)

SUMMARY OF KEY POINTS

— We agree with the premise that Pillar 1 has outlived its useful purpose and we support the general principle that farming (and other sectors of the rural economy) should be supported from public funds only for supplying public goods.

— Our priority is to achieve a substantial transfer of money from Pillar 1 to Pillar 2 of the CAP in order to meet the growing demand by society for non-market goods and services from rural areas; this will not be achieved without a further fundamental reform.
— The case presented in the paper, most of which we support, needs to be developed to take account of differences in the nature of agriculture and its relationship with the environment in different parts of the UK and across Europe.

— Abolishing Pillar 1 is likely to have implications for the environment and rural development that are not fully recognised in the Vision, in particular:
  — the cost of environmental public goods could increase, since they are probably to some extent being subsidised by the SFP,
  — farming systems in remote areas depend very heavily on public support—consideration needs to be given to the continuing viability of the low-intensity farming that contributes to the essential character of these areas,
  — increased public support may be necessary to maintain the farming infrastructure in remote areas, and
  — new arrangements (including the possibility of regulation) would be needed for maintaining land in good environmental condition.

— The liberalisation of world trade and wider influences of globalisation are likely to have serious environmental consequences on a worldwide scale. These need to be fully recognised and addressed independently of the issue of CAP reform.

— Possible alternative strategies that might go some way to meeting the Government’s objectives should be evaluated, if only to keep them in reserve.

INTRODUCTION

1. Agriculture has profoundly shaped the landscapes and habitats of Scotland and the UK and thereby done much to determine the wildlife they support. In the past much of this impact was relatively benign—it helped to diversify the range of habitats and in many places created very attractive landscapes. For the most part, however, these wider public benefits arose incidentally, as a by-product of farming activity—in some cases (though by no means all) reflecting the technological limitations or inefficiencies of past agricultural systems.

2. With the advance of agricultural technology, however, farming has become increasingly productive at the expense of biodiversity and the landscape. The environmental public goods that were previously provided as a co-product have often ceased to be available as such and have come to be regarded as separate outputs. While some of them can be secured through adequate environmental protection by means of regulatory standards (albeit possibly at some cost in terms of international competitiveness), many require positive action on the part of the land manager and have to be purchased.

3. The intensification of agriculture that has given rise to most of the losses of biodiversity and landscape quality over the past half-century has, as the Defra/Treasury paper recognises, partly been subsidy-driven. We therefore support the basic premise of the paper: that Pillar 1 of the CAP in its present form must be abolished as the first step towards a policy that is economically environmentally and socially more sustainable.

4. It would, however, be wrong to think that the simple removal of such financial support, although it is a critical step, will automatically reinstate the benefits that have been lost. Not only is the market response unlikely to be a uniform de-intensification of agriculture across the countryside but de-intensification alone, even where it occurs, will not deliver all the benefits sought, especially in the many cases where these involve deliberate and specific management.

5. Money must therefore be available to pay for the environmental benefits that the public seeks. Indeed, there is good evidence that money spent in this way can also help to support a growing range of economic activities. For instance, it can help to create the sort of places that tourists will want to visit and provide attractive places to live and work for the increasingly mobile workforce of the knowledge-based economy. And it can do a great deal in creating a positive image for a locality’s products.

6. In recent years the CAP has begun to evolve from a production-related support regime into the kind of regime that could (and to some extent already does) fund the positive measures needed to overcome market failure and to supply environmental public benefits. It undoubtedly requires further, substantial reform if it is to perform this function cost-effectively. Its successor need not, and ideally should not, however, be simply an agricultural policy—it should address the needs of the rural economy, communities and environment in the round. But it is vital that any successor policy contains measures that are adequate to ensure the continued supply of environmental public goods, and its resourcing should reflect the increasing priority that advanced societies attach to the quality of their surroundings. It must also take account of the fact that decisions about land use in Europe will have repercussions not just for the local environment, but also for the way that land and other natural resources are exploited and managed around the globe.
PILLAR 1—POSITIVE AND NEGATIVE ENVIRONMENTAL INFLUENCES

7. Recent changes to the CAP have done much to removed the incentive for farmers to intensify or to over-produce and introduced a comprehensive array of measures for protecting the environment, in the form of cross-compliance and Good Agricultural and Environmental Condition.

8. However, the Single Farm Payment, although it is no longer linked to actual levels of production, is paid on a historical basis in Scotland, which neither reflects the need for income support in farming, nor the capacity for supplying environmental or social public goods. In this form it may, to some extent, continue to subsidise more intensive production (e.g. with higher levels of stocking) than pure market economics would dictate, with unnecessary demands on the environment. On the other hand, it is also likely to be subsidising agri-environmental and other Pillar 2 measures (including organic farming) to some extent by contributing to farm incomes. We consider this effect further in para. 32–3.

9. Cross-compliance and GAEC were introduced with the aim of protecting the environment from the risks that might arise from de-coupling support payments from production. In the UK GAEC has gone beyond this in many respects but even so, its effect can be little more than to make the impact of Pillar 1 environmentally neutral. Maintaining the fabric of the countryside for environmental purposes and as a resource for social and economic development involves a significant targeted investment in active management, which Pillar 1 measures are unable (as they stand) to provide.

10. The mechanism of a National Envelope provides an opportunity to target part of the overall Pillar 1 budget at particular kinds of producers for broadly environmental purposes. But in the way that it has been implemented in Scotland, it does not provide the means of achieving the kind of specific environmental objective that Pillar 2 does.

11. So overall Pillar 1 now incorporates a wide range of measures for the protection of the environment from the risks involved in agricultural activity, and this is an important development, but it has proved extremely limited in its ability to deliver positive environmental benefits.

PILLAR 2—FAILED EXPECTATIONS

12. While recent reforms of the CAP have curbed the potentially negative impacts of Pillar 1, they have failed to achieve the growth in Pillar 2 that we and indeed the UK Government expected. Disappointingly, the agreement on the 2007–13 Financial Perspective, if endorsed will result in a reduction in the overall (EU) budget for Pillar 2 from its 2000–06 level, so the gap will increase.

13. In Scotland spending on measures covered by the RDR (which, as elsewhere in the UK, includes more than the RDP) in 2006 will be approx £172 million pa, of which around £55 million will be for agri-environmental measures of various kinds, and around £25 million will go to other measures that are likely to exert a broadly positive environmental influence (Farm Woodland Scheme, part of the LFA scheme). Pillar 1 payments will amount to approx £465 million.

14. We cannot realistically argue that the whole of Scotland’s Pillar 1 budget should be used for environmental and natural heritage purposes. However, there are emerging policy developments relating to climate change, renewable energy, diffuse pollution and flood control that it is likely to be difficult, perhaps impossible, to address adequately without the scope to introduce new Pillar 2 measures.

15. From a specifically natural heritage point of view there are requirements for the new RDP to contribute more substantially to the Scottish Executive’s targets for bringing designated nature conservation sites into favourable condition in order to comply with European and international obligations; and there are more recent requirements for measures to support the implementation of new legislation for public access to the countryside, and a landscape policy for Scotland. The character and the biodiversity of much of our countryside (and indeed in many parts of Europe) have developed over a very long period in close association with the management of the land. In order for its essential characteristics to survive, landscapes and habitats need to be managed on a wide scale—concentrating a limited amount of money on a relatively small area of designated sites will not be adequate.

16. Against this background of an increasing role for farmers (and other kinds of land managers) in managing the environmental infrastructure of the countryside, the new RDR is likely to result in a shift in the UK Rural Development Plans, away from their emphasis on environmental measures to a more even balance of environmental, social and economic (competitiveness). There is a high expectation among the wide range of potential “stakeholders” that the SRDP for 2007–13 will deliver against the increased opportunities in the new RDR. The regulation also extends the availability of many types of payments to non-farmers.

17. These considerations, without a very significant level of modulation, could well result in a reduction in spending on environmental measures in order to fund other (social and economic) components.
THE NEED FOR RADICAL CHANGE

18. Our expectation, since the RDR was established as the second pillar of the CAP, has been that there would be a progressive transfer of emphasis and money from Pillar 1 to Pillar 2. Based on this expectation, we have looked to Pillar 2 to provide financial support for securing the public goods that we believe are essential products of a multi-functional countryside.

19. Over much of the past 15 years or so the CAP has driven member states (including the UK) towards a more multi-functional approach to agricultural policy. This impetus seems to have been lost. We now have a situation where the balance between Pillar 1 and Pillar 2 varies very greatly between member states. MS such as Finland and Austria, are able to develop very substantial rural development programmes based on large Pillar 2 allocations, while the UK, among others, is constrained by a low Pillar 2 allocation in spite of its relatively large contribution to the overall budget.

20. The discussions leading up to the new Financial Perspective provide little evidence that there is any European consensus on the purpose, importance and funding of the two pillars. The outcome causes us to doubt that a significant transfer will ever be achieved, and indeed whether the CAP can ever be the basis for a national or European policy for sustainable rural land use.

THE VISION FOR AGRICULTURE

21. We support the overall concept of the vision in para. 1.5 of the report.

22. Agriculture, because it involves the direct management of natural resources and the land, has the potential to produce many benefits for society associated with the countryside. They include benefits that can be measured in terms of the health and quality of life, not just of the rural population but of society generally, for whom it is a place to visit and enjoy—and in Scotland particularly, part of the national consciousness. In producing these non-agricultural benefits, there is also the potential for creating employment, additional income and multiplier effects in the rural economy. In some locations this is especially important, for instance in the Scottish islands, where a significantly higher proportion of the population work in agriculture than in Scotland as a whole. While agriculture may not be unique in its ability to supply these benefits (other land-based activities, notably forestry and sporting management, having similar potential), because of its relationship with the land and its extent, it has the capacity to benefit society in many ways that other kinds of rural development do not.

SECURING PUBLIC BENEFITS FROM AGRICULTURE

23. The Vision should state more explicitly that agriculture has a multifunctional role that goes beyond mere environmental sensitivity, placing more and increasing emphasis on the supply of environmental (and related) public goods. The paper underplays the environmental benefits that agriculture can provide and does not recognise the importance of some wildlife habitats and landscape features associated with agriculture. It is in society’s interest that agriculture in the UK should retain—and indeed increase—its ability to provide a wide range of social and environmental benefits.

24. The paper gives the example of New Zealand, where cutting farm support resulted in grazed grassland falling by 16%, half going to commercial forestry plantations or being abandoned, the remainder going to other uses such as horticulture, silage, or non-agricultural use. Exactly what the environmental consequences of such changes might be is difficult to know—but they could be very different between Scotland and New Zealand, where there is not the same long-standing relationship between farming and the land.

25. In the UK grazed grassland is an important habitat for ground-nesting birds and an essential part of the character of the landscape of upland areas, where a loss of 16% might be very significant. In the lowlands, on the other hand, grassland is often intensively managed, lacking in wildlife and featureless. So the case varies across the UK. Indeed in some areas the withdrawal of farming could be highly beneficial for some kinds of wildlife. But the most important question is not necessarily about what stands to be lost. We should be giving more thought to what sort of countryside we want (in terms of wildlife, landscapes and amenity) and the balance of land uses and the type of public support that can achieve it.

26. In general terms we would endorse the expectation that agriculture should only be supported by the taxpayer for producing benefits for society that the market cannot deliver (para 1.5). We would add, however, that it should be supported in this way with sufficient resources to enable society’s expectations to be met. The paper does not address in any depth, however, the question of how agriculture should be supported to produce these benefits. If the money being spent on the CAP now isn’t being used to secure these benefits in the most effective way (and we agree with much of the analysis that it isn’t), how can it be re-deployed to best effect?

27. In some cases, the question of support for organic farming, for example, it may prove difficult to separate the public goods (that we may want to pay for) from the system that produces them (which we don’t). We discuss this further in para 29.
28. The paper assumes that moving to an unsubsidised model of agriculture (removing the Single Farm Payment) would result in “only a small amount of the most marginal land going out of production altogether” (para 3.8). In Scotland there is a high proportion of highly uneconomic farming, compared with the UK overall. Agricultural statistical data show that the average LFA farm in Scotland is unprofitable without Pillar 1 support. A recent study for the Scottish Executive for SEERAD found that the major part of the gross margin for LFA hill cattle herds and sheep flocks in Scotland consists of subsidy payments, and based on net margins, only the top third of producers make a profit. The areas where farming is marginal tend to be the remoter parts that are important for their scenery, wildlife and potential for tourism, and these features depend to a greater or lesser extent on agricultural management. The farms involved have little prospect of increasing their income from the market or could only do so by switching to a more intensive system or by re-structuring. The potential environmental implications of removing the Single Farm Payment in these remote and marginal areas need to be specifically and carefully explored.

29. Where the continuation of farming is essential for maintaining the natural heritage and related public benefits, there may be an assumption (this is not considered in the paper) that agri-environment-type payments for specific public goods can provide a sufficient share of the income needed to keep these marginal farms in business. Our concern is that these payments alone, in the way that they are presently calculated might well not be sufficient to maintain the kind of low-intensity farming systems that produce the public goods in question. Payments for managing large areas of open moorland on the basis of income foregone and costs (on which they are presently calculated) don’t amount to very much. Some farmers in these areas are already doing as much as they can under agri-environmental schemes and while these provide a valuable income, there is little scope (under present arrangements) for them to bring in more.

30. A recent study commissioned by the Scottish Executive (Beauty, beast and biodiversity: what does the public want from agriculture?) which used “choice experiments” to determine the Scottish public’s demand for rural public goods found there to be no general resistance against supporting farming through general taxation. The public’s support was shown, however, to be conditional on the supply of public goods, but providing these are forthcoming it admitted the possibility of “compensation” for the purpose of safeguarding farm livelihoods.

31. None of the foregoing, in our view, makes a case for retaining the Single Farm Payment, but it does indicate that the basis for calculating environmental payments, including support for organic farming, might well need to change, and the payments might need to increase quite significantly. Or there may be other ways of supporting the farming system, for example through better-targeted LFA-type payments (linked to the potential for providing public goods and the assurance that they will be provided), or payments to support the wider infrastructure of farming in certain areas. This is another subject that would need to be looked at in some detail.

THE REAL COST OF AGRI-ENVIRONMENTAL AND OTHER PILLAR 2 MEASURES

32. The effect of Pillar 1 payments in subsidising Pillar 2 measures needs to be explored. If, as seems likely, the effect applies more widely than just to the most remote and marginal farming, removing Pillar 1 could lead to Pillar 2 payments generally becoming much more costly.

33. Many kinds of agri-environmental management, such as maintaining hedges, that are presently, on the face of it, relatively cheap public goods could cease being marginal to the costs of the unsubsidised business. A study for Defra by Exeter University found that in 1998 farmers spent £23/ha (this equates to £27/ha today) on countryside management each year. Less than half of this expenditure was reimbursed via agri-environment schemes, thus the majority of these costs were effectively being cross-subsidised via Pillar 1 spending.

34. A major component of agri-environmental programmes in Scotland is concerned with the management of grazing animals—almost always with the aim of alleviating the pressure of grazing on sensitive habitats. However, many natural habitats, if they are to maintain their perceived environmental value, require some grazing. De-coupling has reduced the incentive for farmers in upland areas to keep sheep and, even more so, to keep cattle, which are considered troublesome and hard work, and the trend to reducing numbers (particularly of cattle) now becoming established is likely to continue. If a significant requirement of future programmes were to be for maintaining rather than reducing grazing, the cost of paying for the animals and the infrastructure required to support them could be rather greater than the cost of managing or even disposing of existing stock.

ADAPTATION—TRANSITIONAL MEASURES

35. The distinction perhaps needs to be made between different kinds of environmental public goods. There are certain types of environmental benefits that are likely only to be secured by providing an ongoing payment to land managers. These have the potential for providing a reasonably stable, and in some cases significant, contribution to farm (and other) incomes. Many of the actions supported by the UK agri-environmental schemes are in this category—for example, managing hay meadows for wild flowers, maintaining particular regimes of grazing and burning for upland vegetation.
36. Others depend on an investment over a shorter period for the purpose of creating a more or less permanent feature (such as a pond, a hedge, a stile), for equipping a farm to meet higher environmental standards, or—a rather less clear-cut but important purpose of helping a business to adapt to its role in a new sustainable rural economy. Many of the measures included in Axes 1 and 3 of the Rural Development Regulation relate to this kind of adaptation—support for farm diversification, for technological innovation and for community-based initiative, for example. We believe that public support for such purposes is necessary, so long as it is paid for a limited period, avoiding any possibility of becoming an ongoing payment for good practice. Support for adaptation is likely to be a key factor in achieving a satisfactory transition to an unsubsidised agriculture.

**Environmental Safeguards: Cross-compliance and Regulation**

37. It is widely held that the liberalisation of agriculture is likely to result in a polarisation among farm types. At one end of the economic scale, where farming is unprofitable without subsidy, land may be abandoned, planted with trees or left unmanaged, as farmers sell up or find other ways of making a living. At the other, farms that are intrinsically profitable may seek to maximise profits from the unconstrained market by cutting costs and increasing levels of production, the consequences of which are likely to damage the environment. These are the effects that cross-compliance and GAEC were intended to guard against.

38. The Treasury/Defra paper predicts that a total removal of subsidies would result in a drop in prices and a reduction in inputs. This may, as suggested, reduce the intensity and the use of some inputs that might be harmful to the environment. It could, on the other hand, lead to the use of cheaper inputs that might be more damaging, and discourage farmers from investing in some of the new technology (such as precision-farming) that has the potential to reduce the burden on the environment. This is a third area where further analysis is needed in order that the effects can be more accurately predicted. We are particularly concerned to avoid the polarisation described in the last paragraph, which might result in nature being more or less confined to restricted areas, largely lost to much of the farmed countryside.

39. Cross compliance and GAEC have established a standard of environmental practice with which farmers are expected to comply without receiving a specific payment. It therefore draws the line (albeit sometimes less than clearly) between what the polluter (in the widest sense) pays for and what the provider gets, and in this way acts as the reference for the measures that are included in agri-environment schemes and for which payment can be made.

40. Although the standard is linked to the SFP, abolishing the SFP will not remove the need for this kind of environmental safety net. If the SFP were to be abolished consideration should be given to the form in which it might continue, for instance as conditions applying to any Pillar 2 payment, or alternatively, at least in part as a statutory regulation.

**Economic Analysis**

41. The evidence cited in the paper relates predominantly to England; it makes no apology or explanation for this. Also, the basis for some of the calculations in the report is questionable. It should be noted that in calculating the costs of the CAP (15% on food prices etc) the figures presented cover the period when the CAP was at its height, which tends to give an inflated estimation of costs. That the CAP needed reforming then was widely recognised, but the reforms introduced since 2000 will feed through by degrees over the next six years, and there will be export tariff changes under the current WTO round that would reduce the strength of the argument for further reform. If the case is being made for reform on top of the changes that are already in train, then the argument should be based on the costs estimated for 2013, after the existing reforms have worked through.

42. The paper states that because many less profitable farms have relatively high costs, there is scope for farmers to become more efficient, and this will help to offset the effect of removing the subsidy. This is not necessarily achievable everywhere. Some farmers will have inherently higher production costs because of their location, ie proximity to input suppliers and markets, the climate, soil and topography. This is especially true in the Highlands and Islands of Scotland where, without the SFP, a higher level of public payment to compensate for these factors (linked to a requirement to supply environmental public goods) is likely to be needed for farming to survive.

