



House of Commons
Environment, Food and Rural
Affairs Committee

Greening the Common Agricultural Policy

First Report of Session 2012–13

Report, together with formal minutes, oral and written evidence

Additional written evidence is contained in Volume II, available on the Committee website at www.parliament.uk/efracom

*Ordered by the House of Commons
to be printed 23 May 2012*

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

Miss Anne McIntosh (*Conservative, Thirsk and Malton*) (Chair)
Thomas Docherty (*Labour, Dunfermline and West Fife*)
Richard Drax, (*Conservative, South Dorset*)
George Eustice (*Conservative, Camborne and Redruth*)
Barry Gardiner (*Labour, Brent North*)
Mrs Mary Glendon (*Labour, North Tyneside*)
Iain McKenzie (*Labour, Inverclyde*)
Neil Parish (*Conservative, Tiverton and Honiton*)
Ms Margaret Ritchie (Social Democratic and Labour Party, *South Down*)
Dan Rogerson (*Liberal Democrat, North Cornwall*)
Amber Rudd (*Conservative, Hastings and Rye*)

Tom Blenkinsop (Labour, Middlesbrough South and East Cleveland) and Cathy Jamieson (Labour/Co-operative, Kilmarnock and Loudoun) were members of the Committee during this inquiry

Powers

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

Publications

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

www.parliament.uk/efracom

Committee staff

The current staff of the Committee are Richard Cooke (Clerk), Lucy Petrie (Second Clerk), Sarah Coe (Committee Specialist—Environment), Phil Jones (Inquiry Manager—Agriculture), Clare Genis (Senior Committee Assistant), Gabrielle Hill (Committee Assistant), Julie Evans (Committee Support Assistant), and Hannah Pearce (Media Officer).

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 Hannah Pearce on 020 7219 8430.

Contents

| Report | <i>Page</i> |
|---|---------------|
| Summary | 3 |
| 1 Introduction | 5 |
| 2 Strategic Direction of the CAP | 7 |
| Legitimising payments | 8 |
| One-size-fits all | 8 |
| Simplification | 11 |
| Implementation | 12 |
| Food Security and food production | 13 |
| Modulation | 15 |
| Competitiveness | 17 |
| Penalties | 18 |
| 3 Improving the Commission's proposals | 20 |
| Crop diversification | 20 |
| Retention of Permanent Pasture | 21 |
| Ecological Focus Areas | 22 |
| Agri-environmental schemes | 27 |
| Defra's points system and recent developments | 30 |
| 4 Defra's Approach | 32 |
| 5 Conclusion | 34 |
| Conclusions and recommendations | 36 |
| Formal Minutes | 41 |
| Witnesses | 43 |
| List of printed written evidence | 43 |
| List of additional written evidence | 44 |
| List of Reports from the Committee during the current Parliament | 45 |

Summary

The European Commission has proposed a package of ‘greening’ measures that European farmers will need to satisfy to receive direct payments made under the Common Agricultural Policy (CAP). While the Commission’s objective of improving the environmental contribution of the CAP is commendable, the approach adopted by the Commission is unlikely to achieve that goal. In addition there is insufficient detail available about many of the measures to make an accurate assessment of their impact.

Europe has a range of environmental challenges and farming practices. We found that a single set of prescriptive rules applied across all of Europe was unlikely to deliver the desired environmental improvements. A one-size-fits all approach is not appropriate and so we advocate the Commission enabling Member States to tailor environmental measures to the local environmental and agricultural conditions. This position appears to be gaining ground across the European Union. The UK Government should continue to make the case to the Commission, other Member States and the European Parliament.

The Commission should set the high-level objectives for the CAP and provide for flexibility of approach through delegating the details to Member States while ensuring that there are sufficient safeguards to protect the competitive position of UK farmers.

The CAP is complex and burdensome. We urge the UK Government to press for greater simplification in the CAP and to ensure that the policy can be implemented in a way that provides value for money.

Payments made under the CAP should provide incentives for farmers to manage natural resources sustainably. The future CAP must help farmers to produce more while having fewer adverse impacts on our natural environment. The CAP has evolved from simply a method of supporting farmers and food production—the future CAP must help Europe face the challenges of food security, climate change and environmental degradation.

In the UK, the Commission’s crop diversification measure would have perverse consequences and will be considerably less environmentally beneficial than crop rotation. Defra should seek to remove this measure from the Regulations. Similarly the requirement to retain permanent pasture is likely to have unintended and perverse consequences. The measure would not only fail to deliver environmental benefit but also act as an incentive to remove environmentally important semi-natural grassland.

The Commission’s Ecological Focus Area (EFA) proposal has the potential to be the most environmentally beneficial of the three ‘greening’ measures. However, the lack of definitions in the proposals makes it difficult to assess what, if any, of those benefits would actually be delivered. In the UK, the EFA measure should be properly integrated with the Natural Environment White Paper’s goal of enhancing environmental interconnectivity.

The United Kingdom’s agri-environment schemes are among the best in Europe at delivering meaningful environmental benefits. The Commission’s ‘greening’ proposals must not be allowed to diminish that benefit. The reformed CAP should be coherent with the existing agri-environment schemes. Any ‘greening’ requirement should take account of

the environmentally beneficial activities undertaken by a farmer under an agri-environment scheme.

The CAP negotiations are ongoing and there have been reports of encouraging developments. Defra must redouble its efforts to find, engage and secure reliable allies across the European Union and have the resources in place to effectively and persuasively to put the UK's case that the CAP should support both the agricultural sector and provide environmental protection.

1 Introduction

1. The European Commission published its draft legislative proposals for reform of the Common Agricultural Policy (CAP) in October 2011.¹ The draft legislative proposals comprise Regulations on Direct Payments; the Single Common Market Organisation; Support for Rural Development, and Financing, Management and Monitoring. The Commission proposes replacing the existing direct payments (under Pillar 1) with a basic payment topped up by an additional payment conditional on farmers respecting certain “agricultural practices beneficial for the climate and the environment” financed from 30% of the national Pillar 1 envelope.² Receipt of the ‘greening’ top-up to the basic payment will require farmers to respect certain “simple, generalised, non-contractual and annual actions that go beyond cross compliance and are linked to agriculture”.³

2. When the draft Regulations were published the Commission intended that the legislative proposals be agreed by the end of 2012 to enable implementation from January 2014. This timetable has always looked over-optimistic, not least as it will not be possible to ratify the final agreement until the next multiannual financial framework has been agreed. Agreement on the legislative proposals may be concluded in the first half of 2013 with implementation in 2015.⁴ Any in implementation will create difficulty for stakeholders and for Member States that are designing their rural development programmes and modifying administrative systems to take account of the Regulations.

3. The Commission proposed three mandatory ‘greening’ activities: retaining areas under permanent grassland as declared in 2014; crop diversification,⁵ and ecological focus areas [EFA].⁶ The details of all three activities will be defined by the Commission under delegated acts, over which Member States have a limited say. Organic producers will receive the ‘greening’ top-up without having to carry out the three measures. Farmers whose farms lie in Natura 2000 areas (protected areas for the conservation of habitats, flora and fauna) or in areas covered by the Wild Birds Directive will be required to carry out the activities to the extent that they are compatible with the management requirements of those sites.⁷ Farmers that apply for the small farmers’ scheme (under which they receive a

1 See http://ec.europa.eu/agriculture/cap-post-2013/legal-proposals/index_en.htm. The CAP has a two-pillar structure. Pillar 1 is 100% funded from the EU budget; payments provide direct income support to farmers subject to cross-compliance rules. Pillar 2 (the Rural Development Fund) is co-financed between the EU budget and Member States over a multi-annual planning cycle. Pillar 2 provides additional payments to farmers for undertaking specific additional forms of management or investment, including for environmental protection. See Environment, Food and Rural Affairs Committee, Fifth Report of Session 2010-12, *The Common Agricultural Policy after 2013*, HC 671-I for fuller description of the structure of the CAP.

2 Proposal for a Regulation of the European Parliament and of the Council on establishing rules for direct payments to farmers under support schemes within the framework of the common agricultural policy, COM(2011) 625 final/2

3 *Ibid.*

4 “New CAP will be delayed until 2015” *Farmers Guardian*, 23 March 2012; “Farron calls for clarity on CAP delay” *Farmers Guardian*, 6 April 2012

5 Crop diversification: at holding level arable land of more than 3 hectares must have at least three different crops. None of the crops should cover less than 5% and the main crop should not exceed 70% of the arable land.

6 Ecological Focus Area (EFA): an area equivalent to at least 7% of a farmer’s eligible hectares (permanent grassland is excluded from the calculation) should be used for ecological purposes. Habitats and features that would be eligible to fulfil the EFA requirement may include: fallow land, terraces, landscape features, buffer strips, and areas afforested under pillar 2.

7 Proposal for a Regulation of the European Parliament and of the Council on establishing rules for direct payments to farmers under support schemes within the framework of the common agricultural policy, COM(2011) 625 final/2

lump sum up to €1000 per annum irrespective of farm size, rather than an area-based payment) will be exempt from the ‘greening’ requirements.⁸ The draft Regulation states that “non-respect of the ‘greening’ component should lead to penalties” indicating that, as well as not receiving 30% of direct payments, farmers will be subject to additional, as yet undefined, fines if they do not carry out the required activities.⁹

4. Pillar 2 of the CAP provides payments, co-financed by the Member State, for programmes intended to improve the environment and the countryside; to increase agricultural competitiveness and to improve the quality of life in rural areas and facilitate rural diversification. Agri-environment schemes, which are voluntary, contractual, multi-annual and targeted, are included under these programmes. These schemes provide for more sophisticated environmental management and are widely considered to be cost-effective and to deliver more meaningful environmental benefits than cross-compliance.¹⁰

5. The Commission’s package of CAP reform proposals included several other initiatives, some of which we considered in our report on *The Common Agricultural Policy after 2013* published on 15 April 2011.¹¹ In this inquiry, announced on 3 November 2011, we have focussed on the Commission’s ‘greening’ proposals.¹² We held four oral evidence sessions and heard from farming groups, NGOs, academics, and the Secretary of State for the Environment, Food and Rural Affairs.¹³ We received written evidence from 35 individuals or organisations.¹⁴ We are grateful to all those who contributed to our inquiry. The negotiations and discussions on these issues are continuing and significant developments have emerged since we concluded taking evidence.

8 *Ibid.*

9 *Ibid.*

10 Ev 98, Ev w50 ff.

11 Environment, Food and Rural Affairs Committee, Fifth Report of Session 2010-11, *The Common Agricultural Policy after 2013*, HC 671-I. Other elements of the Commission’s proposals include:

Move to uniform area-based payments away from payments based on historic production levels;

Capping of payments at € 300,000 (after expenditure on salaries has been taken in to account and not applicable to the greening payment);

New definition of an ‘active farmer’. To be eligible for direct payments, the recipient must actively maintain land in a condition suitable for farming and their income from direct payments must be at least 5% of their income from non-agricultural activities;

Additional top-up payment for young farmers (under 40 years old);

Simplified payment scheme for small farmers via a lump sum irrespective of farm size,

Optional top-up for areas of natural constraint (up to 5% of the Pillar 1 national envelope).

12 The terms of reference are available on the Committee’s website:
<http://www.parliament.uk/business/committees/committees-a-z/commons-select/environment-food-and-rural-affairs-committee/inquiries/parliament-2010/cap-follow-up/>

13 Full list at p 43

14 Full list at pp 43– 44

2 Strategic Direction of the CAP

6. The CAP's original purpose was to boost domestic production through market price support. As production rose the cost of the CAP increased and excess agricultural goods had to be stored at public expense. In 1992 CAP payments were decoupled from production and intervention prices for key agricultural commodities were reduced. Further reforms in 2000 and 2003 maintained the momentum away from payment for production and introduced environmental and animal welfare requirements for receipt of the new Single Farm Payment.¹⁵ In *The Common Agricultural Policy after 2013* report we noted the evidence supporting the Commission's focus on sustainability and the environmental performance of agriculture.¹⁶ We concluded that "sustainable management of the EU's natural resources, biodiversity and landscapes" should be the CAP's third objective behind enhancing the EU's capacity to produce safe and high-quality food and enhancing the competitiveness and viability of the EU agricultural sector.¹⁷ The Government response to that report concurred that "the CAP has a vital role in supporting the provision of environmental public goods".¹⁸

7. Both farming and environmental organisations have criticised the Commission's proposals. However, there is a general consensus that there is a benefit in improving environmental outcomes and that within the EU, payments under the CAP should reflect that goal.¹⁹ For example, the Wildlife Trusts, while describing the proposals as "unambitious", and "not ideal", did welcome the principle of a 'greener' CAP.²⁰ Peter Kendall, President of the National Farmers Union (NFU), described the proposals as "negative measures", rather than the "ones that are able to deliver win-wins, where we can become more productive and produce more food as well as protect the environment".²¹ The National Trust (NT), which has a direct interest in 200,000 ha of farmland across the UK, welcomed the Commission's "ambition to 'green' the CAP", but believed that the proposals fall short of their aim.²² The Trust had hoped "to see proposals that delivered much more for natural resources underpinning the farmed environment, preparing us for an uncertain future of climate and food insecurity".²³ Professor Charles Godfray, Chair of the Lead Expert Group of the Foresight Food and Farming Project, gave a general welcome to 'greening' but was concerned that the Commission had not recognised the wider policy environment that the Foresight project identified. He expressed concerns about "the way they are implementing the greening, by what they have proposed for Pillar 1, is rather

15 See *The Common Agricultural Policy after 2013* for fuller description of the origin and evolution of the CAP.

16 *The Common Agricultural Policy after 2013*, paras 44-46

17 *The Common Agricultural Policy after 2013*, paras 34-43

18 Environment, Food and Rural Affairs Committee, Fifth Special Report of Session 2010-12, *The Common Agricultural Policy after 2013: Government response to the Committee's Fifth Report of session 2010-12*, HC 1356

19 Ev 98, 95, 85, 76, 69, 57, Q 5 [Mr Cotterell]

20 Ev 85; Q 96 [Mr Wilkinson]

21 Q 2 [Mr Kendall]

22 Ev w34

23 Ev w34

formulaic or algorithmic, rather than setting incentives for the production of public goods”.²⁴

8. Much of the evidence we received was necessarily tentative in its assessment of the Commission’s proposals due to the lack of detail currently available about how the measures would work in practice. **We support the Commission’s broad goal that CAP payments be a method for improving environmental outcomes across Europe but we note that the lack of detail available about the Commission’s specific proposals makes it difficult to make precise assessments of their potential impact and value.**

Legitimising payments

9. The Royal Society for the Protection of Birds (RSPB) described the ‘greening’ proposals as a missed opportunity to support European farming becoming more environmentally and economically sustainable.²⁵ Gareth Morgan, Director of Agricultural Policy at the RSPB described the Commission’s “primary” aim to be “how you legitimise expenditure of €300 billion over the next seven years”.²⁶ That view was shared by several witnesses, including the Country Land and Business Association (CLA), which noted that Commissioner Ciolos had been explicit about the need to legitimise CAP payments in the eyes of the public.²⁷ The CAP provides support to some 14 million agricultural holdings and affects nearly 50% of the EU’s land area. It is the EU’s single largest item of expenditure, at a cost of around €57 billion in 2010.²⁸ The Commission should wish to assure the general public that CAP payments are justified and legitimate. However, the Commission’s primary consideration when designing revisions to the CAP should be the delivery of the desired agricultural, environmental, economic and social outcomes. The CAP’s legitimacy in the eyes of the public will come from delivering those outcomes and securing value for money. **We are concerned that the Commission is pursuing a greening agenda as a way to justify the continuation of direct payments, rather than as a means to deliver genuine environmental improvements across the European Union.**

One-size-fits all

10. The Commission aims to improve the baseline level of environmental protection across all Member States by making farmers across the EU subject to largely the same requirements to qualify for a significant proportion of direct payments. Currently direct payments are conditional on farmers meeting the cross-compliance criteria: Statutory Management Requirements (SMR) and Good Agricultural and Environmental Condition (GAEC), which includes environmental elements.²⁹ The Commission proposes simplifying

24 Q 118

25 Ev 76

26 Q 96 [Mr Morgan]

27 Q 3, Ev 56, Ev w9, w32

28 The European Commission has proposed the overall CAP budget rise to €60.3 billion for the next financial year. “Commission proposes modest rise for CAP budget next year” *Agra Europe*, 1 May 2012

29 Statutory Management Requirements (SMR), are embedded in EU Directives, such as those on nitrates and habitats. The precise standards required for Good Agricultural and Environmental Condition (GAEC) are set by Member States and relate, for example, to water protection, soil management and landscape.

cross-compliance requirements by reducing the number of SMRs from 18 to 13 and GAEs from 15 to 8.³⁰

11. Despite the universality of cross-compliance requirements, Member States vary in how they implement and enforce those standards.³¹ According to the Institute of European Environmental Policy (IEEP), introducing additional mandatory ‘greening’ measures into Pillar 1 provided a “stronger means of ensuring a basic level of environmental management” across the whole of the EU.³² The CLA considered that, depending on their implementation, the ‘greening’ measures had the potential to provide environmental improvements in those Member States with rudimentary agri-environmental schemes or less demanding cross-compliance.³³

12. The UK is considered to be one of the leading Member States in terms of providing environmental improvements through the CAP, particularly through Entry Level Stewardship and Higher Level Stewardship agri-environment schemes.³⁴ The Secretary of State told us that the Commission recognised that the “UK is out there more or less in a league of its own, particularly with higher level stewardship schemes, which make very strong demands on farmers to address very real needs for biodiversity”.³⁵ The CLA noted that if the ‘greening’ measures were intended to bring all Member States’ basic farmland environmental management up to the standards of the best in Europe, they were unlikely to lead to any noticeable environmental enhancement in this country.³⁶

13. Critics of the Commission’s uniform, one-size-fits all approach emphasised the diversity of agricultural and environmental conditions across the EU.³⁷ The Department for Environment, Food and Rural Affairs (Defra) doubted that the ‘greening’ measures would deliver additional environmental benefits for the EU because “in attempting to make them applicable across all Member States, they are far too basic in their approach”.³⁸ The majority of Member States are concerned that the Commission’s proposed rigid, one-size-fits-all approach appeared “to deliver more red tape than actual environmental benefit”.³⁹ The Secretary of State did not think that Member States would reach agreement on the Commission’s “sub-optimal” and “prescriptive” one-size-fits all approach.⁴⁰

30 The SMRs relating to control of bluetongue, foot and mouth and swine vesicular disease have been deleted. The GAEs relating to retaining permanent pasture and preventing the encroachment of vegetation have been removed—however these activities will still be required under the greening and eligibility provisions respectively. The optional GAEs on using appropriate machinery, retaining habitats and crop rotation have been dropped. New GAEs relating to maintaining wetlands and carbon rich soils have been added. Moreover, the Commission intends to incorporate additional rules stemming from the Water Framework Directive and the Sustainable Use of Pesticides Directive once these Directives have been implemented in all Member States

31 Ev w52

32 Ev w52

33 Ev 57

34 Ev w52

35 Q 196

36 Ev 57

37 Ev 50, Ev w11; “CAP subsidies must place greater focus on biodiversity, urge MEPs” Agra Europe, 1 May 2012

38 Ev 99

39 HC Deb, 7 November 2011, col 4WS

40 Qq 176, 200

14. Professor Benton, an expert in agri-environment scheme policy and the UK's Global Food Security Champion, while accepting the need for a "uniform framework", explained that implementation of the Regulations should allow for sufficient tailoring to local circumstances.⁴¹ He stated that:

...what is the best strategy for one landscape, with its geographical setting and the mix of farm enterprises, may not be the best strategy for another area. The optimal management strategy will vary with landscape context, leading for a necessity for local tailoring of specificities of schemes to make maximum gains.⁴²

He added that "even in the UK, how you would manage a Cornish landscape is very different from how you would manage a Norfolk landscape".⁴³

15. Natural England, the Government's statutory advisor on the natural environment agreed that there was benefit in Pillar 1 providing a degree of uniformity to ensure a 'level playing field' across the EU, but emphasised that the best results required "locally specific and locally tailored solutions".⁴⁴ Mr Morgan considered it "a bit unrealistic" to expect a Common Agricultural Policy to be tailored to the needs and circumstances of every region across the EU; he therefore considered that "we have to have some limits to what our expectation of the greening process through Pillar 1 can be".⁴⁵ The IEEP concluded that by "proposing a set of generally applicable, simple, annual payments" the Commission had placed greater value on a "common approach applied uniformly in all Member States over flexibility to address the diverse conditions in the EU-27".⁴⁶ We find it telling that the Institute concluded that "clearly, if only the UK situation needed to be considered, then the choices made would have been quite different".⁴⁷

16. Much of our evidence emphasised that environmental outcomes are best delivered by tailored and locally specific policies. There are also benefits in having sufficient uniformity in the general approach, not least to simplify the administration and protect the level playing field for farmers across the EU.⁴⁸ **We recognise the need for a common policy to regulate aspects of the single European market, however, for policy areas such as the environment and rural development any policy must take account of the local circumstances: a one-size-fits-all approach will fail to deliver the desired outcomes.**

17. In response to the Commission's overly prescriptive one-size fits all 'greening' proposals several Member States have together developed alternative proposals that would give greater flexibility and enable each country to implement measures better targeted to their own farming systems and environmental circumstances.⁴⁹ The Commission should

41 Ev 93, Q 39

42 Ev 91, see Q 57

43 Q 40

44 Q 94

45 Q 97; See Q 105

46 Ev w52

47 *Ibid.*

48 See Q 48

49 "Alternative to EU's greening measures" Farmers Guardian, May 4 2012; XXX

grasp the opportunity to enable Member States to take sensible decisions about how measures can be tailored to local environmental circumstances and needs. **We recommend that Defra continue to press the Commission to develop a less rigid approach to ‘greening’ that would enable individual Member States the flexibility to decide measures that work best in their local environment.**

18. Defra supported our conclusion in *The Outcome of the independent Farming Regulation Task Force* report that, as a general principle, regulation should be on the basis of outcomes rather than simple compliance with processes.⁵⁰ Rather than identifying desired outcomes, the Commission has taken an inflexible approach to ‘greening’ that would impose a single set of regulatory criteria across the range of farm habitats and methods found across the EU.⁵¹ The Commission is more likely to find success if it focuses on setting the objectives of ‘greening’ and allows Member States the flexibility to design measures that work best in their local environment. Such an approach is not a diminution of “greening” but rather enhances the prospects of achieving appropriate environmental outcomes. There is a precedent for such an approach. Within the proposals for reform of the Common Fisheries Policy, the Commission has allowed for a much greater degree of regional control over fishing management measures, without diluting the important conservation and single market objectives of the common approach. In our report on *EU proposals for Reform of the Common Fisheries Policy* we concluded that “a more effective system of European fisheries governance could be achieved if high-level objectives only are set centrally by the European institutions while day-to-day decisions are delegated to regional groupings of Member States”.⁵² We consider that the Commission should consider a similar approach in relation to ‘greening’.

19. **We recommend that Defra make the argument to the Commission that it should set the high-level objectives for a greener CAP and allow Member States the flexibility to determine how best to achieve those objectives. Such delegation has been proposed within the reform proposals for the Common Fisheries Policy and we recommend that Commissioner Ciolos consider how such an approach could be applied to the Common Agricultural Policy. We accept that complete decentralisation of these policy areas may be impossible to achieve within this round of CAP reform but we urge the Government to make the case that greater flexibility and increasing local decision-making should be the strategic direction of the CAP.**

Simplification

20. The CAP is currently complex, burdensome and expensive to administer and therefore the Commission has identified simplification as an objective for this round of CAP reform. Despite the Commission’s commitment to simplification, our evidence suggests that the ‘greening’ proposals will create additional bureaucracy and complexity for farmers and

50 Environment, Food and Rural Affairs Committee, Ninth Special Report of Session 2010-12, *The Outcome of the Independent Farming Regulation Task Force: Government Response to the Committee’s Tenth Report of Session 2010-12*, HC 1669; See Q 220

51 “European court slams ‘unfocused’ Commission plans for CAP reform” Agra Europe, 24 April 2012

52 Environment, Food and Rural Affairs Committee, Twelfth Report of Session 2010-12, *EU proposals for Reform of the Common Fisheries Policy*, HC 1563-I, para 23

paying agencies.⁵³ The UK Co-ordinating Body for the Common Agricultural Policy described the proposals as representing “considerable additional administrative complexity compared to the current regime”.⁵⁴ According to Defra, that additional administrative complexity risks increasing the error rates in payments, which could lead to financial hardship for farmers and financial penalties for the Member State.⁵⁵ The RSPB supported reducing unnecessary burdens but noted that a degree of complexity would be necessary to achieve the policy’s environmental objectives.⁵⁶ Similarly, the IEEP argued that delivering environmental benefits involves some administrative burden.⁵⁷

21. The farming organisations believed that the proposals would add complexity or administrative burden. For example the crop diversification measure may require the reintroduction of crop codes to differentiate between different crop types, as well as requiring additional mapping.⁵⁸ The EFA measure may also require additional mapping to calculate the eligible area.⁵⁹ The NFU predicted that ‘greening’ proposals may lead to a proliferation of artificial land swap agreements which would result in additional administration by the Rural Payments Agency.⁶⁰ The CAAV considered that the proposals “add new levels of complexity for both claimants and payment agencies and, as drafted, risk undermining the level of agri-environment commitment in the UK”.⁶¹

22. We consider it highly improbable that the Commission’s proposals will deliver a simpler CAP. We recommend that Defra ensure that, as the negotiations continue, the Commission does not lose sight of the absolute need for a system of CAP payments that can be implemented and audited efficiently. The Commission must balance the often conflicting pressures of designing a policy that will deliver positive environmental outcomes with the need for a policy that can actually be implemented and delivered for a reasonable cost.

Implementation

23. In *The Common Agricultural Policy after 2013* we discussed the costs of administering Single Farm Payments in the UK. We concluded that Defra should “resist the imposition of policies that would create undue bureaucracy and burden for farmers or the government payment agencies”.⁶² The Rural Payment Agency has acknowledged the challenges of the CAP reform.⁶³ Its five-year plan states that “...there are aspects of the currently proposed

53 Ev 58, 68, 97, 101; Ev w35; Q 193; “CAP complication a necessary evil – Fischler” *Agra Europe*, 28 February 2012; “European court slams ‘unfocused’ Commission plans for CAP reform” *Agra Europe*, 24 April 2012; See Qq 83ff

54 Ev w 5

55 Ev 101

56 Ev 83

57 Ev w 54

58 Ev w 12; Ev 101. The scheme that preceded the Single Payment Scheme had 135 crop codes. Defra’s initial analysis suggests that approximately 71,000 claims contain at least some arable land and might have to use additional land use codes.

59 Ev 101

60 Ev 68; Q 14 [Mr Kendall]

61 Ev w 11

62 *The Common Agricultural Policy after 2013*, paras 223-224

63 HC 1028-i, Qq 28ff, 42ff

scheme which are likely to entail a great deal of complexity for RPA, regardless of how our new systems and business models are constructed”.⁶⁴ Those challenges come at a time of reducing funding for the agency.⁶⁵ **The capability and capacity of the Rural Payments Agency will be critical to the successful implementation of the reformed CAP. Defra must ensure that the agency has the financial resources and expertise to deliver the new regime.**

24. There is a widely held view in UK agriculture that the Government gold plates European legislation. For example, in our *Outcome of the Farming Regulation Task Force* inquiry the CLA said:

Many pieces of EU law are minimum requirements, requesting the Member State to enforce implementing Regulations. It is up to the Member State to determine how much, or how little, to transpose. What has happened with Defra and its agencies is a policy of over-compliance when it is often the case this was never originally intended.⁶⁶

25. The NFU was concerned that Defra was under pressure from the environmental bodies to gold plate the ‘greening’ measures in order to enhance their environmental benefits”.⁶⁷ It argued that “the ‘greening’ measures put forward at an EU level should be implemented evenly across the EU. There should be no opportunity for Member States to gold plate the measures or add in requirements beyond those stipulated at EU level”.⁶⁸ The Secretary of State told us that the Government was “dedicated to prising gold plating off wherever we see it” and was “not about to install new gold plating”.⁶⁹ **Whatever the form of the final mandatory ‘greening’ measures, Defra must not gold plate ‘greening’ through imposing more demanding measures on UK farmers than apply elsewhere.**

Food Security and food production

26. In *The Common Agricultural Policy after 2013* we reiterated our view that the EU will, through the reformed CAP, have a role in meeting future global food supply challenges.⁷⁰ We recommended that “any ‘greening’ of the CAP should be directed at activities that

64 Rural Payments Agency Five Year Plan 2012-2017, p 8

65 Rural Payments Agency Five Year Plan 2012-2017, p 21; The RPA’s Business as Usual Funding allocations are:

| | FY 2012/13 (£m) | FY 2013/14 (£m) | FY 2014/15 (£m) |
|--|-----------------|-----------------|-----------------|
| Business as Usual | 169.8 | 155.8 | 145.7 |
| Strategic Improvement Plan additional investment | 20.0 | 12.1 | 5.0 |

66 EFRA Committee, Tenth Report of Session 2010-12, The Outcome of the Independent Farming Regulation Task Force, HC 1266, Ev 49

67 Ev 68

68 Ev 70

69 Q 187

70 *The Common Agricultural Policy after 2013*, paras 34-39

promote sustainability alongside competitiveness”.⁷¹ Professor Benton summarised the challenge:

... how do we increase food production whilst at the same time decreasing the rate at which we have been impacting on the environment, or even mitigate against that and make it better? Clearly, with the CAP, we need to have both.⁷²

27. Professor Godfray, Chair of the Lead Expert Group of the Foresight Food and Farming Project, described graphically the challenges to global food security and the potential consequences if those challenges were not met.⁷³ He agreed with our analysis that the CAP should not directly increase food production but should “enable our farming sector to respond to price signals”.⁷⁴ He told us:

A leitmotif running throughout the Foresight Report was the need for sustainable intensification, so we will almost certainly have to produce more food from the same amount of land or, conceivably, less land. That does mean, as you say, producing more food, but doing it in a way that has less imprint on the environment. We should be as concerned about kilograms or calories of human food per unit of greenhouse gas emitted to the atmosphere as we are about yield per acre.⁷⁵

28. The balancing point between food production and environmental protection is naturally a concern for both farming organisations and environmental organisations. Mr Morgan argued that the reforms would have “serious problems” if food security and environmental quality were considered to be in opposition.⁷⁶ He did not think that the Commission had “approached this reform from any particular food security perspective”.⁷⁷ While our witnesses acknowledged the importance of food security, the farming organisations did not consider the proposals addressed the issue sufficiently or identified the desired outcomes.⁷⁸ According to the NFU the EFA measure would remove 5.74 million hectares of land from food and energy production—equating to 31 million tonnes of wheat production.⁷⁹ The CLA added that that removal of productive land would not only reduce EU food output but also increase food imports from countries “where we have no idea what the environmental cost would be”.⁸⁰

29. The Commission’s Impact Assessment calculated that on average 2.7% of the current EU eligible area would be likely to count as part of the EFA and that figure would increase were landscape features to be included.⁸¹ The IEEP considered farmers likely to allocate the

71 *The Common Agricultural Policy after 2013*, para 143

72 Q 38

73 QQ 118-119

74 Q 120

75 Q 120

76 Q 96 [Mr Morgan]. See “Trade-offs needed for food security”, *Farmers Weekly*, 9 March 2012

77 Q 96 [Mr Morgan]

78 Q3 [Mr Kendall, Mr Dunn]

79 Ev 71

80 Ev 58

81 Ev w53; See Impact Assessment: Common Agricultural Policy towards 2020, SEC(2011) 1153 final/2

least productive land to be used for the EFA first so that the percentage of productive land taken out of production by the measure will be well below 7%.⁸² Nevertheless, the measure would in their view have an impact on production levels, particularly in areas of the EU dedicated to arable farming.⁸³

30. Some, however, argued that the measures would have little or no detrimental impact on food security.⁸⁴ Chris Gerrard, Director of Living Landscapes for the Bedfordshire, Cambridgeshire and Northamptonshire Wildlife Trust said that in the context of food security the amount of land in production in Europe and the UK was less of an issue than the “distribution of food, the production of food, minimisation of waste and innovation in food production”.⁸⁵

31. The principal purpose of the CAP is to support food production and, in the long term, the goal for the CAP must be delivering sustainable food production. In developing these proposals the Commission appears not to have considered food security and how ‘greening’ will interact with efficient farm production. In our view the Commission has missed the opportunity to encourage sustainable intensification of food production.

Modulation

32. There is substantial evidence that multiannual, voluntary and targeted Pillar 2-type schemes deliver better environmental outcomes than mandatory, generalised, non-contractual, annual actions under Pillar 1.⁸⁶ For example, Defra concluded that the ‘greening’ proposals would “fall short of delivering the level of environmental outcomes achieved by England’s current Entry Level Stewardship scheme which delivers a basic level of environmental outcomes across 70% of England’s agricultural area”.⁸⁷ Professor Godfray advocated greater “modularity” by moving from the “formulaic” Pillar 1 approach to schemes in Pillar 2 that enabled the Government to use a more innovative approach to securing public benefits while providing farmers with an income.⁸⁸ The IEEP noted that the limited funding available through Pillar 2 and the reluctance of Member States to increase levels of co-financing meant that there were limits to what could be achieved through Pillar 2 schemes.⁸⁹ Mr Morgan, argued that as the Treasury would resist increasing the money allocated to agri-environment schemes, ‘greening’ had the potential for reducing the funding pressure on Pillar 2.⁹⁰ The Wildlife Trusts argued for a combination of high quality

82 Ev w52ff, Ev 58

83 Ev w 53

84 Ev w 53

85 Q 108 [Mr Gerrard]; See Q 43

86 Ev w50; Q 10 [Mr Cotterell]; Qq 68-71

87 Ev 99

88 Q 134

89 Ev w50

90 Q 116

optional agri-environment schemes under Pillar 2 underpinned by mandatory environmental measures under Pillar 1.⁹¹

33. In England, a significant proportion of the current Pillar 2 budget is funded through modulation. Modulation is the transfer of a percentage of each farmer's direct payment to the Pillar 2 budget. England uses a higher modulation rate (19%) than most EU countries (10%), or even the devolved administrations (11%-14%), in part because the UK currently receives the lowest Pillar 2 allocation of all Member States. In the Committee's previous CAP inquiry, farming groups said this created unfair competition and advocated either equal rates or no modulation at all. However, Defra argued that higher rates of modulation in England were needed to fund environmental stewardship schemes.⁹²

34. In *The Common Agricultural Policy after 2013* we found that the variation in modulation rates across the EU made the distribution of funding between Member States more complex and less objective. Moreover, we believed that the current system was not in the interests of fair competition for UK producers within the EU market. We recommended that:

Defra should argue strongly for a more equitable distribution of Pillar 2 funding. If modulation is to continue, the rate at which payments are reduced should be common across the EU. Defra should ensure that it can meet its ambitions for delivery of agri-environment schemes from its Pillar 2 budget without recourse to higher modulation rates in England than apply in the rest of the UK, or in Europe.⁹³

In response to our report the Government stated that:

The UK will seek distribution of funds based on clear, objective criteria, with Pillar 2 forming a greater share of a smaller CAP budget. Given the widely varying nature of farming and rural issues across the EU and within Member States, the UK believes that Member States should continue to be given the flexibility to allocate CAP funding in a way that best suits the requirements of their own regions and farming structures, providing it is consistent with the wider objectives of the CAP.⁹⁴

35. The Commission proposes that Member States will have the possibility of transferring up to 10% of their national envelope for Direct Payments (1st Pillar) to their Rural Development envelope; and the Member States that get less than 90% of the EU average for direct payments now may transfer up to 5% of their Rural Development funds to their 1st Pillar national envelope. Defra's written evidence to this inquiry makes it clear that they would like to continue modulation of direct payments under the new CAP:

The Commission proposals now provide for up to 10% transfer from Pillar 1 to Pillar 2 alongside greening. Flexibility to move resources between pillars is potentially the most flexible mechanism available to Member States to maximise the environmental

91 Ev 87

92 *The Common Agricultural Policy after 2013*, paras 125-135

93 *The Common Agricultural Policy after 2013*, para 135

94 Environment, Food and Rural Affairs Committee, Fifth Special Report of Session 2010-12 *The Common Agricultural Policy after 2013: Government response to the Committee's Fifth Report of session 2010-12*, HC 1356, page 9

outcomes from the CAP and the one delivering both the most additionality and the least disruption to existing agreements.

Despite its preference for Pillar 2 schemes, the department did not commit to how the Treasury would respond to any increase in the co-financing commitment that Pillar 2 relies upon.⁹⁵

36. The transfer of funds from Pillar 1 direct payments to Pillar 2 voluntary schemes is opposed by the farming unions, who argue that it puts farmers at a competitive disadvantage relative to farmers elsewhere in Europe who enjoy higher direct payment rates as a result of their country's lower modulation rates.⁹⁶ The NFU were concerned that the Treasury would see the proposals as an opportunity to reduce national co-financing requirements if actions currently financed through the Pillar 2 were made compulsory in Pillar 1. Peter Kendall, President of the NFU, told us that as the Treasury would resist the additional co-financing burden of moving money from Pillar 1 to Pillar 2, the Government might be considering moving measures from Pillar 2 to Pillar 1. He described such an approach would have “phenomenal” implications for the Government's regulatory work.⁹⁷

37. The competitiveness of UK farmers will be reduced if they are exposed to higher modulation rates than their European counterparts. We therefore recommend that Defra does not set modulation rates higher than other Member States that receive similar single farm payment rates.

38. We conclude that it is important that the two Pillars work together rather than at cross purposes to one another. However, increasing the burden on Pillar 2 is unlikely to be politically achievable, not least because of additional co-financing that would be required.

Competitiveness

39. Most of the evidence we received argued that the three ‘greening’ measures were likely to have a negative impact on farm competitiveness and profitability.⁹⁸ The NFU noted that the proposals would not help farmers produce for the market and reversed previous reforms’ focus on competitiveness.⁹⁹ Mr Kendall questioned whether, given the current state of the European economy, it was appropriate for the Commission to make proposals that would lead to production being exported outside the EU. The IEEP, however, argued that as the ‘greening’ measures would create a level playing field across all Member States and that UK agricultural competitiveness would be enhanced due to its record of taking a proactive approach to environmental issues.¹⁰⁰ The environmental organisations questioned the extent to which, in the long term, ‘greening’ would have a negative impact

95 Q 147

96 “Unions unite against UK CAP cost cutting plans” Farmers Guardian, 27 April 2012

97 Q 31

98 Ev 97

99 Qq 4, 14

100 Ev w54

on competitiveness.¹⁰¹ They highlighted evidence that greener agriculture had economic benefits across rural communities.¹⁰²

40. Of the three ‘greening’ proposals the EFA measure was identified as having the greatest potential impact on farm competitiveness due to the removal of productive land.¹⁰³ An analysis by the Agricultural and Horticultural Development Board (AHDB) found that the EFA measures alone would reduce the gross crop margin by between £38 and £48 per hectare.¹⁰⁴ The AHDB concluded that “The legislative measures, if implemented in the way they are currently set out, would seem to potentially have a large negative impact on UK combinable cropping farm-level profitability and production decisions”.¹⁰⁵ A report from the International Centre for Trade and Sustainable Development (ICTSD) concluded that the ‘greening’ proposals would “increase the costs of farming in the EU either directly or indirectly [...] reduce supply and increase market prices”.¹⁰⁶ The ICTSD did conclude, however, that in the longer-term more sustainable agricultural practices may lead to higher yields.¹⁰⁷

41. The Commission acknowledges that its proposed measures will have an impact on farm competitiveness and that the impact will vary depending on the type of farm. For example highly specialised cropping farms are expected to be most affected by diversification and livestock farms are more likely to be affected by the permanent pasture requirement.¹⁰⁸ The Commission also estimates wider impacts on commodity prices through changes in crop production due to the crop diversification and EFA requirements. The ‘greening’ measures will also reduce farm incomes per agricultural worker.¹⁰⁹

42. We conclude that the ‘greening’ proposals will have a significant impact on the competitiveness of UK farmers. We urge Defra to continue to press the Commission to enable farmers to opt out of prescriptive mandatory measures in favour of those schemes that deliver environmental outcomes and do not diminish competitiveness.

Penalties

43. The recitals of the draft Regulation on direct payments emphasises the mandatory nature of ‘greening’ practices. The Regulation goes on to state that “Non-respect of the ‘greening’ component should lead to penalties”. However, as the CAAV noted that, “neither the draft of the direct payments Regulation nor that of the finance Regulation gives any clue as to the penalty regime for breaching greening”.¹¹⁰ The RSPB argued that

101 Qq 99-101

102 Q 99 [Mr Morgan], Q 101 [Mr Wilkinson]

103 Ev 101

104 Ev 67

105 *Ibid.*

106 Ev 68

107 *Ibid.*

108 EV 99

109 Ev 67. The Commission’s Impact Assessment shows that income per worker in the pig and poultry industries could fall by 25%, and in the dairy industry it could fall by nearly 6%.

110 Ev w11

the “EU’s long-term food security depends on maintaining the productive capacity of agricultural land. ‘Greening’ the CAP is therefore not optional: it is a necessity”.¹¹¹ They therefore expressed a strong preference for farmers to receive a severe penalty for not meeting the greening requirements:

Sanctions for farmers and land managers who fail to carry out Pillar 1 greening measures must be severe enough to act as genuine deterrent. This may mean reductions exceeding the 30% greening payment itself may be required.¹¹²

44. The NFU rejected the imposition of additional penalties if a farmer chooses to opt out of “greening”. One of the NFU’s principles for the future greening payments was that “a farmer who chooses to opt out of “greening” would forego the aid associated with the greening option but would face no additional penalty or sanction on their basic direct aid”.¹¹³ Mr Kendall told us that the NFU believed “environmental measures need to be targeted, farmers need to select what is best for their farms, and, much better, to be something you buy into rather than something you are forced into to get the right outcomes”.¹¹⁴ The Commission is reported to be hardening its line on penalties for ‘intentional irregularities’, including a maximum penalty of as much as 200% of a farmer’s greening component being deducted.¹¹⁵

45. We recommend that farmers that do not carry out ‘greening’ activities should not receive the ‘greening’ top-up payment but should not be subject to additional penalties. We recommend that, if a farmer chooses not to carry out ‘greening’, that that farmer’s share of the Pillar 1 ‘greening’ fund should be able to be transferred to Pillar 2. Any Pillar 1 funding transferred to Pillar 2 under this approach would not be subject to the co-financing requirements.

111 Ev 76

112 Ev 84

113 Ev 70

114 Q 6

115 “More flexible ‘greening’ measures with menu options gain support” Agra Europe, 1 May 2012

3 Improving the Commission's proposals

Crop diversification

46. The Commission proposes that European farmers must have three different crops on their arable land if that land covers more than three hectares and is not entirely used for grass production, left fallow or entirely cultivated with crops under water. Each of the three crops would have to cover at least 5% of the arable land and none of the crops would be able to cover more than 70% of the arable land. The draft Regulations do not provide a definition of a crop or the period over which the measure will be assessed.¹¹⁶

47. Growing a variety of crops in a particular location over time is a well-understood management practice that can bring about environmental and agronomic benefits. However, while there is good evidence of environmental benefits from crop rotation, there is limited evidence of crop diversity delivering similar benefits.¹¹⁷ Indeed the Commission had intended to include crop rotation as one of the 'greening' measures but had decided that it could not be delivered under Pillar 1.¹¹⁸ The IEEP considered that the proposal might bring "modest" environmental benefits "particularly if it encourages greater rotation of crops".¹¹⁹

48. Research by the AHDB found that the crop diversity measure would have a negative impact on "30% to 66.5% of farms depending upon location", with small farms being disproportionately affected.¹²⁰ Our farming witnesses pointed out a catalogue of detrimental and perverse impacts of the proposal.¹²¹ Mr Cotterall noted that the proposal would lead to farmers growing for subsidy rather than for the market.¹²² Mr Kendall explained that dairy and livestock farmers who grow fodder and cereal crops to supplement grass diets would be discouraged from growing anything other than grass on their arable land—leading to a loss of biodiversity and increased reliance on purchased proteins.¹²³ He described the measure as a "sledgehammer to crack a nut", which was designed to tackle the "one or two small isolated parts of Europe [where] they have monoculture".¹²⁴

49. The RSPB and Wildlife Trusts also noted that, while having the potential to deliver some environmental benefits, the Commission's proposal was likely to have unintended or perverse consequences.¹²⁵ Geoff Radley, Land Management Head of Profession, Natural

¹¹⁶ Ev w11ff; Q 189

¹¹⁷ Ev 96, 82; Qq 92, 127

¹¹⁸ Qq 91, 188 [Mr Nesbit], Ev 82, 99-100

¹¹⁹ Ev w53

¹²⁰ Ev 71

¹²¹ Qq 15-16; See Ev 71ff, Ev w11ff

¹²² Q 15 [Mr Cotterall]

¹²³ Ev 71

¹²⁴ Q 15

¹²⁵ Ev 82, 87; Q 106

England described the Commission's proposal as a "very blunt instrument for something that is really quite a complex problem".¹²⁶

50. The Commission has the laudable aim of tackling the problem of extensive monocultures found in some areas of the European Union. The proposed crop diversity measure is a compromise and would have little environmental benefit in the UK, which already has a relatively diverse farming system and where most farmers practice crop rotation. The proposal has not been designed to enable local specificity and places process over outcomes.

51. The Commission's crop diversification measure may have environmental benefits in some areas of some Member States. However, in the UK, the measure will have perverse consequences and will be considerably less environmentally beneficial than crop rotation. The measure will deliver minimal environmental benefits to the UK while placing substantial costs on UK farmers and administrators, as well as risking distorting the market for produce. We recommend that Defra seek to remove this measure from the Regulations.

52. If the measure remains in the Regulations, we recommend that Defra consult with the industry and other stakeholders to determine the appropriate definitions that give the most flexibility to farmers and communicate the outcome of that consultation to the Commission. It is critical that the Commission provides more details about how the measure will be defined, particularly in relation to the definition of a crop, prior to the Regulations being adopted. We further recommend that, Defra press the Commission to amend the Regulations so that only very large farms will have to meet the crop diversification requirement.

Retention of Permanent Pasture

53. The Commission propose changing the permanent pasture rules, which currently apply at Member State or Regional level, so that farmers will be prevented from converting land used for permanent pasture "declared as such in the application for direct payments made in the claim year 2014".¹²⁷ The Grasslands Trust explained that of the 3.66 million hectares of England's grassland classified as permanent pasture; most is 'improved' grassland of low wildlife value; some 1.45 million ha is 'semi-improved' of greater environmental value; and around 100,000 ha (2% of the total resource) is 'unimproved semi-natural', which has the highest environmental value and is identified as Habitat of Principal Importance in Section 41 of the Natural Environment and Rural Communities Act 2006.¹²⁸

54. The Commission's permanent pasture proposals have caused widespread concern that, depending on how they are finally defined, they would have unintended and perverse consequences in the UK.¹²⁹ The draft Regulations make no distinction between less

¹²⁶ Q 92

¹²⁷ Proposal for a Regulation of the European Parliament and of the Council on establishing rules for direct payments to farmers under support schemes within the framework of the common agricultural policy, COM(2011) 625 final/2, Article 31(1)

¹²⁸ Ev w49ff

¹²⁹ Q 46, Ev 81, 82, 100; See Q 90 [Mr Radley], Qq 185-186 [Ms Spelman]

environmentally-valuable pasture which is cultivated or reseeded and high nature value unimproved semi-natural grasslands, which support biodiversity and generate significant ecosystem services such as carbon storage, flood protection and cultural landscapes.¹³⁰ According to Defra the current draft Regulation's failure to differentiate between higher and lower environmental value pasture "undermines, if not negates, many of the [proposal's] potential benefits".¹³¹ Many organisations argued that these environmentally and socially valuable grasslands should be clearly defined and protected within the CAP.¹³²

55. Setting 2014 as the baseline for the Permanent Grassland measure provides a powerful incentive for farmers to plough up permanent grassland in the interim, leading to significant ecological damage.¹³³ Our farming witnesses confirmed that farmers would be concerned about the lack of flexibility in how they manage their land and that that lack of flexibility would reduce the value of the land.¹³⁴ **The requirement to retain permanent pasture is likely to have unintended and perverse consequences. The Regulations will not target protection at areas that provide the most environmental benefit and are inconsistent with allowing farmers to respond to market signals.**

56. **We recommend that Defra press the Commission to adopt a definition of permanent pasture that takes account of the differences in environmental value of improved and semi-improved pasture versus semi-natural grassland. Defra should argue that the Regulations protect semi-natural grassland while providing farmers with flexibility over the management of lower environmental value pastures.**

57. The Grasslands Trust highlighted the lack of protection for valuable semi-natural pasture and recommended the creation of an inventory of England's valuable grasslands. The Trust argued that an inventory would enable conservation, protection and management mechanisms to be applied more effectively.¹³⁵ **We recommend that Defra urge the Commission to make funding available to Member States to map their semi-natural grasslands, which would inform policies such as monitoring biodiversity, planning decisions and deployment of agri-environment schemes. We further recommend that Defra commission a comprehensive grassland inventory for England.**

Ecological Focus Areas

58. The Commission's Ecological Focus Area (EFA) proposal would require farmers to ensure that at least 7% of their eligible hectares, excluding areas under permanent grassland, is "land left fallow, terraces, landscape features, buffer strips and afforested

130 Ev w15-16; see UK National Ecosystem Assessment (2011) *The UK National Ecosystem Assessment: Technical Report*. UNEP-WCMC, Cambridge. Chapter 6: *Seminatural Grasslands* <http://uknea.unep-wcmc.org/Resources/tabid/82/Default.aspx>; Article 4 (h), COM(2011) 625/3

131 Ev 100

132 Ev 82, 88, 96, Evw49-50; Ev w15-16

133 Q 30 [Mr Kendall], Ev w6, w11, w49, w53

134 Q 29 [Mr Kendall]

135 Ev w50; See "Defra urges farmers not to plough up grassland" *Farmers Guardian*, 13 May 2012

areas”.¹³⁶ As with the two other requirements under these proposals the precise definitions are to be left to the Commission to decide under delegated acts.

59. Of the three proposed mandatory ‘greening’ proposals, EFA’s have the greatest potential to deliver significant environmental benefits, but that potential depends on how the measure is defined and implemented.¹³⁷ Defra considered that that the benefits of EFAs would depend on the final percentage requirement, the targeting of areas and features eligible to contribute to the measure.¹³⁸ The department argued that Member States should have the discretion to “ensure the measure could be applied in ways appropriate to specific national circumstances and environmental priorities”.¹³⁹ The IEEP recognised the limitations of the EFA proposals and noted that the benefits would be increased significantly by greater targeting and tailoring of the management practices through tying the measure in to the more sophisticated management options supported by agri-environment schemes.¹⁴⁰

60. The Commission has set the percentage of land given over to EFAs set at 7%. Unsurprisingly, environmental bodies considered this figure low while the farming organisations considered it too high.¹⁴¹ We were told that the figure appeared arbitrary, with Professor Benton commenting that he did not know where 7% came from and that it was “not evidence-based in the way we would like to see”.¹⁴² Professor Godfray described a “straight, formulaic 7%” as an “incredibly inefficient way” of approaching the issue, which he thought would deliver poor environmental results.¹⁴³ He told us:

...I would like to see more modularity—more capability for different countries to maximise the environmental benefits that the same amount of funding could produce. I think it would be a shame, just talking about biodiversity as a subset of the environmental goods, if 7% of high-productivity land was taken out of agriculture for some pretty poor biodiversity return, and you then ploughed up whatever in a wonderful, biodiverse, rich, ancient meadow in the Scottish islands just to keep that farm-level percentage.¹⁴⁴

61. The Secretary of State told us that Defra was arguing for a wider definition of the features included under the measure and for Member States to have greater flexibility in determining which features should be included in EFAs.¹⁴⁵ Since we concluded taking evidence a number of suggested changes to the EFA measure have been put forward. At the May Agriculture and Fisheries Council most Member States were in favour of a more

136 Proposal for a Regulation of the European Parliament and of the Council on establishing rules for direct payments to farmers under support schemes within the framework of the common agricultural policy, COM(2011) 625 final/2

137 Ev 80, 88, 92, 100

138 Ev100

139 Ev 100

140 Ev w51ff

141 Ev 80, 71, Q 107, Q 10 [Mr Cotterell, Mr Kendall]

142 Q 58

143 Q 121

144 Q 121

145 Qq 224-225

flexible approach to the measure, the inclusion of a minimum farm size and that areas managed under appropriate agri-environment schemes should be taken into account.¹⁴⁶

62. The EU's Committee of the Regions recommended a more regionalised 'greening' approach under which the EFA requirement could be achieved by farms grouping together and collectively reaching the 7% target.¹⁴⁷ It is not clear to us why the EFA measure be imposed at the individual farm-level.¹⁴⁸ If Member States accepted 7% EFA as a national level commitment it would allow areas that are good for food production to be kept for food production, while areas that are good for biodiversity could be kept for biodiversity. Professor Godfray pointed out that the UK's National Ecosystem Assessment (NEA), published on 2 June 2011, provides a starting point for how such an approach might work.¹⁴⁹ The NEA provides a comprehensive overview of the state of the natural environment in the UK and a new way of estimating national wealth taking into account the value of natural capital. The NEA assessed the state of the UK natural environment in 8 broad categories of habitat and looked at the ecosystem services, including 'provisioning services (crops etc) these habitats provide.

63. We note the lack of evidence to support the Commission's proposal for 7% of land to be given over as an Ecological Focus Area. We recommend that the Commission set out the basis for, and evidence supporting, the 7% figure. We are far from convinced that applying a formulaic percentage of area at farm-level is the most effective or efficient method of delivering the Commission's environmental objectives.

64. The proposed Regulation includes some examples of the types of land that could count towards EFAs, but a comprehensive list will be defined only in delegated acts.¹⁵⁰ This lack of clarity has caused concern amongst farming and environmental organisations.¹⁵¹ The RSPB emphasised that the "landscape features or land types allowed to count towards the EFA requirement will have significant bearing on its ability to deliver for the environment".¹⁵² Both the RSPB and NFU argued that landscape managed under appropriate agri-environment schemes should be counted towards EFAs.¹⁵³ Professor Benton told us that whatever the final figure ended up being it should include areas that are currently non-cropped. He said the average English farm already has about 4% non cropped land which it is not profitable or practical for farmers to cultivate.¹⁵⁴ Natural England considered that the current form of the EFA proposals did not make "the most efficient use of available land", or minimise the impact on food production.¹⁵⁵

146 Press Release, 3165th Council Meeting Agriculture and Fisheries, 14-15 May, Presse 194, PR CO27

147 "Regions committee calls for greater CAP redistribution and regionalised 'greening'" *Agra Europe*, 15 May 2012

148 See Q 41

149 Q 136

150 Ev w52

151 Q 22 [Mr Cotterell]

152 Ev 80

153 Ev71, 80

154 Q 44

155 Ev 95

65. There is insufficient detail in the Commission's draft Ecological Focus Area proposal to assess whether it will deliver the desired environmental benefits. We do not believe that the UK Government should agree to these measures in the absence of those details. We recommend that Defra ensure that the Regulations include a definition of the landscape features that will count towards an EFA. We further recommend that such a definition should include landscapes or areas managed under appropriate agri-environment schemes.

