



House of Commons  
Environment, Food and Rural  
Affairs Committee

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**The UK Government's  
“Vision for the  
Common Agricultural  
Policy”: Government  
Response to the  
Committee's Fourth  
Report of Session  
2006–07**

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**First Report of Session 2007–08**

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## Environment, Food and Rural Affairs Committee

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

### Current membership

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

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

### Powers

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

### Committee staff

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

### Contacts

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# First Report

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## Introduction

1. The Environment, Food and Rural Affairs Committee reported to the House on *The UK Government's "Vision for the Common Agricultural Policy"* in its Fourth Report of Session 2006–07, published on 23 May 2007 as HC 546.

2. Our Report said that the Common Agricultural Policy was now an anachronism, but that the Government's "Vision" document was a "disappointing lost opportunity" rather than a revolutionary vision. We criticised the timing of its publication, judging that its sudden appearance at the end of the UK Presidency had antagonised the European Commission and other Member States who had not been prepared for its arrival. We recommended that the Government grasp the opportunity of the CAP 'Healthchecks' to direct EU debate towards scrapping the CAP and replacing it with a 'Rural Policy for the EU' in which public money is used to procure the public benefits—environmental, rural and social—that society wishes to enjoy from the agricultural sector.

3. The Government response to our Report was sent to us on 25 July. The next day, we received a revised version. That version is published as an Appendix to this Report. There are two sections where the original text we received was toned down somewhat: in response to conclusions 2 and 3, "the Government finds it strange" became "the Government notes"; and in response to conclusions 12, 17 and 18 "The Government rejects" became "The Government disagrees with". In addition, in a number of places the Government set out our own conclusions in an incomplete form.<sup>1</sup>

4. The Government welcomed our conclusion that the justification for public expenditure in the agriculture sector should be the provision of public benefits.<sup>2</sup> However we have a number of comments to make on aspects of the Government response.

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<sup>1</sup> We have restored the omissions for this publication.

<sup>2</sup> Government response—Introduction

## Our comments on the Government response

5. In its response to our conclusions 1, 11, 14 and 20 Defra says that “[o]n the back of the vision’s publication, an intensive programme of engagement was launched by Defra, Treasury and the Foreign and Commonwealth Office to take forward debate about the long term future of the CAP.” **We note that there is no rebuttal of our claim that in advance of publication the Government failed to prepare EU farm ministers and other key players for its publication.**

6. In the same section of its response, the Government asserts that “[f]ar from undermining our influence, several other countries have followed our lead and published, or are debating, long term perspectives of their own. Agriculture Commissioner, Mariann Fischer Boel, has similarly signalled the intention to set out her long term vision for the future CAP.” **We were in no doubt that the Vision document provoked a reaction, albeit a negative one. The point we were making was that that the timing and nature of the publication antagonised other Member States and the Commission and so may have undermined the UK’s ability fully to influence the reform agenda in the future.**

7. In response to our conclusions 12, 17 and 18, the response says that

The Government disagrees with<sup>3</sup> the Committee’s criticisms about the nature of the CAP vision. Indeed, there is an element of inconsistency in the Committee’s view that on the one hand the vision was not sufficiently revolutionary and on the other that its publication antagonised the Commission and Member States (conclusion 1).

**We do not accept this charge of inconsistency. Our criticisms were about the timing of the publication and the Government’s failure to prepare the ground properly for the launch of its Vision. These meant that the Vision actually undermined the Government’s prospects for development of Pillar 2, and may have undermined the UK’s efforts to influence the reform agenda in future.**

8. In its response to our conclusions 2 and 3, we note that the Government will shortly publish a more detailed assessment of its own of the impacts of eliminating Pillar 1 of the

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<sup>3</sup> The earlier version we received said ‘rejects’.