**Global Environmental Impacts and International Trade**

43. The liberalisation of trade and the wider influences of globalisation are likely to have serious consequences for the environment—these problems must be recognised in the context of international trade negotiations and appropriate measures should be taken to prevent and counteract the effects. We do not believe, however, that retaining agricultural subsidies or the Single Farm Payment is a sensible (or cost-effective) way of tackling the issue.

44. The paper under-estimates the environmental impact of greater imports of food and is too readily dismissive of the issues connected with the notion of “food-miles”. Carbon dioxide emissions associated with food transport are growing, and around one-third of these emissions is a result of food imports. In making
the case that we can continue to rely on overseas sources of agricultural produce, it overlooks the fact that many kinds of fresh produce coming into the UK are not realistically transportable by sea, and food imported into the UK is likely to require a similar amount of transporting when it gets here as home produced food. It fails to acknowledge that the cost of transport by (any means) is likely to increase, and the possibility that climate change could significantly alter the global pattern of food production, with the result that less might be obtainable from abroad.

45. The paper ignores any wider obligation on our part to ensure that biodiversity does not suffer in other nations as a result of UK demand for food, often at the cheapest price. Displacing environmental problems abroad (by encouraging unsustainable production elsewhere) rather than tackling them ourselves may actually increase the UK’s ecological footprint.

46. Although the CAP may still act as an obstacle to development in developing countries, the argument for abolition of Pillar 1 on these grounds is not as strong as the paper suggests now that most support has been decoupled from production. The paper quotes the World Bank study in predicting gains of $290 billion from liberalisation (from all trade covered the scope of the Doha WTO round), but it fails to mention that 70% of this will accrue to rich nations. Some of this will be from profits by rich countries earned in new markets overseas. This kind of development has often in the past resulted in a heavy environmental cost, for instance in pollution and the destruction of habitats. It is also likely to increase the trend towards food being produced for export a long way from where it is needed, adding to the impact of the transport involved.

ALTERNATIVES TO THE ABOLITION OF PILLAR 1

47. Our support for the phasing out of Pillar 1 would be conditional on a substantial transfer of the money saved to Pillar 2 or an equivalent programme of environmental and rural development measures. The removal of Pillar 1 with no expansion of Pillar 2 could lead to some natural heritage losses—through a decline in agricultural management and the increased cost of environmental management.

48. The fundamental changes to the CAP proposed are likely to meet with strong opposition among other EU member states. There are other options for reform (none of which are mentioned) that could go some way toward meeting the objectives of the Treasury/Defra paper, which might meet with wider agreement. They include the possibility of developing Pillar 1 as a system of payment for sustainable land management—incorporating a requirement for basic environmental and social goods and services which goes significantly beyond cross-compliance and GAEC. The steps toward this could involve building on the area-based model of the SFP (as adopted in England), which would reflect the intention of payment for provision of environmental goods. There is also the possibility (proposed by Alan Buckwell) of increasing the EU co-financing of Pillar 2 measures and introducing a requirement for member state co-financing of Pillar 1 (cross-compliance). Substantially increasing modulation rates to around, say, 50% would be a further way of making funds available for Pillar 2.

49. Although some of these options would compromise the Government’s objectives, we believe they should at least be evaluated.

February 2006

Memorandum Submitted by The Wildlife Trusts (CAP 24)

1. INTRODUCTION

1.1 The Wildlife Trusts welcome the opportunity to comment to the EFRA Committee’s inquiry on the HM Treasury and Defra’s joint paper “A Vision for the Common Agricultural Policy”.

1.2 The Wildlife Trusts are a unique partnership of 47 local Wildlife Trusts covering the whole of the UK the Isle of Man and Alderney. We campaign for the protection of wildlife and invest in the future by helping people of all ages to gain a greater appreciation and understanding of nature. Collectively The Wildlife Trusts have more than 600,000 members and manage almost 2,500 nature reserves, covering 80,000 hectares of nature reserves including 700 SSSIs, ranging from inner city urban sites to the UK’s finest wildlife areas. These include some of the UK’s finest wildlife sites in both inner city locations and rural areas.

The Wildlife Trusts therefore have unparalleled knowledge of the opportunities and threats that face the natural world and also of the legislative and fiscal framework affecting it. As advocates and advisors on the natural world, The Wildlife Trusts work with local communities, farmers, business, local authorities, statutory bodies and others in protecting and enhancing our biodiversity for people’s use and enjoyment, both now and in the future.
2. General Comments

2.1 The Wildlife Trusts have actively sought reform of the Common Agricultural Policy (CAP) for many years and are pleased with the changes introduced in the most recent reforms. The severing of any links with production and the inclusion of all land in England [excluding woodland] as eligible land for the Single Payment Scheme (SPS) is an ambitious approach that takes full advantage of opportunities for national governments to adopt differing mechanisms within the overall framework. In our view in England, the SPS will operate in a more sustainable and equitable way than in Scotland and Wales where payments will be made on the historic basis only.

2.2 In terms of further reform, The Wildlife Trusts wish to see the beneficial aspects of the CAP retained and expanded. This will not necessarily mean a reduction in the cost to the taxpayer and we suggest that this should never be a driver for reform. The need for financial mechanisms to support appropriate management of the countryside will never diminish. Biodiversity has become a by-product of farming by necessity; the high proportion of land utilisation for agriculture leaves much of our wildlife seeking food and refuge from within the farmed area. It is unlikely that there will be widescale abandonment of land under the current reforms. As The Wildlife Trusts appreciate from their experiences of managing more than 80,000 hectares of land, appropriate management for conservation has a considerable cost, not least of which is the retention of grazing as the most favourable means of land management.

2.3 Any vision for the CAP must look forward to the dismantling of the Pillar 1 and Pillar 2 [England Rural Development Programme] elements that have historically competed with rather than complemented each other. Both pillars will need to be merged to create a new Rural Development Programme that must predominantly focus on the environment. It is here that the greatest need exists and here that the best value for taxpayers money will be achieved. We wish to see a high percentage of future funds being used to support a Land Management Scheme and minimal funds being available for the Rural Enterprise Scheme type approach that supports alternative businesses [and which tends to be accessed by the more affluent farmers]. Only new businesses that can demonstrate environmental gain [eg eco-tourism] should be considered eligible.

2.4 We will not attempt to cost The Wildlife Trusts’ “Vision” at this time. When the inevitable change detailed here becomes a reality there will need to be an assessment of cost which must include realistic payments to cover management costs together with “compensation” to support changes of land use or retention and improvement of existing habitat. Such payments will inevitably need to reflect the profitability of farming at the time; it is naive to expect farmers to change business strategies unless the financial performance of that business remains at the same level.

Specific Comments on HM Treasury Vision

3. The Environmental Costs of the CAP

3.1 The Wildlife Trusts have been very concerned that the CAP has caused significant environmental problems such as water pollution and damage to the environment and biodiversity. In some circumstances, such intensification has been encouraged by high commodity prices. These prices have been artificially maintained through the CAP. But this is not the sole driver of intensification. Technology, innovation, the cost of labour, the economies of scale and price versus benefit relationship of farm inputs such as fertiliser will always have a greater effect. For example, if using fertiliser to the value of £60 per hectare gives a yield increase to the value of £300 per Hectare, very few farmers will reduce this input. The CAP has been more particularly responsible for changes in land use such as the move to arable in the East and the general polarisation of certain commodities to certain areas.

4. The Effect of Reducing Levels of Market Price Support

4.1 We do not accept that the reduction of price supports will lead to the scale of reduction in environmental damage that is now required. There is certainly some land in England that will not support intensive production. This tends to be marginal land that in turn tends to be some of the best land for biodiversity value or land where the best environmental opportunities exist. This land should be taken out of production, given over to conservation and appropriate management supported by the agri-environment route.

4.2 It is therefore a dangerous strategy in our view to rely on price mechanisms alone to drive this extensification of agriculture in some areas. It will only need an increase in commodity prices to change land use again and fuel further intensification. As unlikely as this scenario may appear, at some point in the future it is inevitable that price changes will occur. Support payments for environmental activities, supported by agri-environment schemes in the short-term and Land Management payments in the longer-term, are the only safe mechanism to ensure the continuity of land management that we seek.

4.3 An example of the fragility of a sector that relies on price stability is organic farming. Without doubt the most environmentally friendly form of agricultural production, organic farming can receive on-going support under the Environmental Stewardship Scheme at a rate of £30 per hectare. This is in addition to the
basic rate payment of £30 per hectare available to all farmers. However, these payments will not be adequate to retain organic farms in the future if the commodity price drops. For example, the organic dairy industry has been severely affected in the past by imports, over-supply and subsequent low prices. As a result, some organic dairy farms have ceased operation. The high costs of production, compounded by low yields, make organic farming particularly vulnerable.

CONCLUSION

5. Delivering our objectives through the CAP

5.1 The Wildlife Trusts wish to see the following environmental objectives retained after any future reforms of the CAP:

— The creation and enhancement of habitats that are linked and more evenly distributed, with the further development of ecological networks and stepping stones.
— The preservation and protection (by buffers) of existing habitat.
— The improvement of farm habitats and farmland management practices.
— The creation of new farmed habitats [such as organic].
— The incorporation of existing and future environmental legislation.
— The delivery of measurable contributions to Biodiversity Action Plan targets for habitats and species.
— The provision of funding for monitoring.
— The provision of help for the rural infrastructure that enables people to meet environmental objectives.
— The provision of skills training in environmental and associated industries.
— The provision of opportunities for exercise and quiet enjoyment of the countryside.

5.2 The Wildlife Trusts believe that in any vision for the CAP these objectives must be retained, enhanced and financially supported. The CAP must be completely focussed on the environment and must deliver and protect our wildlife, historic heritage and landscape while encouraging the production of food and fuel in ways that will help achieve targets for the reduction of emissions, thus helping to reduce the implications of climate change.

February 2006

Memorandum submitted by the British Veterinary Association (CAP 25)

INTRODUCTION

1. The British Veterinary Association (BVA) is the national representative body for the veterinary profession in the United Kingdom and represents over 10,000 members. Our chief interest is to protect and promote the interests of the veterinary profession in this country and we therefore take a keen interest in all issues affecting the veterinary profession, be they animal health, animal welfare, public health or employment concerns.

2. The BVA welcomes the opportunity to respond to the EFRA Committee inquiry into the UK Government’s “Vision for the Common Agricultural Policy” and has consulted with the relevant representative BVA divisions to formulate the response below.

EXECUTIVE SUMMARY

— There is a fundamental need to review the food industry as a whole prior to a review of the CAP as there is an unsustainable share of costs and profits along the food chain with the primary producer at the greatest disadvantage.
— There is concern that Defra and HM Treasury’s document does not consider the costs of animal health and welfare and does not earmark money to maintain or improve health and welfare standards for British Livestock. The document only considers productivity and environmental benefits. This is considered to be a major flaw in the proposed process of reform and could result in a decline in animal health and welfare across the UK.
— Veterinary surgeons run private businesses, and cannot and should not be expected to subsidise the production of cheap food with good health and welfare standards delivered at or below cost.
— Farmers cannot afford to continue producing cheap food whilst paying the cost of good health and welfare in a global market where cheap food is being produced for less, often under poor welfare conditions.
— Veterinary presence on-farm is essential to promote good animal health and welfare.
— Increasing veterinary fees, and decreasing farming profit margins are making veterinary visits on farm rarer.
— These factors and others are leading to a decline in farm veterinary practices, which mean that surveillance for new and emerging diseases on-farm, a national service performed by the local veterinary surgeon, is decreasing.
— A continued decrease in the number of farm veterinary practices could also lead to a reduction in the ability of the UK to respond to a serious animal disease outbreak, as the skilled workforce decreases.
— There needs to be a serious debate about where and how the UK consumer wishes food to be produced. With consideration given to the importance of managing the countryside sustainably, the need to maintain high standards of animal health and welfare, and the need to reduce the ecological footprint of the food we eat.

THE NEED FOR ANIMAL HEALTH AND WELFARE TO BE PART OF ANY CAP REFORM

3. There is concern that Defra and HM Treasury’s document does not consider the costs of animal health and welfare and has not earmarked money to maintain or improve health and welfare standards for British Livestock. The document focuses too much on productivity and environmental benefits and does not focus on the value of the product. This is in conflict with the Government’s vision for a sustainable model of European agriculture, which emphasises the need to produce to high levels of animal health and welfare. This is considered to be a major flaw in the proposed process of reform and could result in a decline in animal health and welfare across the UK.

THE ROLE OF THE VETERINARY SURGEON

4. Veterinary surgeons can only help a farmer to become more profitable if the farmer has the ability to pay for the service. The majority of veterinary surgeons are employed in their own private businesses and cannot subsidise the production of cheap food with high welfare standards by charging unrealistically low prices. The UK cannot expect to have gold-plated farming whilst we continue to import food from countries that do not enforce high welfare standards.

5. Farm management assistance from the veterinary surgeon, to help maintain high animal health and welfare standards, will be vital in any CAP reform. Veterinary surgeons have been encouraged by the Competition Commission and Defra to increase fees rather than cross-subsidise services with income from the sale of drugs. Perversely, the supposed demands for access to cheaper medications will result in increased costs for veterinary advice. Farmers know that in the long-term management advice is invaluable, but their cost base and outside pressures dictate short termism.

6. Defra must accept that the numbers of farm veterinary practices and skilled large animal veterinary surgeons are declining in number. It is estimated that 18% of farm veterinary practices across the UK will leave the sector in the next 10 years (according to a recent Farmer’s Weekly survey). This correlates to the BCVA survey of 2003 where between 10 and 40% of practices indicated that they may not be providing large animal services in ten years time (submitted to the EFRA Committee Vets and Veterinary Services Inquiry 2003). Veterinary surgeons play a key role in the surveillance of new and emerging diseases. If the decline continues, there will be a loss of the skill base necessary not only to maintain this national surveillance but also to provide meaningful help if another outbreak of disease such as foot and mouth occurs.

7. We would like to see more detailed plans on how Government intends to call upon veterinary surgeons in the event of a serious outbreak of disease. The Government should not depend on veterinary surgeons from abroad who may be dealing with their own crisis.

THE NEED FOR A REVIEW OF THE FOOD INDUSTRY

8. The BVA strongly supports the need to review the CAP which some would say has contributed to ill-health and poor welfare since its inception by resulting in the production of unnecessary surpluses of food. However, first there is a more fundamental need to examine the food industry as a whole, including its structure and practices. The costs to the primary producer are vast, and the profit margins small. The supermarkets and processors are taking a much higher share of the profit and the producer is footing too much of the bill.

9. If the producers had a fairer price, (coupled with some better safeguards) most of the problems of welfare, biosecurity and rural issues would be addressed. People would then see the real price of the food they buy and be able to make informed choices on what they decide to eat.

10. The Government needs to play a part in ensuring the success of all the links of the food chain in the UK, the survival of its dependent parts is deeply questionable. In EU countries such as the Netherlands all parts of the food chain have a consideration for the other links. Therefore, at the outside limits, the
supermarkets (as final retailers) care about what happens to the farmers (the producers of raw products) and ensure that a fair price is paid to ensure the farmers’ survival. The players in the middle of the chain; the transporters, the abattoirs, the processors are also key to the production of food and they too must receive enough money to reinvest in their business.

**Environmental, Food and Rural Affairs Committee: Evidence**

Inquiry Questions

11. Attached below are some general views on the “Government’s Vision for Cap” from members of the BVA. Although the views expressed therein are not strictly related to veterinary matters, our members have a deep involvement in the rural economy and these comments have a bearing on the survival of large animal veterinary practice.

**Q1.1 Food security—does the Government remain committed to UK food production?**

12. The UK is still “in reality” an island and could become wholly dependent on home produced food in the event of a natural disaster, an outbreak of disease or an international event which could cut ties with the rest of the EU. To source all foods from overseas would leave the country very vulnerable. Even closure of the Channel Tunnel or major airports for a relatively short period would see present food supplies compromised especially in the urban south east of England.

13. There should be careful consideration of the impact of civil unrest when supply lines are interfered with. The present Government does not seem committed to any food production in the UK. Indeed it positively encourages imports against home production. Government should consider how much food should be produced on this island to ensure the ability to feed the population in times of crisis ie limiting the movement of people during a flu pandemic may limit the ability to import food.

14. The risk of importing disease also needs to be considered. As a nation we have little credible evidence of what diseases other countries in the world have and this is unlikely to change as global competition for food production increases. Inadequate veterinary numbers to police possible outbreaks would also be a serious issue if the number of, already declining, farm veterinarians decreased anymore.

**Q1.2 Potential distortions and inequality of treatment of farmers across the EU**

15. It is unlikely that all EU countries would apply the same level of measures under a new CAP. One only has to look at the current situation in France and Eire in contrast to the UK. However if the whole subsidy system was dismantled and there was no payment at all then there would only be national aid (possibly against EU state aid rules although these rules are impossible to enforce). It is also unlikely that all EU countries would give up non-subsidised agricultural activities. An open world market would be healthy but never likely to materialise for many reasons, not all related to CAP.

16. Differing costs of oil or gas to farms within the EU, or outside it, is a serious issue. The cost of excessive bureaucracy in the UK is already a factor for farmers. A reduced level of Government “matched funding” will cause inequality with other EU countries that commit match funding to the maximum.

17. The UK Government has recently entered into discussions on cost-sharing for disease control between Government and the industry. This could add an additional level of expense to the farmer, which will affect competition if other countries do not insist on the same measures. This is currently an area of intense debate and developments will be followed with interest.

**Q1.3 Possible environmental consequences of the proposals**

18. Any further reduction in livestock farming in the UK would see the countryside change beyond recognition. There would almost certainly be less public access, which has occurred in some areas of Scotland where sheep and cattle production has ceased in favour of environmental projects. In these areas scrubland has taken over which has proved difficult for animals and humans to access. Often the whole ecology of the area changes.

19. Less agriculture means there would be fewer people residing in the countryside on a permanent basis, resulting in fewer amenities for the general public, therefore tourism and leisure activities would decline. The most likely groups of people to leave would include engineers, transport service providers, millers and grain store merchants, agricultural wholesalers, abattoirs, food processors and others. Veterinary practices would also suffer from reductions in both farm and companion animal work and would be forced to curtail their services or close down.

20. Reduced farm income is already causing cost-cutting to the potential detriment of animal health and welfare. We can provide examples of this happening now. Cutting costs for example by reducing the application of selective herbicide sprays and changing to organic and low stocking rates results in an increase in weeds, many of which are potentially toxic to livestock, ragwort is of particular concern. An increase in bracken cover, from de-stocking, increases tick habitat. De-stocking may lead to an increase of reforestation but someone will need to be “managing” the land to assist this to happen.
Q1.4 The extent to which the proposed changes to the CAP would result in lower food prices and (through reduced public spending on the CAP) a lower level of taxation

21. This is debatable given the increasing cost of fuel. Reduced spending on the CAP would not result in reduced taxation since the amounts involved are insignificant in national budget terms. There would also need to be extra financial support for rural areas in order to maintain them in the absence of formal agricultural practices.

22. For example, with regards to milk, decreases in the price to the farmer have been absorbed by the processors and retailers e.g. milk values have dropped dramatically over the past few years but there has been no significant drop in shop price.