66. Professor Benton told us that the landscape features should be physically connected to derive the most environmental benefit.¹⁵⁶ The Government's Natural Environment White Paper (NEWP) acknowledges and promotes the environmental and ecological benefits of a network of semi-natural areas inter-connected by habitat corridors. The Wildlife Trusts highlighted the value of linked areas of ecological networks, but noted that the EFA proposals contained no mechanism for achieving this.¹⁵⁷ They concluded that "the risk is that we end up with a scattering of disconnected fragments of land for nature, scattered across the landscape. We would like to see a strategic approach to EFAs across the landscape".¹⁵⁸ Mr Gerrard referred to the conclusions in the NEWP and said that farmers would be instrumental to delivering that network.¹⁵⁹ The Commission's current EFA proposals will not deliver such a network but rather create a fragmented landscape incapable of delivering the potential environmental benefits. **We recommend that the Commission consider how Member States might implement EFAs in such a way that would enhance environmental interconnectivity. We recommend that Defra explore how projects and funding streams allocated to the implementation of the Natural Environment White Paper might be integrated with Commission's EFA measures to deliver ecological networks across the country.**

67. Natural England have confirmed that, if the 'greening' measures go ahead, agri-environment schemes may change to take into account the activities that are already being paid for under mandatory 'greening'. The impact of EFAs will be enhanced if agri-environment schemes include management measures that specifically encourage farmers to manage those areas of their farms for environmental benefits.¹⁶⁰ Geoff Radley, Land Management head of Profession at Natural England, told us that some of the activities that "cram the most benefit into the smallest area are those that require the most active management", such as sowing pollen and nectar mixes.¹⁶¹ **We recommend that future agri-environment schemes should include measures to incentivise farmers to manage their EFAs for biodiversity and other environmental benefits, for example through sowing pollen and nectar seed mixes or through locating their EFAs so as to create a coherent network.**

68. The Tenant Farmers Association (TFA) expressed additional concerns about the definition of the land included in EFA. Mr Dunn noted that tenants pay for every acre they

156 Ev 92; Q 41

157 Ev 88

158 Ev 88

159 Q 97 [Mr Gerrard]

160 Q 57

161 Q 71

rent and that that land will usually be limited to productive land. A tenant subject to the EFA measure might have to take 7% of productive land out of production if they did not have any other landscape features on the farm, and have to pay rent on that 7% of their holding. We see the logic behind the TFA's argument. **We recommend that Defra make the argument to the Commission that tenant farmers should only be required to comply with the EFA measure in relation to any non-productive land within their holding.**

69. We are conscious that tenant farmers are unique to UK agriculture and the impact of CAP reform on this group should not be overlooked by the Commission or Defra.¹⁶² In our *Farming in the Uplands* report we concluded that tenants and commoners might be disadvantaged in accessing agri-environment schemes.¹⁶³ Defra has committed to a monitoring and evaluation programme to provide evidence of “both the environmental benefits and the impacts for different groups of upland farmers”.¹⁶⁴ **If Defra identifies difficulties for tenant farmers or commoners in accessing agri-environment schemes we would expect the department to respond positively and identify solutions so that those farming groups are not disadvantaged.**

70. Although this report is focussed on the Commission's ‘greening’ proposals it is worth noting tenant farmers’ concerns about some of the Commission's other reform proposals. The TFA has expressed concerns that tenant farmers would be disadvantaged by the Commission's proposed entitlement system. The Commission proposes that only people who made a valid claim on at least one hectare of land in 2011 under the existing Single Payment Scheme would be eligible for direct payment entitlements under the new regime.¹⁶⁵ The TFA argue that some landlords may “capitalise inappropriately” on the changes by bringing existing tenancies to an end in order to ‘bank’ land ahead of introduction of the new regime. The CLA has said that it is not aware of any landowners banking entitlements or considering doing so.¹⁶⁶

71. The TFA also had concerns about the Commission's ‘active farmer’ proposals. The Association commended the Commission's desire to ensure that only active farmers would be eligible to receive entitlements and direct payments but were concerned that the current proposals were not, as yet, a workable solution.¹⁶⁷ The ‘active farmer’ definition was also criticised by the Wildlife Trusts as being unworkable and potentially “catastrophic” for the management of their land.¹⁶⁸ The TFA argued that the Commission should be excluding those individuals who cannot demonstrate that it is they in particular who are carrying out the eligible activities on the land upon which they are basing their claims. In order to qualify for payments an individual would have to be “in practical occupation of the land

¹⁶² See Qq 34-36

¹⁶³ Environment, Food and Rural Affairs Committee, Third Report of Session 2010-11, *Farming in the Uplands* HC 556, para 55; Q 73

¹⁶⁴ Environment, Food and Rural Affairs Committee, Fourth Special Report of Session 20-12, *Farming in the Uplands: Government response to the Committee's Third Report of Session 2010-11*, HC 953, page 8

¹⁶⁵ “TFA voices entitlement fears linked to CAP” *Farmers Guardian* 6 April 2012

¹⁶⁶ *Ibid.*

¹⁶⁷ Q 32, Ev 51, “UK tenant farmers seek CAP changes” *Agra Europe*, 24 April 2012

¹⁶⁸ Ev 89

being used for making the claim, [...] in close management control of the activities on that land and bearing the entrepreneurial risk from those activities”.¹⁶⁹ While the CLA agreed that Commission’s ‘active farmer’ proposals would not work, they did not believe that the existing definitions had caused any significant problems or needed to be changed.¹⁷⁰ **We recommend that Defra emphasise to the Commission the important role of tenant farmers in UK agriculture and ensure that any negative outcomes from this round of CAP reform do not disproportionately affect them.**

Agri-environmental schemes

72. There is substantial evidence that multiannual, voluntary and targeted agri-environment schemes are the most effective CAP measure for delivering environmental benefits.¹⁷¹ Although, the European Court of Auditors found that, across the EU, schemes too frequently lacked clear objectives and failed to deliver tangible environmental benefits.¹⁷² The UK is recognised as being at the forefront in developing and delivering these schemes.¹⁷³ For example, the Secretary of State told us that:

It is recognised by the Commission that the UK is out there more or less in a league of its own, particularly with higher level stewardship schemes, which make very strong demands on farmers to address very real needs for biodiversity.¹⁷⁴

73. Farming organisations were concerned that not only would the requirements of ‘greening’ overlap with agri-environment schemes but also that farmers’ efforts under those schemes would not be recognised as contributing to the ‘greening’ measures. They emphasised the importance of the schemes remaining voluntary and separate from direct payments.¹⁷⁵ According to the CLA, entry-level stewardship was “overwhelmingly” equivalent to the Commission’s mandatory ‘greening’:

... we have annexed a list of the 67 options in England’s Entry Level Stewardship scheme which currently has two-thirds of English farm land enrolled. We asked which of these options a reasonable observer would score as “agricultural practices beneficial to the climate and the environment”. Our suggested scoring is that all 67 actions satisfy this. These actions are all deemed by Defra, and approved by the Commission, to be beyond cross compliance. All farmers accepted into ELS must have accumulated sufficient such ‘agricultural practices’.¹⁷⁶

74. There was some sympathy for this position among the environmental organisations. Mr Gerrard considered it appropriate for areas of land that qualify for the EFA that were

¹⁶⁹ Ev 51

¹⁷⁰ Q 33

¹⁷¹ Ev w50; Q 10 [Mr Cotterell]; Qq 68-71, 74

¹⁷² European Court of Auditors, *Is agri-environment support well designed and managed?*, Special Report No 7 2011

¹⁷³ Ev 95, 99, Q 74; See European Court of Auditors, *Is agri-environment support well designed and managed?*, Special Report No 7 2011. Some 68% of English farmland is already in stewardship, with a further 192,231 ha in voluntary environmental management.

¹⁷⁴ Q 196

¹⁷⁵ Q10 [Mr Cotterell], Q 25 [Mr Kendell], Q27 [Mr Kendell]

¹⁷⁶ Ev 59, Q 24

already in agri-environment schemes to overlap with ‘greening’ payments—he told us “essentially the Pillar 1 payment is paying for the existence of the feature, or possibly the creation of the feature, with agri-environment paying for the proper, appropriate management of those features”.¹⁷⁷ Jenna Hegarty, Agricultural Policy Officer at the RSPB did not consider being an agri-environment scheme should be a “free pass for greening” but thought that membership of such schemes should count towards the ‘greening’ requirement as long as the management practices were appropriate and suitable for EFAs.¹⁷⁸

75. Defra has suggested several methods of making ‘greening’ coherent with agri-environment schemes, including

- receipt of greening in Pillar 1 could be made conditional on participation in entry-level type agri-environmental schemes (under Pillar 2); or
- some form of entry-level environment scheme membership in Pillar 2 could be considered sufficient condition for receipt of ‘greening’ payments effectively providing a derogation from the ‘greening’ requirements; or
- Member States could be given significantly greater flexibility to design stringent ‘greening’ requirements that suit their own conditions and avoid unnecessary burdens of farms.

The department noted that each of these alternatives have disadvantages and “vary as to the additional environmental benefit they bring to the CAP, the potential legal constraints they face, and the value for money they represent”.¹⁷⁹ The CLA also suggested a range of options for making agri-environmental schemes coherent with mandatory ‘greening’ through Pillar 1. The Association noted that if all farms in the Entry Level Scheme were automatically eligible for mandatory ‘greening’ then it would be necessary to ensure that agri-environment schemes across all Member States were equally and sufficiently rigorous.¹⁸⁰

76. The Commission appear to have listened to the arguments: Commissioner Ciolos told the National Farmers Union annual conference that he “recognised that many farmers in the UK were already meeting some, and in some cases more, of the greening requirements”.¹⁸¹ He added that:

We will find the appropriate ways to recognise efforts made under your agro-environmental schemes where they genuinely contribute to greening, while not removing the incentives to do more or better in the second pillar.¹⁸²

¹⁷⁷ Q 102 [Mr Gerrard]

¹⁷⁸ Q 102 [Ms Hegarty]

¹⁷⁹ Ev 101

¹⁸⁰ Ev 59

¹⁸¹ “Accountability and the consumer must drive CAP”, Agra Europe, 16 January 2012

¹⁸² *Ibid.*

The Commission subsequently published a paper that would, subject to certain conditions, allow a farmer in an agri-environment scheme or subject to an environmental certification scheme to be considered to have fulfilled at least one of the ‘greening’ measures.¹⁸³

77. The United Kingdom’s agri-environment schemes are among the best in Europe at delivering meaningful environmental benefits. We are concerned that the Commission’s ‘greening’ proposals will have a chilling effect on the UK’s existing, successful, agri-environment schemes. This round of CAP reform should do nothing that would diminish those schemes effectiveness or extent. We conclude that the Commission’s initial proposals failed to recognise the benefits accrued by the UK’s existing schemes and as a result would disadvantage farmers that participated in such schemes.

78. We welcome recent moves by the Commission to enable participation in an agri-environmental scheme to be taken into account when assessing a farmer’s obligations under the ‘greening’ proposals. However, those amendments to the Regulations are yet to be agreed. We therefore recommend that Defra continue to make the case in Europe that membership of an approved agri-environment scheme should be included as an alternative measure under ‘greening’, so that farmers can choose whether to carry out the three ‘greening’ measures or join an approved agri-environment scheme in order to receive their ‘greening’ payment.

79. Entry Level Stewardship (ELS) schemes are legal contracts between the farmer and Natural England. Under the current ELS scheme rules, agreements last five years. Farmers are penalised financially for leaving a scheme early or otherwise breaking the terms of their agreement. The penalties include withholding future payments and recovering payments already made. It is not clear whether as a result of CAP reform farmers would be able to exit agri-environment schemes without facing a penalty. The farming organisations argued that the overlap between the ‘greening’ proposals and agri-environment schemes would lead to the re-design of current agri-environment schemes and amendment of payment rates.¹⁸⁴ The impact of those changes could lead to farmers deciding to leave schemes. The NFU argued that in such circumstances farmers should not be penalised.¹⁸⁵ The Central Association of Agricultural Valuers (CAAV) said that the lack of clarity around the recognition of agri-environment schemes was already disrupting renewals of agri-environment schemes.¹⁸⁶

80. Mr Dondi confirmed that ‘greening’ was likely to require adjustments to agri-environment schemes so that activities added under Pillar 1 were removed from Pillar 2 schemes.¹⁸⁷ He explained that different measures might be added to agri-environment schemes to balance those measures taken away, or the points threshold for a given scheme

183 “Commission gives ground on CAP greening plans” Farmers Guardian, 14 May 2012; “Stewardship to exempt farmers from ‘greening’?” Farmers Weekly, 15 May 2012; “Regions committee calls for greater CAP redistribution and regionalised ‘greening’” Agra Europe, 15 May 2012

184 Ev 100-101; Ev w11, w54

185 Ev 68

186 Ev w11

187 Q 77 [Mr Dondi]

could be lowered.¹⁸⁸ Defra has responded to the farming communities concerns and “pledged” that farmers “thinking about entering or renewing agri-environment agreements could choose to opt out without penalty if they had to make changes to their agreements as a result of CAP ‘greening’”.¹⁸⁹ **We seek assurances from Defra that farmers currently in agri-environment schemes will receive no penalty for leaving schemes should either the design of or payments under those schemes alter as a result of ‘greening’.** We seek Defra’s assurances that farmers who leave their agri-environment scheme contract due to changes resulting from the implementation of ‘greening’ can do so without penalty or requirement to repay money at any point between now and either the implementation of the post-2013 CAP or the publication of the conditions for the post-2013 agri-environment schemes, whichever is later.

Defra’s points system and recent developments

81. The department has proposed to the Commission an alternative to ‘greening’ that would give Member States greater flexibility of approach and that would recognise the variation in environmental and agricultural circumstances across Europe. The Secretary of State explained that the department’s ‘points’ system would enable some level of equivalence to be determined between environmental measures in different Member States:

Instead of a rigid one-size-fits-all approach, where everybody is forced to do the same thing with some terrible unintended consequences as a result, a good way forward would be to look at some sort of a menu that had flexibility and equivalence to guarantee to the taxpayer that they were providing the money and it was providing good value for that money, but also scientifically we were genuinely making a difference for the environment.¹⁹⁰

82. Mr Arik Dondi, Deputy Director, Environmental Land Management at Defra, described how “one might create a menu of broadly equivalent measures from which member states could then pick and mix, more or less”.¹⁹¹ Martin Nesbit Director, EU, International and Evidence Base at Defra told us that:

...flexibility is something that is increasingly becoming of interest to member states. There will be some member states who see flexibility as an opportunity to remove the environmental substance from the proposals, and others who are genuinely interested in achieving progress. We will need to ensure that we get as much equivalence as possible in the negotiations.¹⁹²

He thought it was unlikely that there would be time for the UK to involve Member States’ Chief Scientists in drawing up the points system. He considered the Commission would be the only institution with the “convening power” to enable that to happen. Mr Nesbit added

¹⁸⁸ *Ibid.*

¹⁸⁹ “Views sought on CAP reform” Defra press release, 12 December 2011

¹⁹⁰ Q 170

¹⁹¹ Q 175

¹⁹² Q 172 [Mr Nesbit]

that the European Parliament might wish to look at the proposal, saying “Interestingly, flexibility for member states was a subject that was unusually something that MEPs seemed to be willing to contemplate and to see as a potential solution to these negotiations”.¹⁹³

83. The Government may find that there is an appetite in the European Parliament to significantly amend the draft Regulations. Paolo de Castro, chairman of the European Parliament’s agriculture committee told the NFU annual conference that changes to the proposals were needed and he suggested a more flexible approach under which farmers could select from a menu of environmental options in return for direct payments.¹⁹⁴

84. There is also support for greater flexibility among Member States. The UK is part of the ‘Stockholm Group’, which includes Germany, the Netherlands and Scandinavian Member States.¹⁹⁵ A paper by the group proposed a menu of options that would enable farmers to deliver ‘greening’ through measures tailored to the local environmental circumstances and farming systems. ‘Greening by definition’ was included in the proposals, under which farmers in Entry Level Stewardship schemes would be exempt from elements of ‘greening’.¹⁹⁶ There is evidence of a growing desire among Member States to inject flexibility with the one-size-fits-all approach causing particular concern.¹⁹⁷ The Commissioner has made some concessions on his proposals, but he insists that ‘greening’ in Pillar 1 is ‘not negotiable’.¹⁹⁸ He is yet to be persuaded to adopt the more flexible approach advocated by the UK and its allies.¹⁹⁹

85. We are surprised that Defra decided to introduce its idea for a points system at too late a stage in the process to enable the critical scientific assessment of the proposal across the European Union to be conducted. We consider it unlikely that the UK’s points system will be embraced by Member States or the European Parliament. On the other hand we welcome the apparent openness of several Member States and some in the European Parliament to a more flexible approach to ‘greening’. We urge Defra to redouble its efforts to explain to all parties to the negotiations the diverse benefits greater flexibility and local tailoring would provide.

193 Q 172 [Mr Nesbit]

194 “Changes ahead for CAP reform proposals” *Farmers Weekly*, 24 February 2012

195 “Alternative to EU’s greening measures” *Farmers Guardian*, 4 May 2012

196 “Paice urges Ciolos to go further on CAP greening concessions” *Farmers Guardian*, 15 May 2012

197 Press Release, 3165th Council Meeting Agriculture and Fisheries, 14-15 May, Presse 194, PR CO27

198 “Regions committee calls for greater CAP redistribution and regionalised ‘greening’” *Agra Europe*, 15 May 2012

199 “Concessions from Ciolos but he needs to go further” *Farmers Guardian*, 18 May 2012; “More flexible ‘greening’ measures with menu options gain support” *Agra Europe*, 1 May 2012

4 Defra's Approach

86. In our reports on the *Common Agricultural Policy after 2013* and the *Outcome of the Farming Regulation Task Force* we emphasised the need for the UK Government to engage positively with Europe. In its response to our *Outcome of the Farming Regulation Task Force* report the Government said:

Our EU Negotiations Guidance emphasises the need to engage early with the Commission, identify allies and influence effectively in European Institutions, including the European Parliament.

87. The Government has reported that there was “no unconditional support” for the Commission’s package of reforms among Member States,²⁰⁰ and the Secretary of State told us that in the Council there was “a real lack of consensus about what greening looks like”.²⁰¹ That lack of consensus is unsurprising given the lack detail in the Commission’s proposals and the differential impact of the proposals across Member States. The Secretary of State told us that our allies on ‘greening’ were “only just beginning to emerge”; although she did refer to several countries sharing the UK’s views on the importance of Pillar 2 schemes.²⁰² She confirmed that the department’s current assessment of Member States intentions on ‘greening’ put the UK “...in the largest group”.²⁰³

88. In the oral evidence session we had lengthy exchanges with the Secretary of State on Defra’s approach to the negotiations and the department’s efforts to foster allies across the EU.²⁰⁴ She argued that it was difficult to achieve a great deal during the formal meetings and emphasised that she was holding informal bilateral meetings to build alliances.²⁰⁵ She told us that:

In bilateral meetings with France, Spain or Italy we have been testing out the reactions of the different member states to the Commission’s proposals. The straight answer is it is quite difficult at this stage because they, like us, are at an early stage of negotiations without an absolutely firm view.²⁰⁶

She emphasised that the department and Ministers had also been at pains to engage with the European Parliament.²⁰⁷

89. As we have noted in previous reports, it is critical that Defra engage proactively with the Commission, other Member States and the European Parliament. In order to achieve the necessary level of engagement Defra must ensure that its EU-facing policy teams are properly staffed, trained and resourced. In response to this report we

200 HC Deb, 7 Nov 2011, col 4WS

201 Q 145

202 Q 145

203 Qa 165-166

204 Qq 145-166

205 Q 145

206 Q 154

207 Qq 154, 161

recommend that the department set out how it has ensured that it is bringing the appropriate resources to bear on Europe; the staffing of EU negotiating teams; how they have altered over the past two years and the impact of the department's re-organisation on those teams.

5 Conclusion

90. Greening, in terms of greater environmental benefits is a laudable aim for the Commission. But the weight of evidence we received suggests that the current proposed measures are poorly designed. There is little evidence that they will deliver significant environmental benefit. They also risk reducing the competitiveness and productivity of EU farmers.

91. A consistent theme throughout the evidence is that environmental benefits are enhanced when measures are tailored to local circumstances. There is a clear tension between a CAP that was conceived as a method of securing a single market and a CAP that reflects local circumstances. As the CAP has developed and become more about environmental outcomes, the rationale for a centralised, heavily regulatory and interventionist policy has diminished. As the objectives of the CAP have shifted so has the balance of money—previously EU funds were spent on intervention pricing and providing compensation to farmers. The CAP’s move towards an environmental focus has meant that EU funds should now be focussed on attaining the desired environmental outcomes.

92. We consider environmental enhancements under the CAP to be beneficial. UK farmers have delivered significant environmental improvement through agri-environment schemes and the Government must ensure that those benefits are not diluted by the imposition of mandatory ‘greening’ measures that would create perverse and contradictory outcomes.

93. A CAP that is determined solely by what compromises can be made in negotiations is bound to flounder on the detail. CAP ‘greening’ must be done effectively, providing tangible environmental benefits and without disproportionate costs to beneficiaries or Member States. If the ‘greening’ proposals do not meet these requirements, either Member States and the European Parliament will seek to water them down and so render them ineffective; or, worse, they will have perverse, negative outcomes for the environment and agriculture.

94. Without greater clarity about the details of the rules and requirements of the measures it is difficult to assess the environmental impact of the proposed Pillar 1 ‘greening’ measures.²⁰⁸ The Commission will approve the details of the proposals in the form of delegated acts once the negotiations on the main legislation have concluded.²⁰⁹ The UK Government, along with the other Member States is being asked to agree to a set of proposals without any detailed evidence as to their efficacy or desirability.

95. Rather than place their faith in the Commission’s as yet ill-defined measures, Member States and the European Parliament should continue to work on revising the proposals so that they allow for flexibility of approach while protecting the environment. **We do not recommend that Defra oppose the concept of ‘greening’ Pillar 1, but rather that it should focus on the practical effects of the proposals. Defra must focus on securing a system that gives enough flexibility to the UK to work within its existing system of agri-**

208 Ev 99, Ev w51

209 Ev w52

environment schemes. There is still time for the proposals to be improved and Defra must ensure it has the resources to find, engage and secure reliable allies across the European Union and effectively and persuasively to put the UK's case that the CAP should support both the agricultural sector and provide environmental protection.

Conclusions and recommendations

Strategic Direction of the CAP

1. We support the Commission's broad goal that CAP payments be a method for improving environmental outcomes across Europe but we note that the lack of detail available about the Commission's specific proposals makes it difficult to make precise assessments of their potential impact and value. (Paragraph 8)
2. We are concerned that the Commission is pursuing a greening agenda as a way to justify the continuation of direct payments, rather than as a means to deliver genuine environmental improvements across the European Union. (Paragraph 9)

One-size-fits all

3. We recognise the need for a common policy to regulate aspects of the single European market, however, for policy areas such as the environment and rural development any policy must take account of the local circumstances: a one-size-fits-all approach will fail to deliver the desired outcomes. (Paragraph 16)
4. We recommend that Defra continue to press the Commission to develop a less rigid approach to 'greening' that would enable individual Member States the flexibility to decide measures that work best in their local environment. (Paragraph 17)
5. We recommend that Defra make the argument to the Commission that it should set the high-level objectives for a greener CAP and allow Member States the flexibility to determine how best to achieve those objectives. Such delegation has been proposed within the reform proposals for the Common Fisheries Policy and we recommend that Commissioner Ciolos consider how such an approach could be applied to the Common Agricultural Policy. We accept that complete decentralisation of these policy areas may be impossible to achieve within this round of CAP reform but we urge the Government to make the case that greater flexibility and increasing local decision-making should be the strategic direction of the CAP. (Paragraph 19)

Simplification

6. We consider it highly improbable that the Commission's proposals will deliver a simpler CAP. We recommend that Defra ensure that, as the negotiations continue, the Commission does not lose sight of the absolute need for a system of CAP payments that can be implemented and audited efficiently. The Commission must balance the often conflicting pressures of designing a policy that will deliver positive environmental outcomes with the need for a policy that can actually be implemented and delivered for a reasonable cost. (Paragraph 22)
7. The capability and capacity of the Rural Payments Agency will be critical to the successful implementation of the reformed CAP. Defra must ensure that the agency has the financial resources and expertise to deliver the new regime. (Paragraph 23)

8. Whatever the form of the final mandatory ‘greening’ measures, Defra must not gold plate ‘greening’ through imposing more demanding measures on UK farmers than apply elsewhere. (Paragraph 25)
9. The principal purpose of the CAP is to support food production and, in the long term, the goal for the CAP must be delivering sustainable food production. In developing these proposals the Commission appears not to have considered food security and how ‘greening’ will interact with efficient farm production. In our view the Commission has missed the opportunity to encourage sustainable intensification of food production. (Paragraph 31)

Modulation

10. The competitiveness of UK farmers will be reduced if they are exposed to higher modulation rates than their European counterparts. We therefore recommend that Defra does not set modulation rates higher than other Member States that receive similar single farm payment rates. (Paragraph 37)
11. We conclude that it is important that the two Pillars work together rather than at cross purposes to one another. However, increasing the burden on Pillar 2 is unlikely to be politically achievable, not least because of additional co-financing that would be required. (Paragraph 38)

Competitiveness

12. We conclude that the ‘greening’ proposals will have a significant impact on the competitiveness of UK farmers. We urge Defra to continue to press the Commission to enable farmers to opt out of prescriptive mandatory measures in favour of those schemes that deliver environmental outcomes and do not diminish competitiveness. (Paragraph 42)
13. We recommend that farmers that do not carry out ‘greening’ activities should not receive the ‘greening’ top-up payment but should not be subject to additional penalties. We recommend that, if a farmer chooses not to carry out ‘greening’, that that farmer’s share of the Pillar 1 ‘greening’ fund should be able to be transferred to Pillar 2. Any Pillar 1 funding transferred to Pillar 2 under this approach would not be subject to the co-financing requirements. (Paragraph 45)

Crop diversification

14. The Commission’s crop diversification measure may have environmental benefits in some areas of some Member States. However, in the UK, the measure will have perverse consequences and will be considerably less environmentally beneficial than crop rotation. The measure will deliver minimal environmental benefits to the UK while placing substantial costs on UK farmers and administrators, as well as risking distorting the market for produce. We recommend that Defra seek to remove this measure from the Regulations. (Paragraph 51)

15. If the measure remains in the Regulations, we recommend that Defra consult with the industry and other stakeholders to determine the appropriate definitions that give the most flexibility to farmers and communicate the outcome of that consultation to the Commission. It is critical that the Commission provides more details about how the measure will be defined, particularly in relation to the definition of a crop, prior to the Regulations being adopted. We further recommend that, Defra press the Commission to amend the Regulations so that only very large farms will have to meet the crop diversification requirement. (Paragraph 52)

Retention of Permanent Pasture

16. The requirement to retain permanent pasture is likely to have unintended and perverse consequences. The Regulations will not target protection at areas that provide the most environmental benefit and are inconsistent with allowing farmers to respond to market signals. (Paragraph 55)
17. We recommend that Defra press the Commission to adopt a definition of permanent pasture that takes account of the differences in environmental value of improved and semi-improved pasture versus semi-natural grassland. Defra should argue that the Regulations protect semi-natural grassland while providing farmers with flexibility over the management of lower environmental value pastures. (Paragraph 56)
18. We recommend that Defra urge the Commission to make funding available to Member States to map their semi-natural grasslands, which would inform policies such as monitoring biodiversity, planning decisions and deployment of agri-environment schemes. We further recommend that Defra commission a comprehensive grassland inventory for England. (Paragraph 57)

Ecological Focus Areas

19. We note the lack of evidence to support the Commission's proposal for 7% of land to be given over as an Ecological Focus Area. We recommend that the Commission set out the basis for, and evidence supporting, the 7% figure. We are far from convinced that applying a formulaic percentage of area at farm-level is the most effective or efficient method of delivering the Commission's environmental objectives. (Paragraph 63)
20. There is insufficient detail in the Commission's draft Ecological Focus Area proposal to assess whether it will deliver the desired environmental benefits. We do not believe that the UK Government should agree to these measures in the absence of those details. We recommend that Defra ensure that the Regulations include a definition of the landscape features that will count towards an EFA. We further recommend that such a definition should include landscapes or areas managed under appropriate agri-environment schemes. (Paragraph 65)
21. We recommend that the Commission consider how Member States might implement EFAs in such a way that would enhance environmental interconnectivity. We recommend that Defra explore how projects and funding streams allocated to the implementation of the Natural Environment White Paper might be integrated

with Commission's EFA measures to deliver ecological networks across the country. (Paragraph 66)

22. We recommend that future agri-environment schemes should include measures to incentivise farmers to manage their EFAs for biodiversity and other environmental benefits, for example through sowing pollen and nectar seed mixes or through locating their EFAs so as to create a coherent network. (Paragraph 67)
23. We recommend that Defra make the argument to the Commission that tenant farmers should only be required to comply with the EFA measure in relation to any non-productive land within their holding. (Paragraph 68)
24. If Defra identifies difficulties for tenant farmers or commoners in accessing agri-environment schemes we would expect the department to respond positively and identify solutions so that those farming groups are not disadvantaged. (Paragraph 69)
25. We recommend that Defra emphasise to the Commission the important role of tenant farmers in UK agriculture and ensure that any negative outcomes from this round of CAP reform do not disproportionately affect them. (Paragraph 71)

Agri-environmental schemes

26. The United Kingdom's agri-environment schemes are among the best in Europe at delivering meaningful environmental benefits. We are concerned that the Commission's 'greening' proposals will have a chilling effect on the UK's existing, successful, agri-environment schemes. This round of CAP reform should do nothing that would diminish those schemes effectiveness or extent. We conclude that the Commission's initial proposals failed to recognise the benefits accrued by the UK's existing schemes and as a result would disadvantage farmers that participated in such schemes. (Paragraph 77)
27. We welcome recent moves by the Commission to enable participation in an agri-environmental scheme to be taken into account when assessing a farmer's obligations under the 'greening' proposals. However, those amendments to the Regulations are yet to be agreed. We therefore recommend that Defra continue to make the case in Europe that membership of an approved agri-environment scheme should be included as an alternative measure under 'greening', so that farmers can choose whether to carry out the three 'greening' measures or join an approved agri-environment scheme in order to receive their 'greening' payment. (Paragraph 78)
28. We seek assurances from Defra that farmers currently in agri-environment schemes will receive no penalty for leaving schemes should either the design of or payments under those schemes alter as a result of 'greening'. We seek Defra's assurances that farmers who leave their agri-environment scheme contract due to changes resulting from the implementation of 'greening' can do so without penalty or requirement to repay money at any point between now and either the implementation of the post-2013 CAP or the publication of the conditions for the post-2013 agri-environment schemes, whichever is later. (Paragraph 80)

Defra's points system and recent developments

29. We are surprised that Defra decided to introduce its idea for a points system at too late a stage in the process to enable the critical scientific assessment of the proposal across the European Union to be conducted. We consider it unlikely that the UK's points system will be embraced by Member States or the European Parliament. On the other hand we welcome the apparent openness of several Member States and some in the European Parliament to a more flexible approach to 'greening'. We urge Defra to redouble its efforts to explain to all parties to the negotiations the diverse benefits greater flexibility and local tailoring would provide. (Paragraph 85)

Defra's Approach

30. As we have noted in previous reports, it is critical that Defra engage proactively with the Commission, other Member States and the European Parliament. In order to achieve the necessary level of engagement Defra must ensure that its EU-facing policy teams are properly staffed, trained and resourced. In response to this report we recommend that the department set out how it has ensured that it is bringing the appropriate resources to bear on Europe; the staffing of EU negotiating teams; how they have altered over the past two years and the impact of the department's re-organisation on those teams. (Paragraph 89)

Conclusion

31. We consider environmental enhancements under the CAP to be beneficial. UK farmers have delivered significant environmental improvement through agri-environment schemes and the Government must ensure that those benefits are not diluted by the imposition of mandatory 'greening' measures that would create perverse and contradictory outcomes. (Paragraph 92)
32. We do not recommend that Defra oppose the concept of 'greening' Pillar 1, but rather that it should focus on the practical effects of the proposals. Defra must focus on securing a system that gives enough flexibility to the UK to work within its existing system of agri-environment schemes. There is still time for the proposals to be improved and Defra must ensure it has the resources to find, engage and secure reliable allies across the European Union and effectively and persuasively to put the UK's case that the CAP should support both the agricultural sector and provide environmental protection. (Paragraph 95)

Formal Minutes

Declarations of interest

The following declarations of interest relating to the inquiry were made:

22 November 2011

Miss Anne McIntosh declared the following interest:

That she owned land in receipt of the single farm payment.

Neil Parish declared the following interest:

That he had an interest in a family farm in Somerset and that he did not receive the single farm payment in respect of that holding.

23 November 2011

Miss Anne McIntosh declared the following interest:

That she owned land in receipt of the single farm payment.

Neil Parish declared the following interest:

That he had an interest in a family farm in Somerset and that he did not receive the single farm payment in respect of that holding.

17 January 2012

Miss Anne McIntosh declared the following interest:

That she owned land in receipt of the single farm payment.

Neil Parish declared the following interest:

That he had an interest in a family farm in Somerset and that he did not receive the single farm payment in respect of that holding.

Richard Drax declared the following interest:

That he owned land in receipt of the single farm payment

Wednesday 23 May 2012

Members present:

Miss Anne McIntosh, in the Chair

Richard Drax
Barry Gardiner
Mrs Mary Glendon

Neil Parish
Amber Rudd

Draft Report (*Greening the Common Agricultural Policy*), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 36 read and agreed to.

Motion made, and Question put, That paragraph 37 stand part of the Report.

The Committee divided.

Ayes, 2

Noes, 2

Richard Drax

Barry Gardiner

Amber Rudd

Mrs Mary Glendon

To remain consistent with the conclusion in the Committee's previous report on the Common Agricultural Policy, the Chair declared herself with the Ayes.

Question accordingly agreed to.

Paragraphs 38 to 95 read and agreed to.

Summary agreed to.

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

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

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

[Adjourned till Tuesday 12 June at 10.30 am]

Witnesses

Tuesday 22 November 2011

Page

Peter Kendall, President, The National Farmers' Union (NFU), **Harry Cotterell**, President, The Country Land and Business Association (CLA), and **George Dunn**, Chief Executive, The Tenant Farmers Association (TFA)

Ev 1

Wednesday 23 November 2011

Professor Tim Benton, University of Leeds, Global Food Security Champion

Ev 11

Paul Egginton, Director Systems, Knowledge and Information, Natural England, **Geoff Radley**, Land Management Head of Profession, Natural England, and **Arik Dondi**, Deputy Director Environmental Land Management, Defra

Ev 16

Gareth Morgan, Director of Agricultural Policy, The Royal Society for the Protection of Birds, **Jenna Hegarty**, Agricultural Policy Officer, RSPB, **Paul Wilkinson**, Head of Living Landscape for The Wildlife Trusts, and **Chris Gerrard**, Director of Living Landscapes for the Bedfordshire, Cambridgeshire and Northamptonshire Wildlife Trust

Ev 20

Wednesday 14 December 2011

Professor Charles Godfray, Hope Professor of Entomology, Department of Zoology, University of Oxford

Ev 26

Tuesday 17 January 2012

Rt Hon Caroline Spelman MP, Secretary of State for Environment, Food and Rural Affairs, **Martin Nesbit**, Director, EU, International and Evidence Base, and **Arik Dondi**, Deputy Director, Environmental Land Management, Defra

Ev 31

List of printed written evidence

| | | |
|---|--|-------|
| 1 | Tenant Farmers Association (TFA) | Ev 50 |
| 2 | Country Land and Business Association (CLA) | Ev 55 |
| 3 | National Farmers Union (NFU) | Ev 65 |
| 4 | Further National Farmers Union (NFU) | Ev 72 |
| 5 | Royal Society for the Protection of Birds (RSPB) | Ev 76 |
| 6 | The Wildlife Trusts | Ev 84 |
| 7 | Professor Tim Benton | Ev 90 |
| 8 | Natural England | Ev 95 |
| 9 | Department for Environment, Food and Rural Affairs (Defra) | Ev 98 |

List of additional written evidence

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

| | | |
|----|--|--------|
| 1 | Royal Society for the Prevention of Cruelty to Animals (RSPCA) | Ev w1 |
| 2 | Tom Allen-Stevens | Ev w2 |
| 3 | Michael Cooper | Ev w4 |
| 4 | Rothamsted Research | Ev w6 |
| 5 | Scottish Agricultural College (SAC) | Ev w6 |
| 6 | Central Association of Agricultural Valuers | Ev w11 |
| 7 | Soil Association | Ev w12 |
| 8 | Food and Drink Federation (FDF) | Ev w13 |
| 9 | Society of Biology | Ev w15 |
| 10 | Devon County Council | Ev w18 |
| 11 | Tate & Lyle Sugars | Ev w20 |
| 12 | National Heart Forum | Ev w23 |
| 13 | Agricultural Biotechnology Council | Ev w26 |
| 14 | Water UK | Ev w28 |
| 15 | Professor Nic Lampkin | Ev w29 |
| 16 | Royal Association of British Dairy Farmers | Ev w32 |
| 17 | National Trust for England, Wales and northern Ireland | Ev w34 |
| 18 | Dairy UK | Ev w37 |
| 19 | Woodland Trust | Ev w39 |
| 20 | Further Woodland Trust | Ev w40 |
| 21 | Fairtrade Foundation | Ev w42 |
| 22 | Grasslands Trust | Ev w49 |
| 23 | Institute for European Environmental Policy (IEEP) | Ev w50 |
| 24 | European Forum on Nature Conservation and Pastoralism | Ev w55 |
| 25 | Smiths Gore | Ev w63 |
| 26 | Friends of the Earth | Ev w64 |
| 27 | Scottish Government | Ev w69 |
| 28 | Committee for Agriculture and Rural Development | Ev w72 |

List of Reports from the Committee during the current Parliament

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

Session 2010–12

| | | |
|-----------------------|--|-------------------|
| First Report | Future Flood and Water Management Legislation | HC 522 (HC 922) |
| Second Report | The Marine Policy Statement | HC 635 |
| | The Marine Policy Statement: Government response to the Committee's Second Report published as an Un-numbered Act Paper on 17 March 2011 | |
| Third Report | Farming in the Uplands | HC 556 (HC 953) |
| Fourth Report | The draft National Policy statement (NPS) on Waste Water | HC 736 |
| Fifth Report | The Common Agricultural Policy after 2013 | HC 671 (HC 1356) |
| Sixth Report | Implementation of the Common Fisheries Policy: Domestic Fisheries Management | HC 858 (HC 1485) |
| Seventh Report | Pre-appointment hearing: Chair of Gangmasters Licensing Authority | HC 1400-I & -II |
| Eighth Report | EU proposals for the dairy sector and the future of the dairy industry | HC 952 (HC 1548) |
| Ninth Report | The Welfare of Laying Hens Directive—Implications for the egg industry | HC 830 (HC 1664) |
| Tenth Report | The outcome of the independent Farming Regulation Task Force | HC 1266 (HC 1669) |
| Eleventh Report | The draft National Policy Statement for Hazardous Waste | HC 1465 |
| Twelfth Report | EU proposals for reform of the Common Fisheries Policy | HC 1563 |
| First Special Report | The National Forest: Government response to the Committee's Fourth Report of Session 2009–10 | HC 400 |
| Second Special Report | Dairy Farmers of Britain: Government response to the Committee's Fifth Report of Session 2009–10 | HC 401 |

Oral evidence

Taken before the Environment, Food and Rural Affairs Committee on Tuesday 22 November 2011

Members present:

Miss Anne McIntosh (Chair)

Mrs Mary Glendon
Neil Parish

Dan Rogerson

Examination of Witnesses

Witnesses: **Peter Kendall**, President, The National Farmers' Union (NFU), **Harry Cotterell**, President, The Country Land and Business Association (CLA), and **George Dunn**, Chief Executive, The Tenant Farmers Association (TFA), gave evidence.

Q1 Chair: Good morning and welcome. First of all, may I thank you for accommodating our slight change of plan? We are very keen to take your comments on the record, and we do thank you. A little bit of housekeeping from me to begin with: I would like to invite my colleagues to declare their interests in this inquiry, and I would like to bring attention to my entry in the register of interests on the member's register. I do not know if there are any other colleagues who would like to formally declare an interest?

Neil Parish: I declare an interest.

Chair: Mr Parish also. Just for the record, perhaps you might introduce yourselves and give your positions in the organisations you represent.

George Dunn: Thank you very much. My name is George Dunn, and I am the Chief Executive from the Tenant Farmers Association.

Harry Cotterell: I am Harry Cotterell. I am President of the CLA.

Peter Kendall: Peter Kendall, President of the NFU.

Q2 Chair: You are all very welcome, and can I thank you for participating in our inquiry on the greening of the Common Agricultural Policy? We have just given the memorandum of evidence that we received in relation to the reforms of the Common Agricultural Policy. It struck the Committee that this is the most contentious area, but we will be looking at the written evidence and reporting on that in our conclusions and recommendations. But on the greening payments, do you believe that the Commission has got the balance about right in its proposals, or would you disagree?

George Dunn: In the greening proposals themselves? No, absolutely not; the balance is completely askew and in the light of what we are hearing on a day-to-day basis in relation to the evidence being presented by Professor Sir John Beddington about the challenges we face coming forward, we think that the greening elements of the CAP reform proposals are completely against the sorts of ideas and concepts that we need to be putting into place. Our brief response is absolutely not: the balance is completely wrong.

Harry Cotterell: We would agree. To add to that, there are other elements that concern us significantly. Greening is going to be the bulk of this reform in terms of the way it goes forward. Our most specific concern is the impact that the greening will have on

the Pillar 2 schemes, which are something that this country can be proud of; we have got agri-environment as right as anybody has in Europe. The way greening is currently proposed has the potential to seriously disrupt the scheme going forward. That would be our particular emphasis. I am sure Peter will make other points that we will agree with as well.

Peter Kendall: We certainly believe the greening will form part of the reform as it occurs. However, I would support George and Harry on the balance of how we address that. Certainly through our involvement in Copa, the European farm organisation, we want to come up with some proposals in the next month or two where we look at win-wins. We address the John Beddington perfect storm challenge of producing more food in a sustainable way, sustainable intensification, but at the moment these are negative measures, and not ones that are able to deliver win-wins, where we can become more productive and produce more food as well as protect the environment. That is where we think the biggest failure is in these three issues that are proposed.

Q3 Chair: I do not know if we come on to food security, but do you believe that food security, from the farming perspective, should have been included?

Peter Kendall: In the introduction, the analysis of the challenge, they seem to get the analysis spot on—it is as if it was written by somebody else altogether. What was rather tragic was the recommendations that follow it seem to be pointing in a different direction altogether. We believe it is more about justifying the money rather than helping fulfil the diagnosis of the problem and challenge we face.

George Dunn: From our perspective, the greening proposals as they stand are very process driven; they are not focused on the outcomes we want to see. Allowing people to tick the sort of boxes that the greening proposals seem to suggest is not, from our perspective, going to provide the sort of benefit we are going to see across the whole of the 27 Member States of the Union. Food security is clearly a key element of ensuring that the CAP is doing what it was set up to do in the first place.

Harry Cotterell: We have always argued that food security is one of the vital components of this reform.

22 November 2011 Peter Kendall, Harry Cotterell and George Dunn

We do not see a huge amount for it. It depends; it is too early to see the real detail, the way it is going to pan out, but we are very concerned that, if you get a worst-case interpretation of these proposals, food security could be impacted, yes.

Q4 Chair: The greening proposals do not seem to have received much support from the European Parliament or the Council of Ministers. Do you think, from your contacts in Brussels, they are likely to be in the final agreement?

Harry Cotterell: There are bound to be greening measures; there is no doubt about that. Our concern would be that the existing proposals get through unaltered. That could be disastrous. But if you do not have greening, you have nothing in this reform. You have very little. I am sure they will come through. I am sure you are all aware that parliament debated a proposal from Albert Dess that was watered down to such an extent that their proposal was virtually meaningless in the interim stages. We do not know how they are going to react further downstream, apart from to know they are going to have a significant effect on the outcome.

George Dunn: I would agree in terms of the support for the current measures within the package. At the last Council meeting only Finland gave it a plug; the rest of the Member States were either wholly opposed or very concerned about the complexities involved and the way it was put together.

I would disagree with Harry to a certain extent: we think food security is a big element of this reform, and we need to give food security a right in the light of the challenges we face as a globe. It is not all about greening, from our perspective. Greening and the environment are clearly important aspects of the package of things we want to achieve, but food and energy security, etc, are also important aspects.

Peter Kendall: There is not a lot I can add to the comments that have been made, other than the fact we work very closely with our European partners. I think the biggest mistake that has been made—and this is more an observation—is that in trying to please everybody they have managed to please nobody with what they have proposed. That is a real shame, and I go back to my previous comments: where is the vision? They analysed the problems and what they have come up with are just efforts to please opinion-formers, rather than have a vision to continue the journey of previous reforms, which was about market focus and helping industry become more competitive. That seems to have been abandoned.

Q5 Chair: In terms of other Member States' farming organisations, are there any disagreements between your approach and theirs?

Peter Kendall: If I can be brutally honest with you—and I might as well, as you all have very good contacts in the farming world—if it does not seem to affect you, then you are less worried than if it is going to affect you. When these were initially proposed it was fascinating, when we were in Brussels, listening to the other farming organisations saying, "We do all this already; it will not bother us." Then they saw the proposals and thought, "Good grief, we do not want

this." As I said, there were initial proposals that people thought they could twist to their own benefits. If farmers do not believe it is going to impact on their current practice, they say, "This is fine; I am going to get the money and carry on farming as I am." The truth is, as it stands everyone sees—now more analysis has been done—real unintended consequences of these proposals—that would be my underlying message—if we look at the three crop rotation. There are unintended consequences that really worry us quite profoundly.

Harry Cotterell: The difficulty from our point of view—and we have talked to our sister organisation in Brussels, the ELO, about this—is that you are trying to take the greening element of the reform and deal with Estonia to Portugal, which is virtually impossible along the lines of rules that are going to be applied across the 27 equally and fairly to achieve an objective. Whilst we have no problems with the objective, we believe it is going to be almost impossible under the current proposals to achieve what they are setting out to achieve.

George Dunn: We are not as well connected across Europe as my two colleagues, so we would not be able to give you a first-hand account of other farmers in other Member States.

Q6 Chair: I would just like to ask a question on "one size fits all" policies in two parts, if I may. One alternative would be to let Member States decide how the money allocated to greening would be spent. First of all, would you support that approach; secondly, would your members prefer if the money allocated to greening under the draft proposals was used to fund Entry Level Stewardship schemes instead?

Peter Kendall: I am again going to be candid and honest, because I know so many of you and your knowledge of the industry. On the first part, about national flexibility, we are between a rock and a hard place. Do we think the UK Government is going to gold-plate when they talk about meaningful greening and we are going to end up with more measures to get the greening element? Or do we put our trust in the European Commission to make sure these are more uniform and they therefore cannot be gold-plated? We need to have a longer debate with Defra about what they want to achieve out of this, because when you look at the agri-environment schemes we have talked about already, the Campaign for the Farmed Environment, the voluntary environmental work that goes on in England at this moment in time, there is a real concern that increasing pressure for more and more environmental action could mean that we get meaningful greening that the Government talks about here, we get the gold-plating and we have to do much more for our green top-up than other Member States. We need more feedback from the UK Government on its position before we move forward.

To the critical part of your question, about using that money to fund ELS in Pillar 1, I worry about the complexity of that. The ELS is a scheme that has a lot of different options and allows farmers to choose what fits their farming circumstance best. The idea then that the Rural Payments Agency (RPA) would have to police an ELS as part of your Pillar 1 would

22 November 2011 Peter Kendall, Harry Cotterell and George Dunn

make it incredibly bureaucratic. At the moment, when we get something wrong on an agri-environment scheme you probably have a deduction on your agri-environment scheme. If it was part of your Pillar 1 the implications are much greater for the Government having to police what you are delivering as part of that Pillar 1. We firmly believe that agri-environment schemes should be placed in Pillar 2, where there is an incentive.

The second point I would make is that some farms would choose not to do that greening. It might not suit a purely potato farm on the Fens that moves its land around. To make them do ELS is something that could cause unintended consequences, as I mentioned before. Farmers might find they do not take part in the scheme at all. We believe environmental measures need to be targeted, farmers need to select what is best for their farms, and, much better, to be something you buy into rather than something you are forced into to get the right outcomes.

Q7 Chair: Just before I move on to Mr Cotterell, do you think that the take-up of ELS schemes has been as high as the Government expected?

Peter Kendall: We are certainly seeing a fall-off at the moment. There has been a drop-off in the number of acres that have come in from August through to October. Why? Because farmers are looking at them at the moment—I have one sitting on our desk at home—thinking, “If I sign up now, and then we get reform measures in place on either 1 January 2014 or 2015, will this greening 7%—whatever it might mean—be on top of that?” I have my plans for my ELS, the lands are already pencilled in, but I want to know, as a farmer, that either it counts towards it or I can get out of the agri-environment scheme without having to repay the money. Defra are working very hard to seek clarification on that, but it is understandable if farmers are holding back at this moment in time, and we believe, despite what we have been told by other people, that farmers are either withdrawing their applications or holding them until they get more clarification.

Harry Cotterell: I would preface my remarks by saying we are at such an early stage of this process that we have not member-proofed anything I am going to say. We are reasonably comfortable with the prospect of some form of Member State flexibility, because we feel that, if properly implemented, it will get us out of the problem Peter has just outlined. We take it further in terms of agri-environment. We have a feeling that there is a role for the agri-environment schemes in the delivery of greening, in that we think the idea that they are delivering is worth exploring—they are delivering over and above cross-compliance.

Q8 Chair: But in which Pillar?

Harry Cotterell: We have never been too wound up about the architecture. If you are talking about the single farm payment and the greening element remaining in Pillar 1—which is plainly what is going to happen—then there is a suggestion we might be exploring—and again, this is still work in progress in our organisation at the moment—that if a UK farmer is in an agri-environment scheme, he automatically

qualifies for the greening top-up. That raises a possible issue about what you do with the Pillar 2 element of the payment, but I am sure it cannot be beyond the ken of politicians to sort that one out at a later date. We do feel that may be a way of taking the greening forward, and it has advantages of being fairly simple; it has schemes that are already in, so from an administrative point of view it might be quite attractive. But most importantly, the huge benefits that the agri-environment schemes have offered up, the environmental benefits, will not be lost in the way that Peter has outlined. He is having doubts about his own personal scheme. It is an area that we are currently exploring, but, as I say, I make the point it is not full policy yet: we are exploring it, and it is of interest at the moment.

George Dunn: It is absolutely right that there should be conditions attached to public money that is being paid to the farming community. Our members within the Tenant Farmers Association would say that those conditions must respect all the objectives of the CAP, not just the environmental objective: the objective of ensuring a fair standard of living; the objective of ensuring adequate supplies of food—all of those things must be considered, whatever conditions are applied.

In terms of the Member State flexibility, of course it must be sensible for every Member State of the Union to have the flexibility to decide what conditions apply to the payments that are being made in their Member States. But you have to be careful to ensure there is an appropriate balance—that individual Member States are not using it to hide particular production supports, and that other Member States are not being harsher on their farmers than others are in the process. In terms of Pillar 2, we have always had a concern about it. Clearly in the vast majority of cases, landlords and tenants are able to come to arrangements within which agri-environment schemes can take place. But there is a significant minority of cases where landlords and tenants are not able to agree, either because of the length of term of the agreement the tenant has, or because the landlord, him or herself, has decided they are going to enter the agri-environment scheme instead. We do not see Pillar 2 as the perfect solution.

Before Harry comes back, I agree that in the vast majority of cases things are working, but we need to find a way of dealing with those hard issues. Uplands ELS is an example of that; a third of the applicants of Hill Farm Allowance (HFA) have disappeared. We do not know the makeup of that third, but I bet your bottom dollar a lot of them are tenant farmers.

Q9 Chair: As you know, I have been directly involved in constituency cases in that regard.

Peter Kendall: The concern we have most strongly is that we have a UK Government that says it wants to be the greenest Government ever—it talks about wanting meaningful greening as part of the CAP reform—and yet I know the other governments, Ireland for example, basically want to say whatever they are doing now qualifies them for the money. It is that conflict that we might have, and if we take the proposition you just outlined about putting ELS into

 22 November 2011 Peter Kendall, Harry Cotterell and George Dunn

Pillar 1, when you think that this Government is driving a deregulation agenda, the bureaucratic and regulatory burden we would have to have as individual farmers to demonstrate that we were doing ELS as the conditioning in Pillar 1 I think would be enormous. It would blow their deregulation agenda out of the water big-time.

Q10 Neil Parish: We are looking forward to this deregulation agenda. Carrying on with the greening, at the moment farmers choose to take advantage of a Higher Level Stewardship scheme if they want to and some do not. The Commission proposal, of course, is very much that 7%, in some shape or form, will be either set aside or some sort of green set aside. What are your views on making it compulsory across all farms? At the moment, I believe, some farms do not take part in very many greening measures.

George Dunn: The current proposals from the Commission indicate that the greening element will be compulsory, so those individuals who are taking the direct payment, the basic payment, will also be subject to the greening element. It is clear from the proposals at the moment that they are compulsory.

From our perspective, we are a bit concerned about this policy, which is now rather aged, getting Alzheimer's in terms of the number of objectives it has been asked to look at and the number of ways it has been asked to face. Would you ask the NHS, for example, to take 7% of its productive capacity and look at something else? Would you ask Tesco to take 7% of its productive capacity and look at something else? Tenant farmers pay rent on every acre they take from landlords, and if they are therefore required to take 7% out of production, that is a big ask when they are paying rent on that. Also, the tenant farmer is in a different position to many owner-occupiers, because owner-occupiers will have woodland, rivers, etc, other bits and pieces; the tenant farmer normally only has the productive agricultural land within his tenancy. From our perspective the tenant farmer will be hit more harshly by 7%.