**CAP. We welcome this acceptance by the Government that it needs to provide a fuller analysis of this matter than it did in the Vision.**

9. In the same section of the response, we are puzzled that the Government says that “we urge the Committee to accept that evaluation of our proposals for future reform and of the 2003 reforms should be wider in scope than just their likely impact on the farming sector ... it would be unbalanced not also to take account of benefits to consumers and taxpayers”. While we did say that more analysis of the Vision’s implications for the farming sector and the environment was needed, we were also *explicit* in our report that “[t]he only long-term justification for future expenditure taxpayers’ money in the agricultural sector is the provision of public goods”, and that these benefits in turn should be capable of evaluation<sup>4</sup>. The Government welcomed this conclusion.<sup>5</sup> **Our acceptance that the interests of taxpayers and consumers must be taken into account was implicit in our advocacy of fundamental reform.**

10. We were pleased to see that the Government says in response to our conclusions 12, 17 and 18 that it “will continue to debate with stakeholders and across the EU the issue of public goods and the best means of their delivery. We will disseminate our emerging thinking in due course”. **The Secretary of State should announce a timescale for publishing the findings of this work.**

11. Fundamental reform of the CAP is necessary, but we do not underestimate the scale of the political challenge it represents. We will continue to monitor the Government’s efforts to achieve it.

12. If there is a valid criticism of both the Government’s Vision document and our own Report, it is on the issue of food security—a matter on which both parties now need to do further work in relation to CAP reform. Whilst the Committee took evidence on this,<sup>6</sup> we now believe that we did not fully evaluate and comment upon the growing importance of the issue and take into account issues such as the development of biofuels, the effects of

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<sup>4</sup> Conclusion 7

<sup>5</sup> Government response—Introduction

<sup>6</sup> See paragraph 78 of our Report.

climate change and the impact of transmissible animal diseases. Food security is a matter to which the Committee will have to return.

# Government response

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## Introduction

The Government welcomes the central message of the Committee's report about the future shape of the Common Agricultural Policy, which aligns closely with our own vision: that the expenditure of taxpayers' money in the agriculture sector should be focused solely on the provision of public goods.

The evolution of the CAP has taken some significant steps in the right direction since 2003 but it still lacks a clear and justifiable long term goal. Our vision paper offers one: to underpin a European farming industry which is profitable and competitive without the need for public subsidy or protectionism, is more sustainable and rewarded for delivering genuine public benefits and gives the developing world a fair chance to compete.

To achieve that, our vision advocates that over a manageable period, (by 2015-2020), import protection should be progressively aligned with the much lower level prevailing in the rest of the economy, export subsidies and Pillar 1 domestic support should be phased out, leaving the CAP as a framework for safeguarding a fair and common regulatory and trading environment and with public spending on agriculture based on the current Pillar 2.

## Response to the Committee's specific conclusions

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

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

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

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

Publication of the vision in December 2005 was a careful judgement designed to support our position in the EU Budget negotiations, in particular by answering the question which had been put to the UK about what we meant when we called for further reform of the CAP.

There is no doubt that its publication, and the Government's subsequent engagement in the EU, have provoked constructive debate, much sooner, and in respect of much more fundamental reform, than would otherwise have been the case. Indeed the Committee's report acknowledges (para 99) that "even if the European Commission had been antagonised by the publication of the Vision, there seems little doubt that the report encouraged it to engage with the UK over its support plans for reform".

We reject the claim that there was no programme in place to gain support for our position. On the back of the vision's publication, an intensive programme of engagement was launched by Defra, Treasury and the Foreign and Commonwealth Office to take forward debate about the long term future of the CAP. That engagement continues today and has included contact with every Member State (including at ministerial level with more than half), frequent contact with the Commission at all levels, seminars, conferences and articles in the European press.

Far from undermining our influence, several other countries have followed our lead and published, or are debating, long term perspectives of their own. Agriculture Commissioner, Mariann Fischer Boel, has similarly signalled the intention to set out her long term vision for the future CAP. Crucially, that represents a real shift from the short term "quick fix" which has tended to characterise CAP reforms of the past and is a significant factor in why, as the Committee acknowledges, there is now a widespread acceptance in the EU that the status quo is not sustainable.

We continue to work closely with the Commission, Member States and stakeholders to build alliances and consensus on the detail of the reforms ahead.

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

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

4. **...the Vision's failure to address the potential redistribution effects of modulation should also be rectified through the publication of an impact assessment.**

In preparing the paper we used the most recently available and relevant figures, and believe they provide as robust an assessment of the overall costs and benefits of Pillar 1 and its removal as anyone has so far provided. Indeed the OECD's Director of Food, Agriculture and Fisheries, Professor Stefan Tangermann, wrote to the EFRA Committee shortly after the paper was published to commend our accurate use of OECD data. Other independent academics have given similar endorsements in their evidence to the Committee. Whilst the memorandum from Professor Tangermann appears at page 142 of Volume II (oral and written evidence) of the EFRA Committee's report, the Government notes that it is not referred to in the Committee's report itself, especially in the light of the profile which the Committee gives to criticisms of the way that data is presented and used in the Vision Paper.