Q1.5 How such a revised CAP would enable the EU’s farmers to be more competitive

23. It will not be possible to compete globally within the confines of the revised vision for CAP. For example, many parts of the world can produce feed for animals, fish and birds at a significantly lower cost than it is possible to do in the EU. Add in the reduced cost of labour and it is no surprise that this results in livestock production at lower prices than those in most of the EU. However it is quite possible to foresee that competition might diminish as we progress towards a marketplace controlled by one or two major companies.

24. Furthermore the impact of global warming is impossible to predict. We do not know where the most economic food production will be in the future. Brazil may become desert and the UK temperate with different cropping possible and probable.

25. There is still reluctance in the UK for farmers to cooperate in sales groups or branding. Most still see subsidy—entry level/higher level/organic—as a way to maintain the way they are. New Zealand co-operatives only really took off after all the subsidy was withdrawn. The farmers that remained had to cooperate to survive then thrive. This process was undoubtedly helped by the fact that local consumers were keen to buy their own produce. More help is needed to promote UK produced food to consumers in the UK. Reduced subsidy equals reduced income and this should result in decreased land prices/rents. In the UK however the competition for land and the pressure on farmers to keep expanding will keep prices high.

Q1.6 How the proposals would differently affect the tenanted and non-tenanted sectors across the EU

26. With increasing land ownership in the EU this will probably not be of significance. One concern would be the value of land that had not been managed by agricultural practices which could make tenancies worthless and some land un-saleable.

27. Incomes will also fall faster than rents. Competition for land will slow the fall in rents. Many tenant farmers are so financially compromised that they continue to farm just to keep a roof over their heads. The ability of a tenant farmer to come out of farming is limited by the fact that many of them could not afford to get a house to live in.

Q1.7 The implications of the proposals for the applicant countries to the EU

28. There will need to be initial support for the new EU countries in order for them to supply the other EU countries at competitive rates. Most could achieve this at present labour and feed production costs as seen in Poland, Hungary and Ukraine, but support would be needed for marketing. Any support should not however prejudice the existing supply lines if they were already economic and desirable.

Q2. The Rural Economy

29. As far as the UK is concerned the total demise of the CAP would result in only extensive systems of livestock production surviving and only in remote areas such as Northern England, Scotland and Wales. Even these systems might not be economical and vast areas of land could be abandoned with the resultant loss of jobs and services. The overall effect would be dramatic and similar to the process already underway in parts of Scotland where forestry and national and international environmental projects have replaced farming along with the subsequent fall in human habitation and services. The present skilled population would diminish further and could not be replaced within a short time. Eventually there would be no viable rural economy.

30. The UK Government wishes to see landowners paid to care for the countryside they manage and not for the food they produce. How this is achieved and for how long it could be sustained is open to debate. To give up livestock production in favour of tourism needs some concrete basis to secure income for the future and should not happen until the next review of the current subsidies.
Q3. The Committee is interested in how the UK’s rural economy would fare under the changes proposed in the report

31. There would be changes in all countries but until national support mechanisms are known it is not possible to accurately predict the impact. It is unlikely that the UK Government would offer support in any form to farmers and any funding that was available would be based on environmental sustainability, not livestock or crop production, therefore these activities would diminish. The present policies do not encourage young people to seek livelihoods in the countryside and this seems unlikely to change. Global warming will also play an important part in this.

Q4. International issues

32. International issues will have more to do with energy than with food production since even the so called third world countries need energy to survive and food can be produced globally to meet demand (supply lines and tariffs are the problem). The predicted global increases in the human population may compromise these supplies in future and the effect of climate change is unknown. As with any industry only the most efficient and advanced systems with appropriate operators will succeed.

Q5. The wider debate on future financing of the CAP

33. If the UK is to produce food to sustain the population in times of need then the infrastructure needs to be maintained in order to do this. If we lose further skills in the rural areas it will become impossible to recruit people to work in agriculture and thus food production could be directly affected. At present the UK employs an increasing number of eastern EU workers in the dairy and fruit industries and, in some areas, without these workers the industries would not be economic.

34. We also need to look at the increasing vice-like grip that food hygiene regulations are imposing on UK producers. In the UK, legislation is enforced “to the letter” whereas in other EU countries there is a more relaxed interpretation of EU law.

35. There needs to be serious debate about where the public wishes its food to come from. A consultative group based at Reading University (on behalf of Sir John Marsh and DEFRA Minister, Margaret Beckett) has already demonstrated that almost all the food consumed in the UK could be acquired at a third of the present cost from overseas rather than home produced. This looks attractive at first sight to Government but then there is the question about what is done with the countryside. Consideration must also be given to animal health and welfare, the food miles involved and global pollution. A more balanced approach is needed.

February 2006

Memorandum submitted by Wildlife and Countryside Link (Link) (CAP 26)

1. Wildlife and Countryside Link (Link) brings together voluntary organisations concerned with the conservation, enjoyment and protection of wildlife, countryside and the marine environment. Our members practice and advocate environmentally sensitive land management and food production practices and encourage respect for and enjoyment of natural landscapes and features, the historic environment and biodiversity. Taken together, our members have the support of over eight million people in the UK and manage over 476,000 hectares of land. This submission is supported by:
   — Buglife—the Invertebrate Conservation Trust.
   — Butterfly Conservation.
   — Campaign to Protect Rural England.
   — Council for British Archaeology.
   — Council for National Parks.
   — Friends of the Earth.
   — Herpetological Conservation Trust.
   — Open Spaces Society.
   — The Ramblers’ Association.
   — Royal Society for the Protection of Birds.
   — The National Trust.
   — The Wildlife Trusts.
   — Woodland Trust.
2. Link welcomes the Environment Food and Rural Affairs Committee’s inquiry into the UK Government’s “Vision for the Common Agricultural Policy” and the opportunity to provide the inquiry with our analysis of the most pressing issues that arise from the vision. Link has led the call for the reform of the CAP from the 1980s onwards and much of Link’s vision for sustainable agriculture, set out in "Paying for the Stewardship of the Countryside—A Greenprint for the future of agri-environment schemes in England" in July 2001, remains relevant today. The vision document makes an important contribution to the debate that has begun about how sustainable land management can be delivered within the framework of an increasingly liberalised global agricultural trading system.

3. Our comments are restricted to the possible environmental and animal welfare consequences of the vision. Link considers that it is not possible to separate the conservation of wildlife and landscapes from agricultural policy. Our evidence is based on that premise.

4. We are concerned that the UK Government’s vision is strongly focussed on the financial savings that might be achieved through the creation of a liberalised market for agricultural products. This concern arises because Link believes there is currently insufficient analysis of the funding required to deliver a sustainable countryside and improvements to farm animal welfare standards that meet society’s needs. We believe it is fundamentally important that a detailed comparative analysis exercise is undertaken that tests how sustainable land management can be delivered within the liberalised trading scenario set out in the vision. A similar analysis exercise will also be required to evaluate how improvements to farm animal welfare standards (eg for laying hens and broiler chickens) can be delivered within such a trading system. These analyses should examine how these public benefits can be delivered alongside a comparison of the costs incurred, both by the public and the farming industry, under the current CAP payment system and under the future liberalised trading system that the vision sets out. Link’s concern is that profit driven production targets within a liberalised system could result in more intensive farming methods that are as equally damaging as any negative impacts of the current CAP payment system. We also believe further research is needed into more sustainable systems of paying for public goods that is not reliant on the “income forgone” from often uneconomic farming systems and enterprises.

5. Link welcomes the increased emphasis that the vision foresees will be needed for rural development measures. However we are concerned that an under funded successor England Rural Development Programme (ERDP), which following recent EU budget negotiations is facing further reductions in funding, will be even less able to deliver the sustainable land management measures that are required either currently or within a future liberalised trading system. There is particular concern that unlike the Welsh and Scottish Rural Development Programmes, the ERDP has little specific innovative incentives for the new animal welfare measures agreed in 2005, which we understand is partly due to financial constraints. Maintaining high quality countryside and improving animal welfare standards will require an increasingly well funded Pillar 2, not an ever diminishing one.

6. Indeed, given the proposal in the vision for Pillar 1 to be abolished before 2020, we agree that now is the time to begin the process of considering how new policy frameworks should be developed for funding sustainable land management in Europe. This is likely to require new terminology. The terms Pillar 1 and 2 have become associated with a variety of preconceptions in terms of environmental damage, intensive farming, market distortions and agricultural purpose. Link has believed for some time that we should move towards a single support mechanism for the delivery of public benefits in the countryside. We should seek to develop a single funding and policy instrument that will enable farmers and other land managers to deliver sustainable land management and high quality countryside as well as improved farm animal welfare standards. Link is yet to be convinced that the free market alone will be able to deliver these outcomes if the CAP were to be abolished. Carefully developed policy and funding interventions from Government will be needed to expand significantly the objectives of what is now known as Pillar 2.

7. We would like to expand in more detail on some of the issues and policy instruments we believe the analysis exercises should consider before any further moves towards the liberalised trading system set out in the vision.

a. The vision (1.27) strongly suggests allowing land use polarisation to occur with production finding a more sustainable level, which reflects natural and competitive advantages and rational trading relationships in an open market. Such an approach might see reduced production pressure on high value areas, but areas where production is most profitable could still be aggressively exploited. If sufficient environmental incentives or protections are not put in place, the effects of this approach could actually be similar to those of the current CAP, which has seen the wider countryside increasingly impoverished in wildlife and landscape and remaining areas of biodiversity and landscape value increasingly fragmented. As we face the serious issues of climate change and in which the whole landscape functions ecologically becomes important if we are to enable wildlife and landscapes to adapt. We are concerned that the land management demands of a free market must be tempered with mechanisms which allow the wider countryside to adapt its ecological functions so that it can survive the impacts of climate change.

b. Further, while the present CAP regime continues to permit the degradation of our rural historic environment, any liberalised system that did not have regulatory or policy measures for preventing damage to the historic environment would be equally unacceptable. Archaeological sites and historic landscapes, once damaged by agricultural operations either within a framework of market
controls or free of them, can never in a genuine sense be recovered or regenerated, and adequate protection must be put in place to ensure that the nation’s capacity to hand down irreplaceable evidence of our history to future generations is not compromised further.

c. The vision document states that “evidence suggests that reduced levels of market price support should have the effect of reducing (though not eliminating) environmental damage caused by modern agriculture” (Executive Summary page 6). Link supported decoupling because it removed a major driver towards intensification, and so in principle recognise that reduced market support has positive environmental effects. However, we do not yet have a quantified assessment of the implications of the decoupling of payment from production, or what the results of the 2003 CAP reforms will be on farming and so consequently on the countryside and its environmental advantages—or otherwise. It is possible these reforms may lead to some marginal areas being farmed more sympathetically, or even coming out of conventional agricultural management, with a change to a conservation focus. However, there are also likely to be cases where soils, climate and topography allow for continued intensification or where the cessation of economically unsustainable systems which had environmental benefits, such as extensive cattle grazing, is damaging to wildlife and landscapes. Furthermore, we should not forget that the Single Farm Payment is not compulsory, in which case the Good Agricultural and Environmental Conditions (GAEC) contained within cross compliance will not apply. Any agricultural practices in a liberalised system would still be subject to the statutory regulations that farmers must comply with whether they are or are not recipients of the Single Farm Payment. However, in a liberalised system the incentive to undertake GAEC would need to be met elsewhere or there could, in effect, be a lowering of environmental compliance by farmers.

d. There are other EU Regulatory policies and policy measures which affect both the environment and the economic trading parameters within which farmers in England will need to operate within from now until 2020. These include:

i. **Cross Compliance**: There is a view that following the 2003 CAP reforms and the introduction of cross compliance measures for receipt of the Single Farm Payment the CAP has become a “green payment”. However, others consider the basic standards required for compliance as being too low for this label to be truly justified. The vision in parts does not seem to have taken full account of the change that has been brought about by the 2003 CAP reforms both in terms of decoupling and the introduction of compulsory cross compliance measures.

ii. **Environmental Stewardship Entry Level Scheme (ELS)**: The introduction in England of the ELS has been widely welcomed by Link members. This scheme will bring about fundamental changes to farmer’s decisions about how they manage the countryside on their holdings. Evaluation of Environmental Stewardship has only just begun. We do not yet know the extent of the interaction between cross compliance requirements and the options in ELS. For example, the extent to which the Single Payment, with its GAEC requirements, acts as an incentive for farmers to move into participating in ELS.

iii. **The Water Framework Directive (WFD)**: The vision gives a great deal of consideration to the impacts of agriculture on Diffuse Water Pollution from Agriculture (DWPA). DWPA should diminish as WFD measures are introduced and WFD targets should have been achieved before the introduction of the liberalised trading system set out in the vision. The pressure for profit driven production in such a system could result in very different land management practices that may require different regulatory measures to be developed to maintain the benefits of the WFD achieved under the CAP regime.

iv. **European legislation that will raise welfare standards such as the Laying Hens Directive and the Broiler Directive**. The vision states that there should be twin goals of producing high welfare standards and international competitiveness, without subsidy or protection. However economic studies show that these may be incompatible. For instance in the broiler sector, where a Directive is currently being negotiated, economic analysis shows that there will be a annual cost to UK industry of £101 million by moving from the present stocking density of 38 kg live weight per square metre to a reduced stocking density of 30 kg live weight per square metre. In the egg sector, it is estimated that by 2012 there will be a price differential of approximately 1p per dozen eggs by moving to the enriched cage system, 1.5p per dozen eggs by moving to a barn multi-tier system and 3p per dozen eggs by moving to a free range system. This will lead to the industry becoming uncompetitive in its own marketplace, let alone in the export market, and it is unclear from the vision how the Government will ensure that this relationship will be overcome.

e. The impacts of these policies and regulatory measures are as yet unknown. Link believes that Defra’s Agricultural Change and Environment Observatory Programme, the research and monitoring and evaluation capability of Natural England, and other Government and

66 The economic consequences for the broiler industry of legislatively enforced reductions in maximum stocking density. Centre for Rural Research, Exeter University 2005.
67 The Case against Cages 2005 RSPCA, Hard boiled Reality 2001 RSPCA.
independent environmental research facilities will be crucial in being able to gauge how successfully sustainable land management is being delivered by agriculture within the current policy framework. Link’s concern is that although many of these regulatory mechanisms and policies may remain in place, (with the obvious exception of the Single Payment Scheme) after the introduction of a liberalised trading system, the demands of the market could undo much of what has been achieved. For example, there could be consequences in terms of the value farmers place on the rewards from participating in agri-environment schemes. The profits available from a particular crop could compete with the agri-environment payments and result in farmers undertaking the bare minimum of actions required to meet legal compliance with statutory regulations.

f. If rural development measures do not adequately reward and compensate the costs incurred by farmers for the delivery of sustainable land management under market conditions, low profits could also discourage engagement in production. If this was to continue the consequences in terms of the ability and capacity of farmers to deliver the sustainable land management required to produce the countryside that the public wants could be serious.

g. The document states that there should be twin goals of producing high animal welfare standards and being internationally competitive without subsidy or protection. However, economic studies show that these are invariably incompatible. There is a causal relationship between raising animal welfare standards (with its increase in costs) and the risk of being undermined by imports from countries where standards are lower. This could lead to the UK industry becoming uncompetitive in its own market place let alone in the export market. The vision is mute on how this situation might be addressed.

8. Whilst the commercial aspects of agriculture could be treated like any other industry and it could, therefore, be argued should not receive public funding, the fact remains that the production processes of commercial agriculture have a direct bearing on the quality of the countryside and its wildlife habitats. The production processes required to maintain high quality countryside and achieve higher animal welfare standards, have economic consequences for farmers. The internalisation of these costs will inevitably have limits. The interaction of agricultural practices and environmental outcomes are complex and in this respect agriculture should be treated differently from other industries. In the opinion of Link, sufficient public money should be made available to farmers and other land managers to guarantee the delivery of public goods such as landscapes and wildlife habitats that are dependent on farming systems.

9. While policy mechanisms such as the CAP have encouraged damage to the environment, the CAP was originally designed to encourage food production. A new, fully funded European sustainable land management policy that combined funding from both pillars of the CAP could prevent the market damaging the environment and instead pay for a greater range and quality of public goods over a far greater area while improving animal welfare standards. Free markets are unlikely to be able to deliver public benefits without the existence of regulatory mechanisms and policies combined with the availability of adequate funding.

10. It should not be assumed that such a European sustainable land management policy should cost less than the existing CAP. The CAP funds a combination of land management and food production over much of Europe. In a liberalised trading system sustainable land management measures, including agri-environment schemes, may need to receive far greater funding, be far more widely available and become far better integrated with other rural development measures and EU policies and regulations if a high quality countryside is to be maintained. Ironically, once there is political intervention in the form of policy, regulation and funding for the public good the free market is no longer truly free. It is difficult to see how the public’s demand for high quality countryside and high animal welfare standards could be achieved without such interventions. The UK Government needs to take this into account if it is to gain support for its vision.

11. The support of European and indeed global, trading partners for the future as set out in the vision is of course critical for its viability. Link currently remains to be convinced that there is widespread support by other EU Member States for the outcome set out in the vision. Link suggests that an important focus for the Government will be to explore ways to overcome the challenges of engaging in meaningful debate in Europe, to develop a common understanding and shared goals for the CAP and the farmed environment.

12. As a first step in gaining support for its vision Link believes that the UK Government will need to examine and provide detailed analysis and assessment of the changes to land management practices and animal welfare that will be brought about by the ending of direct payments to farmers. Link would like to see the Government being clear about the public benefits in the countryside that they wish to maintain and increase in the future. Analysis is also required to assess accurately the level of funding that is needed to enable farmers and other land managers to deliver the countryside the public wants and mechanisms for how they can be achieved and paid for in a sustainable way. Unless the objectives and funding are set at a sufficiently high level, providing realistic benefits with incentives and rewards to farmers for delivering public goods, it is unlikely that the vision will be realised.

February 2006
Memorandum submitted by Dairy UK (CAP 27)

Dairy UK

1. Dairy UK is the trade association representing the interests of dairy farmers, producer co-ops, dairy processors and bottled milk buyers in the UK. Milk processed by Dairy UK members account for over 90% of the milk produced in the UK.

The Dairy Industry

2. The dairy industry is a highly invested, technologically sophisticated, dynamic food industry. Around 21,000 dairy farmers produce 14 billion litres of milk which accounts for 16% of the value of UK agricultural output. Dairy processors employ 34,000 people and the turnover of the sector at £6bn constitutes 10% of the UK food and beverages sector.

3. Dairy farmers play a major role in maintaining the current rural landscape. The dairy industry’s products form a major part of the diet of UK consumers and they provide clear and substantial nutritional benefits.