Harry Cotterell: We are now happier with the 7% than George, it has to be said. The first thing we say is that it is absolutely crucial that, if they are going to calculate it, it is on the claimed hectareage, and yet you can use unclaimed hectareage to cover, because this is about delivery of environment, and if it is about a mathematical mapping exercise, it will become incredibly difficult to administer. We do not like the number 7% either; we think it is much too high. I am sure that is quite clear to everyone.

In terms of the voluntary element, we as an organisation have always been in favour of the voluntary approach, and we think that there are plenty of examples within the industry—the Voluntary Initiative, Campaign for the Farmed Environment—that are delivering. Farmers like to take responsibility. The agri-environment schemes are also obviously voluntary. There is a lot of voluntary stuff now. If we can persuade the Commission that the greening element should be voluntary, you would have no complaints from the CLA. But as George said, we are slightly worried about the word “mandatory” in the proposal at the moment.

Peter Kendall: We do not know where it will end up, or what the definition of the 7% will be, but I have to be really blunt: I just think it is madness to pull such arbitrary figures out without looking at the measures. If you look, and you had the Game & Conservation Wildlife Trust in here, they have a large number of scientists doing a lot of work on positive, proactive environment management. Their recommendations are that having between 1% and 2% of our farms managed in a specific way would deliver significant environmental gains. Where do we get the 7% from? What do they mean by that? From all the work we have done with other partners in the industry on CFE, I know we take our environmental responsibility very seriously. It is a prerequisite of what we do. But to just pluck figures out like 7%, of condemning permanent pasture for anything over five years, the behaviour on long-term leys will have negative unintended consequences that are enormous. The three cropping equally would have impacts on the sort of people that it should not. It is probably aimed at larger arable farmers like me and Mr Parish, as he often draws analogies to, from your part of the world.

Q11 Neil Parish: Surely not.

Peter Kendall: Where the impact will probably be worst is on medium-sized family mixed farms, who have not got the flexibility to grow three crops. It is ill thought out, and it is not scientific.

Q12 Neil Parish: There is an argument on the permanent pasture proposals that people will plough up permanent pasture in advance of these proposals if they were to come in. That is the danger; that needs to be sorted. The old adage is you can take a horse to water but you cannot make it drink; do you believe that greening proposals are better done on a voluntary basis, rather than making it mandatory? There are various organisations that would like it to be made compulsory. What do you think is the best way to manage the land from a green perspective?

Peter Kendall: Unfortunately some of these organisations come from one single perspective. They are not looking, as all three of us look, at how we manage our farms, both for the long term, which means environmental management has to be right at the heart of our thinking, but for food production as well. We really do believe that organisations that just say regulate—force people to take their land out of production—are missing the important part of the equation that enthusing and rewarding gets better results than cajoling and regulating. The work that is being done at the moment through CFE, working with different routes to market with agronomists, understanding the challenges, trying to make sure they are trained in biodiversity matters as well as just what products to put on a crop at a certain time, using meetings where we are talking about new crop varieties for different years, to explain different ways of managing farms for the environment, is a novel way of doing things. It is much better and smarter than these blanket regulations that I think will get farmers to say, “That is a poor bit of land; I will just leave it.” That is not about positive management; it is not about thinking that we use our margins that we

22 November 2011 Peter Kendall, Harry Cotterell and George Dunn

might already have out of production to protect the watercourse: can I cut into it pollen and nectar mixes? Can I put wild bird cover into those so that those grass strips have more bangs for the buck? That is the imagination we need.

Harry Cotterell: I entirely agree with Peter. The only thing I would add is to strongly support that there has been a change of attitude in agriculture since the arrival of the agri-environment schemes, and people are enthused. They are not enthused, I do not think, by £30 a hectare; they are enthused by the fact there is a positive element they can engage with and take on. I very much agree with what Peter is saying.

George Dunn: There has to be a balance between compulsory elements—which cross compliance deals with—and voluntary elements, which Pillar 2 deals with. Cross-compliance obviously has to be applied in a way that understands the environment within which people are making decisions and the way in which things can change very quickly, so it is not just a tick-box culture. The voluntary element is important.

However, I speak to members every day of the week, and it is those members that are the experts of the farms they are managing: they have been managing them for years; some of the families have been managing them for years. What they get frustrated about more often than not is that they will have—as I referred to before—a process-driven agri-environmental framework that says, “We are going to do X, Y and Z,” and the farmer says, “X, Y and Z is not going to work on my farm because of A, B and C.” The answer is: “The computer says no; we have to do X, Y and Z.” I know engaging at a more individual level is hard in terms of the resource that would be required to do that, but it is learning from the experts on the ground as to what is going to work for their farms environmentally.

My members, Harry’s members and Peter’s members will all be absolutely delighted with the amount of environment they have on their farms and wildlife, etc—they enthuse about these things—but their views are often not taken into consideration in development of packages of support. It has to be voluntary, but it has to be engaging with people on the ground.

Q13 Dan Rogerson: Good morning, gentlemen. Mr Cotterell, in your evidence you say that greening proposals must not impact on competitiveness or productivity, so I am continuing on the line we have just been discussing. Given the importance of looking after the environment, particularly for long-term food security, there are those that say a small drop in productivity is an acceptable price to pay. What is your response to that?

Harry Cotterell: In some years I think it probably will be, but in others it will be a disaster, for both farmers and—if you take it across the country—the food security of the nation, food prices and the rest of it. We stay with what we said.

George Dunn: To back Harry up, as I said before, would you expect the NHS to take 7% of its productive capacity and use it for something that was not within the core remit of what the NHS had to be doing? The answer is no, you would not do that. Would you require a dairy farmer who has 10 hectares

of maize to grow three crops? No, you would not. These things simply do not make sense. We ought to be ensuring we have what Professor Beddington calls sustainable intensification, rather than looking at these process-driven solutions.

Peter Kendall: Just on the 7%, I think those comments have been made well and I am not going to add any more to them. On the three crop rotations, as I have mentioned, the AHDB have done some analysis of this and they have shown that it would have a negative effect on the profitability and gross margins of about 60% of farms in East Anglia. It would affect 40% to 50% of farms on the Midlands and other areas throughout the UK. These are not helping farmers make decisions for what is best and what is required for the market; it is having farmers growing crops that someone in Brussels as a bureaucrat has decided should be grown in a given year. Productivity versus competitiveness: we should let farmers produce for the market, and if the market signals are “take your foot off the throttle” you do that. The environment is really important to us. Farmers are not in this for two years; they are usually in it for two or three generations.

Q14 Dan Rogerson: Thank you. Talking about the AHDB and their analysis of this, they have calculated that gross margins on combinable crop farms will fall by up to £48 per hectare as a result of the ecological focus area measure. Can you explain how big an impact this would have on the profitability of farm businesses?

Chair: Who wants to go first? Mr Kendall, everyone is looking at you.

Peter Kendall: I have not got any exact figures for you; I am sure we can let you have the figures if you want. It is a big hit. I have not worked it out for my business. The point is we have driven CAP reform in the past to try to have farmers managing for the market, not having bureaucrats having intervention and all those unintended consequences. Why do they want to get in and micromanage what we are doing on our farms again and have us do the wrong things? The big fear on the three cropping—I have talked about it having bad impacts on mixed family farms—is where you have specialist farms, growing vegetables, for example, or farms doing contracting, as I do. What you will end up with is people swapping land parcels. Where I do 100 acres for one farmer, growing five acres of beans, 25 acres of rape and 70 acres of wheat, I will grow all wheat and I will transfer land parcels around, which will put the RPA in exactly the mess it has been in for the last five years. I used more colourful language in other venues. We can do without us being driven, because we will do what is right for our business, we will try to keep them efficient and productive, but we will end up shifting pieces of paper around and another disaster awaits.

George Dunn: It is also about competitiveness and efficiency. Another driver of this reform is, apparently, competitiveness and efficiency. We talked about the gross margin, but we need to look at the net margin as well. People will still have the fixed costs associated with running those businesses, which will

22 November 2011 Peter Kendall, Harry Cotterell and George Dunn

be spread over fewer acres in terms of the production they are making. I say again, the tenant is paying a rent on every acre of land that he is farming; if he has to leave that doing something that is non-agricultural, it is a big hit.

Q15 Mrs Glindon: Just going a little bit further in relation to this aspect, many farmers will have to grow additional crops to meet the crop diversification requirement. How do you think this will affect the functioning of the market for those crops?

Harry Cotterell: Shall I have a go at that? I do not know; it is difficult to know what impact it will have on the market, but it must have some. It is going to reduce in some areas, and reduce quantities in some crops whilst adding to others, obviously, because if people are not growing for the market, they are growing for the subsidy. One thing I think we all agree on as part of the sustainable intensification agenda is that we all do what we do better, and we get more out of the land we are farming at the moment. That is going to be extremely difficult if we have to grow to the subsidy by producing small areas of crops that we are not necessarily particularly good at or geared up to do. I have every sympathy with a continuous wheat man in the East who does it as well as anyone and is just going to be messed around for the subsidy for no particularly tangible environmental benefit.

The other guy who is going to be significantly impacted—and I do not know whether it will have any effect on the market—is the small stock farmer, who is only doing his little bit of barley for his own use. What is he going to do? He may only be able to grow barley. I do not see how he gets round that particular problem. I cannot see the benefit, and I can see significant problems throughout.

Peter Kendall: The Commission is using a sledgehammer to crack a nut. In one or two small isolated parts of Europe they have monoculture, where people are just growing maize, or they might be growing continuous cereals of some shape or form, but it is not on a big scale. Therefore their reaction to going around and asking the general public—which seems a strange way to devise an agricultural policy as specific as we need to address here, especially with the Beddington challenge—is to say, “We do not like monoculture, therefore we will make sure people have three crops.” As I said, it is a sledgehammer to crack a nut: there is only a small instance of this happening. Show us where the damage and the consequences are, and address them at local level. Let us not make sure the whole of Europe ends up with a bureaucracy and the complications that Harry has just alluded to.

George Dunn: We have not thought about it too much, because it is unthinkable that it would be implemented in the way that it is. It is completely barmy to be implementing it the way it is. To use my analogy of someone who is growing 10 acres of maize for his dairy cows, will he have to grow 0.5 of an acre of spring barley and 0.5 of an acre of wheat? What is that going to do in terms of the quality of the crop he is producing? Does he have the agronomy skills to grow those things? Does he have the soil to grow those things? The whole thing is completely barmy.

The impact at a global scale in terms of production is unthinkable.

Q16 Mrs Glindon: You have obviously given those examples of the small farmers who have predominantly one crop, but do you think the crop diversification requirement will make it less likely that farmers who are able to would rotate their crops between seasons?

Peter Kendall: There is a view from some of the Commission we have had discussions with that there might be a prospect of saying that block of 100 acres I talked about earlier on could be asked to have one crop one year and show it has had a diversity of rotation over a three-year period. That is not as the proposals stand at the moment, and I imagine policing that would be quite a headache.

I am an arable farmer, 40 miles north of London, and I grow wheat and rape, because it is the best thing that heavy soil produces. If the Commission decides they want me to grow beans as well, I will do it, as I can have some storage that can put a field of beans in a separate area due to the size of my business. It will not be as profitable; it will have some benefits the Commission deem desirable, but I am not sure whether growing a spring crop on heavy clay in a wet year is the right thing to do. As Harry and George have said, the more mixed family units will have real problems: having to keep products separate; breaking fields down into subdivides; having the equipment to grow a number of crops because the Commission deem it to be the right thing to do. I share George’s point: it is so mad we have not put a lot of effort into seeing what impacts it will have on the marketplace.

Q17 Neil Parish: Going back to the 7% of land the Commission want to set aside for an ecological focus, on a lot of farms there would be some land that is not productive. Have you got any type of figures on existing farms at the moment as to how much has some form of ecological benefit?

George Dunn: We have a very small list from the Commission as to what would be considered. It strikes me—again, from the tenanted perspective—that there is going to be very little of this type of land on tenanted holdings up and down the country, so we have some big concerns about that.

Peter Kendall: It is really important, one, whether the environmental management that is already going on counts. That is the real crux for this, Mr Parish. At the moment we know there is 156,000 hectares uncropped, which would possibly be used towards that. That might bring the 7% down to 5%. The telling bit to me is even in the Commission’s impact assessment, they talk about it being reflected in higher prices. It talks about 3% increase for sugar beet, barley up 12%, and—this is the killer for me—it talks about incomes for pigs and poultry as being down 25%, because they will be paying higher prices for feed.

Q18 Neil Parish: They are already paying higher prices.

Peter Kendall: It has come off a bit; I follow it quite closely. There has been quite a significant decline in

22 November 2011 Peter Kendall, Harry Cotterell and George Dunn

recent weeks in grain prices. The European economy is in a mess. Why on earth do we want to produce more pigs and poultry somewhere out of Europe, when we can do it here? Why do we want to make our suppliers face higher costs at this moment in time? It will happen: the EU impact assessment shows a 25% reduction in profitability to those farms. They have to think very hard about this.

George Dunn: That highlights what I was saying earlier about policy Alzheimer's here: we are expecting this policy to hit so many targets that it does not know where it is looking. We have to be very focused on what we want this policy to be doing.

Harry Cotterell: On the uncropped land, the CFE are currently recording 134,000 hectares uncropped, which is significant. It is a lot of land, but it is chosen by the farmers—it is voluntary. It is certainly not 7% claimed area.

Q19 Neil Parish: You raise some interesting points there, especially the one about the pig and poultry industry, because they are of course completely unsubsidised, and therefore they are not getting the benefit of the single farm payment, whether it has 7% ecological set aside or not. Therefore, if you make their situation worse, that really is a counter. I agree with you: at a time when we need more food, it seems absolute nonsense to start setting more of it aside. The question is: if you have set aside land to an ecological focus, how difficult is it to bring it back into production if they later see the errors of their ways?

Harry Cotterell: It depends on how they write the rules, I am sure. In the old days of set aside it used to be a requirement to keep it in GAEC: Good Agricultural and Environmental Condition. It had to be available. We would be appalled—as I am sure everyone would—if we started losing the capacity to produce, even if we were not producing on that. The regulation should make it clear that it can come back into production as soon as possible. I think it would be a disaster if it did not.

Q20 Neil Parish: Hopefully we will not get there.

George Dunn: I absolutely agree, obviously, but if you plant trees on this stuff, bringing that back in is going to be a problem. But yes, I would agree with Harry completely.

Peter Kendall: I have managed land in the past where it has come out of five, six year set aside. It is not something you do instantaneously. It does take time to build the structure back up, and it is not always easy to do that. I suggest it takes up to three years to get land back into productive capacity. You mention, Mr Parish, the need for more food. I think we need more jobs, more economic activity, more exports. That is what the European Economy needs at the moment, and we as a farming industry want to play a part in that.

Q21 Chair: Looking at the impact of the greening requirements on food production, the RSPB pointed out to us in their evidence that there is a joint CLA NFU briefing paper on anaerobic digestion, stating that a 3.5% fall in wheat output would be a “modest change”. Is that correct, and is it therefore safe to

assume that greening will not have a significant effect on food production?

Harry Cotterell: First of all, we make the point that this briefing note was not included in our evidence, but—I think this is important—land would not be coming out of production: it will be producing but producing for a different market. I do not really like to make a distinction between the two. I do not see the point in making a distinction.

Peter Kendall: It is a red herring. As I see what has happened in Germany, and we saw price spikes in 2007–08, where the Germans had 3,000 biogas farms up and running, it meant, having made that investment, they scavenged harder to find waste products to put in them, and they had the agricultural land or the maize to go into livestock. It had a more flexible supply chain rather than a more rigid one where the crop is not being planted. It is trying to compare apples and pears, and it is a deliberately false comparison.

George Dunn: Although I was not party to this august briefing note we obviously face challenges of food security; we also face challenges of energy security, and we are currently trying to grapple with how we become more energy secure as a nation and as a globe through various means. Is it not right that agriculture should be playing its role in that, to be providing some solutions? AD is still a relatively new technology that we are looking at. It is a very reasonable thing that agriculture should be trying to play a role in finding solutions to energy security as well as food security.

Q22 Chair: Would each of you agree that the ecological focus area definition is key to the understanding of the Commission proposals, and should Defra therefore press for an agreement on this definition before the final regulations are agreed?

Harry Cotterell: Absolutely. At the moment I think it is described as “Land left fallow, terraces, landscape features, buffer strips and certain forested areas”. That could be anything. It is potentially a nightmare: we need to go a lot further before we can make any really significant comment.

George Dunn: I would just sound a note of caution that trying to define something that we do not want in the first place—i.e. this 7%—is setting in stone something that is going to come back and bite us in the backside. We need to understand a little bit more about what the outcomes are that we want to achieve and then look at the whole policy in the round, rather than accepting the 7% and trying to define what that means.

Peter Kendall: I share those reservations: more clarity, but what are we trying to achieve by this? We should go back and redefine what greening is trying to achieve, rather than pluck these figures from thin air.

Q23 Chair: Do you think there will be support from both the farming organisations and the Commission for that?

Peter Kendall: Certainly within Copra, the farmers' organisations in Brussels, we have regular meetings. My Deputy President Meurig Raymond is meeting MEPs tomorrow and will be pushing the case as well. The fact that we have co-decision this time round

22 November 2011 Peter Kendall, Harry Cotterell and George Dunn

creates an opportunity. It will put some real challenge, and also some imaginative alternatives, forward to help us move this debate forward.

Q24 Neil Parish: You might tell me that we do not want to discuss this next question as well, but the Commission has proposed three basic activities in return for the greening payments at the moment. Can you suggest any other activities that they should have proposed instead?

Harry Cotterell: To tie in to my original comments, if we were to engage the agri-environment schemes as the requirement for greening, there are 67 options in the agri-environment schemes, 61 of which we think, on a fag-packet analysis, really deliver significant benefits, significantly more benefits, virtually each of them, than are delivered by any of the three proposals. I just leave that with you.

Q25 Neil Parish: I certainly do not see how the crop rotation fits into it.

George Dunn: If you look at other bits of work that are going on, we have had the Natural Environment White Paper; we have had the Farming Regulation Task Force review; we have had discussion about having outcome-driven policies; we have issues of “earned recognition”. Farmers are involved in their own schemes or even with their own landlords in trying to promote certain types of biodiversity and wildlife. Shouldn’t they have their own recognition to be able to tick that box to say they are doing what they can on their particular holding for the benefits we want to see? A little bit more of the flexibility is what we are looking for, rather than lots more prescriptions.

Peter Kendall: It is a combination of both those two. The fact that agri-environment schemes need some acknowledgment, and that is going back to almost what Albert Dess was proposing in the parliament—unlocking that greening. There are the options of certified production systems, where there is a farm assurance, an AFS certificate with a greening element, a bit like LEAF. LEAF, for example, could unlock that. If we were looking at longer lists, we again want to make sure we do not end up disadvantaging UK producers. Very important to everything I say here, picking up George’s point, is whether there is an element of the management plans we had in the old agri-environment schemes, where you were being asked to demonstrate what you were doing. We are involved in so many voluntary schemes now, whether it is Tried & Tested around nutrients, whether it is Greenhouse Gas Action Plan, whether it is the Voluntary Initiative on pesticides, whether it is the Campaign for the Farmed Environment. Submitting a yearly update on how you are progressing your farm business on those areas—nutrient management has to be good, the whole Greenhouse Gas Action Plan, reducing your carbon footprint—is a smart way of making sure as farms we are managing ourselves to be in a better position for the future. That strikes me as a better route than just saying, “Take that out of production,” or “Have rotations.”

Q26 Neil Parish: Do you believe the Commission is taking enough notice of the environmental schemes, the stewardship schemes we have in place already?

Harry Cotterell: Not the way it has drafted this reform, because without flexibility virtually all of them are in severe jeopardy. No, I do not think they have taken account of what we are doing.

Q27 Mrs Glendon: One suggestion is for farmers in agri-environment schemes to automatically receive the greening payments that the draft regulation proposes for organic producers. Would your members think this approach is fair?

Harry Cotterell: Yes.

Peter Kendall: As long as it sits in Pillar 2, it is a voluntary measure and it is not forced into Pillar 1 and made compulsory for everyone. It needs to be that I choose on my farm to go and sign up to an Entry Level scheme, but it then ticks the box in Pillar 1. We think that is absolutely fine, in the same way that organic farming unlocks it. In fact we can go wider: it could be LEAF, it could be farm assurance plus an environmental module or other ways of doing this. But it does need to be an opt-in in Pillar 2, rather than forcing that into Pillar 1.

George Dunn: I would say “yes, but”. The “but” is resolving the issues I was talking about earlier in terms of the ability for tenants to access the agri-environment schemes, or in situations where their landlords are the recipients of the agri-environment scheme benefit and they are not in the scheme. If we can sort that out, and maybe there is something you could do around the active farmer issue, so we are not allowing people who are not actively engaged in the management of that land access to agri-environment schemes. That might be a way forward from our perspective. So “yes, but”.

Harry Cotterell: I agree entirely with Peter. I was wondering how long it would be before active farmer came up, and it took 55 minutes.

Chair: We will come on to them at the end.

Harry Cotterell: I am not convinced that is the solution. I do not think we want to get into active farmer now, Madam Chairman, I hope..

Q28 Neil Parish: Why not?

Harry Cotterell: How long have you got?

Peter Kendall: I should sit between them I think!

Chair: I am going to turn to Mr Parish, if I may.

Q29 Neil Parish: I have been told to stick to the greening issue and not diverge from it; I had better not in that case, however tempting it might be. Going back to the permanent pasture again, an alternative to the requirement to retain permanent pasture is instead to offer an additional payment for farmers that do retain their permanent pasture rather than making it compulsory. Would you support this type of alternative?

Peter Kendall: No, we would not at this moment in time, without knowing a lot more details about what would be proposed. If you have a farm—and my deputy Meurig Raymond runs six seven-year rotational layers—I am not sure you could compensate anybody enough to say, “You are not going to have

22 November 2011 Peter Kendall, Harry Cotterell and George Dunn

flexibility in how you manage that land in future.” Not only do you lose the ability to manage it but you probably significantly devalue it as well, because it lacks that flexibility going forward. I am concerned about where this money might come from, how it would be administered, what sort of quantity would be required to have farmers making the wrong decisions? We have been very clear, as an organisation: we have been going out pleading to people not to jump in and make rash decisions on the back of rather poor proposals and start ploughing up grass. We need to have really clarification on this pretty urgently.

I was talking in Wales last night: farmers might want to expand into livestock production at this moment in time because the markets look good. Will they do that and plant more grass if they are told in five years’ time that they cannot take it out ever again? It strikes me as a really perverse message at a time when we want farmers to be producing for the marketplace. That would be another reason for moving away from top-ups, because it is trying to send counter-signals to the market. But we do; we know we have rules already that protect ecologically rich grassland from being ploughed anyhow.

Harry Cotterell: I entirely agree with Peter. Our members have made it quite clear that there are a large number who are involved in grass rotations of significantly more than five years, and they are now at risk. That rotation is at risk, at the moment, while this proposal is in the air. We are very concerned about it.

George Dunn: No dissent from what they have said. We run the risk of tacking bits of wood to shoddy foundations.

Neil Parish: And also, going back to a comment I made earlier, there is a chance this may be counterproductive in terms of people ploughing out grassland that they may not have done otherwise.

Chair: We will turn to alternative pastures.

Q30 Mrs Glendon: NGOs are concerned that farmers will plough their permanent pastures before 2014 in order to avoid the greening payment. Do you know how many of your members have said they are considering doing this?

George Dunn: We have had no response from any of our members saying that they are going to do it. Like Peter and Harry, we have been putting out the message that, “This is, at this stage, a set of proposals. Please do not do anything precipitous on your farms in relation to these proposals because they could change markedly.” We have no evidence that people are doing that. There is more evidence of people holding off applying for agri-environment schemes because of their concerns of what might come, but there is no evidence of them taking the sort of action you are talking about.

Peter Kendall: Farmers are rational business people: we care passionately about the environment, and long-term, ecologically rich pastures are very different to a six- or seven-year ley. I would be amazed if, in a year and a half or two years’ time there has not been clarification of these rules, a farmer would not take out a longer term ley. They have to think about the

flexibility of their businesses; they have to think about the benefits of moving to shorter leys against being folded into something very rigid. If we do not get urgent clarification on this, I suspect there will be a very high amount of land ploughed out to those longer term leys, even if it is only done as part of a rotational ploughing out, of shortening those leys down from being six or seven years to four. It is not great for the agronomy and the way they are trying to manage their business, but they would do it to avoid fossilisation, which would be the outcome of these rather bizarre proposals.

George Dunn: Peter makes a very valid point: the closer we get to the intended date of implementation, and if these proposals continue to be part of the package of reforms going forward, the more likely it is people will take those sorts of actions. But there is certainly no evidence of it at the moment.

Q31 Chair: In your written evidence, Mr Kendall, you say that the NFU is concerned about the Government’s approach. What is your understanding of the Government position on greening?

Peter Kendall: I made some comments earlier on about wanting meaningful greening, and whether this is going to cause disadvantage within the UK. We are seeking urgent clarification of exactly where the UK Government sits—that would be useful—not only in terms of whether it wishes to move away from its position that more and more money should be moved from Pillar 1 to Pillar 2 because it realises it is quite a lone voice on that argument. Therefore does it, as we hear from sources around the Treasury, because it cannot move money from Pillar 1 to Pillar 2, want to move measures from Pillar 2 into Pillar 1, which, as I said earlier on about regulatory burden, would be phenomenal, enormous and blow their regulatory work out of the water, I suspect. Or do they want to keep modulating English farmers more and more, so they carry on driving the greening in Pillar 2? We need clarification from the UK Government, because at the moment it just says lines like, “We want meaningful greening; we want to drive the environment.” My comments of the last few weeks have been I think the environment is doing pretty well: we are doing a lot of good things in biodiversity management, proactive management of the countryside. What we need to be looking at is our productivity crisis, which is going to be more pronounced in 20 years’ time. We have to start addressing that from Government’s announcements and campaigns, rather than just looking at biodiversity and moving money from Pillar 1 to Pillar 2 for that purpose.

Q32 Chair: Mr Dunn, are there any general concerns of the position of tenants under the proposals that you would single out?

George Dunn: As Harry railed at me earlier on, the active farmer issue is a big one for us. Whilst the Commission’s proposal is completely unworkable in its current form, we think it is quite right that we should be looking at ensuring only those actively involved in the management of the land are able to access both Pillar 1 and Pillar 2 schemes. That is a

22 November 2011 Peter Kendall, Harry Cotterell and George Dunn

big issue for us. Of course, we have the issue of landlords land banking between now and 2014: there are a lot of landlords who are able to meet the qualification criteria of having been an applicant in 2011 who will have the flexibility to hold land back from the marketplace. That is a big concern for us. It happened in 2003, and then we had a lot of seven-year agreements as we saw the history bled out of the SPS. There is obviously a concern that it is going to happen again, and we need to put in place measures to ensure that does not occur.

Q33 Chair: If I asked each of you if there was one aspect of the Commission's greening policies you could change, which would you think to change?

George Dunn: All of it.

Harry Cotterell: Can I just make a comment? Funnily enough, George and I agree on the fact that the existing proposal is completely unworkable in terms of active farmers, but we do not see a need to change the existing definition under the last reform, which we were perfectly comfortable with and we do not think is causing a significant problem. Can I also make a quick point on 21.2, which George mentioned, with which we do have significant problems? This reform is quite a long way away, and 21.2 is the requirement to have claimed in 2011 to be able to claim in 2014, which is effectively fossilising the claimant structure as per this year. Firstly, there are a lot of landlords that are coming out of agriculture between now and the reform date. That sort of closes it down. They should not be penalised for that. George may want to penalise them, but they should not be penalised. This is a market decision, and that should not happen. But secondly, it creates a golden ticket for claimants in 2011, which is an asset you should not really have: it has created a badge, "I am entitled to claim in 2014 and consequently I may not retire next year, or the year after, or hand on." It is going to distort both the land and rental markets. Although in some cases it may be advantageous to George's members, as often it will be disadvantageous. We are very concerned about that particular point. I am sorry to bring that in.

Q34 Chair: There was quite a bit in your written evidence, all three, on entitlements. That has been well made. Mr Kendall, is there any single issue you would change?

Peter Kendall: The greening proposals. We accept that greening will be part of the CAP reform, but all the measures, as they stand, have significant

unintended consequences, and that causes us concern. Just picking up, if I could, on the active farmer, while everyone else is having their two penn'orth on that issue, we have 27,000 of our nearly 50,000 members in the NFU who have tenancies as one of the issues they raise. What I try hard to do is keep a focus on what is going to make sure there is opportunity for more tenancies to be coming in the pipeline. We are supportive of the idea that this the money should go to farmers and not pony paddocks, where it costs more money to make the payment than they receive. We are great advocates of that. But I do worry that, if the Commission tries to tie this down too much, what you will do is cut off opportunities and flexibility in land management arrangements. We have to keep that at the back of our mind.

The reason why the 2011 claimant date is in there is to try to stop people who are farming at this moment in time being turfed off. We like the idea of some continuity and protection for people who are farming now, but the active farmer one is one that if we are not careful—I spoke to Harry on this—could have unintended consequences, because the more you tie it down, the more landowners will be inclined to keep it in their occupational possession, rather than having flexible and dynamic relationships with, hopefully, up and coming new entrants into farming.

Q35 Chair: Is this problem unique to the United Kingdom?

Peter Kendall: Our landlord system is probably more pronounced. Harry would have a better idea of that around the rest of Europe, but we certainly have a larger degree of those let holdings than other parts of Europe.

George Dunn: One of the issues is that we have never had a revolution, so we still have big landlords.

Q36 Neil Parish: Are you suggesting one?

George Dunn: No, not at all. We like the landlord/tenant system. It is a very England and Wales-centric issue—the TFA is an England and Wales organisation, obviously. But we are not looking for this to be too tied down to create the sort of problems Peter is talking about. We have given in our written evidence some suggestions as to how the active farmer test could apply in a more reasonable and reasoned way.

Chair: You have been very generous with your time. Thank you very much for both accommodating the change of time and contributing to our inquiry. We are very grateful indeed.

Wednesday 23 November 2011

Members present:

Miss Anne McIntosh (Chair)

Tom Blenkinsop
Thomas Docherty
George Eustice

Mrs Mary Glendon
Neil Parish

Examination of Witness

Witness: **Professor Tim Benton**, University of Leeds, Global Food Security Champion, gave evidence.

Q37 Chair: Good afternoon and welcome. Professor Benton, thank you very much indeed for being with us today and contributing to our inquiry. Just for the record, would you like to introduce yourself and give your position?

Professor Benton: I am Professor Tim Benton from the University of Leeds, and I am a researcher in agri-environment interaction, particularly at the landscape scale.

Chair: Just before we start the formal session I have a little bit of housekeeping for those of us with an interest to declare. I want to draw attention to the Register of Members' Interests and the fact I may be in receipt of CAP moneys.

Neil Parish: I am a farmer; I do not directly receive single farm payment but I do own land.

Q38 Chair: We are most grateful to you for participating in our inquiry on greening the Common Agricultural Policy. Could I ask at the outset: in your view, Professor Benton, do you think the Commission has the balance right in terms of greening the CAP and delivering food security?

Professor Benton: I think the issue, as is often the case, will be that the devil is in the detail. So clearly, according to *Foresight: The Future of Food and Farming and Reaping the benefits: science and the sustainable intensification of global agriculture* and so on, we need to pay attention to the global need to increase production, and certainly, as you head towards the second half of this century, the world food market is going to be very different from how it is now. So we have to maintain our agricultural land bank, and there will be situations even in the next decade where we are going to need to increase production quite strongly in response to the climate. At the same time there is a growing, important recognition that everything has to be done in a more sustainable way than has been in the past; particularly with respect to things like soils, soil management and ecosystem services in general, we cannot carry on utilising natural resources in the way we have done. Therein lies the nub: how do we increase food production whilst at the same time decreasing the rate at which we have been impacting on the environment, or even mitigate against that and make it better? Clearly, with the CAP, we need to have both. Depending on the details, it could be fairly good for both or it could be fairly bad for both, and it is difficult to say at the moment. As a first pass, I am not that alarmed by the proposals compared with some of my colleagues.

Q39 Chair: The Commission has aimed to design a policy that can be implemented uniformly across the 27 Member States. In your view, do the proposals give sufficient scope for tailoring the policy to local conditions?

Professor Benton: I must admit that I am not an expert on CAP, so I have not read all of the details of the proposals. From what I understand the biggest worry is that there is not enough local tailoring, and, from my perspective as an agri-ecological researcher, we absolutely need to make sure there is tailoring that is appropriate to the right situation, whether that is the right landscape, region or country. So I would be quite happy with the idea of having a uniform framework if the implementation regulations allowed sufficient tailoring.

What I would be worried about, other than at a very broad level, is just a one-size-fits-all policy. Within the Commission, they recognise that there has to be some local tailoring, but it is the extent to which that comes out in the implementation regulations that will be the key thing.

Q40 Chair: Is the difficulty not that they are trying to have a one-size-fits-all policy, and there will be differences between Member States and there will be differences within Member States? Is there sufficient flexibility in the policy at present?

Professor Benton: I do not think so. The scientific consensus is very strong at the moment that what we need to do is tailor things to the specific landscape. So even in the UK, how you would manage a Cornish landscape is very different from how you would manage a Norfolk landscape, and what you would have to do—whether it is 7%, 5% or 3%—and how you would connect up those elements would be quite different in those two sorts of landscapes. So, absolutely, we need to push very hard for that.

Q41 Mrs Glendon: The Commission has opted for a land-sharing rather than a land-sparing approach. Do you think the land-sharing approach presented offers the most environmental benefit for the resources invested?

Professor Benton: Again, I think the answer has to be: potentially or potentially not. Land sparing versus land sharing in a sense is a semantic argument about the scale at which you are looking at things. So in a typical farm you have a field, which is the land used for agriculture, and then you have the margin, which

23 November 2011 Professor Tim Benton

is the spared land. At a landscape scale you will have some areas that are not farmed at all and you will have some areas that are farmed extensively. At a European scale—effectively, Western Europe—the Low Countries would be seen as intensive area and the east of Europe would be seen as the spared land. So land sparing versus land sharing very much depends on what scale you are looking at.

The scientific consensus at the moment is that we need to have a network of connected habitats that is appropriate for biodiversity to get around the landscape and that has enough different habitats in it to allow everyone to find a home. So the requirements for a pollinator, such as a bee, would be very different from the requirements for a bird, and there will be some non-agricultural specialists who require non-agricultural land like copses or proper nature reserves. What we need to do is have a connected landscape that has a mixture of hedgerows, a mixture of different sorts of margins, a mixture of cropped areas and non-cropped areas, plus some nature reserves. Now, whether you call that land sparing or land sharing doesn't matter, what I do not think we need or can afford, in food security terms, is to think in terms of an extensive farming system, such as organic, where you are trying to encourage the nature within the field centres as well. Yields would drop too far and the environmental cost that we would transport outside Europe would be far too big.

Q42 Neil Parish: That brings me on quite neatly to my question about food security. You have said, and I agree with you, that the EU must play its part in producing food for its own citizens and people elsewhere. Are the Commission's proposals consistent with your recommendations?

Professor Benton: We have to balance sustainability and food security. One answer to that is that we have to maintain our agricultural land bank; so as long as we are not taking land out of production and concreting it over, there is some mitigation of long-term future needs. The Commission's own figures suggest there will be a drop in production of a couple of per cent, and various other reports have been looking at that. Again, the devil is in the detail, because if you count our existing agri-environment scheme margins as part of that 7%, we might not need to take any further land out of production.

The other thing is that one would hope the innovation partnerships under Pillar 2 will drive innovation—there is a lot of money going into them—which will allow an increase in production that will more than compensate for any land that is taken out. Potentially it could be good. If it becomes a one size fits all, taking land out of production in a rather blunt way, and the innovation partnerships become a way of putting money into the rural environment without innovating properly in farmland, then it could be bad for food security. At the same time it could be bad for the environment too.

Q43 Neil Parish: They reckon that the 7 billionth person has just been born in the world, and the Commission is coming forward with a proposal with a 7% set-aside of arable land when there are quite a

few hungry people in the world. Some of the figures I have here show that this would equate across the whole of Europe to 31 million tonnes less in wheat production, which is more than double Britain's annual wheat production. Do you think that is sensible at this particular moment in time?

Professor Benton: From a long-term food security perspective, I think it is probably not as bad as those headline figures would indicate. There is a general acknowledgement that a lot of the problems to do with food security are not to do with production, but with the fact that we buy food and throw 30% of it away and so on. Those are well-rehearsed arguments. The figures that you quote also assume there is no further increase in productivity in the land left behind. We have underinvested in agricultural innovation for a long time and I think there are many ways we can increase yields, partly through soil management and some of the old simple things we have forgotten about, that might well more than compensate for that.

Q44 Neil Parish: I agree with you on that particular point. I want land for conservation, but is there any real moral reason for setting aside 7% of the very best arable land that can produce your 4 or 5 tonnes a week? You could have 7% or more of a country in some environmental scheme, but what worries me is the prescriptive part: you are taking some of the best East Anglian land and setting it aside when people are hungry.

Professor Benton: Yes, but then it comes down to the devil in the detail again. We should be ensuring that the 7%, 5% or 4%—whatever it ends up being—includes areas that are currently non-cropped. So, on your average English farm, already about 4% is non-cropped land. A lot of farmers would be able to find bits and pieces of land that are not necessarily profitable. Also a lot of conventional farmers leave more aside because it is not profitable to fiddle around with the tractor in that particular corner. I do not think it is as stark as, "We are taking 7% of the East Anglian fens out of production."

Q45 Neil Parish: That's provided that the Commission is flexible enough.

Professor Benton: Yes, absolutely—it has to be provided the Commission is flexible. I was talking to Lord Ewen Cameron over lunch, and he was saying he does not want to be penalised because he has been a good HLS farmer and has Farm Woodland Schemes, so has taken that land out of production already. He does not want to be in a situation where that does not count towards his 7%. That would be a daft situation; we have invested a lot of money in getting these agri-environment schemes, and if they no longer count as the allowable area then that becomes really counterproductive. We have to fight against that.

Q46 Neil Parish: My next question is similar in some ways. Is there a risk the requirement to retain permanent pasture will hamper the EU's ability to respond to future changes in food availability or even to prices of food? Is it right for the CAP to perhaps depress food production and then for the public to pay

23 November 2011 Professor Tim Benton

more for their food, having paid for the CAP in the first place?

Professor Benton: I think permanent pasture is the thing I feel most uncomfortable about. Again, it depends how you define it. If you define it as grassland that has been grassland for five years, maintaining that is only an instrument for maintaining cattle farming. If it were permanent pasture that had been permanent for decades and had a certain amount of high conservation value, then I would have a lot more sympathy with it. It makes a lot more sense, especially for many reasons nutritional and environmental, that the direction of travel over the next decades has to be to less meat production and less dairy production just for our own diets. We want to have the flexibility to change that mix of livestock to arable.

Q47 Neil Parish: There is also an argument from a conservation point of view that, if you are going to be so prescriptive as to keep the percentages of permanent pasture, then some farmers may actually plough up in advance of these new rules. So it could well be counterproductive.

Professor Benton: It is exactly the same with the HLS and the Woodland Farm Scheme and so on. If that is not part of what you will get paid for, you will chop it down or plough it up.

Q48 George Eustice: I was quite interested in the difference between the greening of Pillar 1 and what we have traditionally done, which is agri-environment schemes through Pillar 2. Comparing these current proposals on the table with what we have done previously, do you think it offers better value for money in terms of the cost to farmers or is it likely to be a more costly and bureaucratic way of delivering those environmental objectives?

Professor Benton: There are two answers to that, neither of which may directly answer your question. For a very long time—and in my evidence I used a quote from Sir Donald Curry’s report—we have asked for broad and shallow environmental schemes that cut across the landscape to ensure there is this proper, connected landscape. In a sense, what this is doing is making being part of entry-level schemes compulsory. So, on the one hand, depending on how the regulations work out, if everybody has to do it, it should not necessarily have the same cost to a farmer as if they have to go into HLS, etc, where I am told the paperwork and discussions can be quite painful, long-winded and bureaucratic.

Q49 Chair: Sorry to interrupt, but that would still put up the cost to the consumer. It might be neutral to farmers, but it would be a cost to the consumer.

Professor Benton: Again, that is balanced by how much yield growth is going to happen, so I do not think we should get caught up in the fact that agriculture is staying the same. Agriculture has to be one of the fastest moving industries on the planet to cope with all the challenges against it. That is what I mean. If we are going to invest €4.5 billion in agricultural innovation, according to the paperwork, then we should expect quite large changes in yield.

For example, I have recently done a study that showed that, in relatively similar fields at relatively similar locations using winter wheat, yields varied from five or six tonnes to 15 tonnes per hectare. If we could get half of the bottom half up to the top half, that issue in particular is gone. That evaluation must be a lot to do with management.

Q50 George Eustice: At the beginning you talked about tailoring policy even within a country. Britain’s long-term aim is that Pillar 1 would effectively disappear and everything would be done through Pillar 2, so that national Governments could tailor the policy in a way that works for them. Do you think there is a danger that by greening Pillar 1 you break the momentum towards such long-term reform of the CAP? You allow those countries that want direct payments to say, “We have done a bit of greening here now, so it’s okay—we can stick with this.”

Professor Benton: I have a degree of sympathy with that, although I am not qualified to answer that question. My colleagues sat behind me might disagree. Looking at the evidence from an outsider’s perspective, the amount of money we have invested in agri-environment schemes has not provided the sorts of benefits to biodiversity we would like. There would be an argument that the direction of travel might get us there in the end, but it might get us there so far “in the end” that it becomes too late.

I can see the political argument why direct payments to farmers in the long term are not a good idea, but it is going to take 20 to 30 years, at the rate CAP reform goes, to make a big change in that. We have to ensure there is sufficient greening, because otherwise it will be too late. If we do have to come close to doubling food supply by 2050, that is a huge ask, but, if you think about it, it is four or five cycles of CAP reform, so we have to push when we can.

Q51 George Eustice: My next question relates to the food security side of this. Obviously, there has been a lot of emphasis in the recent past on sustainable intensification and this idea that we needed to help farmers produce more using less land. However, the Commission’s greening proposals tend to be much more narrowly focused, specifically around biodiversity. Do you think that is a fair comment? Do you think this element of it is too narrow?

Professor Benton: I would like to see soils more firmly flagged, for example—soils and water use and so on. My understanding is that they will come in the cross-compliance side of things. Biodiversity is really important, and we have not utilised the value of biodiversity enough for production growth. No disrespect, but a lot of farmers are unaware that there are a large number of very small wasps that do most of the natural pest control for them, and they only see the pests when the population growth breaks out, so they only spray sometimes. If you get rid of all the small wasps, you have to spray more. That kind of hidden value of the environment is under-recognised.

Q52 Neil Parish: We should be breeding wasps then, should we?

23 November 2011 Professor Tim Benton

Professor Benton: Effectively you do that by maintaining grassy margins because that is where they like living. It is about how you build the value of the natural environment into the farmer's way of valuing what they are doing.

Q53 Mrs Glendon: Professor, you have said that being organic does not necessarily imply this farming practice is the most sustainable one. Do you mean that organic farming should not automatically qualify for the greening payments?

Professor Benton: My personal view is that probably it should not. Organic farming clearly has a role, and in some places it particularly has a role, but there are many more ways of being a production farmer with a higher environmental benefit than just being organic. The problem with organic is that it comes at a cost to yields, and when you do a lot of farm visits some of the best-managed farms are high-production farms with very high biodiversity, good soil quality and so on. Those do not necessarily go hand in hand with being organic.

Organic tends to be good for biodiversity but it is not always good. I think I put in the evidence that, in our recent study, farmers, because they have so little yield, want to farm a bigger area. So they actually have smaller Ecological Focus Areas, in the new terminology, than your conventional farm; they have narrower margins and so on. So I would like to see not just organics get this automatic extra leg-up but also other well-regulated environmental schemes such as LEAF. Hope Farm, the RSPB farm, is an excellent example of that. It is a high-production farm with lots of environmental benefits, but it is not organic.

Q54 Chair: Does organic farming fit in with what you said earlier about better use of habitats and landscape, and the fact that, by definition, you are using less fertiliser and less pesticide?

Professor Benton: Our study showed that for winter cereals, which are largely used for feed, it took twice as much land to grow the same yield. So twice as much land to grow that yield is an environmental cost that is normally not taken into account. Our figures are that it has on average 12% more biodiversity, better soils and so on, but it took twice as much land. Actually, you get more biodiversity if you farm intensively and then take some of that extra land and manage it properly for wildlife.

So organic is good in terms of fewer inputs but at the extra cost of reducing yields. There was a recent calculation that, if Europe goes 20% organic, we would need an extra land area the size of Portugal on top of the area we already import from. Where is that land going to come from? It is going to come from the tropics somewhere. So what we are doing is getting a local environmental benefit, exporting the environmental cost and amplifying it to the tropics. Therefore, when you look at it in the round, it is not necessarily as sustainable.

Q55 Neil Parish: Probably Brazilian rainforest.

Professor Benton: Absolutely.

Q56 Neil Parish: That leads quite nicely into my question, because you are talking about the management of the green areas. What practical mechanisms should be included in the CAP framework to help farmers co-ordinate their Ecological Focus Areas to create green corridors and make the very most of the conservation land?

Professor Benton: There are ways that I can imagine, and I am doing some research in this direction, to get some algorithmic prescriptions for your local environment using remote sensing. Inevitably, if you are trying to do the best for the farmer and the best for the environment, that is going to take staff time. I was recently in Australia and was shown an example where effectively they had a conservation officer going on to a farm, looking around and saying, "Given the value of the landscape and the value of what you could do, I would like you to do this." Then they enter a closed bidding process and the farmer ends up saying, "I could do that if you give me this amount of money." They make a decision about whether that amount of money is right. So it is possible to design schemes where you get points appropriate to an algorithmic or expert view of the landscape. It is not impossible but clearly that is going to take staff resources. It then comes down to what we want as a society: do we want high production and high conservation value? If we want high production and high conservation, then we have to invest in making it happen; because otherwise, we will just get one or the other.

Q57 Neil Parish: You talked earlier about the grassland round the outside helping to encourage wasps; there is also an argument that perhaps these areas should include crops that are particularly good for bees, and bee populations are under great pressure. Wouldn't there be an argument to include something like that in some of these greening areas as well?

Professor Benton: Yes, absolutely. There is a well-established understanding that heterogeneity, a range of different habitats, is a good thing in the farmed environment. We would need grassy margins, flower-rich margins, hedgerows and coppices for woodland birds. We would need nature reserves appropriate to the place—in some places that would be a grassland nature reserve and in other places it might be heather moorland or another wood. You need to have a mix, and that is why it becomes difficult to do it without some expert knowledge tailoring the system. If you try that one-size-fits-all approach, you will be trying to tell farmers to put in an olive grove or something—because that is what you will need in the south of Europe—in the north of Europe.

Q58 Neil Parish: You never know—with global warming we might be able to. Your evidence notes that it remains unclear as to whether 7% Ecological Focus Areas (EFA) is the optimal proportion. This issue is going to be central to the negotiations. Do you want to put a figure on it?

Professor Benton: No, it is impossible. The Natural Environment Research Council is investing £10 million in this area because it is a live research area. We do not know the answer and we will not

23 November 2011 Professor Tim Benton

know the answer for three or four years. I do not know how the Commission ended up getting that 7% figure, but I would say it is not evidence-based in the way we would like to see.

Q59 Neil Parish: It may be something to do with French agricultural policy, but that is another issue. Can I throw a googly? You talk about making agriculture more productive but the one thing Europe will not look at is biotechnology. What is your view on that?

Professor Benton: My personal view is that we get too hung up thinking that biotechnology is the only route to innovation, which it is not. My personal view is that it is a brick in the wall, and in certain places and in certain traits it might be a good thing, but it is only going to be 5%, 10% or 15% of the solution; it is not the be all and end all. By managing soils better, by using some of the basics of what we already know, we can probably get a greater yield growth than we will with GM, at least in the short term. What we understand now from post-genomic cellular biology means that the old initial ideas of taking one gene from an organism and putting it in another will be gone in 10 years, because we will find other ways of doing it that do not raise the public hackles in the same way. So I think it is a bit of a non-question.

Q60 Chair: You are an author of the Warsaw Consensus Statement on Europe. This called on Europe to “break away from an inward-looking focus” and to “play its part in producing food for its citizens and people elsewhere”. Generally self-sufficiency levels have gone down in both Britain and the EU. To what do you attribute that?

Professor Benton: Probably, as a first guess, it is that we consume more.

Q61 Chair: In what sense do we consume more?

Professor Benton: In general; human consumption has just gone up so much. We know production has gone down and the balance of what we produce has changed, so we have quite a big import. The thing that worries me, and the reason for putting that statement in, is if you look into the long term, in the latter half of this century there will be large areas of the tropics where the maximum temperatures will be greater every year than we have ever known on record. In those sorts of circumstances, physiologically, crops will not be able to flower or set seed, and that is going to change the global market so much.

Europe is already one of the three or four key areas for calorie production. There was a recent paper in *Nature* by Foley et al that showed that very nicely. There might be a time where we have the potential to

underpin global calorie production. We cannot produce all the food for the world, but we are able to produce a lot of food relatively easily. I am an ecologist so I am very fond of the idea that in the last 10 years environmentalism has become central to the agenda, but in the long run we have to maintain some potential for production growth.

Q62 Chair: There is a slight contradiction in what the Warsaw Statement says, because if we are less self-sufficient it is very difficult to feed the world; that was my point.

Professor Benton: In the global sense, if we are producing a lot, we can buy stuff in because there is a global market. So it is not just about self-sufficiency; it is about absolute levels of production in the global market. So there is an import/export balance there.

Q63 Chair: You referred to the tropics a couple of times. Can you give us examples of best practice in non-EU countries of successfully promoting sustainable intensification?

Professor Benton: As the number one I would cite the Malawi experiment in recent years. One of the things I often hear is that organic farming is a good thing and the tropics and developing world should be organic. However, very often soils are so poor that, by the time they have grown their crop, fed the leaves to the animals, used the stems for fibre or fuel and eaten the fruit, there is nothing left to invest in the soils. Providing a small amount of fertiliser allows them to have the biomass to invest in the soils. I cannot remember the exact figures, but in Malawi maize yields have gone up about threefold in the last decade.

Q64 Chair: Just out of interest, are you studying, or are you aware of anybody studying, the impact of climate change on soil conditions?

Professor Benton: There are some people, but not very many. It is a huge risk to us in the UK and Europe that we do not have the rotations; we do not have any research as far as I know—and I am quite well connected these days—looking at how crop quality will change with different rotations. We know that if you put green manure or cow muck on, it will have different impacts on the soil, but we do not know what impact putting a succession of different crops on plus different manuring strategies will have on the soil. So there is long-term research on climate change, but I think soils are a very worrying area that we are not investing in.

Chair: Thank you very much indeed for being with us today, and for being so generous with your time and contributing to our inquiry.

Examination of Witnesses

Witnesses: **Paul Egginton**, Director Systems, Knowledge and Information, Natural England, **Geoff Radley**, Land Management Head of Profession, Natural England, and **Arik Dondi**, Deputy Director Environmental Land Management, Defra, gave evidence.

Q65 Chair: Good afternoon and welcome. Just for the record, would you like to introduce yourselves and give your positions?

Geoff Radley: I am Geoffrey Radley; I am the Head of Profession for Land Management within Natural England.

Paul Egginton: Good afternoon. I am Paul Egginton, Director for Systems, Knowledge and Information at Natural England.

Arik Dondi: I am Arik Dondi. I am Deputy Director for Environmental Land Management at Defra.

Q66 Chair: We were trying to think if you were Finnish at all.

Arik Dondi: No.

Q67 Chair: You are all extremely welcome. We would like to thank you very much for agreeing to participate in our inquiry. My understanding is that the take-up for stewardship schemes is less than originally hoped. Is that the case and to what would you attribute that fact?

Geoff Radley: The take-up is actually pretty much on target at the moment. We are at about 70% of the utilisable agricultural area, subject to an ELS agreement. HLS is well on target as well. So no, I do not think we are disappointed by the uptake.

Q68 Chair: Do you have any evidence to demonstrate that Entry Level Stewardship results in tangible benefits for biodiversity or the sustainable use of resources?

Geoff Radley: You are asking particularly about Entry Level Stewardship. We have quite a lot of evidence on the Higher Level Stewardship side, but I will confine myself to the Entry Level side. It comes from a number of sources. The first source is the fact that we have a very large percentage of some features in agreement. Some 41% of English hedges are managed—that is, maintaining them in management, which of itself is probably a good thing. We have 116,000 km of grass buffer strips, so there should be plenty of wasp habitat in agricultural areas.

The second line of evidence is from a very useful trial that was set up at the time the ELS was introduced, or shortly before, at a place called Hillesden in Buckinghamshire. That looked at a comparison between managing to basic cross-compliance standards and managing to ELS at a farm scale with replicated plots. That has shown clear benefits for seed production in the bird plots, so producing more food for farmland birds, more flowers and a general increase in the abundance of invertebrates, including many beneficial species and including pollinating species, which is another important service the natural environment provides to agriculture.

In terms of operational monitoring, one of the main studies is still in progress. In the early days we ran a contract that established a baseline for a whole series of sample agreements, which were visited and surveyed. Those are in the process of being revisited

now, and we do not yet have the results of those. There have been a number of other studies that have shown positive benefits. Probably the most interesting is one the Oxford University Wildlife Conservation Research Unit did showing that six-metre grass margins deployed at a landscape scale, which is something we have already heard about today, resulted in higher abundance and diversity of moths, particularly when in combination with hedgerow trees. More moths means more bats, I am afraid.

Q69 Chair: We have heard about the birds, the bees, the moths and the bats. What evidence is there of any beneficial effects of the ELS on farmland birds such as the skylark and yellowhammer? I think you have been challenged in that regard.

Geoff Radley: Yes, it is true to say there has been no reversal in the overall national decline of farmland birds. They declined very sharply before the schemes were introduced; the decline slowed or even halted during the years we had set-aside; and they have now started to decline again despite agri-environment schemes. We have commissioned a whole series of studies to try to find out why. Some of the more detailed analysis shows that there have been benefits for particular species in particular areas. We are increasingly confident that the problem is not that we are putting the wrong management in place but that there is not enough of it so far and it is not widely enough distributed to turn the national population around in the face of some of the other pressures these birds face.

Q70 Chair: Do you have any evidence to demonstrate—for example, for the hedges—that these would have been maintained or would not have been maintained without ELS payments?