As the Committee's report notes, Defra provided a very detailed response to the criticisms made by a number of interested parties, pointing out the misconceptions and misunderstandings on which those criticisms were founded, but also acknowledging

that the Vision could have averted some of those by giving fuller explanations in one or two places.

We will urge the Commission to publish a full evaluation of the impacts of Pillar 1, and will shortly publish a more detailed assessment of our own of the impacts of eliminating it. We have already established in 2005 our Agricultural Change and Environment Observatory programme, the purpose of which is to monitor the impacts of reform, particularly the 2003 and 2005 reforms, on farm management practices and consequential environmental impacts. The Observatory published its first Annual Review in December 2006 and continues to publish reports from time to time on emerging issues.

However, we urge the Committee to accept that evaluation of our proposals for future reform and of the 2003 reforms should be wider in scope than just their likely impact on the farming sector. Whilst we accept that it is important to understand the effects on farm businesses and landowners, it would be unbalanced not also to take account of benefits to consumers and taxpayers.

We are continuing our own analysis of the impact of a range of reform issues and will publish that work over the course of the next year. That will include an impact assessment of the Commission's "healthcheck" proposals once they emerge in 2008.

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

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

**10. The name, the 'Common Agricultural Policy' is now an anachronism. It should be replaced by a new 'Rural Policy for the EU'. The separation of the funding mechanisms for Pillar 1 and Pillar 2 represents a significant obstacle to re-tuning the**

**balance of rural support measures in the EU and should be re-evaluated as part of the 2008/09 budget review. The UK should also use its influence in Europe to encourage other Member States fully to integrate their agricultural and environmental policies. The Government could point to the advantages that have flowed from such policies in England being the responsibility of a single department.**

The Government welcomes the Committee's agreement that future agricultural subsidy should be directed at public goods. We are lobbying extensively in the EU on the merits of that.

On publishing our vision paper, Margaret Beckett and Gordon Brown were clear that they had "not set out a route map for getting there. That must be the subject of inclusive debate across Europe over the next few years and achieved through a carefully planned process and to a manageable timescale". The objective was to open up debate, not shut it down by setting out a detailed plan.

That is not to say that we do not already have a good story to tell nationally, which we commend to others in the EU. There are now around 28,000 Environmental Stewardship Agreements in place covering nearly 4 million hectares of the country. The new Rural Development Programme for England provides £3.9 billion over its seven year life, more than double the budget for the last programme. £3.3 billion (virtually the maximum share of the programme possible under the current rural development regulations) of that will be devoted to schemes that enhance and protect the natural environment. That includes transferring (or modulating) up to 14% of the budget from Pillar 1 of the CAP to help fund environmental land management schemes, and providing over £700 million of national co-financing to accompany those modulated funds during the period 2007-13.

We are keen to take that debate forward at EU and national level, including in the context of the current review of our stewardship schemes, in order to review what public goods should be delivered in future by agriculture and how best to do that.

We are keen that the EU Budget Review starts from first principles in examining every aspect of the EU budget, including the whole of the CAP.

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

The UK Government did not call for cuts in the Pillar 2 budget as part of the 2005 budget deal. The agreement we achieved was the best available, given the level of opposition from other Member States to a switch in resources at that stage from Pillar 1 to Pillar 2 of the CAP. The agreement still provides broadly the same level of funding for rural development at EU level over the next financial perspective as over the preceding one.

Our position has remained consistent and we continue to favour a shift in emphasis from Pillar 1 to Pillar 2. We are doing that in the UK via the mechanism of voluntary modulation, backed by a significant sum of national co-financing, putting our own money where our mouth is.

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

The Government has championed the needs of developing countries and it remains one of the key reasons why we are seeking reform of the CAP along the lines of our vision. Agriculture is very important for developing countries, especially the poorest, where it accounts for 40% of GDP, 35% of exports and 50-70% of total employment. Economic modelling shows that the welfare benefits of CAP reform for developing countries would range between \$24–43 billion annually)<sup>7</sup>.