4. Dairy UK would welcome the opportunity to give oral evidence to the Committee.

Dairy UK’s key points

5. The six key points that Dairy UK wishes to draw to the attention of the Committee are:
   (i) The industry is subject to price deflation as a result of market pressures and the effects of CAP reform. This may be further compounded by the effects of any WTO agreement on agriculture.
   (ii) In order to sustain itself the dairy industry needs to be able to undertake further rationalisation and consolidation. This process must not be unnecessarily impaired by the competition authorities.
   (iii) The industry must not be discriminated against compared with its EU counterparts as a result of the implementation of CAP reform in the UK. In particular dairy farmers should not be subject to higher rates of modulation and funds raised must be matched by the Treasury.
   (iv) In order to ensure that producers in any region of the UK are not disadvantaged the Government and the devolved administrations need to reach an understanding on the limits of acceptable divergence in their implementation of CAP reform.
   (v) If further reform of the dairy sector CAP entails cuts in support prices then compensation should be provided to producers at the same level as the current round of reform.
   (vi) The industry needs time to adapt to the current round of CAP reform and further changes should not be undertaken until its impact has been fully evaluated.

Basis of Dairy UK’s Position

6. Dairy UK interprets the Treasury’s vision document to mean the wholesale abolition of pillar 1 of the CAP, coupled with the virtual abolition of all international trade barriers, with expenditure on agri-environment schemes remaining as the only government support peculiar to the sector.

7. We appreciate that liberalisation of agricultural policy is the basic policy objective of the Government and that liberalisation of world trade in agriculture through the WTO will be a powerful impetus towards further reform of the CAP. We understand that freer trade in agricultural products must be part of a much broader liberalisation of foods and services.

8. We recognise that in the long term greater trade liberalisation will generate economic benefits to society and provide a powerful tool for growth in the world economy.

9. The impact of trade liberalisation on the UK industry will not be uniform. There are strong regional differences in product output and the markets served by the regions of the UK. In particular, Northern Ireland is heavily dependent on the production of milk powders for export. This means that trade liberalisation, and in particular the future of export subsidies, will have a major impact on the province.

10. The key issue for Dairy UK is whether the intensity and timescale over which any reform programme is implemented will give the industry sufficient opportunity to adapt to maintain its competitive position.

11. The UK dairy industry has several inherent natural advantages that should give it a strong basis to achieve international competitiveness, eg. appropriate climate, strong local markets and high levels of expertise. However, it also has some inherent disadvantages such as comparatively high labour and energy costs, high land prices and a lower level of industry concentration compared with its potential international competitors. They have been able to undertake a greater degree of consolidation and are significantly more dominant in their home markets as well as having greater international reach.
12. There are also variations in the competitiveness between the regions of the UK and this is demonstrated by the movement of quota over the past 10 years.

<table>
<thead>
<tr>
<th>Quota: Billion litres</th>
<th>1996</th>
<th>2005</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>England</td>
<td>9.90</td>
<td>9.44</td>
<td>-4.6</td>
</tr>
<tr>
<td>Wales</td>
<td>1.44</td>
<td>1.56</td>
<td>+8.3</td>
</tr>
<tr>
<td>Scotland</td>
<td>1.16</td>
<td>1.27</td>
<td>+9.4</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>1.39</td>
<td>1.77</td>
<td>+27.3</td>
</tr>
</tbody>
</table>

13. The dairy sector is already being reformed as part of the 2003 CAP reform package. This will continue the price deflation the sector has been subject to since the devaluation of sterling since 1994.

14. Under the reform agreement price support is being cut by the equivalent of 22% over four years. This is only being partially compensated by the introduction of direct payments equivalent to 60% of the price cut. This has been diluted by Defra’s choice in England of the area payment model, which will reduce the value of payments to English dairy farmers compared to those operating in the other countries of the UK where payments have largely been distributed on the basis of historic entitlements. The value of direct payments will be diluted further by compulsory and voluntary modulation, financial discipline and funding of the national reserve which could theoretically bring the total amount of deductions to a maximum of 37%.

15. Price deflation arising from reductions in price support and market pressures will necessitate a continued drive for efficiency and competitiveness at both farm and processor level. In the environment created by the current round of CAP reform it is questionable whether the industry will retain its existing scale. According to a report by Professor Colman, the industry could reduce in scale by over a billion litres under the pricing scenarios that can be expected under CAP reform.

16. This background of CAP reform, trade liberalisation and market pressures means that the industry must be given time and stability to allow it to adapt. The industry cannot be placed in a condition of permanent flux.

17. Therefore, before committing ourselves to supporting yet a further round of CAP reform, the full effect of the current round needs to manifest itself, and then the industry needs to evaluate its impact and the industry’s potential to cope with further adjustment. As the future of the quota regime is integral to the question of reform, then Dairy UK’s policy on quotas will be determined as part of this review.

GOVERNMENT SUPPORT FOR AGRICULTURE IN GENERAL

18. We query whether the Government’s aspiration of disengagement of economic support for agriculture is viable given the peculiarities of agriculture in a free market framework.

19. Farm production is extremely fragmented and the majority of agricultural output is of undifferentiated products. This means that farmers are subject to commodity pricing dynamics which places them in the position of price takers that are unable to pass on cost increases. Instead, farmers have to maintain their competitiveness through improvements in cost efficiency.

20. This means that there can be no presumption that UK agriculture will deliver up the high standards of animal welfare and environmental performance desired by the Government, especially if it is exposed to competition from countries with lower standards.

21. This tension in the Government’s policy between environmental aspirations and liberalisation is bridged by agri-environment schemes, but the funding of these could be threatened if the Treasury does not agree to match funding of voluntary modulation.

22. Given agriculture’s key role in managing the environment and contributing to the health of the nation, it must be questioned whether the Government’s aspiration of total disengagement from the economic sustainability of the sector is desirable.

23. The main propositions advanced by the report, and the questions raised by the Committee in its press release, are set out below along with a summary of Dairy UK’s position and an elaboration of this position in detail.

GOVERNMENT VISION: THE IMPACTS OF FURTHER CAP REFORM AND TRADE LIBERALISATION ON FOOD SECURITY MAY NOT BE SIGNIFICANT. CAP REFORM WILL STRENGTHEN FOOD SECURITY BY IMPROVING THE DISTRIBUTION OF FOOD

Question: Does the Government remain committed to UK food production?

Dairy UK Position: The vision demonstrates the Government is not committed to UK food production and its implementation could undermine UK food security.
24. In a completely deregulated international trading environment there is no guarantee that UK dairy production will remain at its current level.

25. Work undertaken by the International Farm Comparison Network on behalf of the Dairy Supply Chain Forum indicates that, on the basis of existing levels of efficiency, UK dairy farmers could be competitive in a single unified global market. However, this work relies on an extremely narrow evidence base and does not take account of the potential of Eastern Europe, Ukraine or South America. The UK dairy industry cannot compete with the lower input costs of these nations. As a result world prices could be at a level that would drive down UK production.

26. The Government has repeatedly stated that they are not committed to maintaining the UK dairy industry at its current scale. They have even implied that a more competitive industry would be derived from a reduction in the current scale of production.

27. The issue of food security cannot be ignored. Relying on international trade presumes that trade will never be disrupted and that both producing nations and consuming nations will ensure that this is the case. The same logic should underpin the gas sector. Recent experience has shown that this is not the case.

**Government Vision: Reform of the CAP could be achieved that would ensure a Free, Fair and Level Playing Field Throughout the EU**

**Question: What are the potential for distortions and inequality of treatment of farmers across the EU?**

Dairy UK position: English dairy farmers are already suffering from the distortions permitted by current CAP Reform. It is essential that the future development of the CAP ensures that further competitive distortions are not introduced.

28. Distortions are most likely to occur if the CAP is re-nationalised. This could be the case if even more resources are shifted to pillar 2, along with even greater discretion to member states on how these funds could be spent.

29. CAP reform has already introduced a number of routes by which distortions can be created.

(i) Determination of Direct Payments: Member states were given discretion to decide how to distribute direct payments. Within the UK itself three models have been chosen (historic, static hybrid and dynamic hybrid). The upshot is that not only between UK and other EU dairy producers are there differences in the level of payment, but also within the UK.

(ii) Voluntary Modulation: Under CAP reform member states were given the option to modulate direct payments above the compulsory amounts fixed by the EU. The UK has been one of the few states to use this option. The new budget deal now permits member states to modulate funds by up to 20% whilst making match funding optional. Consequently the reformed CAP already allows differences in the level of deductions from direct payments and the amounts that can be recycled back into pillar 2.

(iii) Rural Development Regulation: The RDR gives a wide range of options for member states to choose from. The UK has opted for agri-environment schemes that compensate producers for the cost of attaining certain environmental standards. Other options in the RDR allow members to spend money on improving competitiveness and efficiency, which would improve the competitiveness of countries using these options compared to the UK.

30. The vision document recognises the potential for further distortions in shifting more funds to the second pillar when it argues that “non-production distorting measures defined and applied at member state, regional and local levels’ must be consistent with EU competition policy”.

**Government Vision: Intensification of Production in the EU has been Encouraged by High Levels of Market Prices Support in the CAP**

**Question: What are the possible environmental consequences of the proposals?**

Dairy UK position: There is no reason why the environmental consequences of further reform should inherently be positive.

31. The evidence put forward in the vision document for the proposition that there is a link between intensification and high levels of subsidy is thin.

32. There is every reason to believe that placing UK agriculture under greater international competition could easily result in further intensification of production or of land abandonment. If UK agriculture is to compete with Brazil or America, then it will be under pressure to copy their production models.

33. Exposing UK agriculture to international competition and lower prices will not enhance the ability of producers to provide environmental benefits. The compensation provided by agri-environmental schemes to provide environmental benefits is also under threat.
34. There are a whole variety of models by which dairy farmers can seek to improve their efficiency, some of which are more intensive than others. The need to reduce unit labour costs by tighter control over herd management and feed regimes would favour intensification.

35. However, intensification in the dairy sector would not necessarily be environmentally negative as intensive production models create the opportunity for environmental impacts to be more tightly managed.

**GOVERNMENT VISION: CAP IMPOSES SUBSTANTIAL COSTS ON CONSUMERS AND TAXPAYERS**

_Question: What is the extent to which the proposed changes to the CAP would result in lower food prices and through reduced public spending on the CAP a lower level of taxation?_

_Dairy UK Position: There can be no presumption that reform will result in consumers being beneficiaries of lower farm gate prices_

36. The dairy supply chain has been subject to price deflation for over ten years due to the devaluation of sterling. Over that time producer prices have fallen and processors margins have remained static, whilst retail prices have not fallen. This is demonstrated by the graph below from the MDC.

37. This shows that consumers have not benefited from lower farm gate prices. This must be due to structural reasons. Unless these change then further reform will not work in the favour of consumers.

38. Whether taxes fall depends on the future relationship between the EU and the UK.

**GOVERNMENT VISION: A REFORMED AGRICULTURE WOULD BE INTERNATIONALLY COMPETITIVE WITHOUT RELIANCE ON SUBSIDIES OR PROTECTION**

_Question: How such a revised CAP would enable the EU's farmers to be more competitive?_

_Dairy UK Position: The implementation of CAP reform in the UK could undermine the competitive position of UK farmers, and it has not provided any mechanism which would support improvements in competitiveness by UK dairy farmers_

39. Further reform will require the EU’s farmers to be more competitive in order to compete on a liberalised world market.

40. As noted above, the mechanism for distributing decoupled payments in England will discriminate against English dairy farmers, which will undermine their competitive position. If the UK decides on levels of modulation that are greater than those prevailing in other parts of the EU, then this will further undermine the competitive position of UK producers.
41. The CAP does provide a mechanism to assist producers to become more efficient through the competitiveness measures that are available under the Rural Development Regulation. However, so far the UK has not exploited these provisions.

42. It is contended that the decoupling of payments will allow farmers to focus on meeting market needs and that this will allow EU farmers to be more competitive. This argument is of no relevance to dairy farmers as they never received production linked direct payments prior to the 2003 CAP Reform package.

Government Vision: The Rural Economy could Benefit from Shifts Away from General Agricultural Support Towards more Targeted Rural Development

Question: How would the UK’s rural economy fare under the changes proposed in the report?

Dairy UK Position: As the report’s proposals could result in a decline in UK agriculture, then the impact on the rural economy could be negative

43. Agriculture still plays a major role in the rural economy, especially in the devolved regions where its contribution to GDP is much greater. Aside from employment opportunities, its biggest impact is its role in managing the UK’s rural landscape. This is effectively a free input for the rural leisure sector. Drastic reform could have a significant impact on employment opportunities and landscape management.

Government Vision: Developing Countries would Benefit Significantly from CAP Reform and Trade Liberalisation

Question: What is the impact of CAP reform on developing countries and conclusions about the erosion of trade preferences and the potential benefits of a liberalised agricultural market in the EU and other OECD countries?

Dairy UK Position: It is unlikely that developing countries will be beneficiaries of trade liberalisation in the dairy sector

44. Dairying requires a significant degree of capital investment. Given the restricted resources available to developing countries it is unlikely that dairying is an area of repressed competitive advantage that they will seek to exploit.

45. Liberalisation of trade will benefit developed countries like New Zealand or advanced developing countries like Brazil. These countries have already been the main beneficiaries of the trade liberalisation under the Uruguay Round and they are well placed to exploit any further opportunities.

46. Trade liberalisation is widely expected to bring higher prices for product traded on the world market. If this is the case this will clearly benefit dairy producing countries that can compete in this market. However, higher prices on the world market will disadvantage net food importing countries and consumers in developing countries.

47. Trade liberalisation in the dairy sector will not undermine any existing preferential trade agreements with developing countries, as there are no such EU agreements in the dairy sector.

48. There are a number of reports that produce various estimates as to the aggregate benefits of agricultural trade liberalisation. They all generally conclude that overall balance of benefits will be positive, but the difference in the aggregate amount can be enormous.

Government Vision: Securing further Trade Reform will Generate Substantial Benefits for the Global Economy

Questions: What would be the likely effect of proposals on the wider global economy?

Dairy UK Position: The overall impact would be positive but there will be winners and losers

49. Overall Dairy UK accepts the assumption that trade liberalisation, if undertaken over a suitable timescale, does increase the sum of global economic activity. In this respect the proposals are potentially beneficial.

50. However, within any aggregate net benefit there will be winners and losers. The main losers will be producers in developed countries, who can expect cuts in income, and consumers in developing countries who will experience higher prices.
**Government Vision: Reform could permit very substantial savings in the CAP budget**

*Question:* How the reforms proposed in the report could be achieved in practice, and how these changes relate to the ongoing debate surrounding the future financing of the CAP?

*Dairy UK Position:* The budget deal may accelerate the re-nationalisation of the CAP and put pressure on the budget

51. The budget agreement will place pillar 1 expenditure under considerable pressure. In order to protect expenditure on agriculture, member states may press for greater discretion to either match fund EU monies or to undertake expenditure in their own right. This would open the way to the re-nationalisation of the CAP which would be an unwelcome development.

52. Further reform in the dairy sector would also require compensation to be paid to producers for cuts in support prices which would put further pressure on the EU budget.

**Government Vision: Changes should be achieved over a 10 to 15 year timetable**

*Question:* What barriers might be put in the way of implementing such reforms by other EU member states?

*Dairy UK Position:* Progress in attaining the UK’s objectives will be slow

53. The UK is isolated in the EU on its position taken on CAP reform. It has few allies of significance. The UK’s vision will be opposed by the majority of EU members.

*February 2006*

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Memorandum submitted by Professor W Grant (CAP 29)

1. Underlying the debate about the future of the CAP are two different perspectives. There are those who think that there should only be intervention by government and the EU where there are identifiable market failures that are remediable by government action. Others consider that agriculture is a sector that is different from other parts of the economy and requires special treatment.

2. It is all worth bearing in mind that an implicit premise of much of Commission policy is that two types of agriculture can co-exist in Europe. One is a competitive international agriculture that should be able to compete on international markets without subsidy and with reduced levels of protection. Parts of the arable sector would conform to this model. Then there is a more peripheral, marginalised agriculture that is nevertheless important because of its contribution to the maintenance of remote communities and cherished landscapes. This is often, although not always, livestock farming. The best economic way forward for this form of agriculture, apart from diversification, is through high value added, niche production.

3. Food security. There are two broad issues that need to be tackled here, one about how important food security concerns are and one about the balance between the production of food and fuel. In his recent speech to the National Farmers’ Union, Commissioner Mandelson argued that food security is one reason that agriculture as an economic sector had to be treated differently. Food security is being pushed as a justification for continued intervention by some farmers. The difficulty is that it can be used as a portmanteau justification that could permit unlimited subsidies. It was certainly a key factor when the CAP was devised against the background of the Cold War and memories of post-war food shortages in Europe. One has to be careful about the scenarios that are envisaged when one thinks about food security. It is difficult to think of a terrorist action that would lead to a major and prolonged disruption of the supply chain. What might be a longer-term issue is a change in the world supply and demand balance, but this is difficult to forecast accurately.

4. A related issue is the likely increase in the agricultural production of biofuels and whether any view should be taken on the balance between food and fuel production on UK land. Issues about energy security might become relevant here.

5. The National Farmers’ Union is concerned that its members in the UK might be disadvantaged in relation to others elsewhere in Europe given the Government’s vision. One might well see a creeping re-nationalisation of policy and indeed to some extent that is embedded in the most recent reforms. This could raise the issue of whether state aids to agriculture should be reviewed as part of competition policy.

6. If current or future policies led to the abandonment of land, this could have adverse environmental effects, particularly in terms of biodiversity. Land that reverts to scrub is generally less supportive of biodiversity and also restricts access for recreational uses such as walking. Certain types of plants can only be sustained in a landscape if the land is grazed.
7. One has to be cautious about how far proposed changes to the CAP would lower food prices. Any policy that led to a significant reduction in the area farmed in the EU would affect the global supply/demand balance and hence “world prices” for agricultural commodities. Reduced public spending on the CAP would probably be transferred to other forms of spending so reductions in taxation as a result would probably be small.

8. How far a revised CAP would enable EU farmers to be more competitive depends in part on what happens in the Doha Round and subsequent international trade negotiations. Brazil would be the major beneficiary of substantial liberalisation. The Geographical Indications issue is more important for Europe than is generally recognised because it is tied to the success of a strategy that emphasises products that sell on quality rather than price.

9. In broad brush terms, what the new member states need to do is to reduce the number of very small farmers in their countries and to modernise and improve their rural infrastructure. Progressive farmers will use enhanced income streams to invest in their enterprises, but their efforts may be offset by deficiencies in the infrastructure, eg, legal framework, communications, credit systems. This would imply a greater increase in Pillar 2 spending than is projected at present.

10. The UK’s rural economy is not monolithic, but what is evident is that more remote and higher areas are more reliant on subsidy for survival. Within the peripheral areas, some locations are more able than others to take advantage of diversification opportunities made available by rural tourism.

11. In his recent speech Commissioner Mandelson disputed the argument that the CAP was a significant stumbling block for the economic development of poorer countries. He stated, “I am not going to be swayed by a lazy political correctness into giving ground in agriculture simply because this will please a vociferous lobby that has misunderstood what is really needed to tackle global poverty.” It could be argued that global south NGOs have well researched arguments to suggest that CAP has disadvantaged farmers in developing countries, particularly in terms of export subsidies and restrictions to market access. However, the picture is quite complex and, depending on how it is undertaken, it is possible for liberalisation to benefit emerging countries but not to help least developed countries, eg, the case of sugar.