Geoff Radley: That is always very difficult to assess because, with a scheme covering 70% of the countryside, it is very difficult to find the counterfactual, which is an area where people are not in agreement. The short answer is no, I do not have any firm evidence, but, if you think about it, hedges are not an economic part of many farms, particularly in arable areas these days, so their maintenance is a cost and it is essentially to provide a public good. So without some form of payment it is quite likely that more hedges would have been neglected or managed unsympathetically. What we do know is that since the scheme was introduced there has been a very widespread shift from annual cutting to two-yearly cutting, and that is largely as a result of the ELS.

Q71 Chair: Which of the current particular activities, under Entry Level Stewardship, offer the most benefit and why?

Geoff Radley: Your last witness said that variety is important on a farm, and the results of the Hillesden trial bear that out. All of them are based on research and development or practical experience that suggests they have a value, so they all have some value. The

23 November 2011 Paul Egginton, Geoff Radley and Arik Dondi

wider the mixture, the better the result. Some of the ones that probably cram the most benefit into the smallest area are those that require the most active management—things like the pollen and nectar mix, the wild bird seed mix and so forth. Diversity is important as well. For example, the pollen and nectar provide the food for the insects in summer, but the tall grass margins can be important in terms of overwintering areas for the same insects, so the mixture is really important.

Q72 Chair: Finally from me, do you foresee any particular difficulties for tenant farmers in participating in the next round of CAP reforms and the agri-environment measures?

Geoff Radley: Sorry, I wonder if you could be a little bit more specific about what aspects?

Q73 Chair: Well, we have heard quite a bit from the NFU and CLA as to how they look at environmental benefits, and I just wondered whether it is particularly difficult for tenants to participate.

Geoff Radley: One of the things that sometimes causes difficulty for tenant farmers on certain types of tenancy is the requirement for a minimum of five years' agreement. That is written into the current regulations and it is likely to be in the future regulations. From an environmental point of view, a degree of continuity, the ability to have multi-annual agreements, is quite an important property of Pillar 2. So there would be an environmental cost to having very short-term agreements, but clearly there is a trade-off there.

Q74 Mrs Glendon: How demanding are the activities required in environmental stewardship schemes in England compared with other Member States?

Geoff Radley: I think we invented the schemes back in the mid-1980s. The first trial was in the Norfolk Broads with a state-funded scheme, and that was followed by the Environmentally Sensitive Areas Scheme. So we like to think we are at the cutting edge. I am not sure we are quite as far ahead of other countries, or going too much further than some other countries, at least. Quite a few countries now have multi-tier schemes, so they offer a broad-brush ELS equivalent and a more targeted, higher rate scheme. Having said that, the European Court of Auditors recently did a study of agri-environment across Europe that was very critical of the value for money from most schemes across Europe. Our schemes came out of that rather better than most. I have to say that we did not escape criticism altogether, and I would have been worried if we had, but we did come out well. They were particularly impressed by some of the features of our Higher Level Stewardship scheme: the use of indicators of success, the way it is targeted and the way it has specific objectives.

Paul Egginton: The European Court of Auditors used environmental stewardship as the benchmark for that audit, which was an interesting reference point for them and us.

Q75 Chair: It would help the Committee if you could tell us which Member States you have in mind when you say "other countries".

Geoff Radley: Other countries with good practice? Can I just consult my notes, if you don't mind?

Paul Egginton: I could start the list if it helps. The Czech Republic, regions within Germany and regions within Italy have the equivalent to tiered schemes, and Austrian schemes also have really good market penetration. So there is good practice elsewhere in the Community.

Geoff Radley: You should add Sweden to that list too.

Q76 Mrs Glendon: Do you think that greening measures can be seen as equivalent to Entry Level Stewardship in terms of the environmental benefits delivered?

Geoff Radley: Echoing something the last witness said: it depends on the detail. In our written evidence, we have given an assessment of the effectiveness of each of the individual measures. Of the three, the one that has the potential to be a near equivalent is the ecological focus area. I do not think the permanent grassland or the crop diversification is going to do very much.

With the ecological focus area, we know there was a lot of work done on set-aside at the time and whether or not that had a benefit; it did. It was not very efficient per hectare, but, because there was a lot of it, it produced quite a lot of benefit in total. So greening has the potential to provide some of those benefits, depending on the level. As has already been said, it is not necessarily a good mechanism for combining the maximum amount of conservation with the maximum amount of production.

Q77 Neil Parish: So if the Commission's so-called greening proposals go ahead—and I think we have some reservations over how green the greening proposals are—how might you redesign Entry Level Stewardship schemes to take account of the measures farmers would already be doing under the mandatory greening proposals?

Geoff Radley: I might refer you on to my colleague from Defra in a minute to give you some of the ideas that are floating around in Government on that at the moment. What I can say is that we do have some previous operational delivery experience, in that in the days when we did have set-aside, which overlapped with the introduction of Entry Level Stewardship, we did offer a series of options for adding value to the set-aside land. So we had wild bird seed mix and pollen and nectar mix. So it would be a Pillar 1 requirement to take that out of production and Pillar 2 pay the extra cost of doing the positive management, so that would be one way. I do not know whether my colleague wants to add anything.

Arik Dondi: We are at an early stage of policy development, and we will have a lot more detail coming up on what the regulations say on all of this. Obviously the thinking is that any kind of greening may require us to adjust agri-environment schemes to accommodate that. One of the ways that seems reasonably obvious is the way Geoff described, which is that you look at what measures are effectively now

23 November 2011 Paul Egginton, Geoff Radley and Arik Dondi

in Pillar 1 and then adjust your Pillar 2 schemes to take those out. Then you can do all sorts of things: you can put different measures into your Pillar 2 schemes or you can lower the points threshold you need for your Pillar 2 schemes. So there are any number of ways in which you can adjust agri-environment schemes and I do not think we are currently settled on any of them yet, but it is under active consideration.

Q78 Chair: I just want to press you on that before I pass back to Mr Parish. Mr Dondi, do you mean an early stage of EU regulation from the Commission or an early stage of Defra thinking on how they will be implemented here?

Arik Dondi: The negotiations on all of the legal texts that are the basis of the way we run agri-environment schemes are in early stages.

Q79 Neil Parish: Can I press you slightly on that? One of the great benefits we have in the UK is hedgerows. Now, you can drive from Calais to Berlin and you will hardly find a hedgerow for the whole of that distance—I have done it. The Commission seems to be dedicated to having this one type of policy. I would argue that in many ways we are much advanced in some of the environmental schemes because of our hedgerows and margins. Are you confident that under the Commission's proposals we can be as green as we are now around those margins?

Arik Dondi: Again, we do not know enough about the detail of what the greening proposals mean, but we have been clear that we do not think the proposals are ambitious enough. We have to find ways of raising the ambition in Europe and continuing the delivery of ambitious agri-environment schemes in this country.

Q80 Neil Parish: In a way that leads me into the next question, because it is all part of the same thing. At the moment the farmers are signed up to the ELS schemes and the HLS schemes and they are delivering environmental benefits. If the Commission's greening proposals change that significantly and then you change the agri-environment schemes, how difficult is it for farmers to make a decision as to whether they will be able to get out of the present environmental schemes and what penalties will be imposed? This is always the problem when you throw everything up in the air like at the moment. Does anybody want to face that one?

Paul Egginton: I think we would all like to have a go. I will start today, and I do appreciate the Commission proposals are barely more than a month old, but they have been known to be coming for some time. If we look at the number of applications Natural England is processing for ELS in particular, as that is your focus, to date we do not see any downward trend in the interest of applicants in renewing expiring ELS agreements—and a number are coming to the end of their first five-year life—and we are also doing additional business with first-time entrants to ELS. As Geoff has said, we are on profile—we are doing the business and creating the volumes of new or renewed agreements very much in line with expectations. So at this point we do not see that this is proving to be a

disincentive to engaging with us, and we are providing information on the scheme in much the same way as well.

The harder end of the question, I suppose, is whether a farmer can break an agreement if they do not like the reforms. Without replaying Arik's explanation, the regulations, particularly the implementing and transitional regulations, are not yet clear. Some agreement holders may face the prospect of returning moneys they have received if they elect to break their agreement before it has run to its term. So there is a hard consideration there, as well as some softer considerations around adapting agreements, and we can change agreements during their life if the blend of options does not suit the agreement holder.

Arik Dondi: There is currently some uncertainty about what can and cannot happen around agreements that need to be changed to address greening, because the concept of greening measures in Pillar 1 is relatively new and we do not quite know the legal status of the way in which that would be done. It is clear that, alongside having to comply with whatever legislation we end up with, we want to maintain the benefits from the long-term agreements that are currently in place or will be put in place over the next years of the existing programme. We would want these principles to govern the way in which we negotiate the legislation. But also the way in which we develop policy and design delivery would be around making sure people who are currently in agreement do not lose out. They would still be paid for any measures they would take over and above the Pillar 1 requirement.

Chair: The meeting is now adjourned in view of the vote. We will be back at 16.15.

Sitting suspended for a Division in the House.

On resuming—

Q81 Chair: Thank you for your patience, and I apologise for the interruption. In view of the loss of time, I wonder if you had finished your answer, Mr Dondi, because we would like to stick to our timings.

Arik Dondi: The point is that there is uncertainty about how some of the changes are going to be implemented, but there are some important issues regarding how we want to deal with that uncertainty. The principles in negotiating and developing policy would be around making sure that people who enter into agri-environment schemes now do not get penalised for having done that. We want to make sure people continue to get paid for things they do over and above the Pillar 1 requirements.

Another quite important principle is that we would not want to do it in a way that would force people to take land out of production in addition to whatever requirements we end up with in Pillar 1.

Q82 George Eustice: I know you said you are still getting high levels of interest in the schemes, but the reality is that nobody expected green taping to survive the CAP negotiations because most Member States are against it. Given that the negotiations are probably going to limp on for another year, is there a danger that people will take fright when it becomes apparent that perhaps this is going to go through? Do you need

23 November 2011 Paul Egginton, Geoff Radley and Arik Dondi

to give that reassurance to farmers before the slow process of CAP negotiations is complete?

Arik Dondi: Yes we do, and we will make sure we are providing these messages very actively.

Q83 George Eustice: I want to move on to the idea of the administrative cost of the two schemes. Could you tell us how the administrative cost of the Entry Level Stewardship scheme that you run now compares with the cost of administering a single farm payment?

Paul Egginton: I will give you the figures in percentage and cash terms. The administrative cost of delivering Entry Level Stewardship is 3% of the moneys disbursed through scheme payments. If you add in the additional IT component of that, given the high level of automation and the ability to apply online for an ELS agreement, that would add just under 4% to the cost of delivery. In cash terms, if we are looking this year at the cost to Natural England of delivering an Entry Level Stewardship agreement, that is £112 of administrative cost. If I add in the IT component the total is £284. It is not an absolute direct comparison, but the cost of delivering a single payment scheme in 2008–09 was approximately £1,700 per claim.

Q84 Chair: Did you say for a single farm payment?

Paul Egginton: Sorry—to process a single payment scheme claim, the average cost was around £1,700. That compares broadly with a cost of just under £300 for an Entry Level scheme claim.

Q85 George Eustice: In percentage terms is there a difference because the single farm payment tends to be higher?

Paul Egginton: I do not know the gross costs for the Rural Payments Agency, I am afraid, so I could not give you it in percentage terms.

Q86 George Eustice: What do you do at the moment to monitor that farmers are complying with their requirements under the ELS?

Paul Egginton: In terms of compliance with scheme rules, there is a structured process of compliance inspections. Those inspections are performed by the inspectorate at the Rural Payments Agency. Natural England plays a role in the selection of those agreement holders who are subject to an inspection. A minimum of 5% of our agreement holders need to be inspected in any one year; they are selected on the basis of a blend of risk-based methodologies and a random sample. In practice we go slightly over 5%.

Q87 George Eustice: If we were to go for the greening of Pillar 1 and some of those proposals, would additional mapping be required and would there be additional inspection costs on farms?

Paul Egginton: It depends on the fine detail. At a high level, my expectation is there is no additional significant mapping requirement through greening.

Geoff Radley: I am not sure that that is a safe assumption until we know the details. It depends on the level of information we have and the rules on eligibility.

Q88 George Eustice: One of the proposals going around is that you have to grow at least three different crops, and 7% or 5%, or whatever it is, has to be pasture. At the moment you would just have arable grassland, so it is much more complex.

Geoff Radley: You really need to ask the Rural Payments Agency that sort of question, I am afraid, unless Arik can help on that.

Arik Dondi: It is possibly slightly too early to give that level of detail, but what we can say is that we do not think the greening proposals are in line with the principle of simplification of delivery that we would seek.

Q89 Neil Parish: The proposed ecological focus areas are likely to deliver better environmental outcomes if they are organised into coherent networks rather than fragmented. How successful have attempts to get farmers to co-ordinate their agri-environment schemes been so far?

Geoff Radley: We have a number of examples of where co-operation has been possible. We also have a lot of very good experience of where there has been co-ordinated action—where a local project has been set up, with support from farmers, and encouraged farmers to do the same thing, without all of them necessarily forming a grand committee to do it. One of the more successful examples there would be the South West Farmland Birds Initiative, which has encouraged very good take-up of Higher Level Stewardship options for farmland birds across a wide area, so that does work.

Q90 Neil Parish: Going back to the entry level schemes and their prescriptions, the Commission is still coming forward with this idea of maintaining permanent pasture. Do you think that is going to stop people going into ELS schemes in case they are tied in for ever? Do you think that is going to be counterproductive to greening in many respects? If you are going to have farming looking also towards producing good food for the future, certainly with grain production, the two do not fit together, do they?

Geoff Radley: I am not sure that it will have a very large effect on farmers' participation in our grassland options, because they tend to be the options for the higher value grassland, where they are less likely to get ploughed anyway. As the previous witness said, there is some concern about unintended perverse effects, because the Commission's proposal does not distinguish between the really valuable "permanent, permanent" grassland, if you like, and long rotation grass leys.¹ Where there might be some concern is with people coming out of arable reversion agreements, for example, where we have paid them quite a lot of money to put down grassland. They may choose to come out of that and free up their farming enterprise; that is a concern. There is no evidence yet that that is happening, but it is a concern.

Q91 Chair: I just want to ask about crop rotation and crop diversification. The RSPB have said in their evidence to us that crop rotation, in their view, would

¹ Note by witness: a grass ley is a temporary grassland that is periodically ploughed up and then re-established from seed.

23 November 2011 Paul Egginton, Geoff Radley and Arik Dondi

deliver more environmental benefits than crop diversification. Do you agree?

Geoff Radley: The whole thing is very curious, because the Commission have said they want to do crop rotation and they have come up with a measure that is crop diversification, which is odd.

Q92 Chair: So should we come up with a view on this? Would you like to guide us?

Geoff Radley: There are strong arguments for saying crop rotation is good agricultural practice, so to some extent farmers largely do it anyway for that very reason. It has soil benefits and other benefits as well. There is some evidence that crop diversification also has benefits in the farmed environment, but a lot depends on the scale of the patches and so forth. The problem with the Commission's proposal is that it is a very blunt instrument for something that is really quite a complex problem.

Q93 Chair: Lastly, you suggest that precision farming could be encouraged under the greening measures. How would you expand on that suggestion to encourage farmers within the scope of the Commission proposals to use precision farming techniques?

Geoff Radley: There are a number of developments in farming—minimum tillage is another one—that have potential win-wins. They are particularly good for the pollution and resource efficiency side of environmental management, and they are also good in terms of increasing production or saving costs. The problem with incorporating them into a greening network is this question of the balance between universality and flexibility; it is very hard to come up

with practices that are applicable from Sweden through to Greece. There are lots of things that make sense in one area; there are a slightly smaller number that it makes sense to do across one Member State; and there is a very small number that it makes sense to do across the whole of the EU.

Q94 George Eustice: I just wanted to pick up on that point but in a more general sense. What impact do you think there will be on policy innovation by shifting the emphasis of greening measures into Pillar 1, where it is universal, rather than in Pillar 2, where there is scope for national Governments to pursue different ideas? You mentioned earlier that Austria is doing good practice and Sweden is doing some good things, as are some regions of Germany. Clearly, Defra can learn from that and then try to reapply those lessons here; whereas if the Commission just comes up with some central plan, doesn't it kill off a lot of the policy innovation that you need?

Geoff Radley: The evidence suggests, as the previous witness mentioned, it is where you have locally specific and locally tailored solutions that there is the best evidence of success. Subject to what Defra might think, my view would be that the best Pillar 1 could do is to provide a degree of uniformity and an element of a level playing field across Europe, but I think Pillar 2 would have to build on that if we were going to get really good results. I do not think it will produce really good results on its own.

Chair: May I thank you on behalf of the Committee for contributing to the inquiry, being so generous with your time and putting up with the pause for the vote? We are very grateful to you indeed. Thank you very much.

Examination of Witnesses

Witnesses: **Gareth Morgan**, Director of Agricultural Policy, The Royal Society for the Protection of Birds, **Jenna Hegarty**, Agricultural Policy Officer, RSPB, **Paul Wilkinson**, Head of Living Landscape for The Wildlife Trusts, and **Chris Gerrard**, Director of Living Landscapes for the Bedfordshire, Cambridgeshire and Northamptonshire Wildlife Trust, gave evidence.

Q95 Chair: Good afternoon. Just for the record, could you introduce yourselves for the Committee?

Chris Gerrard: My name is Chris Gerrard, and I am the Director of Living Landscapes for the Wildlife Trusts for Bedfordshire, Cambridgeshire and Northamptonshire.

Paul Wilkinson: Hello, I am Paul Wilkinson, Head of Living Landscape for The Wildlife Trusts' UK Office.

Gareth Morgan: I am Gareth Morgan, Head of Agricultural Policy at the RSPB.

Jenna Hegarty: I am Jenna Hegarty, Senior Agricultural Policy Officer at the RSPB.

Q96 Chair: You are most welcome and thank you for contributing to our inquiry. Could I ask at the outset if you believe the Commission has the balance broadly right between greening measures and food security in its proposals?

Paul Wilkinson: Before getting into the topic of balance I think the issue around greening is a really key principle and it is based around the evidenced idea

that a healthy functioning natural environment and ecosystems underpin healthy farming and healthy farming systems. So that is a really key principle of this. The proposal to green part of that Pillar 1 payment is a clear recognition that that is an important principle. Although we support that principle we recognise at the same time that the measures currently on the table are probably not ideal and could be improved, as we stated in our evidence, but at this stage there is not a huge amount of detail on what is being proposed. We are really keen to work with the industry, with Government and its agencies to work out the best possible measures to achieve the best possible outcomes.

Gareth Morgan: We are quite disappointed that there has been a resurgence of a debate recently that food security and environmental quality are somehow opposed. If we go down that route we are going to have serious problems with this reform. I do not think the Commission has come at this from any particular food security perspective to be honest; their primary

23 November 2011 Gareth Morgan, Jenna Hegarty, Paul Wilkinson and Chris Gerrard

consideration with this reform is how you legitimise expenditure of €300 billion over the next seven years. That has been the primary motivation and I am not sure that was the ideal place to start. The RSPB's perspective, and that of a number of other environmental NGOs, is that actually this reform should have been much more radical, should have looked at the two-pillar structure of the CAP and whether that was fit for purpose, and at redefining a long-term mission statement from the CAP. Unfortunately that is not the perspective that has been taken; there has been a salami-slicing approach to try and get the budget under control, and that has not done us any favours as a starting point.

Q97 Chair: The Commission's aim is to be improving the overall levels of environmental protection in European agriculture; do the green measures really need to be mandatory and uniform across the Member States to achieve this?

Chris Gerrard: What we have seen recently is the production of a Natural Environment White Paper as a result of the Lawton Review, which was instituted by the last Government. That clearly identifies the need for a coherent ecological network across the country, and the farmers and the farm landscape have a hugely important role to play in delivering that with the support of conservation NGOs. If we are going to provide some sort of mandatory greening within Pillar 1, it enables us to work within farming communities and the areas in which we work to ensure local farmers can play the really important role they have to play in supporting the development of that network.

Gareth Morgan: Mr Radley alluded to this in his answer to a previous question: it is meant to be a Common Agricultural Policy; in a sense it is a bit unrealistic expecting it to be tailored for the needs of every region and every Member State. The proposals the Commission has come up with in trying to green Pillar 1 have bumped into this issue. As Mr Radley said, it is very difficult to design measures that are equally applicable in Finland and Greece, and therefore we have to have some limits to what our expectation of the greening process through Pillar 1 can be. The alternative is to develop very tailored solutions, but then that raises the fundamental question of why have a common policy.

Q98 Chair: The Commission proposes that farmers who do not carry out the greening measures will face an additional penalty. Is that additional penalty really necessary, given that non-compliant farmers already stand to lose 30% of their direct payment?

Jenna Hegarty: Losing 30% of direct payments will be significant for any farmer; it is a large proportion. However, there may well be some very large enterprises that take a look at the greening proposals and what impact that may have on their farm business, and decide that actually they would rather not do them and would like to opt out and potentially take that 30% hit. Greening cannot be optional. It is like cross-compliance: if you are getting public money, the conditions should be attached and you should not be able to opt out if they are inconvenient. If there is an ability to opt out of greening measures, it could end

up happening in those areas of the country that are most in need of additional greening. If it is a wilful opting out, then there may be a case for further penalties that may impinge on the remainder of the direct payments that are being given.

Q99 Thomas Docherty: For probity, I probably should say for the record that I am a member of the RSPB. There is an argument that the CAP has already helped to strengthen the environment and improve biodiversity. Do you not think that in these difficult economic times the priorities should be jobs and incomes?

Paul Wilkinson: The proposals and the impact assessment of the greening measures have shown that, as a scenario, they score highest in terms of viable food production, cost effectiveness and value added overall, as compared to other scenarios. So there is potentially some impact on income of the greening measures, because of the higher environmental standards, but that impact assessment also shows that, particularly, the Ecological Focus Area option actually over time enhances income and generates additional income through higher yields. So it is not an income versus the specific measures argument; there is evidence to show that taking this approach and creating areas that help to support future sustainable farming activity—which the Ecological Focus Area particularly measures—is actually about supporting future farming activity. It is about recognising that using natural processes and the natural environment to help purify water and for pest and disease control supports future farming. This is not about farming versus biodiversity; it is about much more and better integration between those two things.

Gareth Morgan: I would just point out that the RSPB has very recently produced a report on the economics of the green economy, looking at issues like agri-environment schemes. In general, investment in agri-environment has a much better multiplier effect for employment than just paying out farm subsidies. So if it is rural employment we are interested in here, that would be the route to go down.

Q100 Thomas Docherty: We have various figures in front of us: the Commission's own figures show that the cost of greening for the EU as a whole will range from €33 to €41 per hectare; the NFU believe the impact assessment shows that income per worker in the pig and poultry industry could fall by 25% as a result of ongoing measures; even the AHDB finds that the gross crop margin will go down by up to £50 per hectare. Surely that, in the current climate, is not a price worth paying?

Paul Wilkinson: Having listened to the NFU evidence yesterday I have actually gone through the impact assessment and cannot find that 25% figure.

Q101 Chair: I am reliably informed it is Annex 2.

Paul Wilkinson: Thank you. For the record, page 58 gives a figure of between minus 3.2% and plus 1.4% in terms of a decrease in average income. Obviously that is average; it does also make clear in here that particular sectors will be affected differently. The really important message that comes across

23 November 2011 Gareth Morgan, Jenna Hegarty, Paul Wilkinson and Chris Gerrard

throughout this impact assessment, regardless of some of those specific figures, is that although the greening measures can potentially have a short-term impact on annual income, the longer-term impact is positive. This is really about the future of sustainable farming—working much more closely in harmony with those natural processes. Rather than drawing out particular worst case scenarios—and in the case of pig and poultry that is obviously a really critical figure—if this is taken in the round, overall there are longer-term gains to be had.

Gareth Morgan: It is fair to say that greening measures are unlikely to be cost free. I would be very interested to see what assumptions have been made in deducing those figures; there is no detail to the greening proposals the Commission has provided so far, so we do not actually know what the impact on production is likely to be. The Commission's suggestion was that it is likely to be really very small. It is interesting how selective people are about these things; I imagine that is referring mostly to the Ecological Focus Areas. We do not hear this concern about the impact on prices when, for example, a large amount of land is currently being devoted to biofuel production. That is equally having an impact on grain prices, but we do not hear about that in the same way. Why not? You have to make choices about how to deploy land and some of your deployment of land has to be for environmental purposes.

Q102 Thomas Docherty: Turning to the issue of coherence with agri-environment schemes—obviously there are options available for Entry Level Stewardship and how funding will be done—do you believe farmers in agri-environment schemes should automatically qualify for the greening payments?

Chris Gerrard: You focus on the Ecological Focus Area of the greening proposals; it seems to us that if areas of land that qualify for the EFA are already in agri-environment then we see no reason why the two should not overlap. Essentially the Pillar 1 payment is paying for the existence of the feature, or possibly the creation of the feature, with agri-environment paying for the proper, appropriate management of those features.

Jenna Hegarty: It boils down to the land and its suitability. I would not suggest that simply being in an agri-environment scheme would be a free pass for greening; it would depend on what options you are using. As long as they are appropriate and suitable for Ecological Focus Areas then yes, that footprint should certainly count towards the greening requirement.

Q103 Thomas Docherty: We have heard some suggestion that the greening proposals mean that Entry Level Stewardship would become superfluous. Would you think that is a fair assessment?

Gareth Morgan: Absolutely not. You have to be quite clear about what can be done under Pillar 1 and under Pillar 2. Although there are criticisms of the entry level scheme, it has a level of sophistication and local tailoring that cannot be replaced by a simple measure through Pillar 1. That doesn't mean there aren't some useful things that can be done through greening Pillar 1, but we need to find a way to ensure we integrate

what is being done through the entry level scheme with the greening proposal. The greening proposal should not be seen as a substitute for that.

Q104 Neil Parish: Your evidence suggests that the greening measures do not go far enough, while the farmers think they are too burdensome. Is this conflict inevitable? The RSPB and farmers in many areas work extremely well together, and I would suggest to you that these schemes are much better done on a voluntary basis and you will get much greater co-operation and environmental and nature benefit than when forcing farmers down this route. Do you not think you will just cause a lot of antagonism? What do you feel?

Gareth Morgan: It is no surprise and no secret that the RSPB has long been a fan of Pillar 2 type approaches. What we have on the table is a situation where the Commission has decided not to go down that route and the view of the UK Government is unlikely to prevail. We have a situation where we are likely to continue with the current model until 2028—looking at the detail of the document here—because that is the Commission's thinking. So at that point you have to make a decision on which horse you are going to back, or which Pillar you are going to back—perhaps that would be a better metaphor for that.

Will this cause antagonism? I think you could take a more creative look at greening. Forcing compliance type measures into Pillar 1 may not be the route; you could be looking at how you target your Pillar 1 payments at this point: which farming systems deliver most for the environment and are most in need of support? That receives very little attention in the proposal and that could be an avenue to go down that I think would cause much less friction in the farming community, because it does have to face up to the issue that we have to redistribute the way we deal with Pillar 1.

Q105 Neil Parish: I wouldn't be quite as negative as you are on the question of these proposals from the Commission being met with uniform glee. What we have heard from the Council of Ministers so far is that lots of Member States don't like them. Perhaps there is a way that you can co-operate more together. We don't want the Commission to divide and rule; is that a fair point or not?

Gareth Morgan: There is scope for tailoring of the greening proposals by Member States. The problem we will have to confront there is that there will be Member States who decide to tailor them in a way that then destroys your level playing field, so you do have to find a way to guard against that. As I said earlier, if you are going to get environmental benefit, there is a limit to how much you can do that across 27 Member States with universal prescriptions. Squaring that circle of tailoring with making sure we do not leave behind those Member States who will choose to use that opt-out is the challenge for Member States at this point.

Q106 Neil Parish: We all believe in the necessary Ecological Focus Areas; the margins around fields and all these types of things we see as great benefits. But

23 November 2011 Gareth Morgan, Jenna Hegarty, Paul Wilkinson and Chris Gerrard

the Commission has this idea that there has to be a crop rotation; do you not think that is actually going in the wrong direction? I don't suppose we are going to grow cotton quite yet in this country, but it is one of the ecologically worst crops you could grow. What is the point of the Commission suddenly putting in this idea that you have to have three different crops? What is your view on crop rotation versus Ecological Focus Areas, if it comes down to that in the end?

Paul Wilkinson: Good Lord, there is a lot wrapped up in that question! The first issue, diversification versus rotation, was covered by the previous speaker. The way that Geoff Radley described it, as an unusual step, is something we would support. However, diversification is not necessarily a bad thing and there is evidence to show that huge monocultures do not necessarily deliver for the environment and for soils. Some degree of diversification is a good thing. The problem with the measure on the table is where you have farmers growing crops for fodder with fairly small thresholds, who might decide not to grow that altogether and come out of that arable. There is an unintended consequence there. The other unintended consequence, potentially, is of high-value land being brought back into production so it does not fall into that category. For us that is a much higher risk—that there are potentially high-value grasslands or areas that are brought back into production that perhaps would not have been otherwise.

Q107 Neil Parish: There will be pressure to reduce the percentage of farmland given over to Ecological Focus Areas. What evidence is there to determine what percentage of farmland should be taken out of production in order to deliver environmental benefits? In your ideal world, what percentage would you want to take out of production?

Jenna Hegarty: Unsurprisingly, echoing what a previous speaker said, there is not a magic figure that we are now going to produce for what should be. There is a fair degree of evidence that the 7% the Commission is proposing for EFAs is the bare minimum we could live with. There is the very current example of the Farmland Bird Package in the Campaign for the Farmed Environment, which requires 3% to 4% of infield options. The Commission proposals, whilst the detail still needs to be considerably fleshed out, do refer to much more than those kinds of figures; they talk about landscape features and various other things. It would be more than 3% to 4%. There was also quite a lot of work done post-health check when set-aside was abolished, and there was a lot of work to do around set-aside mitigation. There was also some work Natural England did in 2009, which calculated that the area of land required to mitigate the loss of set-aside would be a minimum of 4% to 5%, with targeted management on top of it. If you are looking at an EFA requirement of 7% that includes landscape features and does not have any management requirement, then it is actually looking very conservative.

Q108 Neil Parish: So you would take out 7% of productive land irrespective of food security, whatever happens?

Jenna Hegarty: As I just said, that 7% is much more than productive land. It covers landscape features—so hedgerows, lines of trees, wet areas, scrubby areas and gorse. Most farms will have those features in some degree and, as we have already talked about, many farms in England are in Entry Level Stewardship and Higher Level Stewardship. If you count the footprint of those areas they will be a long way to meeting the EFA requirement, if not already there. In our evidence, we give Hope Farm as an example. We would have very little difficulty, if any at all, in meeting that 7% because of the features we already have on the farm and the fact we are in Entry Level Stewardship. Those farms that literally have no features or are not an agri-environment—I imagine there are very few—are probably exactly the areas where you do need to inject this habitat and heterogeneity that is absent. That is not just for biodiversity. It is for resource protection, and many of these features can serve agronomic functions too.

Chris Gerrard: If I may add to that, it is very important that it is not seen as 7% coming out of production, as has been described already. A lot of those features already exist in the landscape, so it is not a new amount of land coming out of production. With respect to food security, of course the amount of land given over to food production has an impact on the amount of food we can produce. But if we are truly to improve food security for those people around the world who are currently hungry, and to continue to provide food security for a growing population, then in terms of the European and certainly the UK footprint, the actual amount of land in production is a smaller issue. That is particularly with the amount of variation that we are talking about. We need to be focusing much more on the distribution of food, the production of food, minimisation of waste and innovation in food production, rather than looking at maximising the area of land under production. Underpinning all this is the false dichotomy that you can choose to have food or wildlife; we actually need both. The National Ecosystem Assessment shows pollination is worth £430 million to UK agriculture; for our pollinators we need the semi-natural areas in our landscapes.

Q109 Neil Parish: I think we all accept that we probably have more than 7% of land in the UK in environmental stewardship of some type—in some type of scheme. But the point I want to make to you is, are you not worried about the prescriptive side of the Commission's proposals, where you might well see 7% of some of the very best land in the country—producing 10 or 12 tonnes of wheat per hectare—being taken out? Is there a justification for this? There are 7 billion people in the world now and rising; there has to be a balance. We all want to see ecology, but has the Commission got it right where you are taking out good quality land?

Gareth Morgan: I do not want to belittle the issue of food production; I think it is immensely important. First of all, this land is not being taken out of production in perpetuity. It may well be that it is brought back into production if needed at a future date. At the minute there are issues of food

23 November 2011 Gareth Morgan, Jenna Hegarty, Paul Wilkinson and Chris Gerrard

distribution in the world, but people are not going hungry because there isn't enough food produced in the UK; it is much more complicated than that, so I think we need to move beyond that sort of argument. As well as that, we have to come back to the Commission's position in this. If this is not the right prescription, we still need to find a way to justify to the wider public what public goods large cereal farmers are delivering for the payments they are receiving. If this is not the right solution, we have to find other ways of ensuring they are delivering green services. I have not found an alternative proposal at the moment.

Paul Wilkinson: I refer to a paper from the International Centre for Trade and Sustainable Development, which looked at this issue and identified that there could be some short-term reductions in production capacity. However, they showed that in the longer term there is positive feedback from more sustainable agricultural practices, in terms of higher yield. What we are talking about is not an either/or; it is an "and". It is about looking at how we manage the whole area in a much more joined-up, sensible, holistic way to achieve all these different outcomes: more food and more wildlife. That is the critical thing, and this international report has shown that is possible through these kinds of activities. The other thing is that we are looking for a win-win effect. In yesterday's evidence, I cannot remember who but one of your interviewees said they could not see any win-win effects. Actually, some of these activities are around supporting climate change adaptation, and without some of these activities to adapt, productivity will not increase anyway.

Q110 Chair: Could I ask one specific question of the RSPB? You state in your evidence that greening is necessary to maintain the EU's productive capacity for future food security. How do Ecological Focus Areas contribute to securing the EU's future productive capacity?

Jenna Hegarty: In a range of ways. Again, a lot of this will boil down to how EFAs are fully designed and implemented. On a basic level, if you include hedgerows in EFA, they are features that can help to stabilise soil and reduce soil erosion and wind erosion, which is protecting a vital resource of food production. Where you place buffers by watercourses, again, that reduces the negative impacts of agriculture on water quality. Having healthy water resources is critical to food production. Providing food and nesting resources for a variety of wildlife supports functional biodiversity, like the pest-controlling wasps that were referred to earlier. These are all things that are functional benefits for agriculture—vital for long-term environmental security and food security.

Q111 Chair: Mr Wilkinson, you said earlier there are long-term quantifiable gains. How do you quantify them and what are they?

Paul Wilkinson: I think I was referring to the impact assessment, which actually talks about enhancements in overall annual incomes.

Q112 Chair: It would help the Committee if you could give us a concrete example.

Paul Wilkinson: Page 58 in the impact assessment.

Q113 Chair: You actually said there were long-term quantifiable gains. I thought you might be able to help the Committee by telling us what they are.

Paul Wilkinson: I am sorry; I did not write the report.

Q114 Chair: So you are just quoting from the report.

Paul Wilkinson: I was quoting a figure around the uplift in farm income and the positive effect of the ambitious Ecological Focus Area measure.

Q115 Chair: You mentioned climate change mitigation in response to Mr Parish. You have read the evidence we had from the NFU yesterday. They are concerned that farmers might be unwilling to sign up to Entry Level Stewardship because it would make them ineligible for mandatory greening. Are you concerned that greening Pillar 1 will result in Member States allocating less funding to agri-environmental schemes than they do currently and that, in the interim, there may be fewer farmers signing up because—as we have heard from a succession of witnesses this afternoon—they do not know what the content of the greening regulations are going to be?

Paul Wilkinson: On the first point about climate change, I was referring to adaptation rather than mitigation. It was the adaptation point around soil management, water quality and water management—those were the key points I was mentioning. It is critical that there be greater clarity and more detail from the Commission on the nature of the proposals, in order actually to reduce that level of uncertainty. We would certainly be concerned if there was less uptake of those schemes in the short term because—referring to the question raised earlier by Mr Parish—of that level of uncertainty: because of the fact that people might not be aware that they can leave the scheme in the future, and because of the uncertainty around what these measures might mean for them. We would hate to think that people were therefore not entering the schemes, so greater clarity as soon as possible would be a good thing.

Q116 Chair: Would you concur with that?

Gareth Morgan: Yes, you are absolutely right: there is a significant danger that Member States will be allocating less to agri-environment. The budget figures for the CAP that have been produced suggest that the Rural Development Budget will be cut by 8%. We know the Treasury is not going to be throwing money around when decisions have to be made about funding for the next Rural Development Programme in 2014. There is the potential for the greening of Pillar 1 measure to reduce some of the pressure that is currently on Pillar 2—to take up some of the gap and release funds to make sure we continue with as good an environmental stewardship programme as we can after 2014. I am still hopeful that with some smart negotiations, the UK Government can make sure we get a settlement that lets us maintain the current Rural

23 November 2011 Gareth Morgan, Jenna Hegarty, Paul Wilkinson and Chris Gerrard

Development Programme, but we have to be prepared for the possibility there will be significantly less money.

You are also right that there is a danger that farmers are showing their concern by not signing up for entry level schemes. I was very reassured to hear from Natural England that that is not borne out by the figures to date. Defra is now in a position to give them the assurances they need that mean they can go ahead and sign up for these schemes. It would be good to hear that as soon as possible, so that they can plan ahead and keep joining.

Q117 Chair: I think you said earlier, Mr Morgan, that you thought the Commission were less than ambitious and you would like to have seen both Pillars scrapped.

Gareth Morgan: That is a little bit of an extreme characterisation of my position. We produced a paper with BirdLife and the European Landowners'

Organisation—the umbrella for the CLA in Europe—early in this process, suggesting that it was time to move to a one Pillar CAP. I am not sure this business of having two separate Pillars is actually serving us at the moment. We have a lot of clarity over what the second Pillar is for, but we are still very unclear about what the first Pillar is for. Is it an income support? It does not really seem to function effectively in that way. Is it meant to achieve food security? Well, it is not tied to any production. So it would have been nice to see a more imaginative proposal about what the CAP should look like after 2020. The Commission has decided to stick to the current model and it is going to be more and more difficult to maintain that beyond 2020.

Chair: These are the early stages of the negotiations, so I am sure we will have opportunities to explore this, but can I thank all four of you, and all the witnesses this afternoon, for contributing and being so generous with your time?

Wednesday 14 December 2011

Members present:

Miss Anne McIntosh (Chair)

Thomas Docherty
Neil Parish

Amber Rudd

Examination of Witnesses

Witness: **Professor Charles Godfray**, Hope Professor of Entomology, Department of Zoology, University of Oxford, gave evidence.

Q118 Chair: Thank you very much for being with us this afternoon. Can we apologise once again for the disruption to our programme? When we called you to give evidence initially, we found ourselves in the position of being inquorate. We are all very grateful to you for accommodating us. We welcome you most warmly indeed.

The questions will enable you to talk about some of the work that you have been doing, so if I could start in this regard with a general question: do you think that the Commission has the balance right between the greening proposals and the need for food security?

Professor Godfray: Not completely. The devil is obviously in the detail. It is very good that greening is being brought centre stage, but I have concerns about the efficiency with which the greening agenda is being brought in. Going back to the work we did in the Foresight project, how prepared will the CAP be for what may happen, certainly looking beyond the next five years to the next decade? It may be a different type of food landscape, where issues such as the increasing demand from a larger and wealthier global population are going to mean there is a possibility—although we cannot be certain—that food prices are going to rise quite substantially. That will change the policy framework or the policy environment in which agriculture in high-income countries will work. I have concerns that the Commission has not taken that on.

I also have concerns that the way they are implementing the greening, by what they have proposed for Pillar 1, is rather formulaic or algorithmic, rather than setting incentives for the production of public goods. Again, going back to the report that the Foresight team produced, it was arguing that going forward over the next couple of decades a reduction in direct payments and a shift towards limited funds to payment on results of public good was the direction to go. Certainly some of the earlier things that were coming out of the Commission were indicating that was one of the options on the table. Then the proposals that came out in October seemed to row back from that quite a bit, and I was disappointed by that.

Q119 Chair: How important do you think the EU is to global food security?

Professor Godfray: It is a critical component. It sounds a cliché but it is more than a cliché, but we are inescapably living in a globalised world; we cannot retreat from globalisation. One of the critical issues is how to make the food production in the EU

work in favour of global food security. Probably never, but more so today than ever before, we cannot insulate ourselves from what happens in global food security. It would be foolish to pretend that what happened in the Arab Spring is purely due to food crises, but it was clearly an element.

50% of people live in cities and many of the rural poor now live in cities, and they are intimately connected to global food crises and global food markets. When things go wrong there is no buffering—they are straight out on to the streets. The decisions we make in the EU and in the rich world have ramifications on the poor world, which then feed back to us. I think we are inescapably linked, and—again, this is not my line—but it is how you make globalisation work in favour of food security.

Then there is another point that I know you are aware of. We will increasingly be seeing the effects of climate change over the next couple of decades, and we do not know exactly how that will work out. Again, there is a high likelihood that agriculture in the European Community is certainly going to be spared some of the worst effects of the extreme events we are likely to see occurring in some less favoured regions. Again, I think there is a major role for the EU there. Certainly, our analysis for the Foresight Report was that role would be enhanced if the EU entered more into world markets of food, and some of the trade barriers and other restrictions in EU agriculture were reduced over time. I realise that is a very complex issue.

Q120 Neil Parish: Good afternoon. The seven billionth person has been born, we reckon, so food production will have to increase substantially to meet the demands of a growing population. Do you agree that one of the main aims of European agriculture policy should be to increase food production?

Professor Godfray: Forgive me—yes and no. I do not think it should be directly to increase food production. I think it should be to enable our farming sector to respond to price signals. I agree with your analysis; if the growing, and growing richer, population increases demand, and those other elements, such as increasing efficiency and demand modification, do not work, there will be pressures on the supply side. Then I think the important thing is to enable our farming community to be able to respond to that, and to respond to that in two ways. One, it should enable it to respond efficiently in the traditional economic sense of the word, but also to respond to it efficiently in the sustainable sense of the world.

14 December 2011 Professor Charles Godfray

A leitmotif running throughout the Foresight Report was the need for sustainable intensification, so we will almost certainly have to produce more food from the same amount of land or, conceivably, less land. That does mean, as you say, producing more food, but doing it in a way that has less imprint on the environment. We should be as concerned about kilograms or calories of human food per unit of greenhouse gas emitted to the atmosphere as we are about yield per acre.

Q121 Neil Parish: Where you actually see climate change taking place throughout Europe and throughout the world, you will see it probably more in Southern Europe than you will here perhaps. Is there not also an argument in Northern Europe that there is a need to produce food in the areas where food can be produced? Do you not think that perhaps moving towards 7% so-called green set-aside is the wrong direction?

Professor Godfray: Can I address the 7% set-aside in a second, but just answer your general point first? I think that we should allow the market to make that response to the price signals, and we should remove the market failures, which might include the way we have wound down extension services over the last couple of decades—both in rich countries and poor countries—so that when those price signals occur, the industry will be better able to respond.

To go to your 7% issue, I have several concerns about the 7%. Maybe you have better analysis than me, and I should say I am not a CAP expert, but it is unclear to me exactly what that 7% is. I have seen different interpretations, and one interpretation could mean that it would have relatively little effect; other interpretations, and I know the NFU are concerned about this, are that it will have quite a lot of effect. If you look at the efficiency of that 7% from the environmental perspective, I think just a straight, formulaic 7% is an incredibly inefficient way of doing it. I do not mean this in any pejorative sense, but it would be gamed by farmers. I understand the motivation for simplicity of going that way, but I think it will deliver rather poor environmental benefits.

We are moving to a new agricultural landscape, where demand is greater for food and reflected in prices, and where there is an ever-greater urgency for the land to produce environmental goods as well. As we do that, we have to take almost an economic perspective, not only to the food production but to the environmental goods, and think about where the comparative advantage is for different areas of land to produce, for example, ecosystem services or biodiversity. I see 7% in Pillar 1 as a poor way of doing that; I would like to see more modularity—more capability for different countries to maximise the environmental benefits that the same amount of funding could produce. I think it would be a shame, just talking about biodiversity as a subset of the environmental goods, if 7% of high-productivity land was taken out of agriculture for some pretty poor biodiversity return, and you then ploughed up whatever in a wonderful, biodiverse, rich, ancient meadow in the Scottish islands just to keep that farm-level percentage.

Q122 Neil Parish: I have one last question on food security. Although the Commissioner talks about food security, much of the reform I can see goes in the opposite direction. I do not disagree with you entirely about the market forces, but is it actually right for Europe to take land out of food production potentially to help drive world prices up? Poorer people in the world would find it even more difficult to feed themselves. Is there not a certain obligation—and this is my pet theme—to produce food?

Professor Godfray: I do not find that the most persuasive argument. If one looks globally at the amount of food that could be produced, it is quite considerably more than it is now. Here it becomes dangerous, because I am a scientist and this is straying on to values and political judgments, but I think an argument can be made of equal moral force that lowering the trade and import restrictions and stimulating agriculture outside the EU would do as much to increase global food production. I am not trying to argue that; it is not for me as a scientist to adjudicate between those two different arguments, but I have concerns with both moral arguments. There is a moral argument for the EU to produce food, and there is a moral argument for us to take away all trade barriers and to relax our import restrictions.

Q123 Neil Parish: I am not going to get into that particular argument with you, but I do think there has to be a balance between how much land you put into greening and how much you put into production if the world is potentially short of food.

Professor Godfray: Yes, there are moral arguments on both sides, and thankfully it is your job as politicians rather than mine as a scientist to choose between them. Personally speaking, I do not think I am as clear as you are about the efficacy of the EU producing more food as a means of reducing global hunger.

Q124 Thomas Docherty: Good afternoon, Professor. Turning towards Defra's position and strategy, do you think Defra's position on the CAP process places enough emphasis on food security?

Professor Godfray: Yes, I do.

Thomas Docherty: That's a very short answer.

Professor Godfray: I can elaborate.

Thomas Docherty: Just a little bit.

Professor Godfray: I should say that I am on the Green Food Project that Jim Paice chairs, which is trying to explore some of these issues with an interesting group of people from the NGO sector and from the industry. It is clear that Defra is trying to reconcile two quite complex issues. What has impressed me recently in Defra has been the move towards high-value nature areas and things like that. That is going back to the reply I made to Mr Parish that I do see one needs to take a much more landscape perspective, and I think that is what is being lost in the CAP proposals, partly because they are trying to be made simple for the whole of Europe. I think some of the things that Defra has done following on from the last White Paper have been going in this right direction.

Therefore, I think the way to reconcile some of these food security and environmental biodiversity issues is

14 December 2011 Professor Charles Godfray

by looking at land that is particularly good at producing the food and allowing the industry to respond to price signals going into the future, and then on the other hand, looking for land that is particularly efficient at producing the environmental goods and having mechanisms so that farmers are paid for that stewardship role.

Q125 Chair: We met the incoming President of the European Union Council of Ministers in Denmark—the newly appointed Danish Minister, who made the comment that it is not the responsibility of the European Union to feed the world. How does that fit with what you are saying?

Professor Godfray: I think in a sense that is right. It is the responsibility of the European Union in a globalised world to contribute towards the international governance structures, such that the obscenity of the 800 million people going to bed hungry each night no longer continues. I think a lot of that is almost outside the issues of food production; it is an issue of how best to stimulate incomes of the poor in low-income countries. There are very difficult issues about world trade—WTO rules and things like that—that will make a huge difference, so I almost see the role of the EU as contributing to the global governance that will achieve these ends, rather than an engine of food production in and of itself.

However, I think we will almost get that as a side-product. As we see demand going up, as most of the analyses suggest, many of the assumptions on which high-income countries have rested their agricultural policy over the last 30 years will change, and it will be easier for rural communities and farmers to make an income. It will be much more expensive to pay for the environmental public goods than it is at the moment.

Q126 Neil Parish: I think you have partially answered this next question. Do you think the Commission's proposals to green Pillar 1 will make a significant contribution to increasing the sustainability of EU food production?

Professor Godfray: I think it will make a contribution. It is not the most efficient way to do it. There is a role for greening in Pillar 1, and most of that is done by cross-compliance. I have not been through all the details, but it seems to me that the cross-compliance components of Pillar 1 have not been strengthened as much; a lot of it has gone into the greening agenda. I find Pillar 2 to be a more efficient way of producing those environmental goods, especially as I think there is an extremely strong scientific case that many of the environmental goods need to be judged at a unit larger than a typical farm.

Q127 Neil Parish: There are the three rotational crops that it is talking about where you have monoculture in crops. Is that good or not? I have very mixed views over it.

Professor Godfray: A rotation will be better than the diversification that I think they are actually proposing. My background is in biodiversity science and I find the logic behind that completely opaque.

Q128 Chair: Could I just pursue this? To a certain extent, the Government have been encouraging farmers to take green measures by using the carrot more than the stick. The NFU have said that farmers' voluntary activity in this way on sustainability could be counted towards their greening measures. The Foresight Report called for sustainable intensification of farming. What levers do you think the CAP could use to achieve this? Rotation is a classic; we used to produce a lot of sugar beet in North Yorkshire until the sugar market fell to pieces. Do you think voluntary activity will be a good way of encouraging that kind of activity?

Professor Godfray: I do not think it can be wholly voluntary. Just in response to Mr Parish's question, I talked about the cross-compliance in Pillar 1; I do think that is extremely important. The voluntary side is very important and could be funded much more efficiently through Pillar 2. I hesitate to say this, because it may be administratively impossible, but ideally you would almost like to see farmers bidding in to provide the public goods. In exactly the same way as farmers are able to take almost economic decisions about how they produce their crops and maximise their income through that, I would like to see far more of an opportunity for them to do it through the environmental side. That is particularly appropriate on the biodiversity side.

Q129 Chair: I do not want to steal Mr Docherty's thunder, but do you think this is something that environmental NGOs and farmers could agree on? Obviously rotating and introducing more biodiversity would seem strengthen your argument.

Professor Godfray: They are really interesting issues here. The challenges for the environmental community, both in NGOs and outside, are equally as great as the challenges to the farming community. I mentioned the Green Food Project, and it is a fascinating conversation, or at least a novel conversation, that has been happening on that. There will be some hidden win-wins—forgive the jargon—that we do not really realise, where one can maintain farming incomes and one can produce environmental goods. I think there will also be some contested areas; it is not all going to be simple, but there is a really important and interesting dialogue there. One of the reasons I am rather depressed by these proposals is I see none of that innovative thinking; I see none of the response to what a lot of people believe is a rather new food system that we will be moving into over the next decade.

Chair: I hope that leads neatly into Mr Docherty's line of thinking.

Q130 Thomas Docherty: It could be argued the Commission has argued for a broad and shallow approach for the greening of Pillar 1, rather than focusing and targeting. Do you think that was an appropriate decision by the Commission?

Professor Godfray: No, I would have gone for more targeted approaches. Where broad is important is on some issues that actually benefit the farm itself—soil fertility and greenhouse gases—and I think that broad approach is covered quite well at the moment through

14 December 2011 Professor Charles Godfray

cross-compliance. I am disappointed by the lack of innovation on the more targeted areas. Again, going back to this economic approach, we have to ask more of our agricultural land, both in producing more food and in producing more environmental public goods. I think that broad and shallow—sorry, do I have the right phrase?

Thomas Docherty: Broad and shallow, yes.

Professor Godfray:—is not the way to maximise that. I think it is driven by a simplification agenda, which is wholly admirable, although I do know people have argued that it will not produce that, but I do not think it is the right way in more challenging times to maximise both the food and the environmental public goods.

Q131 Thomas Docherty: I am not sure whether or not you have seen the other evidence that we have had.

Professor Godfray: I have read about half of it; I have not read it all.

Q132 Thomas Docherty: Have you seen the concerns of people like, for example, the RSPB?

Professor Godfray: Yes.

Q133 Thomas Docherty: They suggested that actually the agri-environment activities would be better delivered through Pillar 2. Would you agree?

Professor Godfray: Yes, I would.

Thomas Docherty: That is very helpful.

Q134 Chair: Could I ask you to add a bit more substance? When you said that there may be hidden win-wins, can you think of any obvious ones or do you think that it is the law of unintended consequences, in a positive way?

Professor Godfray: Yes. In the positive way—I cannot give you chapter and verse because I am not a soil scientist—there are ways of cultivating the soil that can both have benefits in terms of yields and also, for example, in terms of carbon sequestration. There is a field of agronomy that is looking at those win-wins. I think the more substantial win-wins are at the level of the income of individual farmers. You could get win-wins by reducing some of the constraints on farmers in the most productive areas to maximise their income through food production and, in a zero-sum game, use that money to support farmers in areas that have the comparative advantage to produce environmental benefits—for example, biodiversity and possibly flood protection. Using the same amount of money, you could both protect farmers' incomes and increase the provision of both the food and the environmental goods. Those decisions have to be made at levels above individual farms. They have to be made at the level of political jurisdiction; that is why I support greater modularity in the sense of moving from the formulaic Pillar 1 into Pillar 2, where Governments can take out contracts with farmers, for example. This has other benefits in providing income streams and allowing the farmers to invest in producing environmental goods over a longer period.

Q135 Chair: You referred to identifying which bits of land could best be used for producing food and which could best be used for diversity. How easy would it be to identify these areas and how would you target this to fit in with the EU's desire to treat all farmers in the European Union the same?

Professor Godfray: Identifying them is complex, but by no means difficult.

Q136 Chair: Are you approaching it just looking at this country or across the European Union?

Professor Godfray: To begin with, it is this country. We are actually in the lead on this, and an initiative such as the National Ecosystem Assessment, which Bob Watson at Defra led, has gone quite some way in looking at some of these areas. There is also the process that happened after the publication of the White Paper, *The Natural Choice: Securing the Value of Nature*, which led to the nature improvement areas. Quite a lot of work has been done already on identifying areas that produce a lot of public goods; you only have to ask a farmer about which are the areas that are best for producing food. I think that is being done quite well.

We are being copied abroad on the National Ecosystem Assessment; I believe, and I can tell you certainly if you would like me to, that there are plans afoot for a European ecosystem assessment. Certain countries are following our model in that, and I think it would be great if it were done using a similar methodology, because that might feed into CAP. You would expect an academic to say this, but one of the things I am pleased with on the CAP is that they are talking about more research. This will be one of the things where I think research would provide public goods as well as goods for me.

Q137 Chair: Do you think biodiversity and the scope of what you are suggesting are in the Natural Environment White Paper?