While some (generally middle income) developing countries may lose in the short term from higher food prices or from preference erosion, they are in a minority, and our vision is clear that transitional assistance should be provided. There has been much research on the impacts of preference erosion and the cases of ACP (African, Caribbean and Pacific) banana and sugar exports to the EU are known to be particularly problematic. The Government has been successful in securing EU transitional assistance to help ACP producers deal with new market arrangements. Aid for trade will also provide resources to support trade adjustment.

Ultimately, such assistance must help those countries move away from a dependence on preferences since they are an inefficient mechanism for transferring resources to developing countries, carry substantial administrative burdens, and leave local economies distorted and vulnerable by encouraging dependence on a small number of commodities.

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<sup>7</sup> Sources: Ruffer and Imber, 2003; Messerlin, 2004; Anderson Martin and van den Mensbrugge, 2005.

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

The Government agrees that using objective criteria is a more effective means of allocating rural development funds than historic expenditure and it is regrettable that the Commission did not use more objective criteria as the basis for allocating funding last year. Nevertheless, the European Commission and Agriculture Council have already signalled their intention to pay attention to the financing of Pillar 2 in the context of the Healthcheck and we will want this to include a clear commitment to review the methodology for allocating funding.

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

The Government agrees that a new, rational objective needs to be defined for the CAP and our vision provides one. We would look favourably on any proposals to reconsider the Treaty of Rome's objectives in this respect, but we believe our vision can be achieved without such change. In recent years, for example, the EU has decoupled support from production and established the rural development pillar of the CAP and the principle of cross-compliance, without the need to revisit its original Treaty basis.

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

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

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

- **The prioritisation of objectives (for example, between environmental and rural development considerations)**
- **The degree of subsidiarity embodied in the new policy**
- **The relative advantages and disadvantages of financing such a policy—at least to some extent (i.e. co-financing)—at the Member State level**
- **How much of the current expenditure on the CAP would be required to fulfil the policy objectives chosen**
- **How best to manage the transition from the current CAP to this new 'Rural Policy for the EU'**
- **The extent to which this new rural policy can contribute to the mitigation of, and adaptation to, climate change**

The Government disagrees with the Committee's criticisms about the nature of the CAP vision. Indeed, there is an element of inconsistency in the Committee's view that on the one hand the vision was not sufficiently revolutionary and on the other that its publication antagonised the Commission and Member States (conclusion 1).

The fact is the CAP has already been evolving in the right direction and our vision is about taking that process to its logical conclusion, so that Europe has a policy which is fit for modern global realities. The vision represented the most radical and far sighted concept for the CAP of anything proposed in the EU, advocating the complete end of Pillar 1 and a cut in import tariffs to the levels in the rest of the economy. It is hard to imagine that the European Commission or any other Member State would view that as anything other than a radical shift from the basis upon which the policy was developed 50 years ago.

The Government strongly defends financial savings as a worthwhile motive for further CAP reform; the CAP costs EU taxpayers €53 billion per year directly through the EU Budget, plus a considerable amount of additional funding from national budgets to cover both the costs of administering the CAP and co-financing under Pillar 2. The bulk of that spending is ineffective, unnecessary and wasteful.

We reject the implication that we do not have a clear idea of what will replace the CAP. In the first place, much of what is proposed is about taking away, *without replacement*, substantial elements of a policy which has been so damaging. Our vision is clear that what remains, in terms of public funding for agriculture, should be directed solely at the delivery of public goods. In that regard the Government has set out extensively a comprehensive vision for the future of farming which includes:

- the Government's Strategy for Sustainable Farming and Food, published in 2002, which set out a clear route map for achieving a farm sector which was profitable and sustainable;
- the Environmental Stewardship schemes, established over the past few years, part of the Rural Development Programme for England which has £3.9 billion allocated to it for 2007 to 2013;
- David Miliband's speech to the Oxford Farming Conference in January, which set out an ambitious, long term vision for English farming to deliver a net positive environmental contribution, particularly with respect to climate change.