12. I am broadly in support of the Vision document. However, we must remember that we do not start with a blank sheet of paper. Farming has grown used to high levels of subsidy and protection. This has produced a mindset in which new initiatives, eg, on bio-fuels, are responded to by questions about the availability of subsidies or tax breaks. Nevertheless, any too rapid reduction in subsidy and protection could undermine economic, social and environmental sustainability in rural areas. This is why there has always been a strong case for replacing subsidies by a bond that would serve as a capital asset or could be retained to generate an income stream. In reviewing the future of the CAP, analysing the problems is in some ways the easier part. Devising a strategy for building a broad based coalition across the EU for reform has been a problem for over 40 years and is not one that can be easily resolved.

March 2006

Memorandum submitted by Sir Don Curry (Chairman of the Sustainable Farming and Food Implementation Group) (CAP 31)

1. I am pleased that the EFRA Committee is conducting an inquiry into the Government’s vision for the common agricultural policy (CAP). This is an important issue and I welcome the opportunity to contribute my views.

2. It is right that Government has set out its vision for the future of the CAP and that it involves moving from direct payments to an industry focussed on the market. The Policy Commission into the Future of Farming and Food saw this as a key requirement for a sustainable future for the industry, recommending:

3. “That the Government presses for substantial reform of the CAP as soon as possible, establishing a clear timetable for reform and encouraging and supporting the farming and food industry to adapt to change.”

4. However, we also said that:

“the guiding principle must be that public money should be used to pay for public goods that the public wants and needs”

5. This is a crucial principle and one that must not be lost in the clamour to reduce the cost of the CAP. Continued funding for the agri-environment schemes under Pillar 2 of the CAP is vital in ensuring delivery of the environmental benefits required for sustainable agriculture.

6. I am disappointed that the overall tone of the vision document implies that little has been achieved at a time when the farming industry is going through its biggest change in over 40 years. The Sustainable Farming and Food Strategy is about behavioural change of an industry. Success is dependent on a high level of engagement, especially by farmers. However, the document caused many to feel that they were being told
that they were not making big enough or fast enough changes. This was discouraging given that the new agri-environment schemes had only just got off the ground and farmers had yet to receive their first Single Payment Scheme payments.

7. I understand that the Committee is focussing on key areas which were set out in the vision paper. I have therefore addressed these below:

— Food security—I feel that this issue is really about sustainable food production. A substantial decline in food production would have a major impact on the rural, and wider, economy that would be hard to recover from if farm and food processing infrastructures had broken down. There are also clear environmental benefits from a strong home market for British food. The industry needs to re-connect with consumers and communicate the benefits of buying British food, such as lower food miles and a high level of food safety assurance, to ensure that there is a long term, and sustainable, market for British food production.

— Distortions/inequality across the EU—The concept of a “level playing field” is very appealing. However, the reality is that we are at the forefront of change in Europe and that brings challenges, but also opportunities. We will restructure faster and be ahead of the game in the future with a more stable and sustainable industry when other countries will still be distracted by the subsidy system. However, whilst the industry is still grappling with major challenges during these early stages of decoupling, it is important that we are not too disadvantaged compared to other Member States. In order to ensure adequate funding of rural development, we may have to accept a higher level of voluntary modulation provided that it is match funded by Treasury.

— Rural economy—I believe that CAP reform will result in a diversified and more sustainable rural economy, given time to adapt and provided it is handled in a way that supports the industry through change.

— Achieving the reforms—This needs to be done in partnership with the farming industry. The Government must send a clear message that it recognises the huge efforts that are already being made by farmers to ensure continued engagement on the task in hand, while encouraging the industry to take a long term view as well.

8. I hope you find these comments useful. I am of course happy to discuss them at any time.

April 2006

Memorandum submitted by the Food and Drink Federation (CAP 32)

1. The Food and Drink Federation (FDF) welcomes the Government’s “Vision” document as a necessary first step which we trust will help to stimulate a constructive debate in Europe about the future of the CAP. Our members broadly support the Government’s key objective, namely the creation of a prosperous and sustainable domestic agricultural sector that responds to market signals and not state subsidies within the next 10 to 15 years. We believe it is unfortunate that the Government chose not to include a roadmap for how this new agricultural model could be achieved or identify who the “winners” and “losers” in the reform process may be. Further, the timing of the paper’s release—in advance of the EU budget discussions and December’s World Trade Organisation Ministerial meeting—whilst politically understandable, was in our view detrimental to the paper’s reception and credibility, both at home and abroad.

2. We commend the EFRA Committee for launching this inquiry and in the paragraphs below I should like to address a number of the questions set out in your Terms of Reference document of 30 January 2006.

FDF AND THE UK FOOD AND DRINK MANUFACTURING INDUSTRY

3. FDF represents the UK food and drink manufacturing industry, the largest manufacturing sector in the country with a turnover in excess of £69 billion. Our industry employs around 500,000 people or 14% of the manufacturing workforce. We are committed customers of UK farmers, purchasing around two-thirds of the country’s agricultural produce. To supplement our raw material supply base, we also import around £7 billion worth of ingredients for further processing. Our member companies operate in an increasingly open and competitive international market place. To succeed in this environment, the industry must be able to access a steady supply of raw materials that are safe, of high quality and reasonably priced. Competitiveness will be key if we, as the UK, are to retain our title as the world’s fifth largest exporter of value-added food and drink products, exporting in excess of £10 billion per year.
Expenditure on “Pillar 1” of the CAP

4. The CAP’s market price support systems, when combined with high EU import tariffs, ensure that UK food and drink manufacturers pay comparatively high prices for key raw materials. This is demonstrated in Figure 1. With raw materials making up a varied but uniformly significant proportion of the industry’s operating costs, it is clear that these policies have a negative affect on the competitiveness of European food and drink manufacturers, both at home and abroad. As an example, the Association of Cereal Food Manufacturers (ACFM) estimates that agricultural raw materials represent between 55 and 65% of their members operating costs.

5. FDF members would therefore support a reform process which fully decouples support from production; encourages the domestic farming industry to restructure and improve efficiency; and exerts a reasonable amount of downwards pressure on raw material prices. Without significant price cuts, our competitiveness will be further eroded in the face of further trade liberalisation and the UK manufacturing industry may continue to downsize and move offshore. Such a scenario could have a devastating impact upon domestic farmers, rural employment and the economy more broadly.

Figure 1

EU AND WORLD MARKET PRICES FOR RAW MATERIALS, 2004

Source: FDF

6. It is also questionable whether many of the EU’s market price support systems will be viable or economically efficient once export refunds are eliminated in 2013.

— Agricultural Commodities—In the absence of export refunds, an intervention purchasing system for agricultural commodities could only operate alongside inefficient production limiting programmes and/or costly private storage schemes. Without such instruments, it would be impossible to prevent or dispose of domestic surpluses. It should be noted that production limiting programmes, such as EU milk quotas, lead to an inefficient allocation of resources. Further they can be one of the main obstacles preventing farmers from realising the economies of scale that would enable them to offset the reductions in intervention prices brought about by CAP reform.

— Processed Products—European manufacturers of “Non-Annex One” products—notably biscuits, cakes, chocolate, confectionery and dairy products that have been subject to second stage processing—will be at a significant competitive disadvantage on the world market when their export refunds are eliminated. At present, these manufacturers receive export refunds to compensate for the comparatively high prices they are required to pay for raw materials, principally sugar and dairy ingredients. On average, these refunds represent 9% of total export revenues in the biscuit, cakes, chocolate and confectionery sectors and 12.5% of export revenues in the dairy sector. These returns are greater than the net profit margins of the two sectors, which the European food and drink federation (CIAA) estimates to be between 2 and 8% and 1 and 3%
It is therefore evident that much of this trade will not take place in the future without further CAP reform or the introduction of alternative instruments to export refunds. UK decision-makers should bear in mind that “sugar confectionery”, “chocolate” and “cheese” are currently the country’s 3rd, 4th and 6th most important processed food exports.

7. Our industry is the number one customer of UK farmers and we are committed to maintaining food production in this country. We agree with the Government, that the abolition of market price support should not lead to a collapse of farming in the UK or Europe. This assumes that the reforms are implemented equitably across EU member states, coupled with an appropriate degressive compensation programme and phased-in over a reasonable timeframe which gives farmers time to adjust. On the contrary, we believe that a well crafted reform package could help to realign and bolster the prospects of European agriculture by making it more competitive and responsive to consumer demands.

8. It seems likely that the EU will embark upon another round of CAP reform before the end of the decade. A significant amount of further analytical work will be required to inform the decisions underpinning this reform. The Government’s “Vision” document represents a necessary first step in the CAP reform debate and we trust that officials from the Treasury and DEFRA will be proactive in helping the Commission with the further work that lies ahead.

April 2006

Memorandum submitted by Ms Angela C Smith MP (CAP 33)

A VISION FOR THE COMMON AGRICULTURAL POLICY

1. I have a strong interest in wildlife and the policies and practices that affect the well being of our natural environment. With this interest I became chair the All Party Parliamentary Group on Conservation and Wildlife last year.

2. More than 70% of the UK is managed through agricultural practices, policies governing agriculture are one of the most influential factors for the health of our environment for wildlife, particularly in our countryside. The Common Agricultural Policy has the most significant influence and impact on wildlife and conservation and I am keen to see its importance raised amongst parliamentary colleagues.

3. The All Party Group held a meeting recently on the future of the CAP and we discussed A Vision for the Common Agricultural Policy (HM Treasury and Defra, December 2005) which is a key document looking at the future of the CAP over the next 10 or 15 years. I therefore thought it would be useful to submit this to your inquiry. Points raised here are shared by some of my parliamentary colleagues on the All Party Parliamentary Group including Vice Chairs Peter Bottomley MP, David Kidney MP and Roger Williams MP.

4. It is widely recognised that agricultural policies over decades have had negative impacts on wildlife and the natural environment from the decline in species and loss of habitats and other damage arising from increased pollution. This has been recognised in the Vision document (paragraphs 2.39–2.48). This is even more important in the context of climate change and its impact on our wildlife, and the need to ensure that land is managed in a way so as to be resilient to this change. It is important to learn the lessons of the past if there is greater pressure for growing biofuels such crops should be located and managed in a way that is sympathetic to the environment.

5. Clearly there have been significant reforms to the CAP in recent years which have been taken it in a more sustainable and environmentally favourable direction. Removing the link between production and subsidy has been a substantial move in the right direction, as has the increasing emphasis on the Pillar II element of the Policy which provides support for public goods. But there is still some way to go before the CAP is a truly sustainable policy.

6. However, there are shorter term developments—arising from the EU agreement on the Budget for 2007–13—which should be considered in this context. I am concerned that there has been a cut in Pillar II funding as a result of the recent EU agreement on the Budget for 2007–13. This could mean that funding for some programmes that have environmental benefits for vulnerable European habitats and species, are under threat. This should be avoided wherever possible.

7. The CAP should support agricultural practices that encouraged a more environmentally friendly, land management system and recognise the multifunctionality of agriculture. In the longer term, continued emphasis should be placed on the following:

(a) Spending on agriculture should be made in return for benefits for the public. These benefits should result in improvements to wildlife, landscape, land management and the rural economy generally bearing in mind the new pressures arising from climate change. It should also apply throughout the countryside including uplands and lowlands as well as designated and non designated areas. I therefore support the overall concept behind the Pillar II element of CAP spending and therefore welcome the commitment in the Vision that a sustainable CAP would be based on the current Pillar II (paragraph 1.32).
8. Whilst we do not know the outcome of the EU spending review in 2008–09 and how CAP spending might be framed, it is important for agricultural spending to continue to shift towards the type we currently see in Pillar II of the CAP.

9. In the shorter term:

(a) Pillar II should be substantially enhanced in the UK by the Government using the voluntary modulation option. It is important that the Government sends the right signals to the farming community that this type of support is the way forward.

(b) The UK Government should take the lead and actively promote and advocate the case for change and the importance of the Pillar II concept throughout the EU.

May 2006

Memorandum submitted by the Agricultural Christian Fellowship (CAP 34)

The Agricultural Christian Fellowship is an association of farmers, lecturers and others connected with agriculture. It is one of the two parents of Farm Crisis Network, one of the main farm support charities. It is also a member of the UK Food Group, which is the network of a diverse range of NGOs concerned about international security and trade.

A Response to “A Vision for the Common Agricultural Policy”

1. The Importance and Role of Agriculture

In spite of the wish list in 1:5 the basic assumption seems to be that the significance of agriculture lies in its share of GDP and the number of people engaged in it. This leads to the welcome recognition of agriculture’s great importance to the “Third World”. However, it also leads to the assertion that it should be treated the same as any other sector of the economy (1:29).

There is little attempt to address the question of what agriculture is for and what the roles of European Agriculture, in particular, are. Farming provides food and that alone gives it peculiar significance. In this respect, the state of European agriculture is of global importance. World food security might not be damaged by the kind of unwinding of British Agriculture which occurred between 1870 and 1938, but a similar process all over Europe would have a major impact—and this document is a version for Europe, not just for the UK. As well as providing food in the present, agriculture should nurture the potential for future production—soil, plant and animal varieties, biodiversity and knowledge. It controls most of the land surface and hence water catchment, landscape, and wildlife habitats, and through these things an important part of local identity. It has familial, social and cultural significance. We are not sure that any sector of the economy should be treated just like every other, but in the case of farming it is an assumption pregnant with trouble.

2. The Character and Nature of Agriculture

Insufficient consideration is given to this:

(i) Agriculture marches to a biological drum as well as to an economic one. This “confuses” farmers’ responses to economic signals, not least because it is impossible to control or predict the quantity of production in the way a manufacturer of television sets might. It also means that powerful economic or political signals which ignore this reality can do great damage. Large scale monoculture with all its problems for biodiversity, pollution, and wildlife habitat is a response to centralised buying power, rather than an adaptation to any real comparative advantage.

This is why agriculture is normally managed on a small scale. Circumstances of climate, topography, soil and weather often vary from area to area and from day to day. Usually, no pattern of activity is appropriate everywhere, every day. An activity geared to those realities struggles in relation to a global economy run by powerful entities with standardised requirements.

(ii) There is an assumption in the vision document that there is a simple proportional relationship between the price of farm products and the level of production. Cut the price and production will fall, and yet when prices fall other economists bombard farmers with advice to raise production to reduce the unit cost and maintain income. This is indeed often the reaction at least for some years, often aided and abetted by changes in technology—something else little considered in the document.
3. Food within Europe

The document makes fairly confident assertions about the cost of food within Europe and its relation to policy (2:10 and elsewhere). These seem to depend on the relationship between farmgate prices and retail prices—less protection in Europe, lower product prices and therefore cheaper food. On this analysis, surely the reforms of 1999 would have led to a fall in food prices albeit delayed perhaps. We understand that the retail price of food in the UK rose nearly 9% between 1995 and 2002, when farmgate prices certainly fell! The 2004 Defra report “Agriculture in the United Kingdom” (Table 2:8) shows a steep fall for the farmgate share of retail prices for most products between 1988 and 2004.

4. Farm Incomes

The Farm Crisis Network and the Arthur Rank Centre did a detailed examination of these in 2005 (FIRM Briefing 231—The current economic state of British Agriculture), using Defra information and information revealed during farmers’ financial travails during the foot and mouth epidemic. It is not easy to produce figures to compare income between a population largely salaried or waged on one hand and people dependent on a variable business on the other. The FIRM briefing does this tentatively. The vision document blithely asserts (2:26) that farm household incomes “are around 150% of UK average household income”. Correspondence with Defra indicates that this means a farm household income of £46,000 and its seems that only the farmer and spouse are included. There is no explanation of this figure in the paper. Suffice to say that it is very hard to reconcile with any interpretation of Defra’s net farm income averages which recognise the need to spend from these figures on loan interest or farm investments.

This figure really undergirds many of the assumptions in the document about the capacity of European farmers to withstand the kind of changes advocated by the authors. There must therefore be some robust justification for them.

5. Farming and the Environment

(Sections 2:32 to 2:38)

(i) Section 2:33 quotes a critical passage from the Curry Report indicating that current product prices have necessitated production methods, which no longer deliver a healthy and attractive countryside as a byproduct. 2:35 spells this out in detail. 2:34, however, says high levels of market prices support are responsible. These are not easy to reconcile! To us, Curry is much nearer to the truth.

To suggest that £10 an acre from the Entry Level Environmental Scheme or even a boosted amount will realign agriculture to remove the problems listed without the undergirdings of Single Farm Payment (and cross compliance) is unrealistic.

There also needs to be recognition that the whole business of “buying” countryside, wildlife habitat and diversity is in its infancy.

(ii) There is another very important aspect of this question not touched on. In many cases, a sure way of gaining competitive advantage in a globalised market for agricultural products is to exploit or abuse the environment—and agriculture uses a lot of environment! For a number of years, to its great credit, the UK Government strove with others to stiffen the resolve of the EU fairly to protect sustainable smallholder banana production which could not compete with plantation production. Step by step, every restraint on the globalised market had been removed and a “race to the bottom” set in motion feared alike by smallholders and plantation workers and damaging to the natural world. Where bananas lead, other products can follow.

6. EU farming and developing countries

It is good that the document recognises the potential impacts of the CAP on farmers elsewhere in the World.

(i) We support the ending of export subsidies. However, it is a great mistake to think that is all that is needed to enable small scale farmers in developing countries to thrive. The drive by international institutions and probably EU negotiations to persuade or coerce developing countries to remove their border protection for their agriculture is wrong headed and in some cases immoral. It is not only EU or North American products which can ride rough shod over local produce.

(ii) There is a blithe (4:11) that if a country trades more end exports, its poor will benefit. There is recognition that the poorest countries will struggle to benefit from EU market access. That is certainly going to be the case if it is an EU market characterised by rock bottom world prices. There are very difficult issues about the circumstances in which farmers (poor or not) and poor people benefit from exports which are passed over.

(iii) It is noticeable that the references cited in this section seem not to include many from developing countries and there is no evidence of the views of peasant organisations.
7. Britain and the EU

This is difficult, but might it be the case that, seen from outside, the UK, and England in particular, has a bad record in the area of agricultural policy and administration? The conception and spread of BSE, the failure to control foot and mouth disease, the redevelopment of Bovine TB, and the implementation of the current CAP reform might be cited. Should people in glass houses throw stones with so much verve?

8. Markets

This document is undergirded by a blind faith in trade and markets, leading to a drive to eliminate “distortions”—as long as those distortions arise from public policy, and yet there are private companies involved in the production, processing, trading or retailing of food with turnover far greater than that of many nations. Perhaps the existence and activity of companies like Cargill and Nestle is in itself a trade distortion. How can it not be in a World of many producers and many consumers? The UK Food Group has produced a very important report (Food Inc) demonstrating how all the World’s principal food products when traded pass from hundreds of thousands through very few to millions, and how the very few reap more and more of the benefit.

9. Climate Change

To omit reference to a thorough examination of this subject is a further risk to credibility. There is some discussion of food miles, but very little about how EU policy might reduce the carbon dioxide production of our food system—most of it seems to originate beyond the farm—and none about ways in which agriculture might produce carbon neutral fuels. Nor is there discussion about whether policy should help to prepare European agriculture for the effects of climate change upon its operation. Nor is there consideration of the impact of climate change elsewhere in the World on the assumptions about global trade and food security.

10. Conclusion

This vision is written with clarity, brio and confidence. Unfortunately, its basis in reflection is much too narrow and some of its detail is shaky.