Professor Godfray: There are components of it in it. Where the thinking has advanced recently in this is by looking at the landscape level and looking at issues about which landscapes can produce these environmental benefits and these public goods.

Q138 Chair: Do you think, from all that you are saying and the Commission's proposals, that there is a risk that the EU might import more food and become less self-sufficient, therefore exporting environmental damage to countries from which we are importing more food?

Professor Godfray: I think there are complex issues in that, and I am insufficiently expert to tell you the magnitude of that risk. A broader point, looking ahead, is that whatever happens with the post-Doha negotiations at the WTO—and my view is that Doha is already based on premises 15 to 20 years out of date—these issues of exporting environmental disbenefits have to be taken into account in a far more sophisticated way in the next round at the WTO. There is a danger there. Again, I speak with some caution because this really is not my area of expertise, but I do not think the dangers are strong enough to

14 December 2011 Professor Charles Godfray

act as a brake on doing the right thing in how one might green the CAP.

Q139 Neil Parish: The way that CAP has been travelling up until now is it has been trying to become less prescriptive on what farmers grow, and yet these CAP proposals, in a way, are being much prescriptive on what they grow and how they grow it. Are you concerned that the proposals might result in farmers producing more for subsidy and getting their payment than the market?

Professor Godfray: Yes. I think the formulae being introduced into Pillar 1 are likely to lead to complexities and the gaming that you would expect a sensible farmer to do. The strength of doing more of the greening through Pillar 2 and the success—not uniformly success—of some of the higher level stewardship schemes has been because they have been more flexible and not driven by these rigid formulae. I think I would agree with your proposition.

Q140 Neil Parish: As a supplementary, the Commission's proposals on retaining permanent pasture will prevent some farmers converting from livestock to arable production. Are you concerned about this in light of the higher environmental impact sometimes of livestock production? There is also the argument that meat production sometimes consumes more cereals than us consuming cereals ourselves.

Professor Godfray: There are a number of issues with permanent pasture. One is that permanent pasture covers a multitude of production systems, with very different environmental consequences. The real permanent pasture that has always been unimproved grassland, which is of enormous biodiversity value, is very different from pasture that perhaps has not been re-seeded or is only re-seeded ever six or seven years. That has some benefits for greenhouse gases—there is less CO₂ coming out—but it is a very different type of land management from the real permanent pasture. I find it a very coarse tool. You will be aware from the written evidence, and I only know it through the written evidence, that there are also major worries about perverse incentives in the short term, although I believe the Commission is trying to do something to prevent that.

Q141 Neil Parish: That is exactly one of my worries: farmers who perhaps had grassland down for seven or eight years might decide to plough it just to make sure they are not restricted in future. They probably may not have ploughed that at all had the Commission not come forward with such proposals.

Professor Godfray: I think you are right, and if it were seven or eight years that would be a shame, but if it were 100 years and it had never been ploughed, it would be—well, forgive me—a crime.

Q142 Chair: If I could just return to something you said on the WTO, in our earlier report we said that standards of production should be taken into account in trade deals. Could you elaborate a little bit on the environmental disbenefits and how they could be brought into the WTO?

Professor Godfray: I am afraid I cannot, because I really do not know enough about the WTO. Beyond that, I am aware that the WTO is very leery about moving into areas of environmental benefits and disbenefits because of the huge potential for them to be used as cryptic trade restrictions, as we have seen so often, for example, in phytosanitation. I think they call the rules you can apply in greening the Green Box, and I know they are dominated by issues about not affecting comparative competitive advantage and things. That is obviously important, but I think there is time for new thinking on that. With new conceptual frameworks, and in particular ideas about ecosystem services and things, we are moving to a position where there are new ideas and new analytical frameworks for doing something in more detail. I am afraid I just do not have the expertise to talk in any more detail than that.

Chair: Professor Godfray, thank you very much for being so patient with us and for returning a second time to the Star Chamber. Thank you very much indeed. I would like to take this opportunity to thank all the witnesses who have been with us throughout the year, my colleagues for their hard work, and especially all members of staff from all parts of the House for all their hard work and co-operation throughout the year. I wish you all a very merry Christmas and hopefully a happy, healthy and peaceful 2012. Thank you very much indeed.

Tuesday 17 January 2012

Members present:

Miss Anne McIntosh (Chair)

Thomas Docherty
Richard Drax
George Eustice
Barry Gardiner

Mrs Mary Glendon
Neil Parish
Dan Rogerson
Amber Rudd

Examination of Witnesses

Witnesses: **Rt Hon Caroline Spelman MP**, Secretary of State for Environment, Food and Rural Affairs, **Martin Nesbit**, Director, EU, International and Evidence Base, and **Arik Dondi**, Deputy Director, Environmental Land Management, Defra, gave evidence.

Q143 Chair: Secretary of State, welcome. Just before I introduce you, there is some housekeeping. I would like to register my interest: receipt of a modest Single Farm Payment. Would any other colleagues like to declare an interest?

Neil Parish: Just to mention the fact that I am a farmer. I do not directly receive Single Farm Payment, but I have a farm holding.

Richard Drax: I have a farm holding too, and the trust that runs it receives Single Farm Payment.

Chair: I draw attention, obviously, to my register entry as well.

Secretary of State you are most welcome, and we are delighted that you are with us today and contributing to our inquiry into greening the Common Agriculture Policy. For the record, would you like to introduce your guests, please?

Mrs Spelman: Yes, although I think they are probably familiar to you, because certainly Arik has been a witness on a previous occasion. They are Arik Dondi from Defra and Martin Nesbit, who is my helpful aid; every time we are in a Council meeting I can rely on Martin to know the history, going back a long way, of negotiations on the CAP, but he has an official title.

Martin Nesbit: I am the Director responsible for EU and International Agriculture.

Mrs Spelman: There we are.

Q144 Chair: You are all extremely welcome. Secretary of State, could I just ask a couple of general questions at the beginning? Do you believe that the Commission has got the balance right between greening the CAP and the Government's aim of developing secure, sustainable food production?

Mrs Spelman: I do not think the balance is right generally at the moment. We are at a very, very early stage of these negotiations. I am on the record as saying the Commission rightly identified the twin challenges of food security and climate change in its communiqué. In the proposals that have come out, I honestly do not think that they are ambitious enough to tackle the scale of those challenges. But we are very, very early on in the process, and my view is a view echoed by other Ministers. We have had a two-hour roundtable discussion on greening at a very general level. It is quite difficult to form a final view at the moment about the balance, but I think there is a lot that can be done to improve what is proposed.

Q145 Chair: That is very helpful. Obviously, to be successful in ensuring that the Government's negotiating position is successful, we need allies across the European Union. I appreciate that we may have different allies on different themes, and we can explore that.

Mrs Spelman: We do, yes.

Chair: Could you broadly tell us at the outset who our main European allies are for the purposes of reforming the CAP?

Mrs Spelman: On the purposes of reforming the CAP, it absolutely depends by topic. On the capping proposal, for example, our natural allies are the Scandinavian countries, the Germans, and the Dutch, and interestingly enough new Member States like the Czech Republic, Slovakia, and Romania until recently, but their position may be changing on capping the CAP; that is because of the legacy of the former Soviet Union, which created large collective farms, which would be caught on the size restriction. On greening, the straight answer is it is only just beginning to emerge. You can imagine after a two-hour roundtable discussion—because that is how long it takes to go round 27 Member States, each making an intervention of three minutes—it is early days in ascertaining where the firm allies are.

I would say at this point in time that we have a clear alliance with Germany, which shares our view about the importance of a strong Pillar 2 and delivering greening through Pillar 2. Slovenia has a history of quite sophisticated agri-environment schemes and is a strong supporter of that. Once again, there are the traditional allies, like the Scandinavian countries: Denmark, Sweden and Finland. Then it is hard to tell, but countries like Austria that have particularly high incidence of organic farming in their Member State are looking for much more meaningful greening that works with their systems of agriculture. It is too early to tell where the firm allies are. I think what the initial discussion showed is there is a real lack of consensus about what greening looks like. If you compare it with a very clear bloc that has formed on capping, or the almost unanimous view that we need to do more for young farmers even if we do not like the Commission's prescription, it is actually very different on the greening. It is very unclear at the moment what is going to emerge.

17 January 2012 Rt Hon Caroline Spelman MP, Martin Nesbit and Arik Dondi

Q146 Barry Gardiner: Secretary of State, I am focusing here on expanding the agri-environment scheme under Pillar 2. This is really not just an issue about what constitutes greening, is it? It is actually a financial issue as to who is prepared to co-finance. How are your colleagues in the Treasury on this? They are fully signed up to us expanding Pillar 2 presumably, because that is the Government's position, but to what extent? What limits have they given you to which you could push your European colleagues?

Mrs Spelman: Our position is very clear. On the EU budget, the Prime Minister has set out a very clear position about that being at 2011 levels, and I have called for a substantial cut on Pillar 1. But of course the Treasury perfectly understands that Pillar 2 provides the best value for taxpayers' money.

Q147 Barry Gardiner: Absolutely, but what limits are you working within?

Mrs Spelman: I have got flexibility to negotiate within that envelope. Obviously no Minister of Agriculture in the whole of the EU expects expenditure on agriculture to go up. I am sure you can perfectly understand that. Actually, we do not get to decide that. Finance Ministers in Europe will decide what percentage of the EU budget is spent on agriculture. Heads of State have already agreed what the size of the EU budget should be. The job of the Ministers of Agriculture is then to get the best deal for their farmers, taxpayers, consumers and the environment, out of the envelope that we have been given. But we have not yet been given Pillar 1 and 2 allocations. You cannot tie it down too precisely at the moment because we do not know.

Q148 Barry Gardiner: The problem here then is that you are robbing Pillar 1 to pay Pillar 2, or vice versa. Those countries who want to see their farmers get the 78% that is in Pillar 1—the guarantee for doing, as we would look at it, not really quite enough, because we are supportive of additional measures in Pillar 1—are going to want to keep that money in Pillar 1, aren't they? You are losing this argument in Europe.

Mrs Spelman: How can you say we are losing the argument after two hours? It has hardly begun. It is far too early to make a statement like that.

Q149 Barry Gardiner: That is an extraordinary way of looking at it, though, Secretary of State, isn't it?

Mrs Spelman: It is not extraordinary at all because it is going to last 18 months.

Q150 Barry Gardiner: It is not what happens around the table, is it? We all know that.

Mrs Spelman: Of course it is.

Q151 Barry Gardiner: It is what happens in the bilaterals when you go to meet your colleagues in advance of those roundtable meetings. The positions emerge at the roundtable meetings.

Mrs Spelman: Fine. Do you want to tell me how it works or would you like to hear my answer?

Q152 Barry Gardiner: I am disagreeing with the answer that you gave me.

Mrs Spelman: Well, you have not given me a chance.

Barry Gardiner: It is not simply a matter of what happens around the table; it is what work you are doing to create a coalition.

Mrs Spelman: That is always true of any European negotiation. You know that, and I know that, and I said earlier what alliances we have already formed firmly on capping of the CAP, because the proposal is much clearer. The problem is that the Commission's proposals, although they are out, are not receiving the broad consensus the Commission might hope, but it is quite clear that there is going to have to be quite a lot of change. Of course there are meetings inside and outside the Council meetings. That is why it is a huge advantage to be multi-lingual, which I am sure the Chair of the Committee understands with her long time in the European Parliament. Sometimes meetings take place formally, where there is simultaneous interpretation, but a lot of discussions take place informally, in bilaterals, and we do both. We are building alliances.

Q153 Chair: It would have been helpful to have been in a bigger, broader grouping like the European People's Party.

Mrs Spelman: That is a separate issue. That is to do with the European Parliament, and it is not for the Defra Secretary to make a determination on which political party my party should have joined. We are part of a coalition of two parties, whose coalition agreement states very clearly that we are going to be a positive participant in Europe. I have never left an empty chair at any Council meeting.

Q154 Barry Gardiner: Given that that, as you say, is irrelevant, let us not spend time discussing it, Secretary of State. Let us focus on what your strategy is for building the necessary alliance to get the changes that you want to see and getting additionality into Pillar 2. How have you developed your strategy? What is it?

Mrs Spelman: Both before and after the publication of the Commission's formal proposals on 12 October, I took a number of bilateral meetings with countries I thought would be susceptible to supporting our view that Pillar 2 is a good vehicle for the delivery of agri-environment schemes. I spent a significant amount of time with Germany, not just with the Minister Ilse Aigner but the German Rapporteur Albert Dess, who is responsible for a report to the European Parliament that exactly set out our view about the benefits of greening through Pillar 2. As I indicated, we have a historic alliance with the Scandinavian countries, and with all of those—Denmark, Sweden and Finland—of course, as you would expect, I have taken the trouble to make sure that, with new proposals on the table, they were supportive of our view that the greening ought to be more ambitious.

In addition to that, we have systematically explored the views of the other Member States, even those that we know might not be susceptible to us. In bilateral meetings with France, Spain or Italy we have been testing out the reactions of the different Member

17 January 2012 Rt Hon Caroline Spelman MP, Martin Nesbit and Arik Dondi

States to the Commission's proposals. The straight answer is it is quite difficult at this stage because they, like us, are at an early stage of negotiations without an absolutely firm view. All there has been is a preliminary discussion, at one Council meeting, of those views.

To be fair, for the record, I should not take all credit for the bilateral engagement exercise. That has been shared by Defra Ministers. In particular I should mention that the Minister of State, Mr Paice, has gone out of his way to build a good alliance with Poland, even prior to the Polish Presidency, and continues to have a really good working relationship with Minister Sawicki, who continues after the general election in post as Minister of Agriculture. We systematically work at these engagements, but I think all the Member States are still forming their view. It is early days.

Q155 Barry Gardiner: It surprises me that you think the UK is unique in having a view and that others are still forming theirs.

Mrs Spelman: I did not say that. When did I say we had formed our view? We are still forming our view.

Q156 Barry Gardiner: Sorry. I thought the Government's view was that environmental benefits could be best delivered through expanding agri-environmental schemes in Pillar 2.

Mrs Spelman: Yes, but that is not a comprehensive view of the Commission's greening package. There are lots of elements of the package, for example our attitude towards crop diversification.

Q157 Barry Gardiner: But I am only asking you about this—

Mrs Spelman: One dimension.

Barry Gardiner:—fundamental principle and how you are building a strategy amongst other countries on this issue.

Mrs Spelman: We take a strong view on that aspect of the greening, because we have a very strong track record with our agri-environment schemes conducted under your Government, last time. We are recognised in Europe as having some of the most sophisticated environmental protection measures operating alongside production of food anywhere in Europe. So you would expect me to make the case for them.

Q158 Barry Gardiner: I am delighted that you are—absolutely delighted. What I am concerned to examine and elicit before the Committee is the strategy that you are adopting and the potential success of that strategy to get other countries in Europe on board to that position.

Mrs Spelman: It is, as I have outlined, identifying systematically which of the Member States might be supportive of the view that greening and the support for agri-environment schemes should continue under Pillar 2. We have identified who has a fairly firm view about that.

Q159 Barry Gardiner: That you would say is: Germany, Slovenia, the Scandinavian countries, and Austria.

Mrs Spelman: For the moment, but these are negotiations. And the new Member States: Slovenia, Slovakia, and the Czech Republic, and then it becomes less clear. It is quite hard sometimes to work out from a three-minute intervention from a Minister of Agriculture in another country what their comprehensive view of the greening package is. I am sure you would understand that.

Q160 Chair: So there was no pre-meeting with centre-right parties before you went to the roundtable?

Mrs Spelman: No.

Q161 Chair: Would that not normally be the procedure to follow?

Mrs Spelman: Nobody told me any procedure like that exists. What we did do, off our own back, is go to the European Parliament—I have done that on more than one occasion—and meet with a number of key figures within the European Parliament. I mentioned Albert Dess; I met Paolo De Castro, who is the Chairman of the European Parliament agriculture committee. I met with Jo Leinen, from not a centre-right party but the SPD.

Q162 Barry Gardiner: Perhaps Mr Nesbit, who is the fount of historical knowledge on these issues, as you introduced him, could tell us what sort of advance lobbying—advance bilaterals—has gone on in the past?

Mrs Spelman: Remember that the proposals were only issued on 12 October by the way.

Q163 Barry Gardiner: Well, we have had our position on greening for quite some time before 12 October.

Mrs Spelman: I do not really know what point you are trying to make. Surely it is for the political parties, isn't it? It is hard to ask a civil servant whether a Conservative politician should be actively—

Q164 Barry Gardiner: I am asking what the Department has done in the past to lobby in advance of roundtable meetings.

Mrs Spelman: In 2005, you mean?

Chair: Yes.

Mrs Spelman: And probably in 2003. It took a long time to get round to that. Were you there Martin?

Martin Nesbit: I was there in the negotiations in 2003. I was not there for the negotiations on the health check, but essentially the process that the Secretary of State has described is one that we would normally encourage Ministers to adopt: to make contact bilaterally with their counterparts in other Member States and to seek alliances with groupings of Member States in developing in advance of Council. As the Secretary of State says, it is probably not appropriate for me to offer comparisons between different Governments, but of course it is very dependent on the willingness, interest and time made available by Ministers. Clearly, both the Secretary of State and the Minister of State have made significant time available for this sort of activity.

17 January 2012 Rt Hon Caroline Spelman MP, Martin Nesbit and Arik Dondi

Q165 Barry Gardiner: Mr Nesbit, I was not suggesting that you offer it; I asked for it. Perhaps we could have a note to the Committee about the bilateral meetings and the lobbying that took place the last time this happened.

Mrs Spelman: We have at present, systematically, a 27 Member State readout of where we believe Member States stand on greening at this point in time. That is a moveable feast.

Q166 Barry Gardiner: Are you in the ascendant on that readout?

Mrs Spelman: We are in the largest group.

Q167 George Eustice: When we visited Denmark at the end of last year, one thing that was quite striking was they had a stance that, because they had the EU Presidency, they had to very much be the honest broker, which I found quite surprising. I always thought that the EU Presidency was something countries coveted so that they could try to influence the agenda. Do you feel that the Danish are being, for want of a better term, a little bit too Scandinavian about the way they are approaching this?

Mrs Spelman: No, I think it is something completely different. They are stymied by the fact there is most unlikely to be any CAP decision reached before the French Presidential election in May 2012. They know they are most unlikely to get an outcome on their watch. That does not mean that they are not going to try. They are interested in progressing the debate on greening because they have a natural alliance with green parties at home. They have a particular interest in developing the debate on greening. It is at such an early stage; it has hardly been explored yet—one roundtable—so I think they see that as a priority. A lot of work needs to be done in sequential Council meetings to progress this to the point where Member States could say more firmly whether they file for or against. It will definitely be a key part of their Presidency. I think realistically we are looking, as we have often said, to a conclusion on the overall CAP between the French Presidential election in May 2012 and the German general election in October 2013.

Q168 George Eustice: Do you think they are being realistic in not wanting to push the idea of expanding Pillar 2 too hard at this stage?

Mrs Spelman: That is not a view they have articulated to me. They might have articulated it to you, they might have articulated it in other spheres, but neither in bilateral meetings nor in a formal meeting have they articulated that view to me.

Q169 Barry Gardiner: Secretary of State, we have heard from Professor Benton that what is the best strategy for one—sorry, not your colleague.

Mrs Spelman: I am really sorry. Could you just tell me, who is Professor Benton representing?

Barry Gardiner: He is an expert in agri-environment policy. He has told the Committee that what is the best strategy for one landscape, with its geographical setting and mix of farm enterprises, may not be the best strategy for another. The optimal management strategy will vary with landscape context. This poses

us a problem for the greening of Pillar 1, doesn't it, because of this whole one size fits all?

Mrs Spelman: Absolutely.

Barry Gardiner: Given that there is a trade-off between wanting to achieve what is right under Pillar 1 for the landscape and the environment, and also wanting to ensure that countries do not artificially bend their requirements under Pillar 1 to suit their own farmers, which they cannot do because it is a one size fits all, how do we get round that policy in a 27 Member State Europe?

Mrs Spelman: I could see where you were heading with your question straight away, and I think it is a very pertinent question. The Commissioner is fixed on what he calls convergence. That is his term for one size fits all. He wants the measures to be doable by everybody, everywhere. But actually, as the Professor says, that is a sub-optimal outcome for the environment. We will be pressing very hard for a much greater degree of flexibility. There should be flexibility. I sit between Estonia and Malta in the Council meeting; it is difficult to imagine a bigger range. I think it would make a lot more sense for the taxpayer, the farmer, the environment and the consumer if there was more flexibility. We are trying to get the Commissioner to think more in terms of a menu. It is very, very clear that we must account for every penny of taxpayers' money that is spent. It must be clear that the measures on the menu are really going to add value and they do provide additional public goods. That is one of my tests that I apply to this. At the moment, what is proposed lacks ambition, even though it might be doable in every country, and I am not convinced it provides taxpayer value for money; this is too rigid an approach.

Q170 Barry Gardiner: I do not want to stray into the territory of valuation of natural capital or things like that, but is there a way in which the scientists from each of the countries working together could identify things that provided equivalent environmental benefit, so that no country felt their farmers were being short-changed and their money was being used to subsidise people for little environmental gain?

Mrs Spelman: Absolutely. Defra has done some work on that. As you know, we are blessed with an exceptionally good Chief Scientist who oversees high-quality scientific work by the Department. They have done some work on what in essence is a bit of a point system, if you like, so you have some equivalences. Instead of a rigid one-size-fits-all approach, where everybody is forced to do the same thing with some terrible unintended consequences as a result, a good way forward would be to look at some sort of a menu that had flexibility and equivalence to guarantee to the taxpayer that they were providing the money and it was providing good value for that money, but also scientifically we were genuinely making a difference for the environment. We will be sharing that work, of course.

Q171 Barry Gardiner: That is what I was going to ask: what is your strategy for building an alliance behind that? It seems to me that, if you are to going

17 January 2012 Rt Hon Caroline Spelman MP, Martin Nesbit and Arik Dondi

to resolve that problem of Pillar 1, you have to have countries on board saying, "This makes sense to us."

Mrs Spelman: Having broadly established where the Member States stand in relation to the greening proposals, I think we can go back in now with some counter proposals and see what sort of support we get from others. I am talking of wider than those who would just be supportive of the Pillar 2 proposals.

Q172 Barry Gardiner: Indeed, these are separate discussions. Can I just ask one further question here? Instead of the UK presenting its points-based system, have you considered at this stage, once you have a draft of that, inviting scientists from those countries to contribute to that, so that you can have something jointly to present to the Commission?

Mrs Spelman: I think, step one, I have to identify some willingness on the part of other Member States to be open to the kind of proposal that we are suggesting. We have not yet had the time to do that. I think once we have, and there is a meeting coming up next week, we can proceed to the second stage. I think it would be unseemly for a Minister of Agriculture from one Member State to barrel in and talk to the Chief Scientist of the Landwirtschaftsministerium without some introduction. Do you want to add to this, Martin?

Martin Nesbit: Yes, certainly. I think the point that the Secretary of State has been making about the importance of flexibility for Member States is critical to getting genuine delivery of additional environmental benefit from a greening of Pillar 1. As Member States start to look at the proposals the Commission has been putting on the table, and the shortcomings of those proposals, I think flexibility is something that is increasingly becoming of interest to Member States. There will be some Member States who see flexibility as an opportunity to remove the environmental substance from the proposals, and others who are genuinely interested in achieving progress. We will need to ensure that we get as much equivalence as possible in the negotiations.

I think the sort of mechanism you are describing, of inviting Chief Scientists to get round a table and come up with a sort of technocratic set of answers, would work in an ideal world. In practice I do not think the negotiations will provide us with time for that. It is also the sort of thing that I think only the Commission would have the convening power to ensure. It might also be something that the European Parliament wants to look at.

In terms of contacts with other decision makers in the EU, the Minister of State had a visit to the European Parliament last week and met the rapporteurs on all of the dossiers from all of the major political groups. Interestingly, flexibility for Member States was a subject that was unusually something that MEPs seemed to be willing to contemplate and to see as a potential solution to these negotiations. That also was encouraging.

Barry Gardiner: Good. We started locking horns, and we end up linking arms. That is very nice, thank you.

Q173 Chair: Secretary of State, it would be immensely helpful if you were able to share with the Committee in writing the background from the Chief Scientists, if you were able to do that. On this point of the European Parliament, obviously you recognised that there is a change; this is the first time that reform will be by co-decision.

Mrs Spelman: The power of co-decision, absolutely.

Chair: What impact do you think that will have on the decision-making process and the ability for changes to be made to what we see before us today?

Mrs Spelman: Very significant I think, although this is new territory for the Ministers of Agriculture. The last the time the CAP was renegotiated, the power of co-decision did not exist. The European Parliament had an opinion, but this time it is the power of co-decision. From a very early stage we have gone out of our way to establish our contacts in the European Parliament, because we are going to need them to get what we think is in the UK's wider national interest. It is interesting to me that, across the political spectrum, we are finding support for our point of view. It is a new experience for UK Ministers in negotiating a big policy, like the Common Agriculture Policy, to actually play out on two stages simultaneously: with the Commission in the Council, and in the European Parliament. But that is what we are going to need to do. We are all feeling our way with that. There is no evidence to me that other Member States have got a handle on how to do this better than we have. Everybody is embarking on this exercise of co-decision.

Q174 Amber Rudd: We heard earlier that you are hopeful of working with other Member States about introducing flexibility on greening issues in different Member States. Can you give us some examples of where the level would be, i.e. what would be at a national level and what would still remain at a Member State level?

Mrs Spelman: Again, that is really too much detail to go into at this stage of the proposals. We want to see the agri-environment schemes that we have in this country maintained. Most other Member States do not have anything quite as sophisticated as that, although in some Member States there are measures that are quite close to our entry level schemes. Therefore, in any points-based system, higher level and entry level would have to have different rankings and ratings, if you like. In other Member States, the measures taken are much less demanding than that. It is quite difficult to answer your question at this stage. I can only tell you that is what we are working towards. Do you have any specific examples?

Q175 Amber Rudd: What about the principle of where to draw the line, because obviously different countries will have different views?

Arik Dondi: I think the current proposals, which try to create some measures that can apply to all countries, have come up with the measures that they have come up with because there is not that much you can do in all the 27 Member States. You can see, for example, how one might create a menu of broadly

17 January 2012 Rt Hon Caroline Spelman MP, Martin Nesbit and Arik Dondi

equivalent measures from which Member States could then pick and mix, more or less.

Amber Rudd: À la carte.

Arik Dondi: That would be one approach. I think that is very early thinking.

Mrs Spelman: It is early thinking, but the vehicle obviously that lends itself to this best, under what the Commission are proposing, is the ecological focus area vehicle. The one that does not lend itself so well to this are their proposals for permanent pasture and crop diversification, because when those apply in different parts of the EU, they have very different—and sometimes serious—unintended consequences. If you take the concept of ecological focus areas, which is a new name in large part for what we used to know as set-aside, it becomes interesting to look at what you could do that would be different and better, learning all the lessons from the past and most importantly getting things that work well to count.

I looked at some of the discussions you have had with other witnesses in this area, and I thought it was quite significant to see the role that hedges play in the United Kingdom in terms of protecting biodiversity. As Mr Parish said in reply to one of the witnesses, you only have to pop up on the other side of the Channel on the Eurostar to realise that, where hedges have been eradicated, it is a very different landscape, and it is going to have a very different national ecosystem assessment as a consequence. One of the interesting things for us is to get proper recognition for what we do here and what we do well, to make sure those things are recognised and on the menu, and actively to promote the things that we know scientifically work well—for example, hedges provide excellent habitats for wasps, as your witness said to you the other day—and try to broaden that menu so that it is attractive to farmers to do as much as they can to protect and enhance biodiversity in the concept of the ecological focus area.

Q176 Amber Rudd: Do you think too many locally tailored solutions will undermine the principle of a single market, which is where we start with this?

Mrs Spelman: I think it entirely depends on how they are properly assessed. This is this point of equivalence. It is striking the balance between recognising that 27 Member States have very different geology, geography, climate even, and taking a one-size-fits-all approach results in sub-optimal solutions. I think a better approach is to have some flexibility, providing that you have the scientific base to know that the equivalence is there. In the end, the farmers are going to be paid for doing it, and the taxpayer wants the assurance that what they have paid for genuinely provides value for money.

Q177 Mrs Glendon: Minister, with regard to greening, Defra is very keen on additionality. You have been talking about the differences between the Member States, so given the variation among the Member States and their current standards of good agricultural and environmental practice, how would you implement this recommendation fairly?

Mrs Spelman: Well, we have not got a formal recommendation yet. We are not talking about

anything that is crystallised out yet. However, I support the principle of additionality because I think the taxpayer has every right to expect other public goods for the subsidy they provide. I have said that over and over. What farmers want is an assurance that they are not going to have a double whammy, where it costs them to provide environmental protection and then they get penalised because they have done it. That is what we have to guard against. We have given an undertaking that we would do that.

Q178 Neil Parish: Good afternoon, Secretary of State. The Commission's proposals are supposed to balance between greening and food production. One problem is that, in the Commission's proposals, the farmers who do not carry out the greening measures will face an additional penalty. Given that non-compliant farmers already lose 30% of their direct payment, do you think taking away a further penalty is warranted? Are we potentially taking very good land out of production?

Mrs Spelman: I think we need to be very careful with that question of taking good quality land out of agricultural production. That links to the answer I gave before last, which was that meaningful greening, through the vehicle of an ecological focus area, would help concentrate efforts on the parts of the land that are perhaps not ideal for food production but play a very important role in terms of protecting biodiversity and natural habitats, and adding value to the natural capital. Therefore, if you can get the parts of the farmland to count where you would not necessarily grow crops like the hedges, not only will you protect the hedges and the species that inhabit those hedges but you would continue to protect the good quality farmland beyond the hedges where you get the highest yields. Striking that balance is very important. We must not underestimate it. There will be an extra billion people in this world to feed within 13 years. People sometimes get carried away by the 2050 figure of 9 billion, and it feels sufficiently far off that it is quite difficult to feel the impact of that. But an extra billion mouths to feed in 13 years does focus the mind on the need to protect the best and most versatile agricultural land.

Q179 Neil Parish: I could not agree with you more. You made the point that, as I always say, you drive from Calais to Berlin and you do not see a hedgerow. Are you getting the Commission to recognise that these hedgerows and margins around fields are one of the most essential and best parts of nature conservation that we have? The trouble is that one size fits all does not seem to recognise what we specifically have that is so valuable, and yet they are still talking about a 7% so-called set-aside.

Mrs Spelman: In your question, quite interestingly, deliberately or not, you used the word "Commission". I think one of the important points here is that our efforts are not just focused on the Agricultural Commissioner, Commissioner Ciolos; of course we must remember that there are two environment Commissioners, Hedegaard and Potočník, with whom we work with very closely, and who are looking to the reform of the CAP to deliver some progress on

17 January 2012 Rt Hon Caroline Spelman MP, Martin Nesbit and Arik Dondi

their environmental agendas, whether that is sinking carbon and mitigating the impact of climate change, or protecting and enhancing biodiversity, reversing the loss of species, and they have an interest in how we green the CAP. I have worked hard to play them in, in the college of Commissioners, to make sure that this point comes across.

Q180 Chair: Before we move on, if I may I would like to draw your attention to the memorandum you very helpfully provided the Committee with. You do say in paragraph 17 that the cost of implementing greening varies considerably between Member States. Is it fair to say that the cost of implementing the Single Farm Payment in England is considerably higher than other constituent parts of the UK and other Member States, Mr Nesbit?

Mrs Spelman: It is £1,700 on average per transaction; I know that. I do not know how it compares with other Member States.

Q181 Chair: Is that a fair comment?

Martin Nesbit: I am afraid I do not have the comparative details, but certainly, anecdotally, I think it is relatively higher.

Mrs Spelman: With respect, not knowing the answer, is it not a commonsense answer to that question: it is bound to be because we are the first Member State to apply area-based payment, and we all know the terrible consequences of being an early market entrant into that exercise. Even though other Member States will have to move to an area-based payment system and invest in IT systems accordingly, I sincerely hope the painful experiences we have made with that could save them some of the costs. The chances are we have a high cost of single payment administration. It stands to reason.

Q182 Chair: You do go on to say that the payment will almost double per hectare—you accept that this is a rough estimate—from the £30 per hectare cost of entry level stewardship to £50 or £60 per hectare. My concern is that our costs should be reducing, if I follow the logic of your argument, Secretary of State, whereas your own memo says that the costs will double.

Mrs Spelman: Are we confusing two things there—Single Farm Payment and entry level stewardship payment? Again, it is very early days in the CAP reform negotiations, but if you stop and think about the complexity attached to the definition of active farmers, which requires Member States to ascertain where all the alternative sources of income a farmer has are coming from in order to decide whether or not he should be paid on the basis of the Single Farm Payment, there are really significant additional administrative costs associated with that, which all Member States are pointing out to the Commission. Sadly, at the moment I think the complexity is likely to increase cost. Do you want to add to that?

Martin Nesbit: Yes. Chair, I think the figures you were talking about in terms of the per hectare payment were not around the costs to the administration of implementing the payment; they were the payment that would have been received by the beneficiary. I

think it is very important for us all to focus on the potential risks to administration costs, both for the beneficiaries themselves and also for public administrations. That is something we have been very keen to discuss with the Commission and with other Member States, and share some of the, in a sense, hard-earned knowledge of changing implementation in England that we have acquired.

Q183 Chair: Focusing on England for the moment and the position of tenants, might the position of tenants be made slightly better under the reforms?

Mrs Spelman: That is the point of consulting. You know we have a discussion paper out at the moment with all the stakeholders to get their take on this. The view of the tenant farmers in all of this is very important. You have taken evidence from them, which I have had a look at. Again, I think that is the kind of view that I want to gather in. My job will be to represent their views in negotiation when we get to that aspect of it. That has not come up in the negotiations so far.

Q184 Neil Parish: You have talked about how the future CAP must deliver a meaningful greening. What do you actually mean by meaningful greening? Do you think that greening is better done in Pillar 2 than it is in Pillar 1 in the very prescriptive way the Commission is coming forward with?

Mrs Spelman: Our concern is that, in pursuit of a one-size-fits-all approach, the Commission has lit upon crop diversification and permanent pasture as two key measures of greening. The fact is, though, in this country we have been rotating our crops and leaving our land to permanent pasture since the Middle Ages, so it is not really new. We actually expect much more of our farmers. For a country that has a maize monoculture—and there are some with farmers that have just a monoculture of maize—requiring permanent pasture or crop diversification would represent progress. But to be meaningful across all Member States we have to look for measures that are additional and provide the taxpayer with those other public goods that I think they have every right to expect. That is what I mean. That is one of the reasons strategically why we have called for a strong Pillar 2, because our more sophisticated measures, over and above crop rotation and permanent pasture—our agri-environment schemes—are provided for under Pillar 2. We are keen to promote meaningful measures of that kind.

Q185 Neil Parish: Are you worried that the Commission's proposals at the moment, especially on permanent pasture and what have you, may actually stop farmers entering entry level schemes and generally keeping that pasture there because they are worried that they are going to be then tied into the Commission's proposals further down the road? I think that a lot of their proposals are counter the environment.

Mrs Spelman: There are a lot of unintended consequences. When I took a delegation of devolved Ministers with me to meet the Commissioner in November, as part of the Respect Agenda and making

17 January 2012 Rt Hon Caroline Spelman MP, Martin Nesbit and Arik Dondi

sure that our devolved Administrations do get proper access to the Commission throughout the negotiation, I found it was very important to see the Commissioner's reaction to the Ministers for Scotland, Wales and Northern Ireland explaining what the unintended consequences of those measures might be. You might find yourself as a farmer ploughing up high-value permanent grassland. The Commission seemed quite surprised as they understood what it meant in those areas. In these early stages of negotiation, it is very important to bring out the unintended consequences.

Neil Parish: That is where the flexibility is essential.

Mrs Spelman: Absolutely.

Q186 Barry Gardiner: I absolutely take the point that Neil and you have just been outlining. Your example is of a maize monoculture, where under Pillar 1 they might be doing things that are environmentally very valuable, but that are hardly novel, innovative or helpful in the UK. Very often when trying to get a level playing field across Europe, what happens is we go for the lowest common denominator. Can you assure us that what we are trying to get here is a highest common denominator?

Mrs Spelman: Of course. I think we are rather beginning to repeat ourselves: that is exactly the point of our strategy from the outset. Basically, permanent pasture and crop diversification do not pass my additionality or value for money tests. That is why we want to focus on the ecological focus area definition and why we want some flexibility so that the greening can be meaningful in the Member States, all the time accepting an equivalence that I think is at the heart of the psychology of where the Commissioner is coming from. We are working very hard to try to get greening that is meaningful, that will work in all Member States without unintended consequences, and deliver what we want for the environment, taxpayers, and the farmer. It has to pass all those tests.

Q187 Barry Gardiner: Great. I am with you so far. As far as the NFU are concerned, though, there is another test that you have to pass, and they have expressed real concern that increasing pressure for more and more environmental action—this is on flexible Pillar 1—could mean that we get meaningful greening that the Government talks about here, we get the gold plating, and we have to do much more for our green top-up than other Member States. They are very afraid of flexibility. The reason that they are afraid of flexibility in Pillar 1 is because they believe that, in the UK, Defra is going to try to impose stronger requirements upon them, or they are going to gold plate in some way. What can you offer the NFU that is going to reassure them that flexibility is not a charter for gold plating?

Mrs Spelman: I understand that. First of all, the coalition Government is dedicated to prising gold plating off wherever we see it. We are not about to install new gold plating. I think the strongest assurance I can give to the National Farmers Union is the one that we have given: that the important thing is to make sure that the sophisticated measures the farmers already take do count, and that they are not

penalised for that. We need to get that properly recognised. As part of the negotiation, that is a very clear endeavour.

Q188 George Eustice: Coming back to this issue of crop diversification, which I know you touched on briefly with Neil Parish, what else could they do there apart from say, "You need diversity," and hope that leads to rotation? Is there another, better way that you could secure rotation in a meaningful sense?

Mrs Spelman: Absolutely. This comes back to a proper scientific base for equivalence. If you are in southern Germany, and there is a high preponderance of maize monoculture on the small farms in that part of the country, obviously in terms of a points system, persuading those farmers to diversify away from the monoculture is in equivalence terms as important as a measure here that may be completely different but also adds to the biodiversity: the replanting of hedges in a part of the country that is perhaps short of hedges, for example, or a replanting of trees where there is a shortage of trees in that locality. It is getting some scientific equivalence for those measures that are meaningful and measurable, and give the assurance to the taxpayer in each Member State that the value for money and the deliverable outcome for the environment have been achieved.

Martin Nesbit: I think one of the difficulties that the Commission has imposed upon itself is not just the application of the same measures to all Member States but also the annuality that comes with Pillar 1. Ideally you would have a crop rotation measure that looked at what was happening in a particular field over a succession of years. Because they want to ensure that this is checkable on an annual basis, and you can look in a given year and see if a farmer is complying within that given year, they have ruled that out for themselves. They have come up with crop diversification as a second best. I think one of the problems is that they have not, getting back to Mr Parish's line of argument, looked enough at the behavioural responses of farm businesses to the sorts of measures that they will put in place. The impact assessment is quite weak on behavioural responses. For example, there is a significant risk that the response from mixed farms will simply be that those keeping livestock decide to get out of keeping a few fields of arable land because it becomes too complicated and too restrictive of their business decisions.

Q189 George Eustice: You would even have some plots where a farmer might rotate cauliflowers, cabbages, and oilseed rape; he has got his three crops, but there would no value in that because they are all brassica. Has that been factored into their thinking?

Martin Nesbit: They have been a bit cagey so far in the precise definition of what "crop" will mean in the diversification. That is something I think we will need to put a lot of effort on, both in terms of species and also the time of year at which the crops are being farmed.

17 January 2012 Rt Hon Caroline Spelman MP, Martin Nesbit and Arik Dondi

Q190 Chair: My concern is that, if our farmers are already rotating, are they going to be asked to do more?

Mrs Spelman: Yes, they would.

Q191 Chair: On the World Trade Organisation, I understand that the agri-environment schemes and the so-called Green Box has to be income forgone. The Commission is coming at this from another angle, describing it as an income-support scheme, which could again presumably penalise our farmers. Again, I would like to be clear what our negotiating position is going to be and what support we have from other countries for it if we are currently the only ones rotating.

Mrs Spelman: All Member States have to be WTO compliant. The Commission has to be WTO compliant. That is a requirement. Whatever comes out of the melting pot of the next 18 months of negotiation has to be WTO compliant. That is not optional. We have to get to that. We are all still trying to work through what is a very highly prescriptive description of the Pillar 1 proposal for crop diversification; it is very prescriptive on certain percentages—over-prescriptive, frankly. We are still working through what the unintended consequences are of that. Again, at the meeting that we had with Commissioner Ciolos in November, I found it quite interesting that they had not understood some of the consequences for the large-scale farming that we have in this country. I think they envisage very much, when they are thinking about this, farms that are on average much smaller, and they have not thought through some of the implications for this different scale of farming. This was to do with the planting of forage crops.

Martin Nesbit: Exactly. In a sense, that was the mixed-farming issue that I was referring to. I think it is also going to be important for us to ensure that we understand internally the range of business models and how they are potentially affected by the crop diversification measure. For example, a horticulture business that is renting a different area of land each year may actually be complying with a rotation objective but, because it is just farming one crop at any given time, would not meet the Commission's diversification requirement. Although they are doing fine in terms of rotation, they would perversely be caught by this requirement on diversification. That is part of the reason for the paper we put on the Defra website asking for views from stakeholders: so that we get a full understanding of the potential impacts on businesses in England, but also with our colleagues in devolved Administrations across the UK, and can feed that into the Commission.

Q192 Chair: We just gave back some of the views that we heard from the NFU, and I do not think you have put my mind at rest that our farmers are not going to be discriminated against. It strikes me that we are already greening quite substantially in this country. The way that the Commission is interpreting "meaningful greening" is not as ambitious as you would like.

Mrs Spelman: No, absolutely. But as I made clear at the beginning, it is too early to say that we are going to be discriminated against. What the Committee needs to hear is that the UK Government is going out to make sure that we are not. This point, for example, about the horticulture rotation was one we raised at the meeting with Commissioner Ciolos and the devolveds in November. The Commission did not immediately have an answer to that unintended consequence. That is what 18 months of negotiation are about. They are about teasing out the negative consequences of something that is well intended but may have an undesirable side effect. That is what this iterative process is about.

Q193 Neil Parish: Isn't one of the other ideas of the Commission to reduce the amount of bureaucracy and red tape? Isn't most of what they are proposing actually going to increase it?

Mrs Spelman: I tend to agree with you. Actually, all Ministers of Agriculture in all 27 Member States agree on this: what we need is simplification not complication. As you know—I think it is a matter for the public record—Commissioner Ciolos, faced with a unanimous call for greater simplification, wrote to all Ministers trying to assure us that it would be. The fact is that the Commission's impact assessment tends to support our concern that it is not. It is the overly prescriptive nature of what is proposed that is causing that administrative burden to rise.

Q194 George Eustice: We talked about permanent pasture earlier and how it could be adversely affected as an unintended consequence. Have you also considered things like established apple orchards?

Mrs Spelman: Yes, for example. We raised those. We raised those to the Commissioner.

George Eustice: That is another example. If you created an incentive for farmers to scrap established apple orchards, you are actually destroying the countryside.

Neil Parish: We have to protect our cider.

Mrs Spelman: It is terribly important. Again, we raised horticulture, orchards, vines, other examples of crops that are grown in a certain way for a purpose, which is different from crops that are grown in natural arable rotation for a purpose. At the moment the proposals do not differentiate between those different types of agriculture and horticulture.

Q195 Dan Rogerson: This ties in with a view that we ought to be focused more on outcomes than processes, which is something that, as a Committee, we have sent back before, but I appreciate the difficulties that you are having on that. On a more specific level, about this issue of trying to account for what we have already done in this country, there is a view that the Pillar 2 investment in agri-environment schemes—entry level stewardship, for example—ought to count towards greening. First of all, is it something that you support as a concept?

Mrs Spelman: Yes.

Q196 Dan Rogerson: What discussions have you had with others about that?

17 January 2012 Rt Hon Caroline Spelman MP, Martin Nesbit and Arik Dondi

Mrs Spelman: It is a view that we take. We have discussed it with other Member States because I think we, not just the Government of which I am part but also the previous Government, can hold our heads up and demonstrate that it was successful in getting the industry to really take on board the opportunity of agri-environment schemes to offer something far more sophisticated to the environment in terms of environmental protection at the same time as producing food sustainably. It is important that we do not undo all that good work. The take-up rates for entry level stewardship are high; we would like them to be even higher, but to provide a disincentive so that the next generation of farmers think in some way that we need to go backwards would be a real mistake. It is recognised by the Commission that the UK is out there more or less in a league of its own, particularly with higher level stewardship schemes, which make very strong demands on farmers to address very real needs for biodiversity. They can see that we do not want a set of proposals that cut across that. My point is that, under the ecological focus areas, there may be a way forward to get proper recognition for what our farmers do, and to continue to provide the incentives so that more farmers and new farmers are attracted to that kind of vehicle.

Q197 Dan Rogerson: You support it; that is good. In terms of building partnerships to pursue that line of reform, are there other Member States out there that have made steps, even if they have not gone as far as we have? Perhaps they have gone further than we have in some respects.

Mrs Spelman: Yes.

Q198 Dan Rogerson: Who are the allies there and what discussions have you been having?

Mrs Spelman: It is the group I outlined at the beginning. It is the same people. It would be Germany, who are a strong ally in this area, not least because they continue to want to make progress with their farmers where there is not such an endeavour towards environmental protection. It is the Scandinavian countries, the Netherlands, Slovenia, which has a long history and many Natura 2000 sites, and the Czech Republic. It is the Austrians, interestingly enough, for a different reason. There is a very high level of organic farming in Austria. There is a great deal of attention to the whole question of biodiversity. They might have slightly different schemes, but the principle of incentivising the farmer to protect the environment and simultaneously produce food to a high standard in a sustainable way is something that there is a lot of support for.

Q199 Dan Rogerson: So the Pillar 2 activities could be taken into account when it comes to the greening of Pillar 1 on a specific basis. Mr Nesbit seems to be looking to you on that point. Is there support for that amongst some of the countries?

Mrs Spelman: I think you are getting ahead of where it is at the moment. I think we need to remember that we have had one two-hour conversation about the general principle of greening. A lot of other Member States do not have stewardship schemes like we have.

You cannot in a three-minute conversation persuade 26 other Member States that they need to do it like we do. It does not work like that. First of all you have to establish who is really interested in meaningful greening. Then you have to establish whose agriculture systems are susceptible to benefit from greater flexibility to include the kind of approaches we take. I could not just say today, "Oh yes, we have signed them all up to exactly the way we do things."

Q200 Dan Rogerson: No, I was not expecting that. I was just wondering about this question we keep returning to about what discussions you have had so far on getting us ready for that, so that we are ahead of the game rather than waiting for the next discussion.

Mrs Spelman: I would say where we are at the moment is it is crystal clear there is no consensus on greening. I think the Commission needs a bit of help with this. If we are going to have a CAP reform, we have to reach an agreement on what greening is. At the moment what is proposed is too prescriptive, there is too much emphasis on one size fits all, and there is not going to be agreement on that basis. We now embark on the next phase, which is to come forward with something that may work more effectively. We are at that early stage of testing the waters with people about taking that kind of approach. My desire is the same as yours, which is to make sure that the efforts our farmers have put into entry level stewardship, and subsequently higher level stewardship, is not lost—that it is recognised, becomes achievable, and is incentivised under the reform that the new CAP takes. Martin was poised to say something, so we should let him.

Martin Nesbit: I think it was essentially the same point, but also other Member States are unlikely to listen to us if we go to them saying, "You must design the regulations in this way to deal with our particular issue on environmental stewardship and entry level applicants." We need to come up with ideas for how the regulations can be crafted to meet our objectives around entry level stewardship and, at the same time, provide the same sort of flexibility for those Member States as well. We are not going to be going out there and saying, "You must protect entry level stewardship in the commitment."

Q201 Dan Rogerson: I suppose that is the broad question about Pillar 2 counting when we are considering the greening of Pillar 1—that we do not, as the Secretary of State was saying, lose the incentive to sign up for optional schemes because they think, "Well, I have to do this crop rotation. I do not particularly want to do it, but I have to do it in this prescriptive way, so there is no way I am going to do that as well because I am restricting my flexibility to run my business."

Mrs Spelman: Absolutely.

Dan Rogerson: And you answered that. However, bringing it back domestically again, in preparation for that, if we are going to have to meet them part way on something, what changes might have to happen to the stewardship schemes?

Mrs Spelman: We have made some provisions for that, which I think other witnesses have explained to

17 January 2012 Rt Hon Caroline Spelman MP, Martin Nesbit and Arik Dondi

you, in writing to farmers to make sure we get no falling off arising from the uncertainty, in that new entrants to the stewardship schemes benefit from clauses that would not penalise them if there is some huge change in the CAP that they feel deterred them from signing up.

Q202 Dan Rogerson: I understand that. I just meant changes in the way that the scheme operates so that it might meet Pillar 1 greening, as much as being a specifically Pillar 2 activity, so there might be a slight merging in order to allow this to happen so that we can secure the good work that has gone on.

Mrs Spelman: I think it is the other way round at the moment, isn't it? It is trying to make sure there is sufficient flexibility under a menu of proposals under Pillar 1, so that our entry level stewardships might be taken into that wider menu. That is what we are striving to achieve.

Q203 Dan Rogerson: So you do not think there would have to be any changes, necessarily, to the way that the stewardship schemes operate?

Martin Nesbit: I suspect you would have to make some marginal changes, because some of the requirements might now be met by Pillar 1 rather than Pillar 2.

Q204 Dan Rogerson: That is what I was trying to get to: the scheme might have to change, but you are at an early stage at the moment of thinking about that.

Mrs Spelman: Yes.

Q205 Amber Rudd: It is very encouraging to hear what you are saying about ELS schemes—that they could be fungible, potentially, with the menu that is being proposed. You referred to the good works that the farmers are doing, but what we have heard too is that it is important to maintain their good will for the effort that they have put in, and they are watching nervously to see if the effort that they have put in, which they feel has been good and good willed, is going to be recognised so that they can move on from that.

Mrs Spelman: Jim has publicly stated at the Oxford Farming Conference that we really understand that, and we are going out of our way to make sure that they get proper recognition for what they have done, that they are not penalised in any way, and it does not count against them. We have heard that loud and clear, and I assure you on that front we are doing all we can to make sure that is the case. It is acknowledged at this early stage of the negotiations that what we do here is extremely good, and the Commissioner understands; he does not want to stop farmers doing that. That is quite clear.

Q206 Richard Drax: Secretary of State, may I say that the road to hell is paved with good intentions.

Mrs Spelman: That is a cheery start.

Richard Drax: Listening to all this, it is extraordinary to me. Can I just touch on the greening a bit further? I think you have already touched on this yourself, but just reassure us that English farmers who opt out of these agri-environment schemes will not be penalised.

Mrs Spelman: The new entrants, yes. That is to deal with the point that has just been raised by Mr Rogerson and also by Mr Parish. We are very conscious of the uncertainties around the transition from the existing CAP to the new CAP. What you do not want is a dropping off or falling off as a result of the uncertainty.

Q207 Richard Drax: So you would not sign anything that is going to penalise farmers coming out of these schemes.

Mrs Spelman: There are new clauses for new entrants that give them some protection.

Q208 Richard Drax: What about those who are in it at the moment?

Mrs Spelman: The new entrants from now. The new CAP is not coming into effect until 2014.

Q209 Chair: Could we just hold that for one minute so that I can understand it? If a farmer is in a current ELS, it is the automaticity. Do you believe, Secretary of State, that they should qualify?

Mrs Spelman: I did not quite hear what you said. Sorry, I am a bit deaf this morning from a cold.

Chair: If a farmer is currently in an ELS, an entry level stewardship scheme, should there be an element of automaticity in qualifying for the new greening measures so they are not going to want to suddenly undo all the good work that you have done—successive Governments—in creating these ELS schemes, and have a mass rush for the exit? Is there going to be an automaticity?

Mrs Spelman: It is a five-year renewable scheme. In saying that the new entrants benefit from—

Chair: No, I am not talking about new entrants. A farmer currently will be in a transition scheme effectively because he is currently in this five-year scheme that he has signed up to—it could be me; I have no idea. A farmer in my constituency who is in a scheme suddenly may feel he wants to get out of that scheme because he will no longer be deemed to be greening and you are going to force him out, or the Commission is going to force him out.

Mrs Spelman: We do not know yet, of course.

Q210 Chair: No, but we want to know if you are going to fight to protect.

Mrs Spelman: Of course I will fight for them.

Q211 Chair: All credit: we are ahead of the game so we want to encourage those to stay in the scheme, to see them to the end, and then talk about new entrants.

Mrs Spelman: Might I just explain to you how we have changed the scheme to cater for this situation?

Chair: Not for those currently in the scheme.

Martin Nesbit: On the automaticity point first of all, and this goes back to what I was saying to Mr Rogerson, we are unlikely to be able to design the European legislation so that it says, "Anyone in ELS, tick." It will not be that automatic, but we need to ensure that we get as many of the sorts of things that are done under ELS to count as possible. The other issue is around whether someone who is already in an agri-environment agreement, if that changes

17 January 2012 Rt Hon Caroline Spelman MP, Martin Nesbit and Arik Dondi

substantially because of a change between the boundaries of Pillar 1 and Pillar 2, then has the possibility of saying, ‘Well, no. Looking at this afresh, I no longer think this makes business sense for me.’ The expert on this hopefully will nod as I say the policy intention has to be that you give someone that possibility to walk away if the agreement has changed substantially.

Q212 Chair: Without penalties?

Martin Nesbit: Without penalties—without having to repay money for the receipts and so on.

Q213 Chair: Does Mr Dondi concur?

Arik Dondi: Environmental stewardship has a long-term agreement at its foundation, which is one of the things that we like about it and that we do not like about any provisions that are renewed from year to year. Our intention would be to maintain as much of that long-term agreement even into the next CAP period. The provision we have in the existing agreement is to protect the agreement holders from any changes that they would not want to go along with. It is not to enable us to suddenly end lots of existing agreements; that is not something that we think would make sense, because we need them to be long term in order to get the environmental benefits.

Q214 Chair: Surely you are trying now to encourage new entrants to sign up to the existing ELS schemes. Why should they if they have this big question mark hanging over them?