We will continue to debate with stakeholders and across the EU the issue of public goods and the best means of their delivery. We will disseminate our emerging thinking in due course. Indeed, a review of Stewardship is already underway to improve delivery and take account of new priorities arising from further CAP reform.

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

The Government believes it is right that the UK should show leadership on the CAP reform agenda by using the flexibility provided by the EU legislation to move the CAP in a direction which is less market distorting and which provides greater public benefits for public money. Rather than undermining our negotiating position, we believe that approach reinforces our message by demonstrating to others in the EU that we have belief in our vision and by providing a tangible demonstration of the benefits.

The Government does, nevertheless, acknowledge with regret the significant administrative difficulties experienced with the delivery of the new Single Payment Scheme.

It is important that Member States are given the choice over whether or not to match-fund voluntary modulation. Forcing them to do so would act as a disincentive in those countries which could not afford the cost, thus losing benefits that might accrue from spending such money under Pillar 2. With respect to England, the Government has boosted the funding available for environmental schemes by match-funding voluntary modulation used to fund such schemes at a rate of 40%.

Pillar 2 of the CAP has the advantage of giving Member States much more discretion to use funding to target their specific needs. That is why we believe our vision is right for the new Member States as much as it is for us.

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

The Government is pleased that the Agriculture Commissioner has set out her intention that the 2008 CAP "healthcheck" will be first in a two step process towards more fundamental longer term reform.

The healthcheck allows the EU to make a detailed assessment of CAP mechanisms and to take decisions which will help farmers cope with the changing context they will face over the years to 2015–2020.

The Government would like to see the healthcheck:

- Complete the process of decoupling over a manageable timescale by removing any remaining coupled subsidy and eliminating constraints on production, such as quotas and set-aside. That would allow farmers to respond fully to market signals, boosting farm incomes and simplifying the CAP to a significant degree.
- For as long as Pillar 1 exists, to continue to use compulsory modulation to shift resources from Pillar 1 to Pillar 2 to secure improved public benefits.
- Focus rigorously on simplification of the CAP, for example by reducing the burdens of cross-compliance and eliminating anomalies within the single payment scheme.

That should bring real reductions in the burdens faced by farmers, reduce administrative costs and foster greater competitiveness.

- Avoid introducing any new distortions or complexities, such as the capping of direct payments or market distorting risk and crisis management measures.

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

**19. In putting forward our recommendations for a “Rural Policy for the EU”, we acknowledge the serious and inherent difficulties in making a clear move away from the entrenched position of the existing CAP. This is made particularly difficult by the inertia of the EU policy process and the close connection of the CAP with the overall budget of the EU, which Member States will be reviewing again in 2008/9. However, the prize of CAP reform is worth the Government devoting all its persuasive power and negotiating effort to push for such a move.**

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

Currently only 20% of the €53 billion CAP budget is directed at rural development. The rest is a legacy of its historic goal of stimulating production. There is, therefore, no correlation between the size of that budget and the cost of delivering public goods. On the contrary, there is every reason to believe that a policy targeted much more effectively on public goods would be considerably cheaper.

The CAP vision paper was produced jointly by Defra and Treasury and states clearly that “spending on agriculture would be based on the current Pillar 2”. That remains our position. In all policy areas, and looking ahead to the EU Budget Review, the Government believes that spending through the EU Budget should represent value for money, should add value compared to spending through national budgets, should be proportionate, and should be properly managed.

The rebate is necessary because of the imbalances created by EU expenditure policy. There is now a range of so-called correction mechanisms applying to different Member States' EU contributions, all of which are subject to review, alongside the rest of the EU budget in 2008/9. The Government will be putting full effort into negotiating the best outcome from that process.

Department for Environment, Food and Rural Affairs

27 July 2007

## Formal minutes

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**Wednesday 7 November 2007**

Members present:

Mr Michael Jack, in the Chair

Mr David Drew

David Taylor

Mr James Gray

Mr Roger Williams

Lynne Jones

Draft Report [*The UK Government's "Vision for the Common Agricultural Policy": Government response to the Committee's Fourth Report of Session 2006-07*], proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 12 read and agreed to.

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

*Ordered*, That the Government response to the Fourth Report from the Committee in the last Session to be appended to the Report.

*Ordered*, That the Chairman do make the Report to the House.

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[Adjourned till Monday 12 November at a quarter past Four o'clock.]