This is an issue of vast importance touching food culture, landscape, riches and poverty, justice and injustice. Indeed, agriculture is central to the whole pattern of relationships among people and between people and the rest of the natural world, and indeed between both and the Creator of both. We doubt if a right policy can arise out of a thin soil of a narrow economics.

Markets may be a wonderful mechanism if they are really “free”, but to write a vision for the agricultural policy of Europe based on free trading without even addressing this issue is to risk losing all credibility.

June 2006

Memorandum submitted by The Family Farmers’ Association. (CAP 35)

1. This “vision” recommends phasing out all support (for agriculture) by 2020, to use the Committee’s synopsis. The Committee is interested in the likely effects of such action.

2. It is difficult to comment on the likely effects without questioning the validity of many of the statements in the paper. Much of it is based on assumptions with which we have never agreed; indeed many of them we consider to be false.

3. The Family Farmers’ Association has for a long time been pointing out to Government that competitiveness is incompatible with environmental sensitivity and high standards of animal welfare. We have also sought a definition of competitiveness, but that has not been forthcoming. We can only assume that it means producing at a lower price than others, which must mean being less particular about the environment and animal and human welfare; in short, cutting corners.

4. We have also pointed out on many occasions that the CAP has not been mainly responsible for the intensification of farming, as the Government and many other bodies seem to believe. The highest degree of intensification is found in the pig and poultry industries, which are virtually unsubsidised. As regards other sectors, subsidies are almost entirely by area of production or numbers of animals. The subsidy on an area of a crop is exactly the same whether it is high or low input. The methods of production are governed by the producer’s assessment of what is likely to result in the greatest profit. Likewise with beef and sheep, the subsidy has depended entirely on numbers kept, with no variation according to quality or system of production. It is only responsible for intensification insofar as it could be said that support is what has enabled production to continue in many sectors, such as arable and beef. Without support it might have ceased altogether, or perhaps only continued on a very extensive scale. Time will tell.
5. Much of the Defra/Treasury paper consists of a catalogue of the imperfections they see in the CAP. But if the above is correct as to fact, much of the paper becomes invalid. A further objection we have is that agriculture, as food production, is considered to be no more important than any other commercial activity. It is also implied that, if support is ended it can survive perfectly well. Many industries have simply died as Government support has been refused or removed.

6. Many people think that farming is a most vital activity as it supports the British landscape. This is often emphasised in debates in the House of Lords. Their Lordships have described cattle and sheep as “the nation’s lawnmowers”. Our main activity over the 26 years of our existence has been to point out the value of farming to the nation, as conducted in a civilised way, in the hope that Government will look more favourably on that activity.

7. Another worry that many people have over the possible disappearance of food production is that foreign sources of food may not be so reliable as the Government would have us believe. The section on food security, is confused with the discussion on self-sufficiency, which is not the same thing. Paragraph 3.44 has the strange statement that liberalisation of trade would reduce self-sufficiency from 98% to 93%, an example of the confusion in this section. Further to this, all financial statements are based on the assumption that, if little or no food were produced in Europe, world prices would remain the same as now. This seems highly unlikely.

8. The Government does not attempt to calculate how much food would be produced in Europe if all support were ended. That is, indeed, a very interesting question, as they say when the answer is obscure. There has been a certain amount of learned speculation on this subject and it is surprising that the answer is not given in the paper. The implication seems to be that it does not matter if little or no food is produced here. This is not the opinion of many people we talk with.

9. These are our general observations. Our knowledge of economics is not sufficient to enable us to answer some of the questions you pose, but some are answered in the general statements above. Going through the paper, we find many details that are unsatisfactory and need comment.

10. Paragraph 1.27. Farming should continue in areas with natural advantages, implying only there. Is it to wither away in all areas where natural advantages are few? There is no discussion of what is to happen to the Disadvantaged Areas. They are often remote and not suitable for other economic activities. Will their population be evacuated? It is hard to see (paragraph 1.33) how giving time would enable farmers in areas unsuitable for farming to start other types of business.

11. The same paragraph refers to Government regulation of the land market as being a possible help to unviable farming. We are not aware that there is any such regulation, that any has been proposed, or how it might help.

12. Paragraphs 1.34 to 1.37 paint a picture of the future of European agriculture which can best be described as wishful thinking. No amount of skill or training can make food production profitable if it is to be sold at the world market price, in competition with countries which have no regard for such niceties as fair wages and care for the environment and animal welfare. How we are to produce food at world prices is not explained. Another section suggests that costs will reduce when prices of produce fall, but this also seems unduly optimistic when a very large proportion of costs are governed by the price of oil. World prices do not constitute an effective market for produce. All this, of course, assumes world prices stay low. If they should rise, the whole argument about the cost to consumers of the CAP falls down.

13. Another aspect of cost is the cost to the environment of ceasing production in Europe and driving it to other places. Many can be quoted. The cost of shipping is less than the cost of distributing by HGV. But surely HGVs would still be needed to distribute food from ports to supermarkets? What is the cost of destroying rainforest? Is it desirable to clear them for the production of palm oil for fuel? Might not ethanol from wheat be more desirable? It is also suggested that we should assist developing countries which are adversely affected by the proposed policies. Might not our money be better spent on supporting our farmers in deprived areas?

14. The “good examples of agriculture adjusting to lower levels of support” are not impressive. The countries mentioned are not renowned for having contented farmers and high standards of welfare. Though it does seem that New Zealanders have become accustomed to their new regime where prices are so low that they have to adopt practices which would not be considered desirable, or sometimes even legal, here. (Cutting off cows’ tails for instance, and keeping animals in such numbers that individual attention is impossible.)

15. It is suggested here, as also by the NFU, that as some farmers are able to make profits from food production, many more should also be able to if they were more efficient. This does not take into account the great variation in topography and soil quality in the UK. In human terms, there also seems to be a great variation in how many hours per year any given farmer is prepared to work. The EU has a limit on the number of hours a person should work, but this does not seem to apply to farmers. Those prepared to spend every waking hour at work may make a fair income, but the number of young people prepared to embark on this way of life is limited. As is grade one and two farmland.
16. In this context we should raise the question of the difference in profitability between one EU State and another. In most tables of price and other factors relating to profitability, the UK is usually the lowest. Whether the paper has any relevance to that is not clear, but it remains something of a mystery.

17. To sum up, we are not impressed with the suggestion that farming is not worthy of future support. We believe that Britain would be a poorer place in many respects if all support towards farming were withdrawn—and no matter how slowly. We wish Government would concentrate on studying how food production can best be made economic and to serve social and environmental goals. All of which is vital, and we fear the proposals are not in any way helpful!

July 2006

Memorandum submitted by English Farming & Food Partnerships Ltd (EFFP) (CAP 36)

English Farming & Food Partnerships (EFFP) is a not-for-profit company, which was established in 2003, following a recommendation made by the Policy Commission (the Curry Report). Details of its vision, mission, composition of its Board and other relevant details, relating to EFFP, are set out in Appendix I to this submission. It is a membership organisation with over 60 farmer-controlled businesses (FCBs) in membership as well as 21 food companies. The aggregate turnover of the FCB membership is over £2.5 billion, representing some 60% of the FCB sector, as a whole.

Since its formation, it has built up a fund of knowledge and expertise about collaborative and co-operative structures in the farming and food sector, both here and abroad, which is unparalleled in this country. It has established a network of advisors, operating throughout the English regions, funded, in part, by a service grant with Defra and in part by the delivery of commercial consultancy work. It has undertaken research and consultancy, both nationally and regionally. Where its members are concerned, it has sought to drive up standards in such fields as corporate governance, risk management and improved strategic planning, all of which are designed to improve the viability and management of these organisations. This work is delivered by its own staff, rather than via retained consultants. As a result, in delivering its vision and mission, it has done so in a “hands on” way, which has thereby strengthened its own knowledge base.

Whilst much of this work to date has been focussed on horizontal collaborative ventures, which are designed to illustrate ways, in which farmers can take out cost, by working together. It is now looking ahead and, in particular, is exploring ways, in which the industry can adapt to the challenges of CAP reform, the removal of direct production subsidies and the globalisation of markets. This exercise is being conducted by, inter alia, examining how these issues are being tackled elsewhere in Europe and the world.

FCB Activity Abroad

The graph in Appendix 2, Figure A, shows that, while spending on food has grown significantly over the past 15 years, especially where food eaten out of the home is concerned, the value of agricultural output has stagnated. The industry has failed spectacularly either to add value or, having created value, to capture it for producers. In other countries, by contrast, the FCB sector has added huge value to the farming community by off-farm investment. This is illustrated starkly by expressing the turnover of the FCB sectors in these countries as a percentage of agricultural output, as can be seen in Appendix 2, Figure B.

If the Treasury’s vision for the industry to become globally competitive, without reliance either on subsidy or protection, is to be delivered, then it is essential that farmers achieve a greater return from the market. This cannot be achieved, we believe, by regulation, but rather by developing business structures that enable them to compete in a sustainable fashion. The expansion of the FCB sector is, we would submit, the way to achieve this. However, England and the UK have a huge amount of ground to make up, if it is to emulate activity in other EU states. For instance, the top 30 FCBs have a turnover of €6 billion, whereas the top 30 FCBs in Europe have a turnover of €83 billion. In the USA the FCB sector, as a whole, has a turnover of well over $100 billion. We estimate that for the UK FCB sector to match the position in, say, the Netherlands, a smaller agricultural producer than the UK, it would require a five-fold growth in the FCB sector here, entailing an investment of as much as £4–5 billion. The problem is easily stated, but solutions are less easy. The position is exacerbated by the fact that our international competitors are not standing still, but actively promoting domestic produce, especially to overseas markets. Take, for example, the investment made by the Australian government in its National Food Industry Strategy Ltd.

The driver for this process has been the way in which farmers in other countries have been prepared to invest off the farm. In New Zealand, for example, New Zealand dairy farmers have around NZ$27 billion invested on the farm in land, plant, machinery and stock and around NZ$11 billion invested in the supply chain though their FCB, Fonterra. This investment contributes, not only to the total return to those individuals, but also to the aggregate efficiency of the supply chain. As a result, it has been possible for Fonterra to develop a global presence in such markets as butter and other dairy-based produce. In the UK there have been some changes, particularly to the milk co-operatives, where processing plant has been acquired in order to add value. There have also been encouraging moves in such fields as grain storage, and
some considerable success in marketing, for instance in the field of soft fruits. However, as previously stated, the UK lags woefully behind foreign competition and there is a real risk that, unless this issue is addressed, our domestic industry will be overtaken by competitors.

SOME KEY ISSUES

— Government Support: The development of sustainable supply chain structures, in particular where farmer participation and investment is concerned, is a long term process. FCB sectors have grown up in Europe and North America over a long period of up to 100 years and have had significant government support in this process. In the US for instance the government has provided significant regulatory, financial and advisory assistance since the 1920s. The UK historically followed an alternative route with, for example, the formation of marketing boards in many sectors. If farmers are now to become reconnected with their market place and the UK FCB sector is to play its key role in ensuring a globally competitive farming and food industry, collaboration must be embedded yet more firmly in Defra’s strategy for the farming and food industry. The UK Government must play a much more pro-active role in enabling and encouraging UK FCB growth.

— Fiscal Measures: EFFP welcomes the discussions it has been having with the Treasury on a number of fiscal issues that impact on the development of the FCB sector. The key issues involve encouraging farmers to invest equity off farm into collaborative supply chain businesses. These include changing the limits on the amount of share capital that farmers can hold in an FCB as well as issues regarding the taxation of reserves allocated to them within their FCB.

— Competition Issues: The important issue here is whether UK producers are being treated differently as against the rest of the EU and other international competitors. How have Arla, Campina and Danish Crown been enabled to develop and expand, when this has proved impossible here? The US position and the application of the Capper Volstead Acts since the 1920s means that farmers in the US also receive more favourable treatment in collaborative businesses.

— Encouraging Collaborative Supply Chain Investment: Indicators show a significantly faster rate of growth in the UK FCB sector in the past two years than has ever been seen before in England. But there is far more to be done. To deliver the industry vision we have outlined will require a much larger effort and significantly greater resource than is currently being made available by Government. Moreover that effort must be focussed largely on delivery, on the ground, of commercial solutions leading to real change. In short, a step change is needed both in action and delivery.

EFFP has, over the last 12 months, been actively considering how to address this challenge. It has researched changes taking place across the UK farming and food industry and put together a strategy and action plan to bring about real positive change.

The plan identifies three key requirements:

— Improved intellectual capital: to identify market opportunities as they arise and suggest workable collaborative solutions for the industry to exploit them. This will require the engagement of a new set of individuals who can bring top level commercial expertise and experience to bear to make a real difference.

— Increased delivery capability: to work up those solutions and engage and bring together the various players needed to make them a reality.

— Access to financial capital: to enable the huge change that is required to take place over a potentially very short timescale of five to 10 years.

What is most needed now for the farming and food industry is not just a long term vision but a long term solution capable of delivering it.

APPENDIX I

Details about EFFP

EFFP was set up following a recommendation of the Curry Commission. It had its official launch and employed its team of executives in May 2004. It is an independent member organisation which works in close partnership with Defra and the Regional Development Agencies (RDAs).

It is also a not-for-profit member organisation which reinvests financial surpluses in the delivery of its vision and mission.

VISION AND MISSION

EFFP’s vision is one where farmers have a profitable and sustainable future where collaboration is the norm; in the sourcing of inputs; in achieving production efficiencies; and in the marketing of outputs.
EFFP’s mission is to make collaboration work through the growth of market focussed and professionally run farmer controlled businesses (FCBs) and by developing co-operation and partnership activities not only between farmers but also between farmers and the supply chain.

Areas of Activity

Three key areas of activity were identified for the first two years of operation when EFFP published its action plan in May 2004.

— Business Development: Promotional activities to ensure that collaboration is used as a key strategy to improve the long term profitability and sustainability of businesses within the farming and food sector.

— Standards and Skills: A range of activities to promote high standards of professional management and governance in FCBs.

— Public Policy: Championing across government to ensure a long term supportive framework to enable collaboration to develop and succeed.

Since that time EFFP has made some good progress towards its mission in all these activity areas.

(1) It has created and built a team who have a market presence and who have built a reputation for being committed professionals who are operating in the client interest as defined in the EFFP mission.

(2) It has contributed to the understanding of the value of collaboration and the part it can play in the British food and farming industry. When surveyed, 75% of farmers now say that collaboration will play a bigger part in their businesses in the future. Moreover the turnover of the FCB sector grew in the past year by £1 billion—by far the largest yearly growth ever in the UK sector.

(3) It has built a strong membership base. This includes full members who are all FCBs (except Defra) and the more recently launched associate membership category which includes other companies involved in the food chain including retailers, food service operators and food processors.

<table>
<thead>
<tr>
<th>Full Members</th>
<th>Associate Members</th>
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<tr>
<td>7Y Services Ltd</td>
<td>Abna Ltd</td>
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<td>Abbey Farmers</td>
<td>Aramark Ltd</td>
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<td>Anglia Farmers Ltd</td>
<td>ASDA Stores Ltd</td>
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<td>Anglia Quality Meat Association</td>
<td>Brakes</td>
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<td>Atlas</td>
<td>Compass plc</td>
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<td>Blackdown Dairy Farmers Co-op Ltd</td>
<td>Dairy Crest Group plc</td>
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<td>Branded Beef Breeders</td>
<td>Grampian Country Food Group</td>
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<td>British Summer Fruits</td>
<td>Greencore Group plc (Ireland)</td>
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<td>Camgrain Stores Ltd</td>
<td>Marks &amp; Spencer</td>
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<td>Centaur Ltd</td>
<td>McCain Foods (GB) Ltd.</td>
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<td>Cornwall Quality Livestock Producers Ltd</td>
<td>McDonald’s Restaurants Ltd</td>
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<td>Countrywide Farmers</td>
<td>Nestle</td>
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<td>CWG Ltd</td>
<td>Samworth Bros</td>
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<td>Dairy Crest Direct Ltd</td>
<td>Somerfield plc</td>
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<td>Dairy Farmers of Britain Ltd</td>
<td>Tesco plc</td>
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<td>Defra</td>
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<td>Dengie Crops Ltd</td>
<td>United Biscuits (Holdings) Ltd</td>
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<td>Wm Morrison Supermarkets plc</td>
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<td>Fruitlink (Wisbech) Ltd</td>
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<td>Grainfarmers Ltd</td>
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<td>Kernow Grain</td>
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<td>Lewes Farmers Ltd</td>
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<td>Milklink Ltd</td>
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<td>Norfolk &amp; Waveney Machinery Ring</td>
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I have established a core library of FCB case studies both nationally and internationally and has identified some of their critical success factors: sound strategy, good corporate governance, member loyalty and access to capital.

(5) It has developed and is offering a comprehensive range of services to help make collaboration work. These include: help with collaborative supply chain development, business start-up, business development, collaborative research, strategy development, project management, corporate governance services, performance management, director development and communications.

(6) It has successfully completed a range of consultancy projects both in the private and public sectors across its mission spectrum. It has, for example, conducted projects on the development of sound marketing and business strategy and the facilitation of merger activity between FCBs as well as encouraging and guiding new start-up collaborative businesses such as production level joint venture companies and marketing groups.

(7) It has itself operated in a financially sound manner sourcing revenue from members and the industry as well as the public purse to deliver against a powerful mission with very limited invested funds. Its commercial and other contract income as well as membership subscriptions are growing strongly.

APPENDIX II

Figure A

THE UK FOOD MARKET

(Source: Defra)
Memorandum submitted by the Embassy of Ireland, London (CAP 38)

...you made a short intervention which insofar as it referred to the recently-announced Dairy Investment Scheme in Ireland was regrettably, wholly erroneous. I wish to make it clear that two thirds of the total funding involved (€300 million or approximately £201 million.) is being contributed by the Irish dairy industry itself and that far from “contravening everything” the Investment Scheme as announced does not in fact contravene anything. This is because before proceeding to announce the Scheme, the Irish authorities had been scrupulous to secure the advance-approval of the European Commission which in its capacity as guardian of the Treaties has ruled that the Irish scheme complies fully with Community guidelines for State-aids in the Agriculture Sector and is therefore “considered compatible with the EC Treaty”. It is, in short, judged to be non-distortional and is of course, entirely legitimate and above board.

Brendan Nevin
Counsellor (Agriculture & Food)

October 2006

Memorandum submitted by the House of Commons Scrutiny Unit (CAP 39)

The Use of Statistics in the “Vision for the Common Agricultural Policy”

A number of submissions and articles have voiced concern over the use of statistics in the joint HM Treasury and Defra report, A Vision for the Common Agricultural Policy. The National Farmers’ Union stated that the presentation of statistics is “polemical” and that the report relies heavily on “out of date statistics”. Sir Donald Curry, chairman of the Government’s sustainable food and farming implementation group said the “economic analysis is based on OECD analysis that took place before the reform in 2003 and I find that unacceptable”.

A review of the report indicates that there were a number of areas where some clarification would have enabled a more balanced representation of the statistics.

68 See EV 108, Q316.
1. The report quotes a number of studies before 2003, which cannot take into account recent reforms of the Common Agricultural Policy (CAP), notably the decoupling reforms in June 2003 and April 2004, whereby the EU agreed to break the link between production and receipt of payments for many important products.