Mrs Spelman: They have new clauses that make it crystal clear that they will not suffer any penalty if they come out. This allows me to make a wider point, which I would like the Committee to know because it is very important for everyone to know this. As I am told, the last CAP reform, the implementation of which was delayed, caused really significant problems for the industry in terms of the transition from the one before last to the one we have today, with cash flow implications as it changed payment method. We signalled to the Commission already in 2011 that they need to be thinking now about making provisions so that the industry does not suffer on the changeover from the old regime to the new. We have flagged that up with them at the very earliest opportunity. There are some practical things they could do now that might help prevent any difficult gear change at the moment of passing from one to the other.

Q215 Richard Drax: If these farmers, for whatever reasons, are alarmed by these greening schemes and do not re-enter or enter, could this undermine your ability to deliver the aims of the Natural Environment White Paper in any way, shape or form?

Mrs Spelman: The Natural Environment White Paper has a lot of aims, of which the role of landscape-scale management in the interests of environmental protection and biodiversity is one part. There are lots of facets of the Natural Environment White Paper that are proceeding that are totally unrelated to the CAP: nature improvement areas, biodiversity offsetting and so on.

Q216 Richard Drax: Do you think that, if the farmers do not go into the schemes, it could affect the aims of the White Paper?

Mrs Spelman: It is a hypothetical question. It is too early in the negotiations on the CAP for me to be able to comment. Since the Commission’s proposals were published, we have monitored each month the uptake of stewardship schemes by new entrants, and we are not seeing any evidence that interest is waning.

Q217 George Eustice: I want to move on to the issue of food security and how these proposals sit with that. One concern I have always got is that the CAP reform process is so slow that they are always in danger of fighting the last battle. Some of the evidence we have received says that not enough weight is being put on the issue of food security and food production, and that the greening proposals do not take enough account of that. Where do you stand on this? Do you think anything could be done to persuade the Commission that actually food security is important and these proposals, as well as doing some greening, have to recognise the importance of that?

Mrs Spelman: I think we touched on this already. I do believe it is very important. The Commission were right to identify food security and climate change as the two greatest challenges that agriculture is facing. They are interrelated of course, because the increasing frequency of extreme weather events is undermining the capacity of the industry to deliver the increased production of food on a sustainable basis that we have identified as a priority in our business plan. The drought conditions that we are going through at the moment are a very good illustration of that. If we do not get significant rain, that is going to affect the ability of farmers to irrigate the crops for next year’s food supply. These things are inextricably linked. The interface with greening is very important. It comes back to my point that, if you take the Commission’s concept of ecological focus areas and you provide a sufficiently flexible menu for how the farmers could deliver meaningful greening through EFA by such measures as retaining or replanting hedges, planting trees and buffer strips—many of the things that our farmers already do that are not necessarily that widely undertaken in other parts of the European Union—you are not compromising the ability to increase food production sustainably at the same time as improving environmental protection. That has to be the objective that we are trying to achieve.

Q218 George Eustice: That is quite a challenge. You mentioned earlier that ecological focus areas are set-aside by another name, effectively. You are effectively saying that, providing there are other mitigating measures taken to improve habitat, you could still produce off that land; is that your starting point?

Mrs Spelman: That would be my starting point, because we have the clear scientific evidence here that you can do it. There has been significant replanting of hedges by farmers whilst continuing to produce more food sustainably. Buffer strips have demonstrated their benefit to wildlife, whilst not compromising the ability of the farmer to fulfil his contracts, improve his yields

17 January 2012 Rt Hon Caroline Spelman MP, Martin Nesbit and Arik Dondi

and produce food to a high standard at a price we can afford. I think we are in a strong position. The UK can provide real leadership in this area. If we could get the other Member States to share our vision for that, we would have helped to achieve a significant improvement in those twin objectives of protecting the environment whilst producing more food to meet the demands of food security.

Martin Nesbit: On environmental focus areas, I think one of the things that we might need to do is move away from looking at a crude percentage application of them and start thinking about what sort of active management is taking place. The environmental benefit of land in environmental focus areas will not be just linked to a percentage of a farm holding; it will be linked to the nature of the activity that is going on in that area—the active management that the farmer is putting into it.

Q219 George Eustice: So you would not support a hard and fast 7%? You are much more for an outcomes-based approach?

Mrs Spelman: I now gather that is something the Committee shares a view on. Yes, it is very important. When the Commissioner is worried about proving to the taxpayer that additional public goods have been provided by public subsidy, one of the questions we ought to be asking as taxpayers is: is there evidence that there has been active management of this ecosystem to produce this outcome? That is what we want to know, not a sort of crude proxy for whether taxpayers' money is being spent in a certain way without asking the question: did it produce an outcome?

Q220 George Eustice: Leading on from that, where do you stand on this idea of non-productive landscape features? This is non-productive land where nothing can be done on it. It will not surprise you to know that the NFU and the RSPB have taken quite opposite views here. The NFU say that any non-productive land should count towards their 7% if that is the route you are going to go. The RSPB say that would be meaningless; it has to be an additional 7% over and above the existing non-productive land. Have you got a side that you take on that, assuming we ended up still being stuck with the 7%?

Mrs Spelman: I have listened to both their views, but I think in the last answer we have the right answer, which is that public subsidy is going to be provided because we believe a public good will be provided for that money. That means a measureable outcome, and I think that means the farmer demonstrating that an outcome has been achieved on the non-productive land. I think that is where the solution lies.

Q221 George Eustice: Going back to what we were saying earlier about flexibility and giving Member States more, is determining what constitutes an ecological focus area something that you would like to see decided and determined at a national level?

Mrs Spelman: It needs to be a common standard, doesn't it? To achieve a sort of equivalence, we have to have some sort of agreement. The measures that you might take in Estonia, which might be different

from the measures that I take in England, have to have a degree of equivalence for it to be fair. The UK is in the luxurious position of having developed scientific tools of a very high standard that can answer that question. Our national ecosystem assessment tool will actually be able to tell whether a different measure in a different country is producing the amount of natural capital equivalent to a different measure taken in another one.

Q222 George Eustice: You are talking about an equivalence of outcome rather than equivalence of procedure, in effect.

Mrs Spelman: Yes, absolutely, because it is very different. Back to my point: the taxpayer wants to know whether we delivered what we said we would, not did we follow the rule.

Q223 George Eustice: The logic of more flexibility and giving individual countries more ability to implement to deliver common outcomes seems sensible, and we keep coming back to asking what we are doing to argue the case and to try to make that happen. I suppose what I find quite surprising is the difference from what seems to have happened on the Common Fisheries Policy, where for some reason the Commission seem to be quite boldly going down a route of saying, "Let's try to devolve power down and let individual countries take it."

Mrs Spelman: They have not done it yet.

George Eustice: Well, they have not done it yet, but the intention seems to be there, whereas on CAP the Commission seem remarkably inconsistent with the approach. I wonder why you think that is. Is it because there are more countries involved, and different countries—the Eastern European countries? Or is it just that the Commissioners are different?

Mrs Spelman: That is a very big, sweeping, philosophical question. In my limited time in post I have seen a huge temptation for the Commission to be overly prescriptive, and a push back from the Member States, who want to see greater devolution so that the solutions are fit for purpose at a local level. The same is true of fisheries. It was Mr Drax who said the road to hell is paved with good intentions. The intention to devolve needs to be followed up by the practice of devolution. I think that we would be a strong proponent of doing that. Whether it is fishing or farming, I think that it makes sense, and a scientific basis can be found to demonstrate that it can be done more effectively, with some flexibility that produces a better outcome that we can measure.

Q224 Barry Gardiner: Could I just clarify something on this? At the moment the current proposals say that the definition of features for the EFA will be for the Commission to decide, don't they? So as things stand, you will not be able to impose a definition from Defra.

Mrs Spelman: Yes, but this is at the early stage of negotiation, where we are persuading the Commission of how to widen the definition of features. When you bring the unintended consequences before them that they have not thought of, with their existing

17 January 2012 Rt Hon Caroline Spelman MP, Martin Nesbit and Arik Dondi

constraints, they are forced to take a step back and rethink what these things should be.

Q225 Barry Gardiner: Just for clarity, would you rather that Member States have the ability to set them themselves, permitted by the Commission, or would you agree to, as it were, nationally based ones that the Commission say would be appropriate for different countries? Again, I am trying to feel my way forward here. What is the strategy that you are pursuing? What is your objective?

Mrs Spelman: The strategy is the one I think we have been talking about on and off. There is no consensus around the greening. Everybody is in completely different positions, and the Commissioner will not succeed with the present set of proposals in getting an agreement. We are trying to be helpful here, and we believe there is a better way forward by introducing greater flexibility into the definition of ecological focus areas, but making sure there is an equivalence that is objectively measureable so that Member States are given a degree of flexibility over which measures count as part of the ecological focus areas and can prove to the Commission that they are of equal weight. That is our strategy.

Martin Nesbit: I think that is right. In technical terms the broad parameters would be set down in the legislation that is agreed by Council and the European Parliament. Where it refers to Commission decisions, the Commission would have to bring forward proposals to a committee of Member States. They would then be discussed in that committee, and the committee would then vote on them. In a sense it is a way of policing the Commission's use of secondary legislation in the European context.

Q226 Barry Gardiner: Can I ask about the way in which these features and the EFAs will link up with the Natural Environment White Paper, and the desire within the White Paper to create landscape-level ecological networks. We heard from the Wildlife Trusts; they say that there is no mechanism within the proposed reforms for achieving this. To quote them fully: "There is huge potential for using this kind of 'land sparing' to protect, expand, and link areas of value for nature to create ecological networks and restore healthy and fully functioning ecosystems. There is no mechanism within the proposed reforms for achieving this, and the risk is that we end up with a scattering of disconnected fragments of land scattered across the landscape." We are all agreed that what we want is connectivity here. How are you proposing to introduce that? How would that, on a points-based system, get additional value of recognition?

Mrs Spelman: That is relatively simple to answer. The agri-environment schemes are an excellent opportunity to provide a network of wildlife corridors and what are known as stepping stones in the environment to allow the migration of species and protect and, indeed, enhance the biodiversity. We would throw the weight of the agri-environment schemes behind our endeavour in the Natural Environment White Paper to achieve those wildlife corridors and networks. Obviously that is one of the reasons we are fighting very hard to make sure that,

in the new CAP, the agri-environment schemes continue and, indeed, are enhanced. We believe that if we can get them recognised more flexibly across Pillar 1 and 2, in whatever forms those take in the future, it should be a very important part of us delivering that aspect of the Natural Environment White Paper. It is a bit too soon to say that is definitely going to happen. Absolutely it is in the concept that is behind the strategy that we are taking in relation to the greening of the CAP.

Martin Nesbit: The only thing I would add is that it is very difficult to get that kind of targeted environmental benefit from a broad-brush Pillar 1 scheme. We would need to be able to explain to a farm business what the rules are that they have to meet. I do not think a system that involves Defra officials, Natural England and the RPA going out to the farm and telling them precisely where they had to craft each piece of EFA would work. That is the sort of thing where you get significantly greater benefit through targeted expenditure under Pillar 2, and where it is the long-term commitment to that particular land management choice that you want to underpin. Again, the long-term nature of Pillar 2 is important.

Mrs Spelman: And the multi-annual nature of Pillar 2. That is the big thing we must not forget. That is one of the reasons we are strong advocates of a strong Pillar 2.

Q227 Chair: Would it encourage farmers in areas of water stress to retain water?

Mrs Spelman: Absolutely, that ticks all sorts of boxes. It helps the food security. Measures in river catchment areas have huge advantages in terms of the challenges of climate change and food security, whilst at the same time protecting and enhancing biodiversity. That is one of the reasons why those are very attractive bids from farmers under higher level stewardship. In fact, if you look at the water stress across the whole of Europe—I speak now with my Environment Minister hat on, attending a different Council meeting—that kind of measure is precisely what the CAP reform should be promoting. If I have one frustration, it is that the challenges of climate change and food security were correctly identified, and yet those very real challenges are being missed by what is proposed. It could be such an important opportunity in all the river basins across Europe to make a step change in terms of the way farming is conducted in those catchment areas and to incentivise the farmers to do that as part of the CAP reform.

Q228 Chair: Have we not got a little local difficulty in that it is deemed to be a reservoir, so it falls right slam into the Reservoirs Act, so it will not happen?

Mrs Spelman: I am not sure what you mean.

Q229 Chair: Well, Pickering reservoir, retaining water upstream. It was deemed to be a reservoir and falls under the safety mechanism. We are just wondering when we are going to hear the revised guidelines.

Mrs Spelman: Perhaps not in the context of a Select Committee meeting, but as local MP I am very happy to come back to the question of specific propositions.

17 January 2012 Rt Hon Caroline Spelman MP, Martin Nesbit and Arik Dondi

Q230 Chair: I think we are all keen to encourage our farmers to do this—

Mrs Spelman: Absolutely.

Chair:—and Mr Parish is champing at the bit to come in on this, but they fall at the first hurdle. In this country it simply cannot happen.

Mrs Spelman: The specific scheme in Pickering—

Q231 Chair: No, any over 10,000 cubic metres will fall slam within the safety regulations of reservoirs.

Mrs Spelman: The specifics of the Pickering scheme failed on value-for-money criteria.

Q232 Chair: Take Pickering out of it, but anybody who wanted to do it in the Somerset Levels is going to fall foul of the reservoir safety rules.

Mrs Spelman: There are other river catchments, where we are seeing the uptake through higher level stewardship schemes, that are having the benefit of—

Chair: Which are currently going ahead at the moment?

Mrs Spelman: Under SCAmp and South West Water. I have been to see them myself on Dartmoor. We have evidence of where it is working well. In relation to Pickering, I am quite happy to take this offline and look specifically at it again.

Q233 Neil Parish: I absolutely agree with where you are coming from, Secretary of State. One of the arguments in Somerset is to actually pay farmers more to take the water, because the trouble is if you take the water for a greater length of time, you have much less availability to use that land for growing grass even, because of the length of time it is flooded. Of course, you can then help save the towns from flooding, probably at Bridgewater and Taunton. Is there any way we can look at enhancing the payments, rather than just giving loss of earnings, as they are at the moment?

Mrs Spelman: I suppose if I were to stand back from it, this round of CAP reform ought to move to payment for ecosystem services. Given the scale of the challenges that the industry is facing, correctly identified by the Commission, of climate change and food security, the Commission has not proposed payment for ecosystem services. I think probably the CAP reform after this one ought to be the one that makes the transition. This is a bit of a missed opportunity. However, with 18 months to run, we can go on pressing this case. We do it here; it is making a difference here. I think it is something that everybody can understand. The taxpayer can understand. If you explain to the taxpayer the benefit of paying the farmer to farm in a certain way so that it costs less later to clean up the water, or that they are less likely to be flooded, that is something that every taxpayer can understand the benefit of. I would love to see it in this CAP reform, but these are not my proposals; these are the Commission's proposals. I will do what I can to get them to take account of it, but we are not yet there. What is interesting, as I mentioned, is other Commissioners looking at the amount of the EU budget spent on agriculture. Commissioner Potočník in particular looks at this opportunity as a really significant opportunity to make some progress in that

area. We need allies beyond DG AGRI if we are going to get that change.

Q234 Dan Rogerson: I think I know the answer to this question, but I will ask it for the record anyway. The funding of agri-environment schemes through RDP or whatever depends on modulation. Are you intending to press for the continuation of the current state of affairs?

Mrs Spelman: I know what you are saying. The answer is yes.

Dan Rogerson: That is the short answer.

Mrs Spelman: It is a short answer. It is a little complicated by the fact that, as you know, the Commission wants to put an end to the modulation. What we have managed to achieve so far in terms of improving the original proposal is to increase from 5% to 10% the amount the Commission's formal proposal says we can take from Pillar 1 to Pillar 2. But the short answer to your question is "yes, of course".

Q235 Dan Rogerson: So yes, but so far at a lower level than England has been currently doing.

Mrs Spelman: Absolutely, but, as you know, this is a negotiation.

Q236 Dan Rogerson: If yes then, as it is in your response there, the criticism from farmers, who are over our shoulders here putting questions to you, is about competitiveness. If other farmers elsewhere in the EU are not having that part of their payment taken away in terms of modulation from Pillar 1, that affects their competitiveness because there is more payment disappearing from Pillar 1 for our farmers. How do you respond to that?

Mrs Spelman: Perhaps the others would like to come in, but of course the payments for market orientation and competitiveness are through Pillar 2. You have to secure the funds for Pillar 2 if you are going to support innovative measures for competition and market orientation. I think they have a motivation in helping us achieve that. That has been part of our strategy. Do you want to come in on that, Arik?

Arik Dondi: Only to say that competitiveness is something that we try to promote through Pillar 2.

Q237 Dan Rogerson: I am sure, but you have the objective of increasing agricultural exports from the UK.

Mrs Spelman: Yes.

Dan Rogerson: There is the argument that this is an unlevel playing field because more of the payment is going from our farmers than from others'.

Mrs Spelman: The competitiveness measures under Pillar 2 help farmers increase production and help them to be more market orientated and take advantage of export opportunities. Without those measures in place under Pillar 2, those are resources they would not otherwise have. I think it is important to try to fight for those resources to be available. That has been what is behind our achievements so far to increase the amount that we can move from one Pillar to the other. We are not alone in seeking some flexibility; there are other Member States.

17 January 2012 Rt Hon Caroline Spelman MP, Martin Nesbit and Arik Dondi

Q238 Dan Rogerson: Finally on this, do you think there is yet more of a battle to convince farmers of how the money is used? If I talk to farmers, they will talk about the stewardship schemes. They might have in the past been a bit hesitant to join higher-level schemes: they were worried about the complexity and so on, and the amount of effort that was involved in those applications. I think that has improved. Despite all the teething troubles and birth pangs of the system for the main Single Farm Payment, we are getting to a place where farmers at least understand what they are getting and why they are getting it. Where I do get complaints, though, is where we lose all this money in modulation. What are we getting for it? Where is it coming back? Undoubtedly, there is some good work being done, but clearly I think there needs to be more done to get that across to farmers. Would you agree?

Mrs Spelman: Yes, I would agree with that. I think we are being helped by the articulation clearly by industry leaders of the importance they attach to stewardship schemes, increasing the uptake of those schemes, and increasing the uptake of measures that help farmers produce their competitiveness and their market orientation, and sharing our vision that there is a world out there that needs feeding, which the UK can play its part in, particularly in emerging markets. I think that it is improving all the while, but it never hurts to re-emphasise what the benefits are of having some resource for competitiveness and market orientation. In that regard, I welcome the Commission's proposals for improved innovation, because I think that, again, part of making the whole industry more competitive, more market orientated, is encouraging it to be more innovative. There are resources in the proposals for that.

Q239 Dan Rogerson: But we are going to have to do it out of 10% rather than 19%.

Mrs Spelman: At the moment. This is a negotiation—the early stages of a negotiation.

Q240 Dan Rogerson: Would you like the flexibility to go higher?

Mrs Spelman: I would like greater flexibility; I think flexibility is to our advantage.

Q241 Neil Parish: Carrying on from Mr Rogerson's question, the simple answer is, if we are using 18% or 19% modulation at the moment to pay for our higher and entry level schemes, how are we going to fund the gap between 10% and the virtually 20% I think it is now?

Mrs Spelman: I do not think it is as high as 18%. As I say, this is a negotiation, so the proposals have already come up from 5% to 10%, and there is a long way to go on this one.

Q242 Neil Parish: It is certainly quite a way over 10%. I think it is 17% or 18%. Do you have the figures?

Martin Nesbit: I do not have the figures in front of me at the moment. One of the things that clearly will be considered in these negotiations is the allocation of funding under Pillar 2, and a more objective allocation

of funding under Pillar 2 would lead to the UK having more money available for Pillar 2 schemes.

Mrs Spelman: That would help us with your problem. The UK got a very poor settlement in 2005, and essentially that device of modulation was to correct the poor outcome of that CAP reform negotiation. We sincerely hope that, by calling for a stronger Pillar 2, we can do better than that, and that would help resolve the problem you are describing.

Q243 Chair: Can you give us a heads-up as to when you are going to know what the allocation is?

Mrs Spelman: I would love to know, but the Commission will not tell us. There is quite a little frustration amongst Members.

Q244 Chair: Returning to Mr Eustice's point, the general understanding is that there is going to be a great deal of progress made under the Danish Presidency. Then under the Cypriot Presidency—

Mrs Spelman: Whose understanding?

Q245 Chair: Are you saying today that there will be decisions taken under the Irish Presidency for sure, and that includes the three-month period of common position?

Mrs Spelman: The Danes know that they are stuck with the problem that the French are not in a position to make significant progress until their election has taken place in May. That leaves the Danes with one month of their Presidency. They are hoping to make progress on greening and some of the other issues. The Irish are hopeful of getting the deal on their Presidency; everyone who has the Presidency wants the kudos of getting the deal. It could be under the Cypriot Presidency. I cannot tell you when it will be, sorry. What Ministers of Agriculture have said to the Commission is we want the Pillar 1 and 2 allocations. I think the original plan had been to give Pillar 1 but not Pillar 2 until later. Well, it is a package. As you would expect, I am part of the unanimous call for those allocations to be made known together.

Q246 Chair: There would still have to be the common position statutory period, and that will kick in presumably at the end of the 18-month period, or at what stage would you expect that to kick in, Mr Nesbit?

Martin Nesbit: Can I make some wild speculations about the timetable?

Chair: Yes. We are not going to hold you to account, but it would be helpful to know.

Martin Nesbit: The European Parliament is obviously thinking about its timetable for adopting its first reading opinion. It looks likely that will not be until the second half of this year. There is also a debate within the European Parliament about whether it should adopt an opinion in advance of the Heads of State and Government agreeing on the multi-annual financial framework, or whether it should wait until that clarification of the overall budget numbers and then decide. One option is that they would adopt a position in advance but say that it is dependent on the level of budgetary resources that the Commission has suggested in its draft multi-annual financial

17 January 2012 Rt Hon Caroline Spelman MP, Martin Nesbit and Arik Dondi

framework. At some point, possibly the second half of this year, we will have a first reading opinion from the European Parliament. I would then expect quite rapid progress towards a common position in Agriculture Council because, of course, there will have been discussion in parallel. Then the process of co-decision kicks in.

Mrs Spelman: This is where we started with Mr Gardiner's question about whether we are working with other European Member States. I think it is fair to say in front of Mr Nesbit that he has already started working very hard to help the Cypriots with their Presidency. A lot could be achieved under the Cypriot Presidency, but you need the support of other Member States to create the right circumstances in which that can occur. We have very good bilateral relations. It has involved quite a significant amount of time travelling to and from Cyprus.

Martin Nesbit: Do not underestimate the technical skill and ability of the Cypriot agriculture ministry. They have some very good people there.

Chair: I was not; we are simply in new territory, with it being the first ever. Trans-European networks and others have been very different; it was just to give us an idea.

Q247 Neil Parish: I want to go back to the fact that we do not think that this proposal is going to be any form of simplification. In fact, we think it is going to be a complication. Now we have to look at the Rural Payments Agency and their ability to administer yet another policy. Can I be quite blunt and say that we are not entirely convinced, even after six or seven years, how good they are at administering the complex policy set up by the last Government? Where are we on this? Are you confident that, one, they will have the resources, and, two, they will have the ability to be able to deliver a new policy? What we do not want is the huge debacle that we had for years last time.

Mrs Spelman: That was a very unhappy chapter for the last Government, and I think everyone in this room should not underestimate the difficulty of unscrambling the problems. However, you would expect to hear that, in the interests of using tight resources prudently, we have very carefully allocated moneys to the RPA for the future options, which in any circumstances we would have to invest to be sure of the ongoing ability to pay farmers on a regular basis what they are due. The difficulty is not knowing in advance whether we will definitely have an area-based payment system, but I think it is pretty clear now that we will, which is actually helpful to efforts to try to get that system working well. In fixing the problems at the RPA, we have to be very, very careful to spend additional resources on the features we are definitely going to need in the future.

Q248 Neil Parish: The UK coordinating body has particular concerns about the crop diversification, because they are going to have to look at all the farms and whether they have the grassland and whether they have the different crops. Then we were talking about the ecological focus areas, and at least 7% of that has to be there. The administration costs of this could be

enormous, complicated, and previous experience of the RPA is that they have not got a hope in hell—excuse my language—of actually delivering it.

Mrs Spelman: We should not underestimate the fact that, although it was a very painful experience for the United Kingdom to go ahead of the pack and establish an area-based payments system, it was for a very good reason. The motivation was absolutely right: to make sure that the people actually doing the farming got the money. That was the right motivation to have. The good news is, compared with all the other Member States who have to transition to area-based payments, we have done a huge amount of the work: the mapping and the preparation for the next round. The one that really worries me, Mr Parish, is the definition of an active farmer. We have explained to Commissioner Ciolos that he has no idea how complicated it would be to mesh the data from Her Majesty's Revenue & Customs on all the individual funding streams that a farmer already has, in order to establish what percentage of his income comes from farming, with an area-based payments system. Quite frankly I do not think the Commission has thought that through either, nor the anomalies such as the National Trust, which is a huge landowner with very diverse funding streams. It might fall foul of the definition of being an active farmer. That is what the negotiations are about. They are about pointing out to the Commission the practical problems that would be presented by the proposals as they stand, and ameliorating those as far as possible, so those problems do not present in the outcome.

Q249 Neil Parish: Do you feel other Member States also believe that this is going to add a huge amount of complexity?

Mrs Spelman: "Active farmer" produces as much of a hubbub of discontent as the greening does at the moment. There is unanimity on simplification. There is a lot of support for measures for younger farmers. There is support in principle for greening, but no broad consensus. There is a lot of concern about the complexity of the active farmer definition. These are early days, but that is where it stacks up.

Q250 Amber Rudd: In terms of reducing complexity locally, one of the things that the Government instituted was the Richard Macdonald review, which of course we and farmers were hoping was going to have some timetable for implementation. Could you just give us an update?

Mrs Spelman: You will have to watch this space. Imminently, you will hear the Minister of State make an announcement.

Q251 Chair: Could we have an indication of time?

Mrs Spelman: Imminently.

Q252 Chair: This month, next month?

Neil Parish: How imminent is imminent?

Mrs Spelman: Within a month.

Neil Parish: Within a month.

Mrs Spelman: I cannot do the exact sums, but approximately a month.

Chair: Approximately a month?

17 January 2012 Rt Hon Caroline Spelman MP, Martin Nesbit and Arik Dondi

Mrs Spelman: Yes.

Barry Gardiner: I am glad you said what you said about active farmers, because it does seem an absolute nonsense, this 5%. There may be certain farmers who have a lot of income from elsewhere historically, hereditarily even, who spend 99% of their time doing nothing but farming. I am glad that you are on top of that one. I am worried about what you said about young farmers and small farmers—not height-challenged farmers. What I am concerned about here is that the definition you say is getting a lot of traction around Europe is for under 40 years of age. Surely one wants to attract new entrants into farming, but to say that they have to be under 40 years of age—

Mrs Spelman: I have not said that.

Q253 Barry Gardiner: No, but that is the proposal as it is at the moment, which you said there was a lot of traction for and that the UK is agreeing with.

Mrs Spelman: There is for the principle, but there is a lot of concern about the prescription. Everyone agrees that we need to attract new entrants into farming and that young farmers find it difficult to get into farming. I do not think there is any dispute about either of those statements. The prescription the Commission has—this has nothing to do with greening now; it is the wider context—is not receiving the broad consensus that the Commission would like. There is a lot of work to do on that yet. We have not actually formally discussed that.

Q254 Barry Gardiner: I take your point about getting the mechanism right; obviously that is critical. But the definition, it seems to me, will fall foul of our age discrimination legislation. It would be very interesting to know what legal rulings the UK has taken on that issue.

Mrs Spelman: The line that we are taking on young farmers is that we agree with the principle that you want to attract more young farmers.

Q255 Barry Gardiner: Can we talk about new entrants? I think that is the principle.

Mrs Spelman: You want to attract new entrants into farming, but precisely because what often deters them is the fiscal and legal landholding regimes, which are not within the competence of the Commission, it should be devolved for a local solution to that challenge. You are not going to solve the problem of bringing new entrants into farming when you have diverse inheritance laws and diverse fiscal regimes regarding inheritance of land. That would be my stance. I am happy to use the language of “new entrants”.

Q256 Barry Gardiner: On a simplified payment scheme for small farmers via a lump sum, it says “irrespective of farm size”. This is insanity, isn’t it?

Mrs Spelman: I would not dare use quite such an extreme word in my negotiating capacity, but I have very serious concerns around that. 2.3 million farms would be brought into the definition that the Commission presently has. It has not been negotiated or discussed yet, but it is something around which we need to have a serious discussion.

Q257 Barry Gardiner: I remember under the Austrian Presidency they got one of their young farmers to come in and talk to Ministers. He explained, very eloquently, that he managed an orchard, which was two or three hectares, and six cows, and he had a wife; how could we possibly expect him to be able to do all of that unless he had the support of these payments?

Chair: I am very anxious to allow in those two remaining colleagues who want speak.

Barry Gardiner: If we were trying to do this sort of pork barrelling in the UK, we would be told that this is a measure that is to be under Pillar 2 and it has to be for rural social purposes. It could never happen in that way, and yet it seems to be gaining traction.

Mrs Spelman: We have not yet in Council had a substantive discussion on small farmers. We need to, and your concerns would be concerns that I share. I will be articulating the UK’s concerns on that once it comes onto the agenda.

Q258 George Eustice: Just coming back to the new entrants, I think it is important because it is a startling figure. Something like 70% of all farmers are over 60. Have you done anything to appraise the Welsh Government’s scheme on this? They have a new entrants support scheme.

Mrs Spelman: Yes.

George Eustice: Also I know in Cornwall they piloted something called the Fresh Start scheme.

Mrs Spelman: Both the Welsh and Scottish Governments. And as I said earlier, the deterrence to new entrants is often to do with the inheritance laws or the fiscal regime of the country that makes it particularly difficult for new members to come in. For example, in Scotland one of the problems is it is fiscally more interesting for an aged landholder to hang on to the land than to subcontract to a tenant when they lose out under a fiscal measure. There are things I believe that we could do domestically, and should do, to try to encourage new entrants into farming. It is not a unique problem that we face. Right across Europe the age profile of the industry is increasing. Given the challenges of food security and climate change, it should be a subject of concern. We certainly can do certain things domestically, and we need to look closely at what is proposed under CAP reform to operate at an EU-wide level to see whether it will help us in our endeavour to encourage new entrants into farming.

Q259 George Eustice: Do you think the answer is to perhaps encourage share farm agreements?

Mrs Spelman: I do not want to be that specific. As I say, the discussion paper is out there on our website for everybody to put their own views forward as to what, in their view, from their experience in the nation they live in in the United Kingdom, would help bring new entrants into farming, because that is what we would like to see.

Q260 Chair: Bringing you back to my earlier question about tenant farmers, how will the definition of an active farmer affect tenants and landowners in

17 January 2012 Rt Hon Caroline Spelman MP, Martin Nesbit and Arik Dondi

this country? Would you be minded to press for a proposed definition of an active farmer making clear whether tenants or landowners should receive Pillar 1 direct payments? There is a particular background to that question, of which you might be fully aware.

Mrs Spelman: The definition of active farmer ought to help the tenant farmers because the outcome we are after is paying the person who actively manages the land, which is a tenant. That ought to help the tenant farmers who may feel disadvantaged with the way things are at present or, indeed, the way things are proposed at present, until such time as the proposals are ameliorated.

Q261 Thomas Docherty: Secretary of State, you mentioned in passing earlier the discussions you had had with devolved Administrations. Can I press you briefly to set out in a little detail the nature of those discussions and how you will ensure that the interests of all four nations are heard in Europe?

Mrs Spelman: I think I have explained to the Select Committee before that, when the coalition Government was formed, we agreed to the Respect Agenda, which defines the relationship between us and the devolved Administrations. It is of particular interest to Defra, because we probably have more interaction than any other Government Department. Systematically, at Council meetings, in my case two meetings a month—Environment Council and Agriculture Council—I extend an invitation to the Ministers in the devolved Administrations to attend. In most cases they do. We meet together before the Council meeting usually to discuss what is coming up. They have ample opportunity to brief me and make sure that I cover all the points that they want to cover in any specific Council meeting. In addition to that, several times a year we have either bilateral meetings where I go to them—I was in the Scottish Parliament last Thursday and met with Richard Lochhead—or indeed they come to London. I think it is important that the Respect Agenda means that we travel to each other in both directions.

Once the October Commission proposal was out, we had a formal meeting of all devolved Ministers at Defra to help prepare the UK response to those formal proposals before Council had its first meeting on those proposals. I think it is fair to repeat to the Committee what the devolved Ministers said at the joint ministerial committee on the devolveds, which was that their experience of their interaction with Defra was better than with any other Government Department, partly because of the frequency with which we meet but also the efforts to which we go to make sure that they are involved in the decisions that we make. Thank you for giving me the opportunity to set that out.

Q262 Chair: Thank you very much for being so generous. There has been quite an emphasis in some of your replies, Secretary of State, on this being an early stage of negotiations or a matter of negotiation. If we are to invite you back, which we very much would like to do in a year's time, how much movement do you think there will have been in both your negotiating position and agreement amongst the 27?

Mrs Spelman: I would expect a lot of movement. I think that the pivotal point is the June after the French Presidential election; I think we will really start to see some movement at that point. I would expect the Danes to make quite a lot of progress on the greening agenda. I am more than willing to meet again at a time when significant progress has been made and share with the Select Committee where I think we are at that point, and what else we are still trying to achieve. It is an iterative process. It moves a bit each month. I am confident that, when we meet again, we will have made significant progress.

Chair: Thank you very much indeed to you and your team for being so generous, and being with us this morning.

Mrs Spelman: It is a pleasure.

Chair: Thank you very much indeed.

Mrs Spelman: Thank you.

Written evidence

Written evidence submitted by the Tenant Farmers Association (TFA)

1. INTRODUCTION

1.1 The Tenant Farmers Association (TFA) welcomes the opportunity of providing evidence to the Select Committee as part of its Inquiry into the Common Agricultural Policy (CAP) Reform proposals tabled by the European Commission.

1.2 The TFA takes note of the terms of reference of the Inquiry which focus on the proposed measures to “green” Pillar 1 of the CAP—direct payments. However, it is also noted that the Committee would welcome views on other elements of the CAP proposals. The TFA therefore provides in this written evidence views on both the greening element of Pillar 1 and other aspects of the reform package.

1.3 The TFA is the representative organisation for tenant farmers in England and Wales. As such it is the only organisation dedicated to the tenanted sector in England and Wales and is concerned to ensure that all new and amended policy respects the fact that there are individuals within the farming community who do not own the land that they farm. The TFA therefore seeks to ensure that all new policy takes into account the unique impact it may have on the tenanted sector of agriculture.

1.4 In 2010 the TFA put together a report under the heading “2020 Vision for Agriculture” which looked ahead over the 10 year period from 2010 to 2020 to establish a vision for agriculture from the perspective of its tenanted sector. Part of that publication was dedicated to the CAP and the contents of that section are included as an Annex to this evidence. It is against the benchmarks of the principles set out in the TFA’s 2020 vision that the TFA judges the package of reforms announced by the European Commission.

2. GREENING OF PILLAR ONE

2.1 The TFA notes the European Commission’s desire to extract further environmental benefits from Pillar 1 over and above what is already achieved through Cross-Compliance. However, with the growing consensus on the global challenges which face us in the years which lie ahead, the TFA argues that the European Commission’s thinking is flawed.

2.2 With the world population already standing at seven billion people and likely to rise to nine billion people by the middle of the century, coupled with increasing average demand for calories, the biggest challenge for Europe and the world must be long-term food security. This has to be achieved against a background of concerns about the sustainability of fossil fuels, challenges in relation to access to water and when global, agricultural input and output markets are characterised by strong volatility.

2.3 The European Union must play its part in meeting these challenges together with the rest of the global community. The operation of the Common Agricultural Policy provides the European Union with its most significant opportunity to influence the global response to the challenges which lie ahead by focusing on ensuring sustainable food production within outcome driven standards for environmental impact, animal welfare and food quality.

2.4 The TFA is concerned that the proposed elements of the greening package proposed for Pillar 1 represent an overly process driven approach in comparison to the outcome driven approach referred to above. The environmental and bio-diversity needs of individual Member States will vary enormously and the very prescriptive nature of what is required within the greening element of Pillar 1 will not do justice to this wide variation of concern. The Cross-Compliance regime, appropriately amended, provides the necessary basis of ensuring that all farms within the EU meet basic legislative, environmental and animal welfare standards. Whilst these standards are referred to as “basic” they are very often standards which are in excess of the requirements faced by producers in non-EU countries.

2.5 The correct setting for the issues of concern articulated by the intentions behind the proposals for greening Pillar 1 should be Pillar 2. Member States should have the flexibility to look at their individual needs for enhanced environmental management and to ensure that such management is promoted through a properly functioning programme delivered through Pillar 2. In view of this the TFA would argue that the greening proposals for Pillar 1 should be deleted from the legal texts and in their place Member States should be required to consider what they believe to be appropriate, enhanced environmental outcomes and the best means of achieving those outcomes in the circumstances which prevail in each Member State.

2.6 There is also a specific concern for tenant farmers. It is an obvious point that tenant farmers are required to pay a rent to their landlords for every acre of land which they hold within their tenancy agreements. Leaving land fallow in some form of ecological set-aside, as envisaged by the current proposals from the Commission, would mean that tenants could not profit from the land upon which they will be required to pay rent. This simply demonstrates the lack of clear thinking on this element of the reform package and underlines why it needs to be fundamentally re-addressed.

2.7 European producers should not be restricted in using their competitive advantage to best affect to meet the challenges which lie ahead. Of course it is important to ensure that environmental goals and objectives are met but these are properly the domain of Pillar 2 and not Pillar 1.

3. ENTITLEMENT ISSUES

3.1 The TFA agrees that there should continue to be a system for the delivery of direct payments which requires the occupier of land to hold sufficient entitlements to claim the payment by matching entitlements to land. The TFA does not believe it is appropriate to have a system which is based only on occupation as the benefits of such a system could be easily lost in terms of increases in land prices and more particularly land rents. Whilst there will still be an element of land price inflation under an entitlement based approach it will be much lower in comparison to the inflation that would occur with a land only system.

3.2 However, the TFA is concerned about the Commission's proposal for the allocation for entitlements. Whilst it is noted that only those individuals who have made a valid claim on at least one hectare of land in 2011 will be eligible to make an application in 2014, to choose a forward date upon which the allocation of new entitlements will be based will be a recipe for disaster. Having experienced some land banking prior to the 2003 CAP reforms and more particularly between 2003 and the introduction of the Single Payment Scheme in 2005, we are fully expecting many private landowners to be reserving their positions with regard to the reforms planned for 2014. There will be many individuals who will have met the qualification criteria of having made a valid claim in 2011 who will be able to hold back land from the market place, which would otherwise have been let out, to ensure that they can maximise their claims for new entitlements in 2014.

3.3 To avoid such speculation the TFA would prefer a system which used the entitlement holdings of the existing arrangements to inform the entitlement holdings for the new arrangements. The TFA does not see the benefit of losing the current entitlement system completely. The TFA has proposed that the allocation of new entitlements should be based on the number of entitlements held by individuals in 2011 subject to a maximum of the number of hectares claimed in 2014, whichever is the smaller.

3.4 In order to deal with the period of time that will have elapsed between 2011 and 2014 consenting parties should have the flexibility to affirm specific and unequivocal agreements which stipulate clearly that the eligibility to claim entitlements in 2014 based on the 2011 application has been transferred between the parties for fair value. These provisions should allow individuals to transfer the eligibility for claiming entitlements as a whole or in smaller entitlement parcels. There will also need to be provisions to allow Member States to correct injustices which may have occurred prior to 2011 where individuals have been forced to relinquish entitlements for little or no consideration in comparison to their value. This may have occurred in arrangements involving tenants on short duration agreements which have been brought to a conclusion prior to 2011.

4. ACTIVE FARMERS

4.1 The TFA commends the European Commission both in its desire to ensure that only active farmers are eligible to receive entitlements and associated direct payments and in attempting to reach a workable definition for active farmers. The TFA has been concerned about individuals who are not actively managing land themselves but who are still able to access Pillar 1 and Pillar 2 schemes even where they are allowing other individuals to actively use the land upon which they are making their claims. The TFA has been a vocal advocate for the inclusion of a viable definition for active farmers in the next round of reform.

4.2 However, the TFA does not believe that the European Commission has, as yet, produced a workable solution. It appears from the draft legal texts that the Commission is attempting to hit two particular targets. The first is to ensure that only land which is being actively farmed is entitled to be used for the claiming of support, and secondly to deny access to support to those individuals for whom farming is just a small component of their wider economic interests.

4.3 The TFA believes that it is right that the European Commission should define eligible agricultural activities in the way it has done within Article 4(c) of the draft regulations. However, rather than attempting to exclude individuals for whom agriculture represents a small part of their economic activity, the TFA believes that the Commission should instead be excluding those individuals who cannot demonstrate that it is they in particular who are carrying out the eligible activities on the land upon which they are basing their claims.

4.4 Instead, the TFA believes that an active farmer should be defined as the person in practical occupation of the land being used for making the claim, who is also in close management control of the activities on that land and bearing the entrepreneurial risk from those activities. All other individuals should be excluded and this should apply to schemes under both Pillar 1 and Pillar 2. The TFA believes that this goes to the heart of ensuring that the right people are getting the appropriate level of support.

4.5 In order to minimise the regulatory burden involved in applying this test, the TFA would see the active farmer test operating on a self-assessed (declaration) basis. Applicants would be required to ensure that they were able to meet the criteria for being defined as an active farmer and to sign a declaration to that effect when making their applications. Other than that, at the point of application, applicants would not have to submit documents to support their declaration of active farmer status. However, Member States should be then required to make compliance with the active farmer rules a point upon which applicants are inspected in the normal

course of events. Only upon inspection would applicants be required to produce evidence which substantiated the declarations which they have made.

5. THE MOVE TO A FLAT RATE PAYMENT

5.1 The TFA recognises the desire of the European Commission to move all Member States towards Regional Average Payments where the regions are based on nationally selected, objective criteria.

5.2 The TFA does not oppose this move but would ask the European Commission to ensure that for those still using an historic basis (for example Wales) a reasonable length of transition is allowed. The TFA believes that to require 40% of the payment in year one to be based on the Regional Average Payment to be a step too far. The European Commission will be aware that England employed a seven-year transition to a Regional Average Payment. Although the scheme presented particular problems for implementation in England, the TFA would argue that regions who are still using the historic basis should be allowed at least a similar period over which to move towards a regional average basis as previously allowed in England.

5.3 The TFA notes the aspiration of the Commission to move towards a flat rate payment across the whole of the EU. However, the TFA would not endorse that approach. There remains considerable variation within each Member State to necessitate the continuance of the identification of specific regions at a sub-Member State level. The TFA does not therefore believe it is appropriate to have a standard rate across an individual Member State let alone across the whole of the European Union. Whilst the TFA accepts that the concept of a flat rate payment across the EU is only an aspiration at this stage, it is not seen as a reasonable, achievable or sustainable approach and reference to it should be removed from the proposals.

6. PAYMENT CAPS

6.1 The TFA is neither philosophically opposed to or in favour of payment caps. However, it is opposed to the current proposals as tabled by the European Commission. The TFA's opposition is based on three elements.

- (a) Firstly, the level at which reductions in payments begin to take effect is much too low. At an initial threshold of €150,000 too many farm businesses within the United Kingdom could be hit with payment reductions in comparison with farm businesses in other Member States. If a payment cap is deemed to be necessary it should be set at a much higher level.
- (b) Secondly, the steps whereby progressive reductions are made appear to be arbitrary. Again, if a cap is deemed to be necessary then it would be better to set a single rate at a reasonably high level.
- (c) Thirdly, whilst the TFA welcomes the allowance for individuals to claim higher levels of payment before reduction through adding employment costs, there will be many farm businesses which will use labour in ways other than what would be defined as straight employment (for example family labour, contract labour or volunteer labour) the value for which the applicant cannot include which seems unfair. Again, if a cap is deemed to be necessary and labour costs are to be taken into consideration then all labour should be included without exception. There are also some concerns about how this plays out in terms of extra complexity and the ability of payment agencies to cope with the level of scrutiny that would be required.

7. YOUNG FARMERS SCHEME

7.1 The TFA welcomes the European Commission's proposals to provide enhanced levels of payment to young farmers who have started their farming career within five years of 2014. However, the TFA would suggest that rather than limiting the scheme to young farmers it should be broadened to include all new entrants.

8. SMALL FARMERS SCHEME

8.1 The TFA supports the notion of a Small Farmers Scheme but considers that it would be appropriate to allow Member States to set their own limits to fit in with the very different farm structures that operate across the whole of the EU in different Member States. However, the TFA does not believe that those who are participating in the Small Farmers Scheme should be excluded from the active farmer eligibility tests. Bearing in mind the changes which the TFA has recommended to the active farmer tests as noted above, these should apply regardless of whether the applicant is taking part in the full scheme or the Small Farmer Scheme.

9. SPECIFIC TENANCY ISSUES

9.1 The operation of the Single Payment Scheme between 2005 and the present day has provided an important insight into the impact that policy can have on the landlord/tenant system. This experience should be used to inform the policy framework for the support arrangements in place from 2014 onwards. The TFA has been particularly concerned by tenancy agreements drawn up just prior to and over the period of the Single Payment Scheme which require tenant farmers to pass payment entitlement to landlords at the end of those tenancy agreements for little compensation in comparison to their value. The TFA believes that such practices should be outlawed in the new arrangements post 2014.

9.2 There have also been other arrangements where landlords have sought to capitalise on the value of entitlements by expressing rental formulas using the Single Payment Scheme as a basis for those formulas. Again, the TFA believes that such arrangements should be outlawed. Both these situations represent a direct challenge to the objective of ensuring that the CAP is providing a fair standard of living to primary producers and must therefore be specifically addressed. That is not to say that the operation of the direct payment scheme should not be considered as a relevant factor in the rent review process. The TFA would only seek to outlaw those practices which seek to use rental formulas specifically related to the tenant's ability to claim direct payments.

Annex

SECTION 7 OF THE TFA'S 2020 VISION FOR AGRICULTURE FROM THE PERSPECTIVE OF THE TENANTED SECTOR OF AGRICULTURE

2020 VISION FOR THE COMMON AGRICULTURAL POLICY

By 2020 the Common Agricultural Policy should retain a focus for ensuring that it is supporting the livelihoods of working farmers whilst providing a framework for food and environmental security.

7.1 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 line that the CAP should be abolished because of its inefficiencies.

7.2 The TFA believes that there are five principal areas of market failure that any agricultural policy should seek to address:

- 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. As incomes rise consumers are also noted to trade up to consume more processed, pre prepared and restaurant food where the value added goes to parties beyond the farm gate.
- 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 has, in the past, 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 Dairy Co¹ 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 in a very vulnerable position and even with the introduction of a food industry ombudsman these problems are likely to carry on for some time into the future.
- 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 has never been any indication provided by previous Governments as to when we should 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.
- 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 often do not have to meet the same standards.
- 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.

¹ Dairy Supply Chain Margins 2007, Dairy Co.

7.3 The TFA offers the following seven principles for future reform of the CAP.

Direct payments through Pillar 1 must continue to form the principal basis of support through the CAP

Direct payments through Pillar 1 continue to be essential to ensure that farmers receive a fair standard of living. It is clear that the marketplace is unable to deliver sufficient profit to the farming community in order to provide for sufficient drawings and reinvestment. Whilst the introduction of a food industry ombudsman in the UK and potentially across the EU will assist, it cannot be seen as a “silver bullet”. Recent history has shown clearly that there is a built-in resistance to food price inflation to the extent that it is impossible to ever see a situation where prices in the market place will be sufficient to provide an adequate, sustainable return to primary producers.

The support available through Pillar 1 also recognises the higher environmental and animal welfare standards to which food is produced within the EU in comparison to those countries outside the EU. These come at a cost to the farming industry. We cannot expect to have these standards maintained and at the same time withdraw the support available through Pillar 1. The extra costs faced by the domestic, farming industry are not recoverable from the market place and therefore must be recoverable through the public purse.

Measures must be put in place to ensure that support payments do not become capitalised into land values

A major concern for the tenanted sector is the extent to which support payments available through Pillar 1 are becoming capitalised into land values through rent. It is also of concern that land owners, even where they have tenant farmers, are increasingly able to access funding through Pillar 1 by passing on scheme conditions through contracts of tenancy. We do not believe that this is in the spirit of the CAP nor is it in keeping with the principles of the CAP to provide support to working farmers.

The TFA believes that European rules should make it clear that support payments through Pillar 1 can only be paid to active farmers. Whilst these rules exist to some extent they are open to significant abuse particularly where large landowners actively farm a small proportion of their land holding in hand and rent the remainder out. In this way they are able to acquire and control entitlements over a larger area of land than they are actively farming. Support payments should not be available to individuals owning land which is being farmed by another individual either as a result of direct claims or through contractual clauses in tenancy agreements requiring tenants to forgo payments which are reserved and claimed by the landlord. Rules must also be put in place to prevent landlords from using clauses in tenancy agreements to claim ownership of single payment scheme (or equivalent) entitlements at the end of the tenant’s period of occupation.

Rates of modulation should be uniform across the European Union

The TFA is concerned that farmers in other Member States have a competitive advantage in comparison to farmers in the UK given that they face significantly lower levels of modulation. The TFA appreciates that this is as a result of the UK’s low budget share of funding for agri-environment/Pillar 2 schemes. However, it is unfair that there should be differing levels of modulation across the EU and they should be standardised at one rate so that there is no competitive distortion between Member States.

All Member States should be required to have the same level of decoupling

As with rates of modulation, it is unfair that some Member States of the European Union are allowed to continue to provide direct, production related support in certain sectors whereas in other Member States, like the UK, the support has been decoupled. This provides an unfair competitive advantage for producers in those Member States continuing to provide coupled support and must be brought to an end at the next reform.

Domestic producers should be protected from imports from non-EU countries using lower environmental and animal welfare standards

It is wrong that domestic producers should be required to farm to high animal welfare and environmental standards when imports from other countries are allowed access to the domestic market even though they are produced with lower standards. It is of significant concern that domestic producers are priced out of the market by lower quality products and as a result we simply move to overseas the environmental and animal welfare practices which would not be tolerated at home. We must be allowed to protect our high standards through the use of trade restrictions to block products produced using lower standards.

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, 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.

Market management instruments should be introduced to assist the industry in managing volatility

A consequence of the move away from coupled support has been a major increase in the volatility of returns to primary producers. The TFA is concerned that the considerable increase in volatility is having a negative impact on our long term food security. Despite its many shortcomings, the Common Agricultural Policy of the past did at least provide a degree of domestic stability to producers which we are now seeing reverse as the market protection the CAP afforded is removed. Whilst the volatility that is now being experienced is leading to the development of ideas for new hedge funds and futures markets, the TFA does not believe that this is a stable framework within which primary producers and their landlords can be expected to invest. The TFA believes that policy solutions need to be developed to minimise the impact of volatility on long term decision making.

The TFA believes that the CAP should create a risk management system which provides an element of insurance against both commodity and input price shocks to smooth out the peaks and troughs in both. We believe that this could be delivered through Pillar 1.

Measures should be put in place to protect the access of tenant farmers into Pillar 2 schemes

The TFA has become increasingly concerned about the extent to which land owners have been able to access agri-environment schemes even where they have tenant farmers farming their land. The rules on “management control” allow land owners to pass on scheme conditions through contracts of tenancy whilst taking the full benefit of the scheme themselves. As with access to Pillar 1 funding, we do not believe that this is in the spirit of the schemes created nor in keeping with the principles of the CAP which are aimed at providing compensatory payments to working farmers for the income foregone in participating in Pillar 2 schemes. These issues must be addressed in any future CAP reform through further European rules to protect the position of tenant farmers. The EU must ensure through an adequate audit trail that the intended beneficiaries of its policies are actually benefiting as opposed to the benefit being siphoned off by others.

November 2011

Written evidence submitted by the Country Land and Business Association (CLA)

SUMMARY

1. This reform is a rather unprincipled set of *ad hoc* actions to “legitimise” the CAP. A great deal more work is required to improve them and make them workable. As with other membership organisations the CLA is busy explaining the proposals to members exploring what they mean and assembling ideas for improving them. The suggestions made here are preliminary ideas and not definitive. We are still discussing them inside the CLA and with partner organisations.

2. The reforms aim to redistribute and “green” the Pillar 1 direct payments and to offer the possibility of giving further help to young farmers/new entrants, farmers in less favoured areas, small farmers as well as leaving some payment coupled.

3. There are four structural points with which we disagree:

- (a) the definition of agricultural activity is too narrow, it should include reference to environmental management especially as this is a centre point of the reform;
- (b) the restriction that those establishing new entitlements in 2014 must have activated at least one hectare in 2011 is unnecessary and unreasonable to those who had made arrangement to review land occupancy in 2012;
- (c) the proposed definition of active farmers is highly discriminatory and practically inoperable, it will exclude many businesses which have followed the advice to diversify their farming businesses exploiting their assets; and
- (d) the payment cutting and capping proposal is wrong in principle, will have perverse economic effects, signalling farm enlargement is undesirable and reducing labour productivity, and it will introduce enormous complication for the sake of affecting relatively few applicants.

4. The proposals on mandatory greening threaten to completely disrupt the enormous efforts the UK has put into Pillar 2 agri-environment schemes. We suggest ways this could be overcome by building on Article 29.4 of the proposals which introduce the concept of equivalence to Mandatory Greening. If organic farming is deemed to be equivalent, then why not well-constructed agri-environment schemes, and indeed other certified farming systems such as Integrated Farming (LEAF in the UK)?

5. These ideas require further thought and teasing out. We welcome the Select Committee’s contribution to these discussions.

GENERAL POINTS ON THE CAP REFORM

6. The CLA represents 35,000 active rural land managers and rural businesses who occupy in total about half the rural land area of England and Wales. These proposals therefore have very great impact on the businesses of our members. We therefore follow the CAP reforms very closely, and are pleased to have this opportunity to provide written evidence to the EFRA Committee.

7. The Ciolos proposals cannot be described as a far-seeing and principled reform to the CAP. Indeed they can be described as an *ad hoc* series of compromise measures which seem to be as much to do with generating public relations signals about the CAP as really changing the realities on the ground. In fairness to the Commission, the context of this reform does not lend itself to a highly principled potentially long-lasting reform. The facts that: in contrast to the early 1990s and in 2003, now there is no agreement on the worst problems of the current CAP and at the same time Europe is in deep financial crisis; we have experienced two recent commodity market spikes; the consequential volatile farming incomes; combined with the enlargement of the EU to 27 Member States (MS), and co-decision with the European Parliament all conspire to make this a highly pragmatic rather than principled reform.