Where statistics have been quoted before 2003, it would have added value to insert a note that such studies do not take into account recent EU reforms and also an explanation why such studies would still be relevant today. For instance, the proposition that CAP reforms have led to intensification and have had a significant effect on the environment are supported by academic studies in 1997 (Oskam and Stefanou 1997, Lowe and Whitby 1997) but there is no explanation as to why they would still be relevant. Similarly the proposition that global income could increase by $290 billion if trade distorting policies in merchandise trade including agriculture were eliminated was from a study as far back as 1999 (Nagarajan 1999).

2. Some statistics are used in a misleading manner. For instance, it is claimed “cleaning up diffuse water pollution caused by agriculture is estimated to cost £211 million”. However there is no evidence that water pollution is caused by CAP and that dismantling CAP will reduce water pollution.

3. The report does not clarify how certain figures were calculated, for example “the CAP will leave the EU economy around €100 billion poorer over the period of the next financial perspective (2007–13)” and “This is an average cost to an EU family of four of around €950 a year”.

4. At times the use of statistics is confusing. The NFU states that there is a discrepancy between the assertion:

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- “the CAP will leave the EU economy around €100 billion poorer over the period of the next financial perspective (2007–13)” (quoted above); and
- “the financial cost to ordinary citizens is around $100 billion each year, half from taxpayers and half from consumers owing to higher food prices”.

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It is likely that the first statement actually refers to the fact that CAP reduces economic growth, through inefficient allocation of resources. The second statement is the actual annual cost of CAP, both through taxation and also through cost to consumers, via higher prices, measured by the OECD measure of Producer Support Estimate. However this is not made clear in the report.

5. Some statistics need their sources and possible shortcomings outlined in more detail. The claim that “the financial cost to ordinary citizens is much greater—around €100 billion each year according to OECD estimates, half from taxpayers and half from consumers owing to higher food prices” (also quoted above) comes from an OECD analysis of Producer Support Estimate (PSE) in different countries. The PSE shows the annual budgetary transfers to farmers from market price support and domestic payments. PSE uses the gap between domestic and actual world prices to calculate support. An explanation of PSEs given by the OECD states “it is sometimes argued that actual world prices are not the appropriate benchmarks because they are distorted through production-enhancing policies, import barriers and export subsidies. Therefore, world prices that might prevail in the absence of all such policies should be used as the benchmark.” It then goes on to point out that since the purpose of PSEs is to compare government intervention and not look at the global state of affairs in world agriculture, using actual world prices is more appropriate. However doubts have been raised about the way PSE statistics have been used in the Vision Document. In their response to the Vision document, the National Farmers’ Union argues that OECD statistics are “meant only to be used as a comparison between countries, because, in the absence of tariff protection, supply would fall and prices would rise”.

John Bensted-Smith, from the European Commission’s Directorate General for Agriculture, also argues that, because PSEs are designed to give an indication of the gross transfers from consumers and taxpayers to support agricultural production, irrespective of their nature or impact on farm production, they cannot provide any information on the trade distorting effect of support, which he regards as the most important. The Department could be asked whether it is appropriate to use OECD estimates, which use PSEs to evaluate the impact of CAP, when PSEs are primarily to compare the interventions governments make in pursuit of their policy objectives and do not take into account the impact of tariffs on farm production or the trade distorting effect of support.

6. Some inferences the Vision document makes, such as the one that the CAP benefits landowners rather than farmers, may not be as unequivocal as the document suggests. John Bensted-Smith (DG
Agriculture) argues that the staff paper that had been used to support this claim had used assumed values with insufficient analysis. The National Farmers Union in their comments on the Vision document also stated “there is a contradiction in the logic of the paper—which argues that the CAP recreates a number of negative consequences (environmental etc) because of its impact on farmers; then denies that the CAP has any real impact on farmers.”

7. Some of the statistics quoted require clarification in order to be interpreted correctly. The OECD in their submission pointed out that the consumer in its statistics is “defined as the first hand user—sometimes referred to as a processor and compounder”. Thus the “£50 billion cost to consumers” refers to the processor at the farm gate and not the final consumer, which is how it would usually be interpreted by the reader.

8. There is a lack of statistics on the impact on agriculture and the farming industry in the UK and in the EU if CAP was reformed. This suggests a lack of balance. John Bensted-Smith pointed out that it was not clear from the paper what impact phasing out direct payments would have on production, prices and structure of farms.

9. There is also an absence of information about negative economic consequences which arise from removing direct payments. John Bensted-Smith pointed out if the absence of direct payments left farms unviable, there was a threat of land abandonment, particularly in the North and South EU and, there would also be difficulty in ensuring the continued provision of public goods such as the maintenance of hedgerows.

March 2006

These 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

Memorandum submitted by David Massey (RAS 01)

1. Either keep the CAP and have some influence on environmental issues and food production. OR get rid of it altogether and have market forces at work.

2. If commodity prices stayed as they are now then no food would be produced in Europe as it would be uneconomic. With a rising world population and crop production used for biofuel, world production would not feed all the people in the world when produced in the rest of the world. So with this in mind crop prices would rise to more economic levels. Reliance on food production from one part of the world is very unsafe, problems of global warming, disease, war etc. Of course with rising prices this would mean higher inflation, farmers can only produce food if it is economic either through subsidies or higher prices. Please don’t think that food will just be imported from abroad at a cheap price and grown in an environmentally friendly way.

3. The choice is obviously up to the powers-that-be in Europe. Is it morally right to only produce some of our “niche” food in an environmentally friendly way in this country so that we can enjoy the benefits of a countryside filled with wildlife and expect the rest of our cheap food to be imported from other countries where vast areas are stripped of their natural habitat to accommodate intensive farming on a massive scale? Food produced here has less food miles attached to it.

June 2006

Memorandum submitted by Jim Calcutt (RAS 05)

1. At the moment I am trying to decide if HLS is for me or bio fuel. Without biofuel the outlook for the planet is not good but all the money is pushing HLS this is morally wrong. We could have a fantastic vibrant local community with local use of biofuel and small power plants. HLS based on stupid bird counts do nothing but help advisors who are mainly ex farmers and creates more hangers on. These people could be employed in the development of local renewable power. Nuclear is BAD for the planet we should be aiming for 50% renewable and putting all our efforts into this.

2. You only listen to the people who have time and money to lobby you (RSPCA for example). Busy farmers never come into this category. Farmers by nature are hard working and self reliant, faced with all these problems they all think if they work a bit harder then they will be alright. They don’t believe Beckett and co can be so bad so they don’t complain.

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3. Get rid of all the hangars on, stop wasting money on computer systems that do not work.

Grain burnt today works out at £140/ton with no subsidy that a profit I can live on this is where the future lies. Close your eyes and picture local renewable fuel and food get behind this and all the rest would fall into place.

I’m pleased you want to hear from farmers we are not hard to contact there’s loads of us in the phone book.

4. Keep it local.

June 2006

Memorandum submitted by Dave Stanley (RAS 06)

1. CapVision—Delivering Sustainable Agriculture and Food

2. The invitation to apply to give evidence at your hearing at the Royal Show was brought to my attention. Unfortunately I am lecturing on Sustainable Development at the National School of Government on the 4th July. I have spoken to Jonathan Little and highlighted a range of critical issues relating to the sustainability of agriculture and food security that, I would suggest, are currently largely being ignored. As a coarse indicator of this I might flag up that a word search of “CapVision”—a sustainable model for European Agriculture—gives the following hits:
   — Climate Change (“I mean a challenge so far-reaching in its impact and irreversible in its destructive power, that it alters radically human existence.” Prime Minister September 2004) = 1 mention
   — Soil (subject to increasing erosion, degradation, sealing) = 1 mention
   — Energy (solar, renewable, fossil fuels—all critical to farming) = 1 mention
   — Organic Farming (more sustainable option and Government SDI) = no mention
   — Sustain (variants) = 23
   — Econom (variants) = 93

3. A fundamental consideration that should direct all Government policy relating to sustainability is that only land management (including agriculture) is capable of delivering positive environmental impacts. Almost all other economic activities only deliver negative environmental impacts. To appreciate this fact, agreement to, and a basic understanding of, environmental impacts and how they occur is, in my view, essential to identifying potential sustainable solutions.

4. In outlining the above and other issues, Jonathan Little suggested that I should bring the seminar below to your attention as it (or a variation of it) maybe of interest to your current inquiry. This package takes a concise holistic overview of the Sustainability challenges faced by agriculture and food production, and deploys simple but effective sustainable appraisal techniques. This unique seminar offers the opportunity to consider a cyclical approach to food, and as such “joins up” the many functions that Defra carries responsibility for. Past participants have ranged from SDC—NFU—Food & Drink Federation—farmers etc. All have found the experience highly beneficial—if intense! “New” approaches to existing problems are identified.

5. If you are interested in aspects of this approach—I would be very pleased to discuss further.

June 2006

Memorandum submitted by TE Richardson (RAS 07)

1. As a farmer on a modest acreage for the past 50 years, I have to question the thinking of the Prime Minister when, during his Presidency of the EU in May last year, he asked whether the EU in the 21st century should be spending 10 times as much on Agriculture, as on Science, technology, research and development.

2. I can tell the PM that, even with the existing levels of support, farms of all sizes in the 21st century are struggling economically.

3. There are 60 million mouths (yes, my guess is as good as yours!) to be fed three times a day on this small island, and your cannot eat science, technology or research—important as they are . . .

4. The very fact that a meagre 2% of the population manage to produce 70% of the food we eat each day, is, a near miracle in itself . . .

5. The CAP acknowledges the importance of home-produced food to European member nations, for reasons of strategy and convenience, and yes, cheaper food can be imported—cheaper because of lower wages and standards in under-developed countries,—but such prices would kill off UK production—and for some of us, the memories of war are still sore . . .
6 If we are to rely solely on imports, not only would our balance of payments suffer, but, just recall what happened recently in the Ukraine, when neighbouring Russia turned off their gas supply at the height of winter . . .

7. Can we afford to take such risks with our food supply . . .?

8. As to the environmental pollution involved in conveying all the nation’s food to these shores, just does not bear contemplation.

9. The net result of all this, must be, to restore Agriculture to its rightful place of prime importance to the nation, by giving it its own Ministry, as in the past, a Minister with a seat in the Cabinet.

June 2006

Memorandum submitted by David Bolton (RAS 08)

1. I read the very lengthy document “A Vision for CAP” when it became available.

I would like the opportunity to address briefly the EFRA committee on 4 July.

2. My involvement in the Rural Business community is as a practising Consultant since a Wye College degree in Agriculture in 1973 and a postgrad. diploma in Farm Business Administration. The intervening years have been spent entirely on advising farming and other rural businesses on how they should best react to Policy as it has evolved. I started just as UK joined the EU, watching how the CAP increased productivity, helped farmers incomes, but showed problems as supplies exceeded demand.

3. The Rebate in 1984 and the coincidental coming of Milk Quotas started to show where the policy did not easily fit our UK circumstances. I had drained farms and straightened hedgerows under FHDS through the 70s and early 80s.

4. Read and commented on the MacSharry reforms, Agenda 2000 and the latest round including decoupling.

I have commented on both the Uruguay round of GATT and the DOHA round under WTO.

5. I joined David Anderson and Co. in 1993–94 and have spoken and written on the potential impact of various policies including Sugar Beet reform particularly as it may/will impact on the Eastern Counties. I am a Fellow of the Association of Agricultural Valuers and a Fellow of the Royal Agricultural Societies, dedicated to supporting rural businesses and to improving image of the countryside to the wider public whilst improving farmers morale and circumstances.

6. The currently expressed vision for the future is somewhat idealistic but a long-term plan in a widening Europe with milestones and an ultimate goal is essential.

7. The possible and practical transitional steps need to be identified. The speed with which rural businesses will take them up needs to be understood and the best methods of communicating these steps with credibility chosen.

8. Vast sums of public money are involved so food security a healthy environment and an attractive countryside are reasonable expectations. UK circumstances are different to those of New Zealand however some of their practises (including marketing) adjusted for northern hemisphere would help. Long-term attachment to a generous subsidy nipple prevents an industry maturing properly.

June 2006

Memorandum submitted by the RSPCA (RAS 11)

1. The RSPCA supports a reformed CAP whereby payments are shifted from Pillar I to Pillar II so that farming becomes more responsive to consumer demands and is also able to compete in a global market place. However, the Government in producing its model for agriculture in the next 10 years has not taken into account changes that will occur from three important areas; a response, albeit gradual, to global competition as changes agreed under the Doha Round are implemented in particular the reduction in tariffs and opening of markets; continuing improvements in animal welfare standards in particular in the poultry, pigs and egg sectors and the introduction of differing incentives and payments under the RDPs.

2. If the Doha Round changes are agreed, the potential for multinational food, processing companies and retailers to source overseas for the primary products will increase. A reduction in tariffs coupled with the phasing out of export subsidies and the decoupling of Pillar 1 payments will mark the biggest shift in CAP payments since its inception.
3. Over the past five years a steady increase has occurred in imports into the EU of the three sectors most sensitive to changes in animal welfare standards: imports of egg products (44% rise), chicken (49% rise) and pig meat (21% rise) now account for 4%, 13% and 0.5% respectively of total EU trade in these sectors. Imports of products are to be welcomed as long as they meet present EU standards. Although all retailers state that they only import products if they meet EU baseline standards, the pressure to relax this will increase as EU baseline standards themselves are raised. In the next five years, decisions will be made on phasing out the more intensive systems in the egg, pig and poultry sector, leaving British (and European) agricultural standards above those in third countries such as Brasil, India, Thailand and USA. Economic modelling has already shown that a dozen eggs will cost about 11p more between the baseline standards in 1999 and 2012 (24% increase). In the broiler sector where a Directive is currently being negotiated, that there will be a 11% increase in cost of production from the present stocking density of 38 kg live wt/m² to a reduced stocking density of 30 kg live wt/m².

4. Although the Rural development programmes in the EU will only account for 19% of total agricultural spending in the 2007-13 period, it does present an opportunity to divert funds to areas that are above baseline standards and respond to consumer demands. £661 million will be available for UK programmes in the seven year period for Pillar 2 projects. Devolution will mean that there will be four very different programmes occurring in the UK. The potential for variance increases at EU level where there could be over 50 schemes operating. Countries’ different implementation of Pillar 1 payments increases the potential for intra-EU distortions.

5. For instance in the UK-4, under the proposed RDPs, Wales has four schemes to encourage improved animal welfare, Northern Ireland and Scotland three each whilst England has chosen to concentrate on environmental measures and has only allocated one budget stream for animal welfare. The allocation of grants for assurance schemes and capital grants to replace buildings with less intensive systems in all areas except England could see inequalities rise between farms. There are 463 farms that straddle the England/Wales border and 128 on the Scottish/England border. Their preferences for RDP claims could be useful indicators of future inequalities in the UK.

June 2006

Further memorandum submitted by Dave Stanley (RAS 13)

With regard to the CapVision there are a number of critical issues relating to agriculture that are currently being ignored or denied. These include:

1. Can deliver positive environmental impacts. Only land management (including agriculture) is capable of delivering POSITIVE environmental impacts. Almost all other economic activities only deliver NEGATIVE environmental impacts. This fundamental consideration that should direct all Government policy relating to sustainability. To appreciate this fact, agreement to, and a basic understanding of, environmental impacts and how they occur is, in my view essential to identifying potential sustainable solutions.

2. Decreasing efficiency of food production. Contrary to popular belief the increase in monocropping, intensive rearing of stock, centralised distribution systems, supermarkets, prepared meals etc. is resulting in a continuing decline in the efficiency of food production in the UK. An ever increasing amount of energy is being required to deliver a calorie of food to the consumer. Rising oil prices and forecast decline in oil production will result in a progressive escalation of food costs unless action is taken to deliver real efficiency gains measured by resource use, rather than direct economic costs to the producers.

3. Soil degradation and loss of fertility. Current intensive agricultural practices are dependent upon the abuse of chemical fertilisers and pesticides. These practices are resulting in a rapid decline in soil fertility evidenced by the huge decline in soil organic matter (increased flooding, reduced drought resistance) and decline in trace element levels. This is resulting in a decline in essential trace elements, has a direct impact on plant, animal and human health (mental and physical), and is a real threat to future food production.

4. Food security. With a rising world population, increasing desertification, declining water resources, increasing demand for food production (China & India) coupled with increasing vagaries of Climate Change—relying increasingly on imported food as a vision for the future has, in reality, the hallmark of a nightmare.

5. Sustainable Food. The move towards a truly efficient sustainable food production system offers nothing but benefits to the UK. One benefit would be to deliver around 27% reduction in Greenhouse gas emissions and achieve the UK’s Kyoto targets.

Finally as a coarse indicator of the lack of balance and failure to address the real threats to agriculture that the CapVision ought to have addressed I might flag up that a word search of “CapVision”—a sustainable model for European Agriculture—gives the following hits:

— Climate Change (“I mean a challenge so far-reaching in its impact and irreversible in its destructive power, that it alters radically human existence.” Prime Minister September 2004 ) = 1 mention
— Soil (subject to increasing erosion, degradation, sealing) = 1 mention
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— Energy (solar, renewable, fossil fuels—all critical to farming) = 1 mention
— Organic Farming (more sustainable option and Government SDI) = no mention
— Sustain (variants) = 23
— Econom (variants) = 93

June 2006

Memorandum submitted by Jonathan & Anne Wright (RAS 14)

1. Abolition of subsidies only if all other nations agree to theirs being abolished—not unilateral. There would have to be significant rises in farm gate prices to make farming sustainable without subsidies.

2. Timber prices in UK also fell by a considerate amount after Baltic and Eastern European forests were opened up in the last few years—this has also been very bad for UK timber growing.

3. Environmental schemes and payments are a wonderful project, but at the end of the day farming and forestry need sustainable producer prices to flourish and maintain the countryside and provide good incomes for producers to live on and re-invest in their businesses. Do any of you care if all medium sized farmers go out of business? It seems all you are interested in is keeping on good terms with Europe at the expense of your own people. British farmers are the best in the world and this should be acknowledged with gratitude.

June 2006

Memorandum submitted by Nick Pratt (RAS 17)

1. UK Farming is on the threshold of possibly the most important development in our Industry for at least a generation. I refer to the infancy of the Renewable Fuels Industry. Everything from Short Rotation Coppice and Miscanthus as a replacement for fossil fuel for power stations to the creation of a realistic and viable bio-fuel industry from Rape oil and Bio-ethanol from Wheat or Beet has to be encouraged via the taxation system.

2. The Chancellor HAS to take on board that he must get behind this opportunity and not stand in its way. It could make a significant contribution both the environment and farming’s chances of a sustainable and profitable future, as well as removing the exportable surplus which have been “dumped” on world markets. Currently, we lag behind almost every other west European agri-economy in our development of the infrastructure and investment needed to get this up and running, with a few exceptions. The reason why business is reluctant to invest is due to government’s lack of positive commitment and uncertain long-term policy.

June 2006

Memorandum submitted by Stuart Davenport (RAS 18)

1. As a younger (aged 20) individual who is presently struggling to follow in the footsteps of my father, who farms 350 acres cereals, 100 acres potatoes and lambs 400 ewes in Warwickshire (not 20 minutes from the NAC Stoneleigh ground) I would appreciate a chance to debate the CAP and its associated reforms with the DEFRA select committee.

2. No industry can cope in a situation as unstable as that which the CAP fudge has left farming. Long term planning, both financial and farming, needs to be carried out with a settled situation, not one in a constant state of flux.

3. The situation currently facing Europe, and indeed the world, is incomparable to that when the CAP was first developed. Movement to a global farming marketplace is certainly the thinking I would hope the committee is adopting.

4. However for this to work the industry needs to ask the following political questions:
   (a) How can agreement be reached with other EU countries and major powers (eg. the USA) to open up the marketplace?
   (b) How can current WTO rules relating to the imposition of unequal quality and environmental expectations between imported and endogenous products be circumvented to ensure that a “world standard” is developed?
   (c) How can the transition from protected production to the global marketplace be made as pain free as possible?
5. I have ideas on the answers to my points raised but would sincerely relish the prospect of hearing from, and probing at, a group of MPs whose ideas and opinion are respected by Ministers and the Governmental system. My hope is that the committee is willing to hear from younger members of the industry rather than a homogenous group of the more dyed in the wool members who often already have a greater access to the axis of power in the farming world.

June 2006

Memorandum submitted by Monica Akehurst (RAS 19)

1. I consider myself to be a grassroots farmer; I have strong views, and care passionately about the state of the farming industry today. I started my practical experience aged about five, due to having the smallest hands in the family. I took on the challenge of sorting out difficult lamblings! These days I farm in partnership with my husband, farming Beef/Sheep and some corn, approximately 300 acres in total, of which we only own 44 acres. I appreciate the benefits of the farming way of life. I have no time for the whingers who are not prepared to do anything constructive to rectify the situation, there are too many takers and not enough givers. I have scanned “A Vision for the CAP” and confess to not being inspired by its reading.

2. My concerns for the industry are as follows. First and foremost, Regulations are stifling our industry. (This letter was submitted by me, and printed in The Farmers Guardian this week)

3. Where is the harm in wool? Can someone please explain to me why wool has been classified as a category 3 animal by product waste? Farmers are no longer allowed to burn or bury it. Surely wool is a natural fibre and is bio degradable. Humans wear it, I was glad of it this winter. Recent programmes on television, promote wool as a natural insulation that can be used in ecological and environmentally friendly new built houses. Also placing wool around the bottom of fruit trees has shown to be effective, keeping down the weeds, retaining moisture, and added nutrients. Indeed my grandfather always put the sheep daggings in the bottom of the trench when he planted his runner beans, and that seemed to grow a good crop of tasty beans to enjoy eating. Daggings are also useful for lining out hanging baskets!

In the House of Lords, where legislation is considered before it becomes law, the presiding Lord Chancellor sits on a wool sack, stuffed with wool. It is thought to have been placed there during the reign of Edward III. It symbolised the importance of wool to the wealth of the nation. How times have changed, in my opinion not always for the better.

4. I cannot believe that wool is a danger to the environment. But now farmers have to pay for someone to take waste wool away from the farm to be incinerated, surely this is an unnecessary waste of energy? Can this really be right? Is it the most sensible option?

5. It is a clear illustration of unnecessary legislation that incurs extra costs for the farmer. Indeed it is impossible to keep pace with the raft of rules being heaped upon us, it leaves little time for tending to the stock and crops. Personally I regard farmers as a generally law abiding bunch, but recently I am willing to bet that honest genuine people have been turned into regulation breakers, often through no fault of their own. This situation can be very stressful—incidentally, stress or “freedom from it” is a basic animal right, farmers could do with less of it too! It is interesting to note that the reason most cited by farmers leaving this country to farm abroad is bureaucracy. It also acts as a deterrent to becoming a farmer, many of the younger generation do not want the hassle, and who can blame them.

6. Regarding waste regulation, why not look to the packaging and manufacturing companies, there is much that they could do to reduce waste. Moving on, it was not farmers that put the bonemeal into the animal feeds, they merely bought food sold as suitable for their animals to eat, yet it was farmers who appeared to take the blame for BSE. Foot and Mouth, where are the controls at the point of entry into this country to protect us against this disease? Meat continues to be imported from Brazil where this disease continues to be a real problem, is that sensible? It also would appear that farmers are carrying the wrap for drought and global warming which seems a little harsh. When will commonsense prevail, let the farmers get on with their job, the people who sit in offices and create rules appear to miss the point, that of course farmers will inherently, look after the environment because their very livelihood depends upon it, irrespective of what the authorities come up with.

7. Farmers image, needs overhauling!!

8. Lets get some facts straight, farmers are friend and not foe of the urban dweller, they produce a secure supply of tasty, quality, traceable, wholesome fresh food for people to enjoy at affordable prices, whilst also creating and maintaining the landscape of our beautiful British countryside for all to appreciate. The profile of farming needs raising, a more positive attitude. I respect my animals and the land that I farm and I would like respect for what I do. Perhaps, in the past, subsidies have created a complacent attitude accompanied by increased antagonism towards the farmer from government and public alike. Now maybe we can remove ourselves from the bottom of the pile. The British Farmer should be proud of what has been achieved in our industry. Food is a basic need, as a producer either through growing crops or breeding and raising stock, the farmer possesses a strength which should be built on. Consider how many other industries rely on the producer, not only the consumer but also the “inbetweenies”. They are also an important part of the chain, but without us they would not exist. In the
livestock business for example, there are the markets, abattoirs, buyers, processors, transporters, packers, distributors and ultimately the sellers, be they the small shop or large supermarket their business relies on the survival of our business. Unless the Government are happy to rely totally on imports, but at what cost, and how secure, let alone the extra food miles, which also incurs environmental pollution costs, is that what they want?

9. World wide the cost of fuel, and energy is rising, and pollution is of increasing concern. I feel that relying on others would not be good! In fact empty shelves could be catastrophic as there is worrying ignorance as to how food is produced, in the urban hi tech world.

10. In my experience a large number of the general public are interested in farming. This interest could be utilised to create positive vibe. There is a distinct lack of knowledge as to the realities of how food is produced. There is little in the way of education to rectify this, apart from some initiatives by farmers (farm Sunday, June 11th for example) which is to be applauded. There is little on the Television that shows accurate information about Farming. Countryfile is more concerned with environmental issues, although important does not feed the 60 million people in the U.K. or show a true reflection on how food is produced. Jimmy’s farm has quite a following but he is not exactly a typical farmer. The Farmers weekly food miles campaign has proved to be a worthwhile initiative.

11. USE US or LOSE US, farmers are at risk of becoming a rare breed themselves, and with us will go the age old skills involved in country living, husbandry and ways of country folk. Big is not always beautiful, the small family farm is interwoven into the fabric, part of the culture of the British countryside.

I like to think that being as we are an innovative, stubborn and resilient breed who are already used to adapting to cope with the elements and various challenges of today’s climate, I hope that it will be possible to survive, but the politicians could do their part in helping to preserve this. Many farmers are asset rich cash poor. “If you look after the pennies the pounds will look after themselves”. I feel that under the present Single Farm Payment system the large wealthy land owners will do very well. But the smaller working farmer, who does the work and produces the food, the graziers and tenant farmers, will have a struggle on their hands.

12. I am in favour of a fair playing field, but let’s live in the real world. Most of our competitors are beneficiaries of agricultural support programmes, if worldwide support was removed perhaps it would be fair, as this is unlikely to happen, British farmers are going to be severely disadvantaged. I would simply like to get a fair price for my produce enough for my family to live on, cover the bills and enable me to stay in business, without unnecessary hangers on creaming money off my livelihood. Incidentally I had great difficulty persuading my husband to accompany me to see an independent consultant giving free farm business advice. I dread to think how much this cost Defra, but I had to admit that on this issue my husband was right Defra should save their money, it was a complete waste of valuable time. We gained nothing from it that we did not already know, and simply received a typed letter afterwards telling us what we had told him. Not what I call constructive, but nothing ventured, nothing gained.

There are in my opinion far too many people trying to live off our backs. Any help available needs to be carefully directed to where it is deserved, there is too much siphoning off going on.

13. If you have read this, thank you for taking the time to do so. I am sorry to disappoint but I do not possess the answers as to how the problems are resolved, I will leave that to the experts. However I would plead with you to include on your committee, someone who has a good working knowledge of the practicalities involved in farming and first hand experience of the agricultural industry. Not someone who is out to feather their own nest, but someone who truly cares for the industry, the environment and the well being of the British countryside. They should have a good sense of humour, integrity and above all possess a good measure of common sense, which is I fear sadly lacking in today’s society. If you can find someone of this calibre, hopefully there will be a glimmer of hope for our industry.

June 2006

Memorandum submitted by Iorwerth Rowlands MBE (RAS 20)

1. Having read the DEFRA “vision” document (59 pages of statements) one has to wonder whether any input from an ordinary farmer can possibly have any effect on your decision making. Whilst it may seem to be a democratic opportunity to participate in the decision making document you are going to produce—I cannot see how you will be prepared to accept anything I seriously put forward. However, given the opportunity, I feel conscious bound to make the effort. The following points are the main requirements not only for the British farmer but for the British consumer.

2. Not many of you will know the actual situation when this country was desperately short of food or will have felt the hunger pains associated with it and you may need to be reminded that it was the British farmer who enabled us to be fed during the period 1939-45 and beyond, with valuable assistance from one of the best merchant navies and sailors in the world. There is no longer a British merchant fleet and although the jumbo jets can carry food in a very short time, the vulnerability of this transport is plain for all to see as is the environmental damage their exhaust output is causing. It may be that none of you think it possible for such a situation to arise again and one would hope that you are right—but
it is not that simple or that likely. Other nations of the world are developing their industrial abilities and this will mean their competition in the world markets to feed their own people and the cost increases will naturally effect British consumers. It looks very possible the British consumer will not be in a position to cope with these increased costs as job opportunities are opening up elsewhere in the world whilst in Britain, regardless of which party is in Government, will continue to decline. Terrorism is another factor which could easily make damaging inroads into the food security of this country.

3. Supermarkets are destructive in their greed for immediate profits and care little about long term positions and interests of those who produce to supply their market. The reasons why supermarkets food is imported cheaply is due to third world producers paying pitifully low wages and the difference in air transport costs replaced by this cheap labour. Where is the justice in that? We pretend that Globalisation is for the benefit of the world: this is nothing but blatant nonsense and an excuse for financial opportunism. Is there any sense in milk produce being imported into this country whilst the payment to our dairy farmers has reduced from 26p per litre in 1996 to 18p per litre currently. During the same period milk has increased in price to the consumer from 42p per litre to anything from 53p per litre to 65p per litre with supermarket mark-up increased in this period from 8% to 35%. Does this make sense to you, who demonstrate clearly to only be interested in ensuring that grant support from the British family purse is removed?

4. CAP rules should be the same for ALL the European countries but this is in fact not true. As an example the Italian Government have over the years been guilty of failure to contribute on over production of milk and it is a fact that unlike the United Kingdom farmers in Italy were not levied and any payments that did get paid came from their Treasury. The affair of Parmesan should be sufficient evidence of their contempt to operate within the rules. If we are to remove grant support I would like to see a level playing field throughout Europe. There is little doubt that the European edicts are more rigidly observed and acted upon in the UK than elsewhere.

5. Environmentally the damage caused by the air transportation of food is massive. The “food miles” issue is at last receiving the attention by the British public and hopefully you will take into effect in your deliberations. A program by Sir Trevor MacDonald on ITV last night indicated clearly the minor difference in cost between home produced food and food travelling huge distances. The programme dealt with two families, each given an identical menu for the day with one to buy it all in the supermarket and the other to buy locally from farm shops etc. The difference in cost was minimal but the different in food miles was 172 food miles local and at the supermarket 13,600 food miles. Think of the damage not only by aircraft pollution but also by the huge lorries polluting the air we breathe plus the global warming aspect in both cases.

6. Whatever your conclusions are please make certain that every one of the countries in the Union operate under the same rules and that supermarkets are in some way controlled so that they cannot offer milk as a regular “loss-leaders” to prevent the destruction of a the solid base of home produced food and by doing so, ensuring future unreasonably priced food for the British consumer.

June 2006

Memorandum submitted by Peter Bashford (RAS 26)

1. The UK Agricultural Industry is now in the same position as UK Energy Industry was in 1992. We are now paying the price for a short-sighted monetarist’s energy policy. It is no good our leaders saying it’s easy to pass comment in hindsight, because there were many who could see the inevitable consequences of the early 1990’s energy policy.

2. If the same policies are applied to agriculture then:

3. Yes, food produced in the UK is generally more expensive than the nearest equivalent we can buy on the world market. Yes, it also cost the taxpayer millions in subsidies to enable UK farmers to compete with world market prices.

4. My guess is that the country is still being run by short-sighted monetarists, so they will save money by removing subsidies, allowing UK farming to be marginalised and buy cheaper food currently available on the world market.

5. But the inevitable consequences will be the same as has happened with the Nation’s energy requirements. World Market Prices for food will rise and food will become more difficult, if not impossible, to procure.

May 2006
Memorandum submitted by John Newling (RAS 29)

1. I wish to bring to the attention of the EFRA committee the unnecessarily complicated way that the FVP regulations area affecting the running of the Single Farm Payment Scheme and the resulting extra work load involved by ourselves as the farmer landowner and the specialist vegetable grower who hires land from us each year on a rotational basis. Under the old IACS regime the vegetable grower was not involved in any way with subsidies paid to us as farmers so why involve him now. In our case and many others in this district the new system has incurred considerable extra expense and time as we have had to employ the services of a professional advisor and a lawyer to make watertight agreements between ourselves and the hirer so that when the hirer eventually gets the SFP on the hired land he will pass on to us the full amount paid on that land. There is also the potential risk that if the hirer were to go “bust” we may get none of the money due to us on that land.

2. It is my opinion that the vegetable part of the FVP should be taken out of the SFP system all together, thereby making life simpler for all of those involved and also the staff at DEFRA who are suffering under great strain to try to make a near impossible system work properly. It would also save money!! Think of that!!

3. I am sure that you will receive lots of letters from all types of farmers in response to your article in the Farmers Weekly 19 May which will cover all the anomalies occurring in the SFP system as a whole. However I sincerely hope my points will be put before Mr Michael Jack and his committee.

4. You ask for my details; I have farmed the Silverwood Farm since 1954 growing potatoes, sugar beet, vining peas, daffodils and wheat. No livestock since 1983. My son now runs the farm but I still am very interested in its well being. The farms now run to 620 acres with a further 166 acres contract farmed for a near neighbour. You may like to know that I have taken Farmers Weekly ever since you absorbed Farmer and Stockbreeder, I seem to remember that Travers Legge was Editor at that time.

May 2006

Memorandum submitted by J D Lockie (RAS 34)

1. The Government discussion document reflects current thinking and discusses all aspects of the debate on the abolition of direct farming subsidies. However I believe it plays down certain impacts in order to support its case. In particular: Trade will continue to be distorted unless other countries abolish farm support; European farmers cannot be expected to compete with subsidised North American arable products.

2. The environmental consequences of moving production from Europe to developing countries should not be underestimated; the most notable of these is the destruction of rainforests to provide new farmlands.

3. It is not reasonable to expect that European farmers produce animal products to higher welfare standards than competitor countries; could higher welfare standards be financed under Pillar II payments? And if welfare of animals is part of acceptable meat and milk production, then surely it is hypocritical to accept imports from countries which have different values?

4. The environmental consequences in Europe could be reduced by Pillar II payments, but will these then distort trade? For instance if undergrazing and land abandonment in marginal areas is counteracted with payments for grazing livestock, is the production from that livestock not unfairly subsidised?

5. The export of agricultural production to other countries (South America and Australasia are seen as significant gainers) will dramatically increase the food miles involved in feeding Europe. The figures given for food miles incurred by homegrown production will still largely exist in distribution miles on top of the miles incurred bringing the goods to Europe.

6. Finally, and most importantly, it must be recognised that this is a high risk strategy. Effectively it terminates strategic stocks of food managed by governments, with all that implies. It must be understood that while farmers the world over will respond to market signals, agricultural production cannot increase overnight to meet shortages, any crop shortage takes months to rectify, and animal product shortages years. And while wealthy nations can afford to scour the world for supplies, it is poor nations who will go without.

June 2006
Memorandum submitted by Peel Holroyd (RAS 35)

You have kindly invited for comments on this important subject. May I contribute to this debate?

My career in Livestock feed with RHM Agriculture (1964–72), Senior Agriculturist for Marks & Spencer (1972–90) and subsequently in running my own Consultancy across the Total Food Chain to the current, highlights mega issues pertaining to post CAP 2012; vis

1. Every Member country is different, have different objectives and values. For example the “new ten” are playing catch-up with the original 15 and as other members join, the same will apply:

2. All 25 have different “infra-structures” to operate a Food Chain to provide the Customer on the one hand, and develop competitive local infra-structure on the other. Fierce competition is the basis of a “free market”

3. WTO proposes an international “open trade” philosophy. In EU some businesses will be viable, many will not be able to compete:

4. The Future CAP has to allow new generations of farmers to take part in the post 2012 evolution mostly following their family inheritance and in many areas traditions:

5. Priority focus to every country, has to evolve around-Food Chain infra-structure, Education and continuous training and above all detailed understanding of the Market Place.

6. Any form of “support” is to allow the evolution to commercial parity in a highly competitive market place/global reality.

Experience over time, species, volumes, global and much shared skill base et al. supports the practical benefit of Total Food Chain Management where everybody feels involved and as such every member of the EU can select their own route to viability.

Please do not hesitate to contact me if I can be of assistance to this important project.

June 2006

Memorandum submitted by HM Treasury (CAP 40)

Letter from the Chairman of the Committee to the Permanent Secretary, HM Treasury

COMMITTEE INQUIRY INTO THE UK GOVERNMENT’S “VISION FOR THE CAP”

The Environment, Food and Rural Affairs Committee took evidence from the Tenant Farmers’ Association on Wednesday 18 October in connection with this inquiry. We were concerned and disappointed to be told by the TFA that “our intelligence informs us that the Treasury is not minded to take your inquiry particularly seriously”. I attach a copy of the relevant part of the transcript.

We understand that the remark in question was made in a private context, but if the TFA evidence is true then it gives a worrying indication of the attitude of Treasury officials to the serious work we are doing in our inquiry and to Parliament more generally. I would be grateful if you could investigate this matter and tell us what the basis of the TFA allegation may have been.

If it transpires that there is a foundation to the TFA allegation, we would wish to know your view of the matter and what internal action you will take. In such a case the Committee might also wish in due course to hear from the official or officials who made such comments.

Rt Hon Michael Jack MP
Chairman
Environment, Food and Rural Affairs Committee
23 October 2006

Letter from the Permanent Secretary, HM Treasury to the Chairman of the Committee

Thank you for your letter of 23 October. I was concerned by your letter and have investigated the allegations about Treasury officials’ conduct made by the Tenant Farmers Association.

I do not believe there is any reasonable basis for the TFA’s concerns. The relevant Treasury teams and officials take the Committee’s work very seriously—as I hope you saw when Brendan Bayley participated in the informal evidence session in May.
I would like to reassure you that the Treasury welcomes your Committee’s valuable contribution to the debate about reform of the Common Agricultural Policy, both in the domestic and European contexts, and will continue to work closely with you.

Nicholas Macpherson
Permanent Secretary
HM Treasury

2 November 2006