8. The Commission cannot be faulted for the breadth and length of the consultation they undertook last year before they produced their consultation document in November 2010. The most conclusive result of that consultation was that there was only the tiniest support for their Option 3 which has been styled as the UK/Swedish (government) option of abandoning Pillar 1 and concentrating the CAP on Pillar 2 measures. The problem is that the chosen middle-way, the so-called “Integration” Option 2 was very broadly specified.

9. The actions of the European Parliament did not sharpen or narrow down the real debate or provide any radical new ideas. Whilst, the report of Albert Dess MEP in February 2011 bravely tried to marry the Commission’s Pillar 1 greening to the conventional wisdom that targeted environment schemes are best done in Pillar 2, it was not well articulated, so it was widely misunderstood, and consequently amended out of sight in the all-things-to-all-men report which finally emerged from the Parliament. This gave the Commission full scope to plough on with its own ideas.

10. The Commission proposals when they were published on 12 October 2011 were therefore no great surprise (beyond a number of small but significant details). Commissioner Ciolos is trying (in his own words) to “legitimise” the CAP by:

- Making it fairer, an aim which it is hard to disagree. However it proposes this by a (rather modest) redistribution of Pillar 1 funds—but worryingly they are silent on the equally needed distribution of Pillar 2 funds which is hugely important to the UK.
- Dealing with what he claims are, unjustified large payments to large businesses, and removing payments to inactive non-farmers. Unfortunately the proposals introduce a contradictory definition of agricultural activity, an unfair requirement to activate payments in 2011 to be eligible to establish the new entitlements in 2014, an unworkable definition of active farmer, and economically and structurally perverse proposals to cut and cap large payments.
- Trying to encourage “agricultural practices beneficial to the climate and environment”. This phrase will no doubt acquire sacred status, it is clearly a good thing to do in seeking to establish more environmentally sustainable agriculture in Europe. Unfortunately the Commission insists that this be done in Pillar 1 through simple, mandatory, generalised, non-contractual, annual actions through three elements of Mandatory Greening. This is the core problem for which we tease out some suggested solutions in paragraphs 28 to 38 below.

The other main elements of the reform are:

- to try to encourage new entrants of youngish farmers (a laudable aim);
- to offer more help to farming in Areas of Natural Constraints² (another laudable aim). It’s a pity that the help offered is a crude top-up payment and not linked to improving productivity of either farming or delivery of other ecosystem services;
- to enable even more recoupling of support to production. This is a retrograde step moving away from market orientation; and
- to simplify payments to a large number of Europe’s very small, and therefore almost certainly, part-time farms. This too is a sensible thing to do, although it offers no little or incentive or assistance for farm enlargement or restructuring. Neither does it address the problem of the equally large number of semi-subsistence farmers in Europe who will get no help from the CAP because they fall beneath the increased minimum requirements—with which we do not disagree.

² This is the replacement concept for what we currently call Less Favoured Areas. ANC’s are intended to be more objectively evidence-based using nine biophysical criteria (soil type, temperature, altitude, slope etc). It suffers the same defect of LFA that it focuses on what these areas are not well suited for (growing agricultural crops) rather than on the environmental services for which they may well have a comparative advantage! Unfortunately the CLA has managed to get no traction for this fundamental rethink of support to Europe’s marginal areas.

11. All this said, and subject to what happens to the proposals as they go through the negotiation mill of co-decision by Council and Parliament, the two big changes for which this reform might come to be remembered are:

- that the scale of the CAP resources explicitly devoted to environmental delivery, ie Greening, which is currently about €2.5 billion per annum,³ and is proposed to grow six-fold to €15 billion⁴; and
- that the bulk of this expansion is through compulsory measures introduced in Pillar 1.

Put this way it might be judged that this is quite a high risk reform, especially as it is being described as an attempt to legitimise the CAP.

12. Based on the CLA concept that the CAP is Europe's policy for achieving Food and Environmental Security, the CLA supports the idea that a significant part of the CAP budget can be justified for the delivery of environmental public goods which can only be provided by farmers (defined widely). We also were prepared to accept the judgement that to move significantly more resources into Pillar 2 was simply not a politically feasible step to take, not least because of the additional national co-financing that would be required. Thus we were not and are not shocked by Greening Pillar 1.

13. However we have always felt that the right way to arrange the delivery of the environmental goods is through multi-annual, voluntary, targeted schemes more akin to Pillar 2 agri-environment schemes than through annual EU wide measures. The stewardship of the environment is a long term concern and needs careful tailoring to suit the agricultural practices as well as the ecology and climate of Europe's incredibly varied rural areas. We urged a less dogmatic approach to the Pillars, and that it was more important to get the delivery structures right. We now turn to the specific questions asked.

Q1: Will the proposal to green direct payments generate significant environmental benefits?

14. First it must be stated that it is truly extraordinary that in the Impact Assessment of these proposals there is, quite properly, a good deal of analysis of how the greening measures will interfere with farming and the consequential effects on farm income, but unforgivably, there is no attempt at all to assess if they will deliver any environmental benefit or to quantify it, especially in relation to the scale of resources proposed.

15. In member states where agri-environmental schemes are rudimentary and where cross compliance is not very demanding either, then provided they are actually implemented, the three Mandatory Greening actions do have the capacity to pull up base environmental standards somewhat over a large number of hectares. If the crop diversification restriction inhibits harmful cereal monocultures in water catchments which are rapidly depleting, as we understand happens in some parts of southern Europe, or if it limits damaging continuous cropping of forage maize in parts of the Continent as we understand is another target, then it may produce environmental benefit. Likewise if the maintenance of permanent pasture prevents in Central and Eastern Europe what happened to much semi-natural grassland in Western Europe in the last half century, that is going under the plough and in so doing emitting a large quantity of CO₂ as well destroying biodiversity, then this could be hailed as an achievement worth having. Similarly if the Environmental Focus Areas mean that more ecosystems on farms survive and are better connected, then this too can provide environmental gain. The measures therefore do have some potential to provide environmental gain. However, these examples do not apply to the UK situation.

16. The overall notion of Mandatory Greening (MG) is to produce small environmental gain over a large area of Europe's agricultural land precisely by requiring all farmers to participate. This is intended to be a small further shift to more sustainable farming—an objective with which it is hard to disagree.

17. Another way of describing MG might be to suggest that the idea is to bring all Member States basic environmental management of farmland up to the standards of the best. Given that the UK considers itself to be at the high performing end of this spectrum amongst the EU27, then it is doubtful that MG itself will produce any noticeable enhancement here. A great deal depends on how MG, especially the maintenance of permanent grassland and the Ecological Focus Area are integrated with environmental stewardship. This is addressed in paragraphs 28 to 38 below.

Q2: What will be the impact of additional greening requirements on food production and the competitiveness of the agricultural industry?

18. The answer to this question depends to a great extent to the answers given to Question 4 below, on how the MG ties in with Environmental Stewardship schemes.

19. Farmer's organisations will no doubt spell out in detail the situations where the crop rotation requirements will require costly changes in present farming practices and structures. Great uncertainty reigns until a "crop" is defined. The main examples of potential difficulty drawn to our attention are block cropping and medium sized livestock holdings.

³ Source: *European Court of Auditors Report* (October 2011).

⁴ This assumes roughly the same scale of resource for agri-environment in Pillar 2, plus 30% of the Pillar 1 Direct Payment ceilings for the EU27 (€42.7 billion x 0.3 = €12.8 billion per annum).

20. Block cropping in arable farming areas offers the possibility of cost-reducing, intelligent use of machinery amongst neighbouring farmers. This may mean that one participant (and claimant's) farm is entirely one crop in any one year, infringing the suggested three crop rule. This practice may well be environmentally benign because normal good agronomic crop rotation is practiced. Therefore to insist that each farm has simultaneously three crops may offer no environmental gain yet significant cost.

21. Livestock farms (with more than three hectares of arable crops) which have been encouraged to practice mixed farming and therefore grow some feed grains for their own use may well only have two "crops", eg feed wheat and temporary grass. They may well also have areas of permanent pasture. Are such farms really to be required to grow very small areas of a "third" crop purely to satisfy crop diversification? Is there any evidence that the biodiversity, soil conditioning or landscape gains will outweigh the costs of this crop grown for the regulations rather than the market?

22. On the face of it the EFA proposals, if clumsily implemented, have most scope to interfere with farming profitability and competitiveness. Of course if a particular farm only has grade 1 and 2 agricultural land and is intelligently and intensively cultivating all of it with high value fruit and vegetable crops, to ask him to manage 7% of such land for EFAs might be a high-cost way of delivering environment service. It would be easy to show that if all the 7% EFA were to mean taking good food-producing land out of cultivation then this would result in a significant cost to farmers, fall in their competitiveness and fall in EU food output which would have to be made up by imports from zones where we have no idea what the environmental cost would be.

23. However in reality farmers will devote their worst, not best, land to EFA. It is a complete unknown how much each farm has. This is not knowable until:

- (a) we get further clarification of the precise definition of "land left fallow, terraces, landscape features, buffer strips and certain afforested areas";
- (b) there are clear decisions on whether the areas taken up by, for example such landscape features as hedgerows, copses, ditches, ponds, banks, grassy tracks, walls and so on, may be counted towards the 7%; and
- (c) we know how areas under the numerous options of the Stewardship schemes in England and Wales are to be treated, do they score as EFA or not?

24. If the answers to these questions are favourable to farming then the impact of EFA on the farming activity, output and costs may be small, particularly on farms already enrolled on Stewardship schemes. If on the other hand it is ruled that the areas in 23(b) are all outside the eligible hectares of the farm and don't count, and if the answer to 23(c) is that EFA must be in addition to any such areas under agri-environment schemes then the impacts, particularly on net incomes, will be large.

Q3: Are the greening proposals consistent with the CAP simplification agenda?

25. There are some simplifications suggested in the whole package of five regulations proposed. There is some proposed simplification of cross compliance (by removing things which should have never been included in the first place). The small farmer scheme will be helpful in several of the new Member States with millions of such farmers. The suggested structure of the Rural Development Regulation includes some useful and welcome simplification. However the bulk of the proposals for the Direct Payments system are complications not simplifications.

26. In many ways it was always delusional to suggest that we could better target the *Single Payment System* to achieve environmental, social and distributional objectives, adding climate change and innovation to the list of things the CAP should assist, and expect this to be a simpler policy. If we set complex policy objectives and we want the measures to be effective across the astonishing heterogeneity of the European rural space, then it is a bit optimistic to suggest this can be achieved by simple measures. The proposals shift the Single Payment scheme into a nested array of six separate elements (Basic, Mandatory Greening, Young farmers, Areas of Natural Handicap, Coupled payments and small farmers). How could this possibly be simpler? The important thing with any policy is that it cost-effectively achieves legitimate stated objectives—as ever, the objectives of most of these six elements remain stunningly opaque.

27. We single out the definition of Active Farmer (AF) and operation of Payment Cutting and Capping (PCC) to be the greatest departures from rational policy—they will cause immense administrative work for affected farmers and for the Payment Agencies for the least policy benefit. Indeed they may result in environmental deterioration as land currently receiving payment is declared ineligible under the definition of AF, and perverse effects on farm restructuring and on labour productivity due to the PCC proposal.

Q4: How can greening pillar 1 be made coherent with agri-environment schemes, and our recommendations for improving the greening proposals.

28. It is early days in exploring what will be possible to adjust and adapt the Commission's proposals. Having digested the proposals internally, organisations are only now beginning to talk to one another and with Defra and the Commission to explore how they can be made coherent with Pillar 2 agri-environment schemes. The ideas explained below are therefore exploratory and not definitive. We have not yet sufficiently discussed them with Members or other organisations.

29. We would start by suggesting the following three principles. Greening must be done in a way that (a) it does not impair agricultural competitiveness and productivity—indeed it should improve the long term productivity and sustainability of European Farming, (b) it should deliver noticeable environmental outcomes, and (c) it should be done in any way that does not impair or disincentivise the excellent work UK (or any other EU) farmers have already done in building-up some of the best agri-environment schemes in Europe. There are very real dangers that without such principles the Member States, and farmers within those States, who have already gone furthest to positively embrace the delivery of environmental public goods could be most disrupted by the greening proposals.

30. Simply adding three Mandatory Greening obligations and not working through the implications and integration with agri-environment schemes is not good enough. On the face of it the simplest adaptation of the existing regulation to deal with this integration would be to extend the concept of “equivalence to Mandatory Greening” which is embraced in Article 29.4. This says that “Farmers complying with the requirements of” the relevant EU recognised Organic Farming certification “shall be entitled *ipso facto* to the payment referred to in this chapter” (the Mandatory greening payment). If organic farming is considered to be equivalent to mandatory greening, then we see no reason not to make the same allowance for farmers enrolled in suitably defined agri-environment schemes. The same principle could also be applied to other well-defined and certified farming systems such as Integrated Farm Management as developed in the UK under the LEAF scheme.

31. Every Member State is already obliged to have agri-environment schemes in their Rural Development programmes. Indeed they should be devoting at least 25% of their Pillar 2 funds to such schemes. We acknowledge that not all such schemes may lend themselves to the concept of “equivalent to Mandatory Greening”, but where they do, to the satisfaction of the Commission, this should be deemed sufficient for farmers to satisfy the greening requirement.

32. To take an example, we have annexed a list of the 67 options in England’s Entry Level Stewardship scheme which currently has two-thirds of English farm land enrolled. We asked which of these options a reasonable observer would score as “agricultural practices beneficial to the climate and the environment”. Our suggested scoring is that all 67 actions satisfy this. These actions are all deemed by Defra, and approved by the Commission, to be beyond cross compliance. All farmers accepted into ELS must have accumulated sufficient such “agricultural practices”.

33. This approach has three immediate advantages: (a) it requires eligible farmers to take no further mandatory greening actions, (b) it requires no further new checks and controls for the administration beyond the existing normal checking already in place, and (c) rewards rather than penalises those who are already doing the right thing as we require all other farmers to raise their environmental standards.

34. The intention would be that farmers essentially have the choice of satisfying Greening either by adopting the three Mandatory Greening actions, or by “ticking” the I’m in an equivalent agri-environment scheme’ box. We recognise that there are at least two sets of practical and legal issue to clarify even if this proposal is accepted in principle. The first is to square the mix of annual non-contractual mandatory greening and the multi-annual contractual agri-environment agreements. The second is what payments may be made for this greening.

35. This needs a great deal more thought and discussion. It will, no doubt, be argued by some that farmers using the agri-environment equivalence route cannot seem to be paid twice for their greening actions, once from the greening element of the new Direct Payment scheme and then their Pillar 2 agri-environmental payment. We ask, why not? This is the status quo. Also it is far from clear what is the payment for the Pillar 1 Mandatory Greening. The Commission has gone to great lengths to explain that the concept is not that the Greening is done for 30% of the payment. The penalty for not greening depends on the size of the non-compliance from something very small to much more than 30%. Also the Commission proposal allows Organic producers to receive all the Direct Payment, and also any relevant Pillar 2 agri-environment payments (such as the double weighted Organic Entry Level Stewardship payment in England). We acknowledge that the appropriate P2 payment rates might be discussed.

36. These issues will be debated. Continuing with the example of England’s Entry Level Stewardship Scheme (ELS), three options seem possible.

- (a) All ELS counts as equivalent to all MG and all ELS payments continue. (ie the organic farming-like option).
- (b) All ELS counts as equiv to all MG but then no payment can be made for ELS.
- (c) Then there are an infinite number of intermediate options where some ELS option score for some MG requirements and some ELS payment can continue. It might be possible to identify some ELS options which are deemed to be resource protection and equivalent to MG, leaving the other options in the Pillar 2 Stewardship scheme and paid for there.

37. These ideas are offered as an early contribution to how to resolve the obvious conflict between Mandatory Greening in pillar 1 and existing Pillar 2 environmental Stewardship schemes. Because each Member State has gone about their approach to agri-environment in different ways, it is too early to say how practical the above ideas are for other Member States. Indeed we have not even explored how they fit the new Glastir Scheme in Wales.

38. It quickly becomes evident that another principle has to be debated. Does it matter if different territories implement the Greening in different ways? The Commission's approach is to try to define "simple and common ways to be applied across all the regions and territories. Yet this is immediately criticised as being clumsy and unsuited to many farming systems and structures. It needs better targeting. If we then explore the possibility of each Member State or region defining its own alternative to Mandatory Greening the criticism will be that some farmers are apparently having to do more environmental work for their Greening payments than others. Can simple common measures really work across the huge variety of climate, soils, farming systems, farming structures and societal demands found in the EU?

ENTRY LEVEL STEWARDSHIP AND MANDATORY GREENING

Are they equivalent? Overwhelmingly yes.

| Code | ELS Option | Unit | Points | Beneficial to climate and environment | Focus of the measure | | | | | Landscape and cultural Heritage |
|------|---|------|--------|---------------------------------------|-----------------------|--------------|-------|-------|---------|---------------------------------|
| | | | | | Ecological Focus Area | Biodiversity | Soils | Water | Climate | |
| EA1 | Farm Environment Record | ha | 3 | 1 | | 1 | 1 | 1 | 1 | 1 |
| EB1 | Hedge management both sides | 100m | 22 | 1 | 1 | 1 | | | | 1 |
| EB2 | Hedge management one side | 100m | 11 | 1 | 1 | 1 | | | | 1 |
| EB3 | Enhance hedge management | 100m | 42 | 1 | 1 | 1 | | | | 1 |
| EB4 | Stonefaced hedgebank management both sides | 100m | 16 | 1 | 1 | 1 | | | | 1 |
| EB5 | Stonefaced hedgebank management one side | 100m | 8 | 1 | 1 | 1 | | | | 1 |
| EB6 | Ditch management | 100m | 24 | 1 | 1 | 1 | | | | |
| EB7 | Half ditch management | 100m | 8 | 1 | 1 | 1 | | | | |
| EB8 | Combined hedge and ditch management + EB1 | 100m | 38 | 1 | 1 | 1 | | | | 1 |
| EB9 | Combined hedge and ditch management + EB2 | 100m | 26 | 1 | 1 | 1 | | | | 1 |
| EB10 | Combined hedge and ditch management + EB3 | 100m | 56 | 1 | 1 | 1 | | | | 1 |
| EB11 | Stonewall protection and maintenance | 100m | 15 | 1 | 1 | 1 | | | | 1 |
| EB12 | Earthbank management both sides | 100m | 14 | 1 | 1 | 1 | | | | 1 |
| EB13 | Earthbank management one side | 100m | 7 | 1 | 1 | 1 | | | | 1 |
| EC1 | Protection of infield trees on arable land | tree | 16 | 1 | 1 | 1 | | | 1 | 1 |
| EC2 | Protection of infield trees on grassland | tree | 11 | 1 | 1 | 1 | | | 1 | 1 |
| EC3 | Maintenance of woodland fences | 100m | 4 | 1 | 1 | 1 | | | | 1 |
| EC4 | Maintenance of woodland edges | ha | 380 | 1 | 1 | 1 | | | | 1 |
| EC23 | Establishment of hedgerow trees by tagging | tree | 1 | 1 | 1 | 1 | | | 1 | 1 |
| EC24 | Hedgerow tree bufferstrips on cultivated land | ha | 400 | 1 | 1 | 1 | | | | |
| EC25 | Hedgerow tree bufferstrips on grassland | ha | 400 | 1 | 1 | 1 | | | | |

| Code | ELS Option | Unit | Points | Beneficial to climate and environment | Focus of the measure | | | | | Landscape and cultural heritage | |
|------|--|------|--------|---------------------------------------|-----------------------|--------------|-------|-------|---------|---------------------------------|---|
| | | | | | Ecological Focus Area | Biodiversity | Soils | Water | Climate | | |
| ED1 | Maintenance of weatherproof trad farm buildings | M2 | 2 | 1 | 1 | | | | | 1 | 1 |
| ED2 | Take out of cultivation archeological features on cult land | ha | 460 | 1 | | | | | | | 1 |
| ED3 | Reduced depth, non-inversion cults | ha | 60 | 1 | | | | | | | 1 |
| ED4 | archeo features | | | | | | | | | | |
| ED4 | Management of scrub on archeo features | ha | 120 | 1 | | | | | | 1 | 1 |
| ED5 | Management of archeo features on grassland | ha | 16 | 1 | | | | | | 1 | 1 |
| EE1 | 2 M Buffer strips on cultivated land | ha | 300 | 1 | 1 | 1 | | | | 1 | |
| EE2 | 4 M Buffer strips on cultivated land | ha | 400 | 1 | 1 | 1 | | | | 1 | |
| EE3 | 6 M Buffer strips on cultivated land | ha | 400 | 1 | 1 | 1 | | | | 1 | |
| EE4 | 2 M Buffer strips on grassland | ha | 300 | 1 | 1 | 1 | | | | 1 | |
| EE5 | 4 M Buffer strips on grassland | ha | 400 | 1 | 1 | 1 | | | | 1 | |
| EE6 | 6 M Buffer strips on grassland | ha | 400 | 1 | 1 | 1 | | | | 1 | |
| EE7 | Buffering in-field ponds in improved permanent grassland | ha | 400 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | |
| EE8 | Buffering in-field ponds in arable land | ha | 400 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | |
| EE9 | 6 M buffer strips on cultivated land next to watercourse | ha | 400 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | |
| EE10 | 6 M buffer strips on intensive grassland next to watercourse | ha | 400 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | |
| EF1 | Management of field corners | ha | 400 | 1 | 1 | 1 | 1 | 1 | | | |
| EF2 | Wild bird seed mix | ha | 450 | 1 | 1 | 1 | | | | | |
| EF4 | Nectar flower mix | ha | 450 | 1 | 1 | 1 | | | | | |
| EF6 | Overwinter stubble | ha | 120 | 1 | 1 | 1 | | | | | |
| EF7 | Beetle banks | ha | 580 | 1 | 1 | 1 | 1 | 1 | | | |
| EF8 | Skylark plots | plot | 5 | 1 | 1 | 1 | | | | | |
| EF9 | Unfertilised cereal headlands | ha | 100 | 1 | 1 | 1 | | | | | |
| EF10 | unharvested cereal headlands | ha | 330 | 1 | 1 | 1 | | | | | |
| EF11 | Uncropped cultivated margins for rare plants | ha | 400 | 1 | 1 | 1 | | | | | |

| <i>Code</i> | <i>ELS Option</i> | <i>Beneficial to climate and environment</i> | | | <i>Focus of the measure</i> | | | | <i>Landscape and cultural heritage</i> | |
|-------------|--|--|---------------|------------------------------|-----------------------------|--------------|--------------|----------------|--|--|
| | | <i>Unit</i> | <i>Points</i> | <i>Ecological Focus Area</i> | <i>Biodiversity</i> | <i>Soils</i> | <i>Water</i> | <i>Climate</i> | | |
| EF13 | Uncropped cultivated areas for ground nesting birds on arable land | ha | 360 | 1 | 1 | 1 | | | | |
| EF15 | Reduced herbicide cereal crops followed by overwintered stubble | ha | 195 | 1 | 1 | 1 | | | | |
| EF22 | Extended overwintered stubble | ha | 410 | 1 | 1 | 1 | | | | |
| EG1 | Undersown spring cereals | ha | 200 | 1 | 1 | 1 | | | | |
| EG2 | Wildbird seed mix in grassland area—replaced by EF2 | | | | | | | | | |
| EG3 | Nectar flower mix in grassland area—replaced by EF4 | | | | | | | | | |
| EG4 | Cereals for whole crop silage followed by overwintered stubble | ha | 230 | 1 | 1 | 1 | | | | |
| EJ2 | Management of maize to reduce soil erosion | ha | 18 | 1 | 1 | 1 | 1 | | | |
| EJ5 | In-field grass areas to prevent soil erosion and run off | ha | 350 | 1 | 1 | 1 | 1 | | | |
| EJ9 | 12 M buffer strips for water courses on cultivated land | ha | 400 | 1 | 1 | 1 | 1 | | | |
| EJ10 | Enhanced management of maize to reduce soil erosion and run off | ha | 94 | 1 | 1 | 1 | 1 | | | |
| EJ11 | Maintenance of watercourse fencing | 100m | 4 | 1 | 1 | 1 | 1 | | | |
| EJ13 | Winter cover crops | ha | 65 | 1 | 1 | 1 | 1 | | | |
| EK1 | Take field corners out of management | ha | 400 | 1 | | | 1 | | | |
| EK2 | Permanent grassland with low inputs | ha | 85 | 1 | 1 | 1 | 1 | | 1 | |
| EK3 | Permanent grassland with very low inputs | ha | 150 | 1 | 1 | 1 | 1 | | 1 | |
| EK4 | Management of rush pastures | ha | 150 | 1 | | | | | 1 | |
| EK5 | Mixed stocking | ha | 9 | 1 | 1 | | | | | |
| EL1 | Take field corners out of management in SDAs | ha | 100 | 1 | 1 | 1 | 1 | | | |
| EL2 | Permanent grassland with low inputs in SDAs | ha | 35 | 1 | 1 | | 1 | | 1 | |
| EL3 | Permanent grassland with very low inputs in SDAs | ha | 60 | 1 | 1 | | 1 | | 1 | |

| Code | ELS Option | Unit | Points | Beneficial to | | Focus of the measure | | | | | Landscape and cultural heritage | |
|------|--|-----------|--------|-------------------------|-----------------------|----------------------|-----------|-----------|-----------|---|---------------------------------|-----------|
| | | | | climate and environment | Ecological Focus Area | Biodiversity | Soils | Water | Climate | | | |
| EL4 | Management of rush pastures in SDAs | ha | 60 | 1 | | 1 | | | | 1 | | |
| EL5 | Enclosed rough grazing | ha | 35 | 1 | | 1 | | | | 1 | | |
| EL6 | Unenclosed moorland rough grazing | ha | 5 | 1 | | 1 | | | | 1 | | |
| | Total number of options | 67 | | 67 | 53 | 56 | 14 | 19 | 22 | | | 22 |
| | Number of "Agricultural practices beneficial to the climate and the environment" | | | 67 | | | | | | | | |

November 2011

Written evidence submitted by the National Farmers' Union (NFU)

1. The NFU represents 55,000 farm businesses in England and Wales. In addition we have 41,000 countryside members with an interest in farming and the countryside.

INTRODUCTION

2. The NFU welcomes the opportunity to submit written evidence to the Efra select committee's inquiry into the proposed "greening" of the Common Agricultural Policy (CAP). The NFU is currently consulting its membership on the Commission's proposals to reform the CAP and therefore this evidence is provided on the basis of initial reactions and early assessment of those proposals.

3. The Commission's proposals lack the necessary detail in order to carry out a full assessment of the implications of "greening" direct payments. Nevertheless, the NFU is extremely concerned that as drafted the greening requirements may lead to perverse outcomes and may undermine existing efforts to improve the natural environment via pillar 2. In addition, the measures proposed reduce the scope for market orientation of agriculture and will place limitations on production.⁵ This could undermine farming competitiveness, increase reliance on support payments and create additional bureaucracy.

4. The NFU is also concerned about the approach that might be taken by the UK government towards the Commission's proposals. For this reason, as well as responding to the Committee's specific questions, this response also examines certain issues concerning the UK government's position on greening.

SPECIFIC QUESTIONS POSED:

Will the proposal to green direct payments generate significant environmental benefits?

5. The Commission's proposal for mandatory greening actions is likely to lead to more land being managed under specific environmental conditions across the EU. However we fear that the mandatory nature of the proposals will undermine existing voluntary efforts to improve the environment via agri-environment schemes as well as set-back the goodwill that has been established in the industry over the past 20 years with regards to the environment.

6. British Agriculture's environmental awareness and its performance has improved greatly in the past 20 years.⁶

- (a) Fertiliser use has changed significantly since the 1980s. Nitrogen application rates in England and Wales have fallen by over 30% from 1987 to 102kg/ha in 2010. This helps reduce nitrous oxide emissions and across British farmland, phosphate use was 19 kg/ha in 2010—a 52% reduction since records began in 1983.⁷
- (b) Pesticide usage has been declining since 1990, despite a larger area being treated each year.⁸
- (c) Ammonia emissions fell by 22% between 1990 and 2009 to 288,000 tonnes.⁹
- (d) These improvements are in part are a result of changes of industry practice, use of precision farming techniques as well as the sustainable intensification of the agriculture.

7. In England, some 68% of UAA is covered by an agri-environment measure and a further 192,000ha of land is managed voluntarily for the environment. There is a very real danger that English farmers who have been willing partners in improving the environment will be placed at a competitive disadvantage if they are asked to do more on top of existing commitments for the environment. The objective of greening the CAP must be to bring all farmers in the EU up to the same level as the better performing countries. It should not compel those farmers who have already made significant efforts for the environment, to do more.

8. The Commission's impact assessment considers alternative policy options as per the Commission's original Communication document on CAP Reform (from November 2010). As such, it fails to model or quantify the environmental benefits of the proposals for greening pillar 1 based on the legislative texts published in October 2011. Instead, it refers simply to the greening measures bringing "considerable environmental benefits". Critically, it also fails to compare the effectiveness of the relatively blunt greening measures with the targeted approach of agri-environment measures through the second pillar.

9. The NFU believes that all policy making should be supported by a credible evidence base. Although we appreciate that the assessment of greening is very challenging, it is a major drawback that the accompanying impact assessments include little information on the potential enhancements to environmental performance as a result of greening.

⁵ <http://ictsd.org/>

⁶ Taken from *Positive Facts about Farming* <http://www.nfuonline.com/News/Positive-Facts-About-Farming/?email28>

⁷ *The British Survey of Fertiliser Practice 2010*.

⁸ Pesticide Usage Statistics FERA.

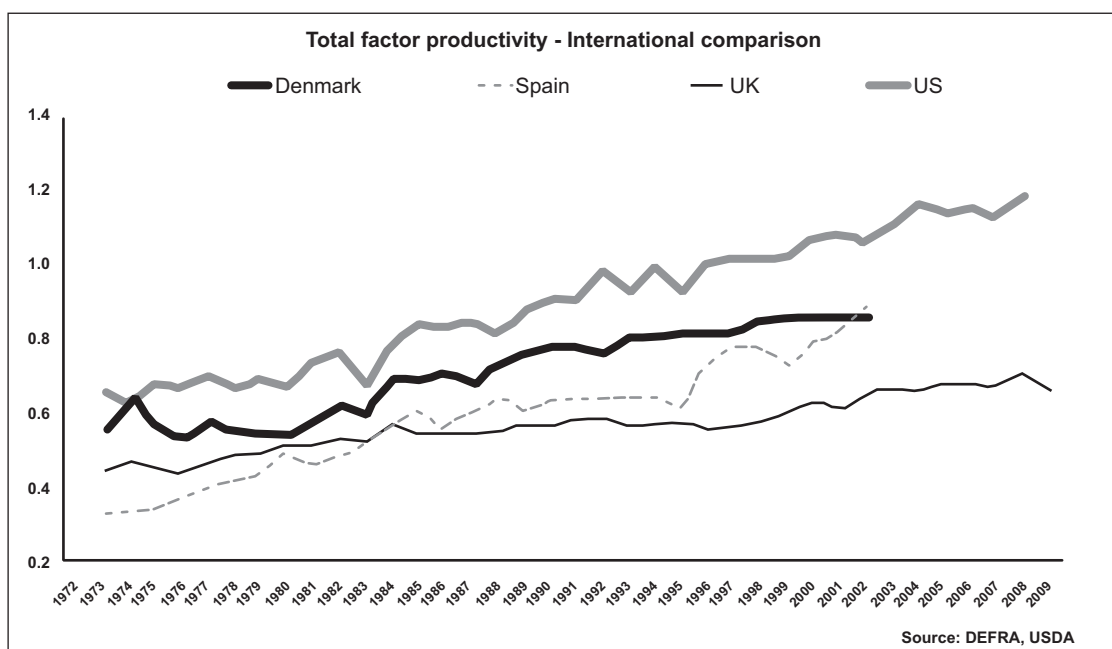
⁹ *Emissions of Ammonia*, DEFRA statistics.

What is the impact of additional greening requirements on food production and the competitiveness of the agricultural industry?

10. The NFU believes that the greening measures put forward by the Commission will reduce food production and will reduce the competitiveness of the agricultural industry.

TOTAL FACTOR PRODUCTIVITY

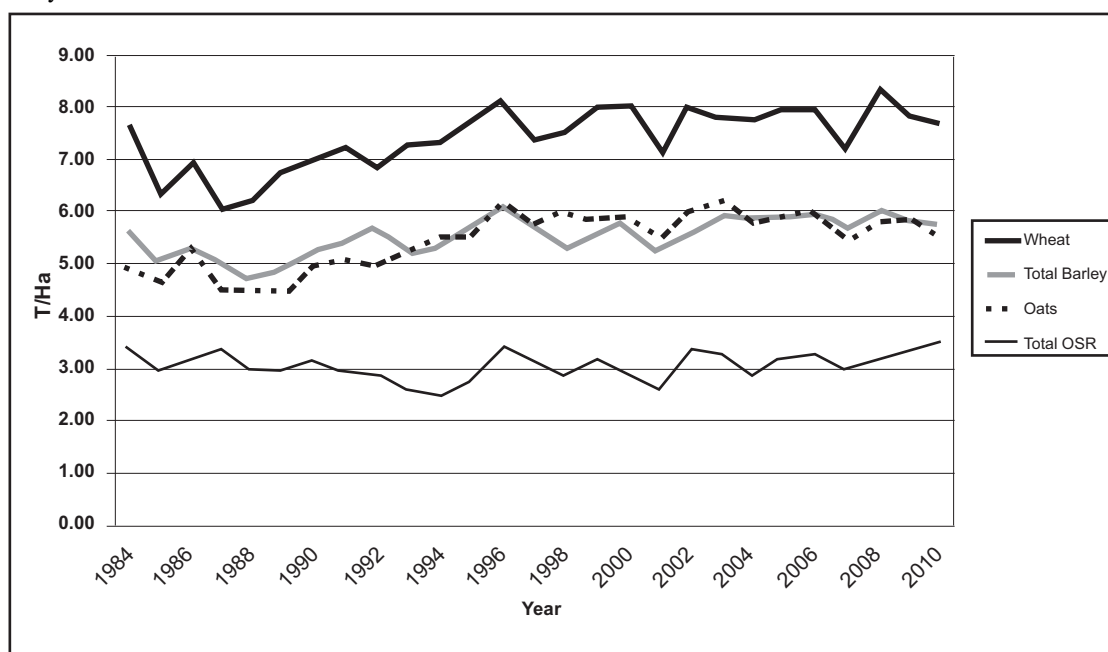
11. Total Factor Productivity (TFP) growth in UK agriculture (ie total output not caused by inputs) is stagnating.¹⁰ Prior to 1984 TFP grew at 1.68% per annum and after that date at only 0.26%. International comparisons show that the UK has fallen far behind the leading EU countries with yield growth declining even more. Thirtle *et al*, go on to state that “in part, the result is due to better data that incorporates more quality adjustment, but the real decline can be explained mainly by cuts in R&D, less patents, less growth in farm size and the demise of public extension”. This situation continues to date, as illustrated in recent Defra and USDA statistics below.¹¹



¹⁰ Thirtle *et al*, (2004) in the *Journal of Agricultural Economics*.

¹¹ AHDB.

12. If we look closer at yield itself, from the end of the Second World War yields were progressively increased for all crops through successive advances in plant breeding and crop protection. This trend ended in the 1990's when improvement increases declined.¹² UK wheat yields have now been static for the last 15+ years.¹³



IMPACT ON AGRICULTURAL INCOMES

13. The Commission's Impact Assessment shows that the cost of greening for the EU as a whole would range €33 to €41/ha of eligible farmland. It concludes that farm incomes per agricultural worker will fall for all sectors across a range of policy options modelled as a result of the greening measures. However, it fails to quantify what the impacts would be on farm incomes arising from the specific proposals in the draft regulation.

14. Taking the scenarios which are presented by the Commission in the impact assessment, the largest negative impact on income per farm worker is attributed to sectors reliant on feeding grains to animals (ie the pigs & poultry sectors). The Impact Assessment concludes that farm incomes in the pig and poultry sector would fall by up to 25%, with the least damaging policy scenario presented being a fall of 10%. Dairy farmers would also face significant reductions in income per farm worker, with declines of around 5%. These negative impacts are as a result of increases in fodder prices.¹⁴ According to the Commission's impact assessment EU wheat and sugar beet prices may increase by 3% and barley prices by 12%.

15. The Agriculture and Horticulture Development Board (AHDB) has presented a paper on the impacts of CAP Greening proposals on the agricultural sector.¹⁵ The report concludes that "The legislative measures, if implemented in the way they are currently set out, would seem to potentially have a large negative impact on UK combinable cropping farm-level profitability and production decisions."

AHDB CONCLUSIONS

16. Implementation of 7% EFA would have a significant effect on current average gross margins of many combinable cropping farms in the UK.

17. Considering crop diversification and making the assumption that temporary grassland is not included as part of the requirements, two of the three diversification criteria—the need to restrict main crop production to 70% of the productive area and the need to produce at least three crops—will affect the rotational choice of a significant percentage of combinable cropping farm groups in GB. The need to dedicate 5% of land to a third crop is seen to be less significant because those farms producing three crops generally meet this requirement easily. The lowest percentages of combinable cropping farms affected appear to be in the most productive areas of GB, although the percentages involved are still significant. Also, the rotation criteria may have a disproportionately large impact on production of specialist crops that dominate in certain regions (eg spring barley in North Scotland).

¹² Spink *et al*, 2009.

¹³ HGCA.

¹⁴ Page 21 of Annex 2 *Greening the CAP*, commission Staff Working Paper Impact Assessment.

¹⁵ An AHDB Paper on *Impacts of CAP Greening Proposals on the Agricultural sector*. Research carried out by Market Intelligence Department Michael.Archer@ahdb.org.uk

18. The final potential requirements for temporary and permanent grassland could have important effects on mixed livestock and arable farms, although more detail is needed before this can be quantified. Key issues to consider are whether temporary grassland is included in the rotation requirements and whether it will be possible to rotate grassland classifications where long rotation periods exist. The potential impacts could be significant for farm practice and diversity of cropping in predominantly grassland areas.

19. The findings of the AHDB report leads us to query some of the results included in the Commission's impact assessment. In particular, the IA suggests that only 51% of farms in the UK would face costs as a result of greening. The AHDB research suggests that the impact would be more far reaching than this, with ecological focus areas at the very least influencing decisions of the 104,000 farm business with cropping land¹⁶ in the UK.

20. A report carried out by the International Centre for Trade and Sustainable Development (ICTSD) by Professor Alan Matthews¹⁷ concludes that on balance the Commission's proposals will reduce EU production capacity, at least in arable crops relative to the status quo. It finds that the implementation of greening measures will increase the costs of farming in the EU either directly or indirectly. The measures will reduce supply and increase market prices. It does note that in the longer-term, there may be a positive feedback from more sustainable agricultural practices in terms of higher yield, but the likely importance of this positive feedback is hard to quantify. The ICTSD puts the cost of greening at approximately €5billion, an amount broadly equivalent to an increase in input costs on average by over 2%.

21. Clearly, a stronger emphasis on competitiveness intended by CAP proposals is at odds with the reduced profitability that farm businesses can expect from greening. Higher costs of production and reduced output will also impact on the rest of the supply chain. This is vital. For every extra £1 that farmers add to the economy, food manufacturers add £3.60 and wholesalers another £1.40. This impact indicates that a fall in the profitability of farming will be felt by others in the supply chain and also the wider economy.

How consistent are the greening proposals with the CAP simplification agenda?

22. The Commission's proposals will lead to an increase in bureaucracy for farmers and competent authorities. The Commission's proposals are silent on how the measures would be implemented and administered, but it is likely that farmers will have to record crop codes and record minimum and maximum areas under the crop diversification requirement. It is unclear whether they would have to submit this information to the competent authority. Similarly there is a fear that there may need to be a re-mapping exercise to administer the ecological focus areas.

23. The greening requirements may see the proliferation of artificial land swap agreements as happened with "fruit and vegetable" entitlements in the early years of the current Single Payment Scheme. This will result in additional administration by the RPA and will come out at significant financial cost to farmers through legal fees to make such arrangements.

24. The NFU advocates a light touch approach to administration. Farmers should be able to apply for the additional payment for greening at the same time as their main aid application. They should not have to declare precisely on their aid application the conditions or locations that apply under the ecological focus area requirement or crop diversification measure. Verification of compliance should form part of the standard cross compliance checks and controls.

How can greening pillar 1 be made coherent with agri-environment schemes?

25. At present, the drafting of the proposed "greening measures" appears to mean that these measures are largely focused on retention as opposed to additional active management requirements. The NFU is concerned that Defra under pressure from the environmental bodies will seek to "gold plate" the greening measures in order to enhance their environmental benefits. At the same time this would be an attractive proposition for Treasury so as to reduce national co-financing requirements if actions currently financed through the RDPE were made compulsory in pillar 1. If the UK government is successful, either at European or an English level, in enhancing the environmental outcome of greening in pillar 1, then the likelihood is that we will see those requirements encroach on existing agri-environment schemes such as the ELS and create overlap. The greater the overlap, the greater the potential negative impact on agreement holders and the need for rewriting of agreements to avoid double funding or face significant additional areas of land taken out of production. Those who have embraced the Campaign for the Farmed Environment (CFE) and have been encouraged to put substantial areas of land into key target ELS options would be particularly disadvantaged. The risk is that English farmers will be required to "pay twice" for the environment and be placed at a competitive disadvantage. Should the goalposts change as a result of the Commission's plans to introduce "greening" it is imperative that farmers within existing agri-environment schemes are treated fairly and have the ability to withdraw from the scheme without penalties, or requirement to pay back money.

¹⁶ Page 25 <http://www.defra.gov.uk/statistics/files/defra-stats-foodfarm-crosscutting-auk-auk2010-110525.pdf>

¹⁷ <http://ictsd.org/>

POSITION OF UK GOVERNMENT ON GREENING

26. The UK government has yet to take a clear and detailed position on the Commission's proposals and at times its position has appeared to be both ambiguous and contradictory. The government appears to share the NFU's concern about the potential negative impact of proposals on agri-environmental programmes and has argued that it does not want to disadvantage UK farmers. Nevertheless, the NFU is concerned that the government's position at this stage could lead it to negotiate an outcome to the reform package that is counter-productive to the competitiveness of UK, especially English, agriculture. Our fears are based on two key elements.

Pillar 2 funding and modulation

27. Both the UK government and the NFU believe that the next multi-annual financial framework for the EU (MFF) must allocate a fairer share of core EU rural development funding to the UK. We see this as part of the need to see a more equitable distribution of the budget and to ensure that voluntary national modulation can be eliminated. The UK government appears to want to retain voluntary modulation in order to provide additional funding to extend agri-environment schemes after 2013, despite the additional greening of direct payments. The NFU believes this approach would leave English/UK farmers at a competitive disadvantage to our neighbours who would choose not to apply such modulation. Indeed, the Commission has proposed that those member states who currently receive less than 90% of the EU average payment (including the UK) should be able to move money from pillar 2 to the direct payments envelope.

Making greening meaningful

28. The government has suggested in the Council of Ministers that it does not see the Commission's proposals as "meaningful". It is not clear what the government is arguing for. Is this a restatement of its position favouring more resources being shifted to Pillar 2 to support agri-environment schemes or a desire to see the greening measures proposed significantly enhanced? If it is the former, then UK government runs the risk of being marginalised within Council where few member states are convinced of the merits of extending pillar 2. This reinforces a risk that the government would choose to discriminate against its own farmers by applying modulation purely at a national level to support its ideological fixation with Pillar 2. If it is the latter, there is a risk as we saw in 2008 in the Health Check negotiations that the government will argue for the ability to apply additional national measures under pillar 1 thereby forcing farmers to adopt additional greening measures (beyond those in other member states). If it is in fact both a desire to see money move from pillar 1 to pillar 2 and an enhancement of greening, then English farmers will be seriously undermined by this approach.

29. It is essential that we receive some clarity on the UK government's position and how its stance on greening meets its commitment to ensure that English farmers are not disadvantaged in the next round of reform.

RECOMMENDATIONS FOR IMPROVING THE GREENING PROPOSALS

30. The NFU is currently consulting its membership on the question of recommendations to improve the greening proposals. The NFU initial view on greening is as follows:

NFU INITIAL POSITION ON "GREENING"

31. The NFU supports the view of the Commission that the CAP and agriculture must be environmentally sustainable and that the CAP can play a role in addressing environmental concerns. We believe that the necessary measures already exist to protect and enhance the environment in both pillars 1 and pillar 2.

32. The European Commission has proposed that a significant element of future direct support (an amount equal to 30% of the direct payments national/regional ceiling) will be dependent on farmers fulfilling mandatory actions deemed to be beneficial to the environment. The NFU believes this approach to "greening" the CAP may lead to perverse outcomes, undermining existing efforts to improve the natural environment via pillar 2, failing to deliver improvements where they are needed. In addition, the measures reduce the scope for market orientation of agriculture and will place limitations on production. This could undermine farming competitiveness as well as create additional bureaucracy.

33. The Commission argues that greening pillar 1 is necessary to better justify the payment of direct support in the future and to ensure the long term sustainability of farming systems in Europe. Yet, the effect of greening on production and market output may lead to crops being grown in inappropriate places and result in food price increases, at a time when EU consumers are battling with rising food price inflation. Limitations in supply will also have an impact on the EU food manufacturing industry, the EU's largest employer.

34. The NFU wants to ensure that productive capacity is not lost, costs and additional bureaucracy is minimised, existing environmental efforts made by farmers are recognised, and that any unintended consequences and absurdities as a result of the greening proposals are kept to a minimum.

35. The following principles guide the NFU policy position on greening:

Principle 1: Measures should be genuine incentives/top-ups and participation in them voluntary for farmers

36. As drafted a farmer must observe the greening measures on all of his “eligible” hectares. If a farmer is in compliance he will receive an additional payment. The text suggests that participation is a mandatory condition of receiving direct payments, including the basic payment and that farmers receiving the basic payment has no option but to undertake these actions. Farmers will buy into the idea that they are performing a valued role if they are encouraged to deliver public goods via incentives rather than a regulated approach. The greening actions should not be a condition of the basic payment.

Principle 2: A farmer who chooses to opt out of “greening” would forego the aid associated with the greening option but would face no additional penalty or sanction on their basic direct aid

37. It is unclear what the sanction would be for a farmer who does not adopt the beneficial practices. The NFU believes that if a farmer intentionally chooses not to adopt the practices, then he should forego the greening component but no further penalties should apply to the basic payment. Any breach of eligibility or administrative rules relating to the greening practices (ie the wrong percentage for ecological focus area or the main crop exceeds the defined maximum) should incur a proportionate sanction on the additional aid top up and there should be no link to the remainder of the basic payment.

Principle 3: Greening should not undermine participation in agri-environment schemes and should take regard of actions beneficial to the environment already in operation on the farm

38. There is a genuine fear amongst English farmers at present to renew or sign up to agri-environment programme. This fear manifests itself from a belief that features under agri-environment schemes such as hedges, buffer strips, conservation headlands etc, would not count towards the ecological focus areas. There is also a concern that Defra will seek to gold plate the EU greening measures to attempt to increase environmental delivery and outcomes. Once greening measures cross the line between retention towards the enhancement of environmental features, the likelihood of overlap with existing agri-environment schemes increase substantially. Should some overlap result from implementation of greening in pillar 1, it is imperative that farmers within existing agri-environment schemes are treated fairly and have the ability to withdraw from the scheme without penalties, or requirement to pay back monies granted through the agri-environment scheme. It may be the case that system of the payments under agri-environment schemes will have to be amended to reflect that the “retention” of features, now financed through greening is removed.

39. The NFU believes that it is appropriate to consider whether the additional aid should be granted *ipso facto* to further categories of farmers beyond the current derogations for organic and incompatible *Natura 2000* agreements. For example, for farmers who are undertaking agri-environment commitments or are participating in equivalent certified schemes such as the integrated farm management approach.

Principle 4: Greening measures must be common, simple to understand, operate and administer

40. The greening measures put forward at an EU level should be implemented evenly across the EU. There should be no opportunity for Member States to gold plate the measures or add in requirements beyond those stipulate at EU level.

41. Another possibility could be for the Commission to present more options, with the choice being made by farmers. It would be acceptable if we had an extended list of measures at EU level, as long as the choice of which measures to be implemented at farm level was made by the farmer himself and not on his behalf by the Government. The NFU does not support a complicated hybrid of pillar 1/pillar 2 measures to achieve greening, or the use of “article 68” national envelopes to support specific types of farming for the environment.

42. Farmers should be able to apply for the additional payment for greening at the same time as their main aid application. A light touch approach to administrative requirements should be adopted, for example a farmer should not have to declare precisely on their aid application the conditions or locations that apply under the ecological focus area requirement or crop diversification measure. Verification of compliance should form part of the standard cross compliance checks and controls.

Principle 5: The scale of top up (as a proportion of national envelope) should be the same throughout the EU and should be kept to a minimum proportion of the budget

43. The Commission’s proposal to assign 30% of the available funds for the “greening” payment is too high and should be reduced to reflect the positioning of financial reward above cross compliance, but below typical agri-environment payments. These measures will put some farmers in such a predicament of having to change systems or forego the payment that they will take inappropriate market based decisions, thus increasing reliance on the CAP payments. It should not be the system that dictates the business decisions; at 30% we will see distortions of management decisions and is effectively another form of recoupling.

Principle 6: *Greening measures should not hinder competitiveness and food production*

44. The Commission argues that the EU should be able to contribute to rising global demand for food and to enhance agricultural competitiveness. Greening direct payments could place constraints on farming businesses that undermine their ability to compete and could reduce the EU's productive capacity. Specifically:

7% ECOLOGICAL FOCUS AREAS

45. Setting aside 7% of the EU's productive arable land as "Ecological Focus Areas" would result in 5.74 million hectares of land withdrawn from food and energy production (based on EU arable land area of 82 million hectares). Based on average EU wheat yields (of 5.36 tons/hectare) this would equate to 31 million tonnes of wheat production, which is more than twice the annual output of wheat production from the UK alone and almost a quarter of EU wheat production as a whole. Every percentage of productive land set aside would result in 4.4 million tonnes of wheat production lost to the EU. Clearly all lost production is not going to be in wheat, another way to consider the impact of a loss of 5.74 million hectares is that this is broadly equivalent to the UAA in Hungary or Bulgaria or the combined UAA of Belgium, the Netherlands and Denmark.

46. It is essential that the percentage to be set aside as ecological focus areas is reduced and that non-productive landscape features count towards these focus areas. Land or features which gives rise to an agri-environment payment such as hedges, buffer strips and conservation headlands must also count towards these areas. Areas of farm woodland should also count towards the EFA.

THREE CROP DIVERSIFICATION

47. The requirement for farmers who have more than 3ha of arable land to grow three different crops on their arable land will have a significant effect on current farm practices across the UK across all sectors.

48. It is extremely frustrating that the definition of a crop has not been given in the Commission proposals. The definition of a crop must be established in the broadest sense reflecting the agronomic and environmental differences of different crop productions. For example, temporary grass, winter barley, spring barley and oil-seed rape should all be classed as separate crops. This may lead to increased bureaucracy if a farmer has to record crop codes on application forms, but the alternative approach of "crop groups" will significantly reduce market orientation further.

49. Even when taking the definition of crops in the broadest sense, research carried out by the Agricultural Horticulture Development Board (AHDB) demonstrates that the requirement to have 3 crops in the rotation, with minimum and maximum area conditions attributed to those crops, would negatively affect 30% to 66.5% of farms depending upon location. The evidence also demonstrates that small farms will be proportionately more affected by this measure, with almost 70% of farms under 50ha surveyed by AHDB in all Regions in the UK unable to meet the crop diversification requirement. Implementing the requirement will be even more expensive for smaller farmers who may have to buy extra equipment or potentially get in contractors at a higher per hectare rate. Ironically, having such a low threshold will threaten the existence of small farmers in some areas.

50. The 3ha minimum threshold should be set considerably higher to reflect the difficulties that this measure will create for smaller enterprises. We would suggest that the Commission adopts the same principle with regards "average farm structure size" that it has taken elsewhere in the proposals. For cereal farms, the average tillage area is 167ha in England. This would be a more suitable starting point for this crop diversification requirement as the use of "average" farm structure size is established elsewhere in the proposals.

51. The proposal will have an extremely perverse impact on dairy and livestock farmers who grow home grown cereals or fodder crops to supplement grass diets. A typical livestock farmer may have permanent grassland, temporary grassland and an area of cereals or forage crops (such as maize). Under the three crop requirement, if the area of temporary grass and cereals/forage crop exceeds 3ha, this farmer will also need to fulfil the three crop requirement and meet the minimum/maximum requirements. The Commission proposes that if the land is entirely used for grass production, then the crop diversification requirement is not relevant. The requirement for these farmers to grow at least three crops will discourage farmers from planting anything other than grass on their arable land and will lead to a loss in biodiversity in the countryside and an increased reliance on purchased proteins to supplement grass based diets.

52. The proposal will also have massive consequences for specialist farming systems. Many farmers opt to "contract farm" blocks of land owing to economic pressures to increase the scale of operations. There must be recognition of specialist growers with "share" or block cropping agreements and workable solutions identified. Without this, the RPA is likely to be inundated with additional bureaucracy associated with farmers carrying out "land swaps" or transfers.

53. Ironically, Commission modelling shows that crop diversification will actually increase the area of arable land in production (in the absence of ecological set aside), as land cannot always be used to produce the crop which it is best suited to. Such a policy conflicts with the increased focus on the resource efficiency agenda,

as resource owners are put in a position where they cannot use their resource in the most efficient way. A dairy or livestock farmer may be forced to reduce their grassed area to comply with the maximum 70% constraint.

54. The NFU does not support the requirement to have three crops. We would suggest that the crop diversification requirement is set at three crops (one of which may be grass). Furthermore, it is important that the requirement to grow the three crops is across the year (ie the crops are not necessarily grown concurrently). Crops grown for agri-environment purposes, such as wild bird mix should also count, as well as biological control crops such as mustard.

55. The impacts of crop diversification and ecological set-aside will be far reaching across the whole of the agricultural industry. In the impact assessment published alongside the proposals, Commission modelling shows that income per worker in the pig and poultry industries could fall by 25%, and in the dairy industry it could fall by nearly 6%. Clearly the policies set out do not assist with making a secure future for farmers in the EU.

MAINTAIN AREAS UNDER PERMANENT GRASSLAND

56. The Commission's proposals regarding the retention of permanent grassland are particularly concerning for dairy and livestock farmers who may seek to change enterprises in the future. The definition of land classed as permanent grassland is land not in the rotation for five years or longer. A distinction must be made between uncultivated land and land down as a long grass ley (ie longer than five years). It should be this previously uncultivated land that it maintained in future. It is wholly unacceptable to "fossilise" parcels of agricultural land and therefore it is imperative that a farmer is able to improve long grass leys through ploughing and re-seeding and that derogations are available for farmers who are making sustainable economic decisions to change farm enterprises.

November 2011

Further written evidence submitted by the National Farmers' Union (NFU)

OTHER ASPECTS OF CAP REFORM PACKAGE

1. The NFU represents 55,000 farm businesses in England and Wales. In addition we have 41,000 countryside members with an interest in farming and the countryside.

INTRODUCTION

2. The NFU welcomes the opportunity to submit written evidence to the Efra select committee's inquiry on the European Commission's proposals to reform the Common Agricultural Policy (CAP). The NFU is currently consulting its membership on the Commission's proposals to reform the CAP and therefore this evidence is provided on the basis of initial reactions and early assessment of those proposals.

3. The NFU welcomes the commitment made by the Commission in its CAP reform package to create a new partnership between Europe and its farmers through the CAP. We would strongly agree that the next decades will be a crucial period for farmers, particularly in light of food and energy security concerns amidst a growing global population. EU farmers must be in a position to make a meaningful contribution to increasing food production, whilst at the same time contending with increased volatility in agricultural markets, globalisation and dysfunctional food supply chains. It is therefore essential that the EU retains a strong common agricultural policy and that the CAP provides the right framework for capturing future opportunities. With this in mind, the NFU is concerned by a number of specific aspects of the reform package, which may result in increased bureaucracy, reduced market orientation and therefore an increase in farmers' reliance on CAP support. Specifically:

PROPOSAL ESTABLISHING RULES FOR DIRECT PAYMENTS

Towards a Flat Rate

4. The Commission proposes that Member States or Regions should move their direct payments towards a uniform payment rate per hectare and this should achieve a more common approach. However, there is concern amongst NFU Cymru members that the way in which the Commission proposes such a move (at least a 40% jump in the first year) will create significant financial upheaval in the first year. There is also concern that the transition period of five years is too abrupt. The NFU takes the view that by the end of the next financial period, the transition from the historic to the flat rate within regions must be completed.

Article 14 "Flexibility": Voluntary modulation

5. The NFU has lobbied for many years against Member States discretionary use of damaging and distortive "voluntary" modulation. The UK is currently the only Member State to apply voluntary modulation in the EU. In England, this will be at 9% in 2012. This reduction is applied in the UK, despite the UK already receiving less than 90% of the average pillar 1 support levels found in other Member States. The NFU is aware that the voluntary modulation receipts make up a substantial element of current rural development funding, but believes

that Defra should more strongly argue for a fairer allocation of rural development funds and Treasury co-financing, therefore removing the need to revert to distorting and unilateral voluntary modulation to secure funds. If the UK Government is to make use of article 14 flexibility, then it is imperative that there is a requirement for additional match funding from Treasury.

Greening

6. The NFU has submitted separate written evidence to the enquiry setting out our views on the Commission's proposals to "green" pillar 1.

Active Farmer

7. As a principle, NFU believes that the entitlements should be held, activated and paid only to active farmers. Whilst the Commission's intention to better define "active" farmers is to be welcomed, we see that this is very difficult to translate into concrete measures without adding further complex rules on eligibility and control bodies. The requirement that payments shall only be made to those whose annual amount of direct payments exceeds 5% of the total receipts obtained from non-agricultural activities, will create administrative complexity. We would have concern at the amount of information that would have to be submitted, and the timeliness and ability of the RPA to assess eligibility. There is a concern that some businesses which have successfully diversified would fail this test. The NFU therefore calls for the "economic" aspect of the active farmer test to be deleted.

First allocation of payment entitlements and national reserve

8. The NFU welcomes the requirement that in order to receive new payment entitlements in 2014, a farmer would have had to have activated at least one payment entitlement in 2011. However we are concerned that there may be a limited number of genuine hardship cases, whereby a farmer failed to make a claim in 2011. There should be provision in the national reserve for farmers to appeal the decision not to be allocated entitlements in these cases and to be awarded entitlements through a special hardship category in the national reserve. Similarly, whilst the Commission proposes that new young entrants to farmers would be allocated entitlements through the national reserve, there is no category for "new entrants" to farming. The national reserve categories should be expanded to cover new entrants. The lack of detail relating to business scissions and transfers is leading to a great deal of uncertainty in the industry, particularly for those who have recently restructured businesses or are planning on restructuring in the future. There should be clear provisions set out for such business changes and the flexibility in the national reserve to ensure that decisions to restructure ahead of the proposals being agreed do not disadvantage those involved.

Progressive reduction and capping of payment

9. The NFU is opposed in principle to capping, because a cap would act as a disincentive to achieving economies of scale. The proposals on capping will disproportionately affect UK farmers due to our larger than average farm structures which over time have consolidated to become more efficient.

10. Mitigation options: The proposals allows for "salaries effectively paid and declared by the farmer in the previous year, including taxes and social contributions related to employment" to be subtracted from the amount of aid to be capped (in addition to the 30% greening payment). It is unclear how exhaustive the definition of "salaries" would be. The proposals seem to disadvantage businesses that use contract labour rather than directly employing workers. They also disadvantage businesses that do not operate as limited companies because these structures would not take account of the cost of the owners own labour. Forcing businesses towards limited company structures is unlikely to be the most appropriate trading structure for all business. The NFU believes that all labour costs, including contract labour and business owners' labour should be included.

11. Circumvention clause—We are very concerned by the proposal that no payment be made to businesses found to have artificially created the conditions to avoid capping. There are many genuine reasons for business structure changes in agriculture. The burden of proof will lie on all farmers to demonstrate to the competent authority that any business structure changes going forward are not as a result of capping. This will add further bureaucracy into the system for both farmers and the RPA and will do nothing to encourage businesses to take advantage of business structure efficiency improvement opportunities

Payments to small-scale farmers and minimum claim size

12. The proposal obliges Member States to implement a small farmers' scheme, financed by ring fencing the money these farmers would be entitled to in a special fund, up to a maximum of 10% of the national envelope. The NFU believes that implementing the small farmers' scheme should be discretionary for Member States to apply.

13. The RPA may see benefits in applying a simplified scheme, but given that the "active farmer" definition would not apply to these producers, it is likely that the bulk of these beneficiaries will have significant off farm income and essentially this support would be seen as a "pony paddock payment". The NFU believes that this would reduce the legitimacy of the CAP support in the eyes of the UK taxpayer. One way of ensuring that

“pony paddocks” do not benefit from this support would be to set the minimum claim size in England to 5ha. This being the case, the financial incentive for farmers to participate in this scheme would be greatly lowered and the number of claimants potentially caught by the scheme would be reduced, therefore mitigating any benefits to the RPA. The NFU is also concerned that cross compliance sanctions would not apply to these beneficiaries.

Payments to young farmers

14. The NFU supports the principle of incentivising young entrants into farming, but believes that the key hurdle for entrance is not the size of support payments, but the profitability of farming and accessing capital. There are administrative complexities in determining when a young farmer is now “head of the holding”. The amount of financial gain that a young farmer can receive is limited and the NFU doubts whether such an additional aid would act as an incentive to encourage young farmers. However the NFU would be supportive of efforts to ring fence money within the CAP for dedicated support for young farmers, for example through an access to guaranteed capital or low interest loan provisions.

Voluntary coupled payments

15. The NFU does not support production based support payments which distort the market. We do recognise that in certain duly justified cases, support targeted to specific sectors may be necessary. These aids must be limited to ensure that they do not cause distortions on the single market. The NFU does not support the possibility for any individual Member States to go further than existing coupled limits and therefore it is unacceptable for Member States to go beyond the 10% maximum threshold and never beyond a level “necessary to maintain current levels of production”.

Payment for area of natural constraint

16. The NFU agrees with the Commission’s proposals that this measure should remain optional at regional level and limited to no more than 5% of the available funds. Our preference would be that support for these vulnerable areas is delivered through the pillar 2, EAFRD.

Cross Compliance

17. The removal of some of the SMR provisions is to be welcomed, but this is not a meaningful simplification of the system. The changes to the GAECs including the protection of carbon rich soils, with a ban on first ploughing, will limit opportunities for livestock and dairy farmers. Land not defined as arable (ie permanent grassland) which is land not in the rotation for five years would face a ploughing ban, which is intolerable. This GAEC should be deleted.

Delegated Acts

18. The Commission retains the right to adopt delegated acts at a later stage of the proceedings on critical issues including greening (defining crops, areas eligible for ecological focus areas), written contracts in the sugar sector, business changes impacting on first allocation of entitlements etc. The NFU believes that issues such as definitions and scope of provisions must be defined in the Council and European Parliament Regulation.

Review clause (Article 15)

19. The NFU believes that the right to review the CAP proposals should be broadened to include provision for review in case of food price crisis and agricultural market developments.

Entry into force

20. The NFU insists that there must be enough time left after the political agreement for effective implementation. This means that 1 January 2014 start date needs to be kept under review.

PROPOSAL ESTABLISHING A COMMON ORGANISATION OF THE MARKETS IN AGRICULTURAL PRODUCTS

Extending the recognition of producer organisations

21. The proposals to extend the recognition of producer organisations to all sectors covered by the single Common Market Organisation sCMO may offer some encouragement to groups of farmers to collaborate in respect of production and marketing. However, the proposals do not appear to offer the significant incentives to form POs that are offered by the fruit and vegetables regime (operational funds) and dairy package (collective bargaining). Consequently, the NFU believes that the measures fall short of those that might help to strengthen the position of farmers within the food supply chain. Whilst the UK may have little experience of inter-branch organisations, the ideas are likely to prove popular in some other member states. It will be important to guard against such bodies leading to market exclusion by drawing up rules that might inhibit competition from producers in other parts of the EU.

Sugar regime

22. The NFU does not support the Commission's proposal to remove sugar quota on 30 September 2015. English sugar beet producers would be placed at a competitive disadvantage to other Member States who did not fully restructure their industries in the 2006 sugar regime reform if this were to happen. The NFU recommends a transition of five years to support the aim of progressive deregulation beyond 2015. Of critical importance is the right to carry out commercial negotiations collectively on behalf of all growers through an inter-professional agreement (IPA). The Commission's proposal weakens this provision and would risk undermining the proper functioning of the sugar supply chain.

PROPOSAL ON SUPPORT FOR RURAL DEVELOPMENT BY THE EUROPEAN AGRICULTURAL FUND FOR RURAL DEVELOPMENT (EAFRD)

23. The removal of the axes should provide greater flexibility for delivery of the rural development programmes in the future and is welcomed. With close to 80% of the available funds in England currently spent on agri-environment actions, largely focused on nature and biodiversity measures, there is an urgent need to re-balance spend to other areas of priority as identified by the EU, namely measures to improve the competitiveness of the farming sector.

24. The proposed EAFRD regulation clearly identifies that one of its key aims and objectives is to improve the competitiveness of the agricultural sector. This is to be welcomed and the Commission sets out concrete ideas for facilitating this. The strategic approach to achieving all of the Union priorities will go some way in ensuring that the Member State are obliged to consider how best to put in place the necessary actions and funds to achieve this. The creation of a European Innovation Partnership is also welcome, however it is important that EIP operational groups utilise existing partnerships and networks. In order to realise the full potential for EU funds to help deliver food security and a strong economy, complementarity between EAFRD (specifically the proposals for a European Innovation Partnership) and Horizon 2020 (the successor to the FP7 EU research & development programme) is vital. The Horizon 2020 programme must fund research which contributes to the challenge of increasing food production sustainably while the focus of EAFRD should play a greater role in enabling exploitation of the results of this research on-farm, including Community-funded KE, translation and extension services.

25. There is some concern that the regulation contains a number of unnecessary "add-on's" for example the prize for innovation will result in significant transaction costs for those applying and it is unclear if the "prize" is envisaged to replace the support that would have been available for the project through the established programme. The performance reserve of 5% is also of concern. The allocation of the funds at such a late stage of the programming period will lead to uncertainty. There is merit in the Member State establishing milestones to demonstrate progress towards meeting the objectives of the EAFRD, but the performance reserve itself is unnecessary.

26. The changes to the way in which the areas of less favoured areas are to be designated is also concerning. The NFU has lobbied over many years to ensure the inclusion of Field Capacity Days as a measure of natural constraint in the UK. However in many cases, it is not the existence of one factor which limits agricultural productivity in the UK, but a combination of factors. The regulation should reflect that in some cases an area may not meet the threshold for that factor, but in combination with other factors, the cumulative effects results in disadvantage. LAU 2 in the UK is defined at ward level. These boundaries change regularly and a finer scale of designation (ie townships of parishes) would be more appropriate. The Member State should be able to define at the level most appropriate for its mapping and administrative capacity. The threshold of 66% of that area should also be revised to 50% of the area.

27. With regards to financing, the NFU does not support the ring fencing of at least 5% of the funding for Leader. It is also disappointing that there is no requirement for Member States to co-finance the monies made available to the EAFRD as a result of capping.

28. The NFU is concerned that there may be significant overlap with some measures as outlined in the EAFRD and in the Direct Payments Regulation, namely support for areas of natural constraint, top ups for young farmers and support for small farmers.

29. Member States are expected to submit regional programmes within 6 months of the adoption of the EAFRD text. It is critical that a new programme is approved and in operation as quickly as possible from the envisaged start date of 1 January 2014 so as to ensure support can be made to farmers under the various measures in a timely manner without delays or funding voids.

30. It is disappointing that there is no clear indication of the allocation key for funds within the EAFRD for each Member States. The UK currently receives the lowest rate of EAFRD support per hectare and there is an urgent need to address this going forward. Details are scarce, but it is disappointing that an element of allocation will be on the basis of past performance. The UK past performance has been artificially inflated by the existence and utilisation of voluntary modulation to increase available funds for rural development programmes. The NFU seeks the immediate end of damaging and distortive voluntary modulation. The allocation of EAFRD

2014–20 money between Member States should reflect the past performance on the basis of the total money available to previous programmes and not simply the past allocations of core EAFRD allocations.

November 2011

Written evidence submitted by The Royal Society for the Protection of Birds (RSPB)

The RSPB welcomes the opportunity to respond to the EFRA Committee's inquiry into the European Commission's proposals to "green" the Common Agricultural Policy.

EXECUTIVE SUMMARY

1. There is an urgent need to expend more attention and funding on the natural environment in the context of EU agriculture.

2. While the focus on "greening" has largely centred on the Commission's proposals for new measures under Pillar 1, existing CAP mechanisms must also be addressed. Agri-environment should have a central and growing role; cross compliance must be improved; and gaps in funding the CAP provides for environmental delivery must be addressed.

3. The extent to which the greening proposals will improve the status quo is limited—a missed opportunity to support EU farming to become more environmentally and economically sustainable.

4. Each of the proposed measures must be designed so they deliver genuine environmental benefits.

- *Ecological Focus Areas* have significant potential to benefit the farmed environment, but must only include features or land uses which are genuinely environmentally beneficial. Positive management of EFAs should be encouraged through agri-environment schemes.
- *Permanent pastures* of high environmental value urgently need proper protection and support. However, the current proposals could actually incentivise their destruction. The current definition of permanent pasture fails to distinguish between intensive grass crops and extensively managed grasslands of the highest environmental value. The proposed reference year of 2014 may incentivise landowners to cultivate their pasture before this date. The RSPB instead calls for a Pillar 1 premium to provide support for extensively managed pasture.
- *The crop diversity* measure will not deliver the proven benefits of agronomically sound crop rotations. It risks incentivising livestock farmers who grow a small area of fodder crop to cease arable production altogether, which could be detrimental to farmland birds. Ideally this measure should be replaced by a crop rotation requirement, but at the least the setting of the minimum area threshold must be reviewed.

5. The EU's long-term *food security* depends on maintaining the productive capacity of agricultural land. "Greening" the CAP is therefore not optional: it is a necessity. It is hard to determine what impact the proposals will have on food production, but evidence suggests it will not be significant.

6. The RSPB supports the principle of *more efficient regulation*, but maintaining environmental standards must be non-negotiable. Some of the cross-compliance simplification proposals would undermine the Policy's environmental performance.

7. If executed well, greening provides an opportunity to improve *agri-environment* delivery by acting as an enhanced baseline upon which such schemes operate. Managing the transition to the new CAP will be key and farmers who are already in an agri-environment scheme when greening measures become mandatory must not be put at a disadvantage compared to those who are not.

OVERARCHING COMMENTS

8. The RSPB has a long history of involvement in CAP reform. We have been instrumental in the development of agri-environment schemes, and Environmental Stewardship in particular, and making the case for a transfer of funds, and policy emphasis, from Pillar 1 to Pillar 2.

9. In run up to the current reform period, we have joined forces with a range of environmental and farming stakeholders to call for a shift to sustainable land management,¹⁸ set out principles for a new policy¹⁹ and make specific proposals for the CAP after 2013.²⁰

10. Previous CAP reforms have contained some positive elements, particularly the creation of Pillar 2, decoupling of subsidies from production and the introduction of cross compliance.

¹⁸ Beyond the Pillars: Wildlife and Countryside Link's policy perspective on the future of the CAP (2008)

¹⁹ Proposals for the future CAP: a joint position from the European Landowners' Organization and BirdLife International (2009)

²⁰ *Proposal for a new EU Common Agricultural Policy* (2010). BirdLife International, European Environmental Bureau, European Forum on Nature Conservation and Pastoralism, International Federation of Organic Agriculture Movements—EU Group and WWF—World Wide Fund for Nature; *Crunch Time for CAP: Choosing the right tools for a richer CAP* (2011). The Joint Links.

11. Many of these changes were developed to signal the shift away from outdated and unjustified payments, with decoupling in particular introduced as a transitional process. However, the proposed end point of this “transition” urgently needs to be spelled out. Without a clear route map, farmers are poorly equipped to make the necessary business adjustments and are unlikely to “buy-in” to the reform process.

12. Whilst there is room for simplifying all elements of the policy, both to reduce bureaucratic burden for farmers and land managers and to improve the policy’s efficiency, there must be no erosion of principles which improve cost-effectiveness and accountability of the policy for citizens.

13. To meet future challenges, the CAP needs to help ensure global food security, enable farmers to run profitable and market-focussed business, propel a rapid transition towards more sustainable land management and reward the provision of environmental public goods where these are underprovided.

14. Direct payments are a wasteful and inefficient way of doing this—indeed, it is likely the Single Payment Scheme is impeding moves in this direction.²¹ Direct payments do not encourage farmers to take a long term view, they are not linked to public goods nor do they secure sustainable land management—as they also have little impact on food production, what are they for?

15. We want to see a planned and gradual phasing out of the current direct payment system. This would provide an opportunity to temporarily target a proportion of CAP support toward measures which boost the long term sustainability and competitiveness of farming eg improving farming’s return from the food chain through added value products, savings through resource efficiency etc.

16. Increased resources for Rural Development and a re-focussing of support towards environmental and climate change objectives, if implemented soundly, would go a significant way to addressing issues of resource degradation and biodiversity loss in Europe. A retargeting of support towards environmental objectives would also need to address the pressing issue of High Nature Value farming, which is at the precipice in much of the EU, and the Natura 2000 network of protected sites, many of which depend on sensitive farming methods.

17. Well designed, implemented and funded schemes must form a key component of the CAP after 2013 and the success of agri-environment schemes in the UK needs to be built on in the future CAP. The vast majority of land in England is now in an AES and by committing to provide public goods in this way farmers can guarantee a basic level of income over five to 10 years, providing a degree of security against volatility (albeit subject to adjustment following broader CAP reform outcomes) without becoming dependent on income support.

18. At a time of economic crisis, it is more important than ever to ensure the use of public funds in the CAP has a clear justification. This means boosting those CAP funds which deliver clear public goods, particularly in the absence of a market for such goods.

19. As long as a two-Pillar CAP remains in place, it is imperative that the environmental performance of the policy as a whole (ie across *both* pillars) is improved, while making sure the two Pillars complement each other and are not working at cross-purposes. There is considerable scope to improve the environmental delivery of Pillar 1; both through existing approaches such as cross compliance and the appropriate use of national envelopes, and through new “greening” measures. However, greening is not a concept that only applies to Pillar 1, it must also apply to Pillar 2. Both Pillars must work together and never be in opposition.

SECTION 1: THE NEED FOR FURTHER GREENING OF THE CAP

20. The impetus behind the Commission’s proposals to green the CAP is to justify its considerable public investment, and as a result, improve the public acceptability of the policy.

The ongoing environmental challenge

21. Despite the flaws in the approach the Commission has taken to address this issue, which will be covered in detail below, there is exceptionally good justification to expend more attention, and funding, on the natural environment in the context of EU agriculture:

- In 2011, the European Farmland Bird Index, which monitors farmland bird populations, fell to its lowest ever recorded level.²² Rapid changes in agricultural management in the post-war period, driven in part by CAP incentives, have resulted in a farmed landscape across much of the EU that no longer provides a sufficient amount or quality of nesting habitat, spring food for chicks or food resources over the winter period. Measures to reverse these declines have been developed for the majority of farmland species, and have been proven to work. For example, at the RSPB’s own conventionally managed commercial farm in Cambridgeshire farmland bird numbers have been restored to 1970s levels through simple agri-environment measures. However, across the UK and wider EU, they are not being deployed at the right scale, or in the right combination, to effect the change required.

²¹ Report for the European Parliament’s Committee on Agriculture and Rural Development (2010) The Single Payment Scheme after 2013: New approach-New targets. IP/B/AGRI/IC/2009_038

²² Pan-European Common Bird Monitoring Scheme: <http://www.ebcc.info/index.php?ID=457>

- The well-documented decline in farmland birds is mirrored by declines in other farmland wildlife. The European Environment Agency noted in a recent report that “biodiversity in agro-ecosystems is under considerable pressure as a result of intensification and land abandonment”.²³ For example, soil biodiversity is vital for agricultural productivity, and although it is poorly understood compared to above-ground biodiversity, it is clearly under pressure from issues such as soil erosion on farmed land.
- The European Nitrogen Assessment²⁴ makes clear that the level of use of Nitrogen fertiliser in EU agriculture has considerable negative impacts on water and air quality, the greenhouse balance, ecosystems and biodiversity and soil quality.
- Agriculture both contributes to and is vulnerable to the effects of climate change. Greenhouse gas emissions reported in the agriculture sector represent around 9% of total EU emissions.²⁵ European soils store around 73 to 79 billion tonnes of carbon. Land management practices can increase or decrease the size of this carbon store.
- As well as adapting itself to climate change, agriculture will need to play a key role in helping wildlife to adapt, as highlighted in Lawton’s report “Making Space for Nature”.²⁶

The environmental policy context

22. Whilst agriculture is explicitly linked to a suite of environmental challenges, it is also the principle means to address them. Agriculture covers almost half of the EU land area, and over 70% of the UK and consequently has a major impact on wildlife and natural resources. The CAP must play a significant role in converting the current broadly negative environmental impact of EU farming to a positive one. The policy must also play its part in meeting wider EU targets on biodiversity, water quality and climate.

The food security context

23. Our natural resources of soil, water and biodiversity underpin agriculture’s ability to produce food and other commodities. Without healthy and stable soils, adequate water supplies and the services of pollinating insects, our food production potential would be fundamentally compromised.

24. While food security is a complex issue covering affordability, dietary choices and waste, to name just a few, it is clear that currently enough is produced to feed everyone. Poverty, not global shortage, is the major reason certain people cannot access enough food. It is also clear that many of our production systems are not sustainable in the long-term for reasons including our dependence on finite resources, over-abstraction of water in many parts of the EU and the cultivation, and associated loss, of carbon-rich soils. We are therefore have a food security imperative to address our food production systems now so that our natural environment is able to support food production, and a viable farming sector, long into the future.

Greening the CAP as a whole

25. As long as a two-Pillar CAP remains in place, improvements to the policy’s environmental performance must take place across *both* pillars. While the focus on “greening” has largely centred on the Commission’s proposals for 30% of Direct Payment funding to be attached to new measures under Pillar 1, there are existing CAP mechanisms that must be addressed.

A central, and growing, role for agri-environment

26. Well-designed and adequately funded agri-environment schemes are capable of delivering exceptional results, particularly for biodiversity,²⁷ and represent a sound use of public investment in agriculture. While problems of design and implementation across Europe have been recently highlighted by the European Court of Auditors,²⁸ this same study emphasised the importance of such schemes and reserved particular praise for Environmental Stewardship schemes operating in England.

27. Despite the central role of agri-environment schemes in securing environmental outcomes on farmland, and rewarding farmers for doing so, the current set of CAP reform proposals has effectively shifted the focus elsewhere. From a budgetary perspective, the proposed Multi-Annual Financial Framework (MFF) will see the CAP budget across both Pillars reduce in real terms by about 8%. Although ring-fencing for environmental measures (agri-environment, organic farming and payments to areas facing natural or other specific constraints) has been set at 25% in the proposed Rural Development Regulation this represents 25% of a reduced budget. Furthermore, agri-environment measures have been renamed “agri-environment-climate” measures. Therefore, this 25% will be expected to deliver a broad suite of environmental objectives and it is unlikely that the ring-fenced money will be adequate. There is also the risk that new climate change measures developed under Pillar

²³ European Environment Agency (2010). 10 messages for 2010: Agricultural ecosystems

²⁴ Sutton *et al* (2010). The European Nitrogen Assessment: Sources, Effects & Policy Perspectives

²⁵ COMMISSION STAFF WORKING DOCUMENT (2009). The role of European agriculture in climate change mitigation

²⁶ Lawton, J H, *et al* (2010). Making Space for Nature: a review of England’s wildlife sites and ecological network. Report to Defra.

²⁷ BirdLife (2011). Seeds of Success: How agri-environment can yield results for nature and farming

²⁸ European Court of Auditors (2011). Is agri-environment support well-designed and managed? Special report no. 7

2 could undermine other environmental objectives, or actually cause further environmental harm. One example could be the inappropriate development of Anaerobic Digesters which demand purpose grown maize crops. Maize, if sited poorly, is linked to soil degradation and water pollution problems.

28. In the UK alone, where already significantly more than 25% of Rural Development funds are allocated to agri-environment schemes, it is estimated that between £1–3 billion would be required, each year, to secure stated conservation objectives.²⁹ This is significantly less than is allocated to environmental schemes, but is comparable to the funds distributed through the CAP's Pillar 1 payments each year in the UK.

An improved cross compliance system that meets its potential to deliver environmental improvement

29. As several studies and reports³⁰ have highlighted, cross compliance (a system of requirements farmers must respect to receive the majority of CAP payments) has not yet met its considerable potential to lever basic environmental protection and enhancement across the EU's Utilised Agricultural Area. There has been a distinct lack of political will to address the fundamental problems facing the system, which include poor design, implementation (including inadequate guidance to farmers) and enforcement.

30. In addition, the system is being steadily undermined through a misguided approach to "simplification". During the 2008 "Health Check" of the CAP, important elements relating to the Birds and Habitats Directives were removed from cross compliance and this worrying trend has been continued into the current Commission Proposals for reform, notably a proposal to remove Birds Directive Articles 5 (a), (b) and (d), relating to the deliberate killing or capture of wild birds, damage to eggs and nests and disturbance. There are also proposals to remove the element of the Habitats Directive (Article 6 (3), (4)) that requires national authorities to assess plans and projects which are likely to have a significant effect on Natura 2000 sites and to mitigate damage if work goes ahead; and Article 13 (1) (a) which deals with the deliberate destruction of protected species of wild plants.

31. While the reform proposals state that requirements relating to the Water Framework Directive and Sustainable Use of Pesticides Directives will become part of cross compliance, it is with the caveat that this will happen only when all Member States have implemented them—therefore allowing an indefinite period of delay.

32. Such erosion, or inadequate implementation, of the Statutory Management Requirement elements of cross compliance is completely unjustified and will remove an important financial incentive to farmers and land managers (through direct payments reductions following cross compliance breaches) to respect them.

33. While there have been some positive elements added to the Good Agricultural and Environmental Condition (GAEC) requirements in the Commission's proposals, particularly a ban on hedge and tree cutting during the bird breeding and rearing season (GAEC 8) and a potentially useful addition dealing with protection of wetland and carbon rich soils (GAEC 7) there have been other concerning changes. The current Regulation dealing with cross compliance (Regulation 73/2009) includes the wording "*Ensure a minimum level of maintenance and avoid the deterioration of habitats*". This is not duplicated in the proposals for reform, which could limit Member States' ability to define good management requirements under the new GAEC framework. In addition, the GAEC relating to crop rotation has been removed (presumably under the misapprehension that the proposed crop diversity measure under Pillar 1 greening will meet this need) as has the GAEC relating to appropriate machinery use to maintain soil structure. These deletions are watering down the ability of cross compliance to deliver environmental protection and improvement.

Addressing gaps in the CAP's environmental provisioning

34. In addition to improvements needed for existing measures under Pillar 1 and 2, there are long standing gaps in the CAP's environmental provisioning that need to be addressed to genuinely green the policy, which have not been addressed in the Commission's proposals for reform. These include:

- Targeted support to High Nature Value (HNV) farming systems which are often economically marginalised but deliver outstanding environmental benefits through sensitive land management.
- Meaningful support for farms in Natura 2000 sites, linked to management plans.
- A top-up payment for organic farming systems, linked to positive land management.

SECTION 2: EU PROPOSALS TO "GREEN" PILLAR 1 OF THE CAP

Question 1: *Will the proposal to green direct payments will generate significant environmental benefits?*

35. The Commission's proposal to green Pillar 1 through the introduction of new measures linked to 30% of direct payments represents a potential improvement to the status quo. The proposals state clearly that greening measures must go beyond (ie deliver more than) cross compliance and as such recognise that the CAP must improve its performance in response to ongoing environmental challenges and heightened public

²⁹ Cao *et al* (2009). Estimating the scale of future land management requirements for the UK. Report to the Land Use Policy Group. ADAS UK Ltd and Scottish Agricultural College

³⁰ European Court of Auditors (2008). Is Cross compliance an effective policy? Special Report No. 8; BirdLife (2009). Through the Green Smokescreen: How is CAP cross compliance delivering for biodiversity?

scrutiny. However, the extent to which the proposals will *actually* improve the status quo is limited (and could be non-existent if they are not robustly designed and implemented). The Commission's lack of ambition in this area is a missed opportunity to support EU farming to become more environmentally sustainable, and ultimately economically viable, in the long term.

36. The Commission's proposals contain three new greening measures. Their potential to generate environmental benefit will be analysed in turn.

Environmental Focus Areas (EFAs)

37. EFAs have significant potential both to recognise and reward those farmers who have retained environmentally and agronomically useful features on their farm and to drive those who do not have such areas to incorporate them on their land. However, some initial comments on what farmland will be subject to the EFA requirement are necessary.

EFA applicability

38. Currently, farms under permanent pasture (ie many livestock enterprises) will not have to implement EFAs. We need to look at ways to make permanent pasture subject to the EFA requirement for the following reasons.

39. Firstly, intensively managed grasslands are associated with a suite of negative environmental impacts including loss of soil carbon through regular cultivation and re-seeding; high stocking densities or cutting regimes which limit the value of the grassland as a nesting resource for ground-nesting birds³¹; greenhouse gas emissions through the application (and production) of nitrogen fertilisers; links to diffuse pollution of watercourses. There is therefore a clear need to mitigate the impacts of intensive grassland management and this can be done, at least partially, through EFAs.

40. Secondly, EFAs would provide an additional means to recognise livestock farmers who have retained landscape features on their farms (such as hedgerows and wet features) and who have extremely valuable areas of biodiverse rich permanent pasture on their farms.

41. In the current proposals certified organic farms will be exempt from all greening measures. While the RSPB agrees that scientific evidence highlights the overall benefits of organic systems for the environment, all organic farms are not *necessarily* more beneficial than conventional systems. Extending the greening measures to organic systems would place no additional burden on those farmers who already deliver a high level of environmental benefit, and would bring others up to a higher standard of environmental delivery. The RSPB does believe that organic farms should be recognised for the environmental benefits they deliver in general but feel this would be more appropriately delivered through an additional top-up payment through Pillar 1.

EFA coverage and eligible features

42. The Commission proposal is for 7% of all farms (currently excluding permanent pasture systems) to be managed under an EFA. The RSPB believes that as this requirement will include landscape features, 7% should be considered an absolute minimum.

43. What landscape features or land types are allowed to count towards the EFA requirement will have significant bearing on its ability to deliver for the environment. While land out of production is likely to constitute a proportion of EFA on many farms, it is extremely important to recognise that EFAs are *not* a return to set-aside and that many farms will be able to deliver much of their EFA requirement through non-fallow means.

44. The Commission has rightly proposed that landscape features should count towards EFA and they should encompass hedgerows; lines of trees; single trees; small ponds and wet areas and areas of scrub. These features provide both environmental benefits through, eg, nesting and feeding resources for many farmland bird species, and agronomic benefit through eg reducing erosion risk of soil from wind and rainfall. Current issues surrounding eligibility for CAP Direct Payments have led to the removal of scrub and areas of gorse from many farms across the EU (including in the UK), with negative environmental impacts. Therefore including them in EFAs would provide an extremely useful incentive to retain them on farmland.

45. The inclusion of fallow areas in the EFA requirement is also positive and in an arable context should encompass buffer strips; field margins and field corners. Whole fields should also be permitted. These areas, which are already present on many farms, provide a range of benefits including supporting seed and insect food resources for wildlife and slowing, filtering and trapping pollutants before they enter watercourses.

46. The Commission proposals state that afforested land should also be eligible for EFA (if planted under an agri-environment scheme). In order to ensure that a degree of habitat diversity is secured through EFA, areas of woodland should only count for a small proportion of the EFA requirement.

³¹ Peach, W J, *et al.* Cereal-based wholecrop silages: A potential conservation measure for farmland birds in pastoral landscapes. Biol. Conserv. (2010), doi:10.1016/j.biocon.2010.11.017

47. If grassland systems were to be included in the EFA requirement, in addition to the landscape features identified above EFAs could also encompass field margins cut once late in the year to allow food resources for wildlife to develop and extensively managed, semi-natural permanent pasture. For the latter, in the absence of a mapped inventory of such grasslands, these areas could be identified using outcome focussed definitions eg the grassland features at least 10 different plant species per square metre or alternatively could be achieved using the approach taken in the Welsh Glastir agri-environment scheme to define “habitat land”: as “any vegetation which has a composition of less than 25% sown agricultural species as per the Environmental Impact Assessment (Agriculture) (Wales) (EIA) Regulations 2007.”³²

48. It will be extremely important to ensure that only features or land uses which are environmentally beneficial count towards the EFA requirement. Currently the Commission proposals state that terraces should be included; however not all terraces are environmentally beneficial.

EFAs and agri-environment schemes

49. Many farmers are already working hard to deliver benefits for wildlife and the wider environment, often through agri-environment schemes, and it is imperative that any new greening requirements do not penalise them. Therefore farmers must be able to count landscape features and areas managed under appropriate agri-environment options, including those which form part of the Campaign for the Farmed Environment, towards their EFA area requirement (N.B. only the “footprint” of these features in terms of land area covered, and *not* management prescriptions, would form part of the EFA). In order to avoid issues of “double-funding”, agri-environment measures will need to be re-scored in terms of their “value”. However, for farmers who are already in a scheme when greening becomes mandatory, the new agri-environment values should come into effect when they renew their agreement.

50. It is vital that EFAs are managed to maximum environmental effect and this positive management should be explicitly encouraged through agri-environment scheme participation.

Permanent pasture protection

51. The RSPB believes that proper protection for permanent pastures of high environmental value is urgently needed, as is support for their sympathetic management. However, far from increasing protection, the current greening proposals could actually incentivise the destruction of valuable permanent pasture.

The value of permanent pasture

52. Semi-natural grasslands and those supporting priority species are incredibly valuable for biodiversity and deliver many ecosystem services that benefit society, including carbon storage and water quality provision. The National Ecosystem Assessment highlighted the value of these services and the fact that provision of many ecosystem services is greater in semi-natural, than in agriculturally improved, grasslands.³³ However, semi-natural grasslands have declined drastically in the UK, with agricultural improvement being the major driver of this loss. Although only 2% of the UK’s grassland area is high diversity semi-natural grassland, these habitats are home to 206 Biodiversity Action Plan (BAP) species in the lowlands and 41 BAP species in the uplands. Halting the loss of semi-natural habitats is a key priority if the decline in biodiversity is to be stemmed and the agreement reached at Nagoya is to be honoured.

53. The current definition of permanent pasture includes grasslands that are regularly ploughed and reseeded (so long as they are not in an arable rotation for five years) and subject to intensive management. This failure to distinguish grass crops of little environmental interest from those extensively managed grasslands of the highest environmental value is a major difficulty with policy mechanisms designed to protect permanent pasture.

The 2014 reference date

54. The draft regulations propose changes to the rules governing the protection of permanent grasslands including the requirement to maintain permanent grassland at the holding level, based on the area declared as such for a reference year of 2014 (with conversion being allowed on a maximum of 5% of this reference area). This is a considerable change from the current cross-compliance requirement (which is implemented at the Member State level in the case of the UK) and landowners who do not wish to be restricted in the future may decide to cultivate their permanent pasture before the new rules come into force.

55. There are major weaknesses in the current cross-compliance mechanism³⁴ to encourage maintenance of permanent pasture which will limit its use in terms of preventing valuable grasslands from being ploughed up ahead of the 2014 reference date. This mechanism applies to land which was under permanent pasture in a reference year (2003, 2004 or 2007) and operates at the Member State or regional level. If the ratio of this

³² <http://wales.gov.uk/docs/dra/publications/100922glastiraweetechnicalguidanceen.pdf>

³³ For example, storing greater densities of carbon, producing less nitrous oxide and pollution, having more efficient nutrient cycling, allowing greater water infiltration rates and enhanced storage (aiding flood prevention). NEA, 2010 Chap 6 Semi-natural Grasslands

³⁴ Reg 73/2009 Article 6 (GAEC) on encouraging the maintenance of permanent pasture for its positive environmental effects

land to other farmland declines by 10%, authorities must take steps to reverse the decline. However, as the permanent pasture definition includes regularly reseeded grass, the control at national level is very crude, as it allows valuable permanent pastures to be destroyed, while new and less environmentally valuable pastures are created elsewhere, with potentially no statistical change for the country.

56. Furthermore, the dangers posed by the 2014 reference date are all the more concerning given the well documented evidence³⁵ that Environmental Impact Assessment (Agriculture) Regulations which should protect pastures of high value for biodiversity are failing to do so due to poor implementation and enforcement. Anecdotal evidence suggests that some land agents are already alerting farmers that ploughing up their permanent pasture now could avoid the new greening rules.

The definition of permanent grassland

57. The definition of permanent grassland³⁶ fails to distinguish true permanent grassland from pastures that are regularly reseeded. It specifies land that has not been in a crop rotation for five years or longer but doesn't require that it has not been ploughed or reseeded in this time. While the last sentence is helpful in recognising the value of non-herbaceous species suitable for grazing, it does stipulate that grasses and herbaceous species must predominate—depending on the interpretation of “predominate” this could render certain areas of biodiversity rich grazing land ineligible.

A premium for extensively managed pasture

58. The RSPB has called for a Pillar 1 premium payment to provide support for extensively managed pasture. Such a mechanism is urgently needed to counter the pressure to abandon or intensify management and would be self-regulating on the basis that more productive pasture is unlikely to be entered due to the associated restrictions on management. These should include a ban on ploughing, reseeded or inorganic fertiliser application. There should be options for Member States to define maximum livestock densities and minimum management regimes. This premium would replace some measures under broad-and-shallow agri-environment schemes, freeing up funds for more targeted measures.

Crop diversity

59. This greening measure was originally “crop rotation” rather than crop diversity but failed to make it into the final proposals due to the Commission's insistence that crop rotation could not be delivered under an annualised, Pillar 1 approach.

60. While the measure could provide a basic level of crop diversity across the EU's arable area it will therefore not deliver the proven benefit that agronomically sound crop rotations can do including: enhancing soil fertility; improving nutrient and water use and avoiding the build-up of pests and diseases.

61. There is also a significant risk that the measure could incentivise livestock farmers who grow a small area of crops for fodder to cease arable production altogether rather than be required to implement the crop diversity measure. In areas of the country where grassland systems dominate, pockets of arable production are extremely valuable resources for farmland birds. Any measure that may encourage farmers to move out of arable production would be very detrimental to such species.

62. There is therefore a need to amend this greening measure. Ideally, it would be replaced by a crop rotation requirement which could easily be verified at the farm level by checking records for which crops were planted in the previous years.

63. Alternatively, if the crop diversity measure is retained the minimum area threshold when the measure kicks in (currently proposed to be 3 ha) must be reviewed to avoid the perverse consequence of reducing arable production in grassland dominated areas. This could be a simple increase of the arable threshold (potentially determined at the Member State level following consultation with stakeholders) or a threshold relating to the *proportion* of arable land on the farm rather than the absolute area.

Question 2: What will be the impact of additional greening requirements on food production and the competitiveness of the agricultural industry?

64. The scale and severity of environmental challenges facing EU farming mean that further greening of the CAP is not optional: it is a necessity, required to help protect the natural resource base of farming and the viability of farming, and food production, into the future.

65. Food security is rightly highlighted as a major issue related to the CAP. However, food security is about much more than the quantities of food grown. The reasons for world hunger can be better explained by poverty than by production problems: many people simply cannot afford to buy food. Increased production also does

³⁵ For example, as detailed in a letter to the Secretary of State for Environment, Food and Rural Affairs from members of Wildlife and Countryside Link, July 2009

³⁶ “Land used to grow grasses or other herbaceous forage naturally (self-seeded) or through cultivation (sown) and that has not been included in the crop rotation of the holding for five years or longer; it may include other species suitable for grazing provided that the grasses and other herbaceous forage remain predominant.”

not automatically lead to less global hunger—the number of undernourished people in the world has increased by 9%, despite a 12% rise in global food production per capita since 1990.³⁷ The most pressing problem currently therefore, is to address issues of global poverty and access to food rather than to increase the amount of food available.

66. While more food will need to be grown in the coming decades, the EU's long-term food security depends on maintaining the productive capacity of agricultural land, including soil quality, soil carbon, water management and associated ecosystem services. Ensuring sustainable and sufficient food production systems is of paramount importance and the CAP can be a positive force in this context.

67. It is extremely difficult to determine what impact the proposed greening measures will have on EU food production. Several commentators have claimed that the EFA requirement specifically will result in 7% of productive agricultural land being taken out of production. This is clearly incorrect as the Commission's proposals state that landscape features and certain land uses will be eligible. Where there are farms that contain no such landscape features or appropriate land uses (such as buffers), there is a clear need for such farms to incorporate them, both for environmental and agronomic benefit.

68. As an illustration, for the RSPB's Hope Farm in Cambridgeshire, a conventionally managed arable farm growing winter wheat, oilseed rape and spring beans in rotation, neither the crop diversity nor the EFA requirement will pose any major implementation problems. The three crops sit comfortably within the size thresholds as set out by the proposals (the main crop cannot count for more than 70% of the farm, the third no less than 5%). The farm's field management measures under Environmental Stewardship (ELS), such as buffers, pollen and nectar mixes and skylark plots account for about 5% of the farm area. Including the farm's hedgerows and other landscape features would bring the total to comfortably over 7%.

69. An assessment of the EFA requirement has also been carried out by the Institute for Agroecology and Biodiversity (IFAB) on its impacts on winter wheat production. This study used a higher EFA requirement than the 7% proposed (10%) and took a conservative approach to how much land landscape features would account for (2%). It found that there would be a short term drop of yield by 4.9%, but by 2020 yields would be about 4% higher than 2013 due to projected productivity improvements in cereal production. It also found that the annual yield fluctuation for winter wheat in Germany is higher than the effects of an EFA-introduction.

70. Research from the farming industry itself also suggests that the projected impacts from greening requirements on food production are likely to be non-significant. Written in the context of feed stocks for anaerobic digestion, the industry³⁸ states that increasing crop rotations to include a (feed stock) break crop would lead to a reduction in second wheat output of 3.5% in the UK. It specifically states that this "*difference in output may be seen as a modest change*" (pg 25).

Question 3: *Are the greening proposals consistent with the CAP simplification agenda?*

71. The Commission's proposals for reform are certainly not simple, however it must be recognised that in order to deliver environmental and societal benefits, the Policy will need a degree of complexity.

72. While many Pillar 2 schemes, such as effective and well designed agri-environment schemes are not simple, they do deliver clear benefits. As such, the RSPB maintains that a simpler and more effective CAP structure would be a one-Pillar approach based on the current Pillar 2.

73. However, this reform round will not see the CAP evolve significantly from its current architecture and greening must therefore be achieved across both Pillars in as simple a way as possible whilst still achieving clear environmental benefits.

74. In the context of Pillar 1 cross compliance, some of the simplification proposals if implemented will undermine the Policy's environmental performance. As highlighted in Section 1 above, there are extremely worrying proposals to remove Articles relating to the Birds and Habitats Directives from the scope of cross compliance. The RSPB supports the principle of moving to more efficient regulation, which reduces unnecessary burden while improving outcomes. However, maintaining environmental standards must be non-negotiable and improving environmental delivery is urgently needed.

Question 4: *How can greening pillar 1 can be made coherent with agri-environment schemes?*

75. The proposed greening measures must complement and underpin agri-environment schemes. If executed well, greening provides an opportunity to improve agri-environment delivery by acting as an enhanced baseline upon which such schemes operate.

76. However, as highlighted above, managing the transition to the new CAP will be key and farmers who are already in an agri-environment scheme when greening measures become mandatory must be able to count their appropriate agri-environment options towards their greening requirements.

77. It is also extremely important that positive management of EFA land is explicitly encouraged through agri-environment schemes to get maximum benefit from the EFA measure.

³⁷ Barrett, C (2010). "Measuring Food Insecurity", Science, 327, 825–828

³⁸ ADBA, CLA, NFU & REA (2011). The case for crop feed stocks for Anaerobic Digestion: A Joint briefing paper

Question 5: *What are your recommendations for improving the greening proposals?*

78. There is significant scope to improve the Commission's proposals in relation to the environmental performance of the CAP. As emphasised above, this includes specific recommendations for the Pillar 1 greening measures but also encompasses other aspects of the existing CAP:

- (i) Funding for Pillar 2 in the UK must be increased in line with the scale of need for environmental improvements. If an adequate Pillar 2 allocation is not secured for the UK, measures to shift Pillar 1 funds into Pillar 2 (modulation) must be deployed. Other Pillar 1 means of improving the CAP's environmental performance must also be fully explored including the use of national envelopes or the proposed top-up payments to support environmentally beneficial farming systems. Within Pillar 2, the funding for agri-environment schemes must be guaranteed through ring-fencing. The RSPB does not believe that 25% is adequate and while we are confident that each of the UK Administrations will continue to deploy the majority of Pillar 2 funds to agri-environment schemes, the same confidence cannot be shown cross Europe. Therefore, this ring-fenced amount should be increased to at least 30%.
- (ii) Cross compliance must be addressed to correct its existing shortcomings and to prevent erosion of existing standards.
- (iii) Adequate funding must be directed to High Nature Value systems, ideally through a bespoke top-up payment but in its absence through an improved Less Favoured Area approach, national envelopes and through Rural Development measures (including the ability for Member States to develop sub programmes within their Rural Development Programmes).
- (iv) Specific and additional Pillar 1 support for organic farming.
- (v) Specific and adequate support for farms in Natura 2000 sites, linked to management plans.
- (vi) Each of the proposed Pillar 1 greening measures must be designed so they deliver genuine environmental benefits—see above for more detailed recommendations against each of the three measures.
- (viii) The package of greening measures should be enhanced to include soil cover where soil is not left bare for more than five consecutive weeks in either arable land or permanent crops. This can be met through optimisation of crop rotation (between spring and autumn crops), by leaving stubbles over winter, by planting catch or cover crops or by allowing native vegetation cover.
- (viii) Sanctions for farmers and land managers who fail to carry out Pillar 1 greening measures must be severe enough to act as genuine deterrent. This may mean reductions exceeding the 30% greening payment itself may be required.

November 2011

Written evidence submitted by The Wildlife Trusts

THE WILDLIFE TRUSTS AND THE AGRICULTURAL LANDSCAPE: INTRODUCTION

There are 47 Wildlife Trusts across the whole of the UK, the Isle of Man and Alderney. We are working for an environment rich in wildlife for everyone. With more than 800,000 members, we are the largest UK voluntary organisation dedicated to conserving the full range of the UK's habitats and species whether they be in the countryside, in cities or at sea. More than 150,000 of our members belong to our junior branch, Wildlife Watch. We manage 2,300 nature reserves covering more than 90,000 hectares. The Wildlife Trusts have a collective vision to create A Living Landscape and secure Living Seas for the whole UK.

A *Living Landscape* is a recovery plan for nature championed by The Wildlife Trusts since 2006 to help create a resilient and healthy environment rich in wildlife and to provide ecological security for people. In A *Living Landscape* habitats are restored and reconnected on a large scale with the local community closely engaged. The vision is a primary objective of The Wildlife Trusts and builds on a groundswell of landscape-scale activity at a county level. Across the UK we now have over 100 Living Landscape schemes covering an area of nearly 1.7 million hectares. The schemes are being delivered in partnership with a huge number of individuals and organisations including farmers and landowners, water companies, land-based industries, local authorities, other NGOs, statutory agencies, local communities and volunteers.

Every year we advise more than 5, 000 landowners and provide more than 2,600 days of land management advice to businesses. We offer support and advice to farmers on both Entry Level and Higher Level Stewardship Schemes, both assisting new applicants to navigate the processes involved and providing continued support to existing agreement holders. As a direct result of this advice, we help to bring millions of pounds to the rural economy every year. We also provide in-depth advice and management plans on habitats from hay meadows to upland wetlands, share expert knowledge for the management of specialist species, deliver workshops to encourage the discussion of ideas, and assist with land management using volunteers. We conduct thousands of advisory visits every year, covering topics such as resource protection, livestock management and agri-environment schemes.

We work with landowners responsible for Local Wildlife Sites (LWS), delivering whole farm advice as well as survey and grant application assistance. There are around 40,000 LWS's in the UK covering more than 700,000 hectares of land, and two thirds of these important sites are in private ownership. They not only provide refuges for a range of wildlife, but also act as stepping stones to link nationally important areas. Lack of management is the main cause of loss and damage to these critical sites.

Farmers and landowners play a leading role in achieving *A Living Landscape* by managing their land to protect and enhance wildlife.

EXECUTIVE SUMMARY

CAP reform is of critical concern to The Wildlife Trusts in our role as land managers, as land management advisors and as active and long standing members of the rural community. It has the potential to significantly facilitate or significantly constrain our ambition to create *A Living Landscape* across the UK. It will influence delivery of the ambitions for ecological restoration set out in the Lawton Report (Making Space for Nature)³⁹ and reiterated in the Natural Environment White Paper.⁴⁰

Our written submission to the Committee primarily addresses the environmental benefits of the proposed green direct payments. We think it important that the Committee considers the principles of greening the CAP and views the reform proposals against the background of the current CAP. Hence we have summarised our views on why greening is needed and made reference to some of the lessons learnt from the current payment systems.

We have provided our initial assessment of the environmental benefits of the proposed greening measures and have made some recommendations for improvement. We have provided initial comments on coherence with agri-environment schemes and the consistency of the greening proposals with the CAP simplification agenda. Given the tight timescales for this submission however, we have been unable to develop our response in as much detail as we would have liked. We therefore very much welcome the opportunity that we will have to develop our responses and suggestions for improved measures in the oral evidence session.

We have also submitted evidence on the definition of “active farmer” as outlined in the current proposals. This has major implications for The Wildlife Trusts and the future of the land that we manage.

In summary, The Wildlife Trusts welcome the principle of a “greener” CAP and welcome the move towards making direct payments to farmers and land managers contingent on delivery of a range of public goods and services relating to climate and the environment. Our view is that no payment should support unsustainable practice that undermines ecosystem function or biodiversity (which underpins ecosystem services). We think that *at least* 30% of direct payments should be conditional on specific “green” measures that help to address market failure. We have concerns about some of the specific greening measures proposed, but believe we need to grasp the opportunity to improve these; suggesting changes rather than rejecting the measures and the principle of greening direct payments outright.

Making the greening measures of Pillar I coherent and compatible with agri-environment schemes is a major challenge. To achieve this we think that Member States must be given flexibility in the way in which greening measures are implemented.

Over the coming months we want to work with Defra, UK Government, environment NGOs and farming and landowner organisations to ensure that the CAP of the future supports an agricultural landscape that delivers sustainable farming and multiple benefits.

1. ENVIRONMENTAL BENEFITS OF THE GREEN DIRECT PAYMENTS

1.1 Key Principles

- Farmers and land managers need to be provided with incentives for managing their land and businesses to deliver the full range of public goods and services associated with the agricultural landscape, including biodiversity, climate regulation and cultural and social benefits for rural communities. The opportunities for delivering multibenefits within this landscape are significant. For example, creating new wetlands in the farmed landscape can reduce diffuse pollution in rivers and streams, thereby protecting drinking water supplies, and can also provide biodiversity benefits and enhance the cultural value of the landscape. Hedgerows provide shelter for livestock, protect soils from wind impacts, provide “wild food”, provide shelter and nesting habitats for birds, small mammals and invertebrates and act as highways that link bat roosting sites to their feeding areas.
- The market place rewards farmers and land managers for some goods and services and there may be the potential for further goods and services to be brought into the market place in the future. For example water consumers and water companies subsidising landowners who work to protect drinking water supplies. However development of effective mechanisms for using markets to pay for some goods and services, such as biodiversity, is fraught with difficulties.

³⁹ Lawton, J H *et al* (2010). Making Space for Nature: a review of England's wildlife sites and ecological network.

⁴⁰ HM Government (2011). *The Natural Choice: securing the value of nature*

- The Wildlife Trusts therefore believe that a payment to farmers and landowners for delivering specific goods and services is an appropriate use of public money. We support the recommendation made in the UK National Ecosystem Assessment that agriculture needs to “*better provide ecosystem services other than production*”.⁴¹ An effective mechanism for implementing such payments would prevent money from the public purse being used to support farming practices that damage the natural environment, such as pollution of watercourses, destruction of semi natural grasslands and draining of valuable wetland habitats. Payments to farmers and land managers need to be conditional on delivery of public goods and services such as clean water, biodiversity, carbon storage and sustainably produced food from farming systems that do *not* damage the environment and do *not* compromise the future of sustainable farming.
- The CAP reform process is an opportunity to more effectively link the income that comes to farmers and land managers to measures that will protect and restore the health of ecosystems to benefit *all*, including farmers and farming systems.
- The Wildlife Trusts believe that radical reform of CAP is needed to establish a more effective system that prevents agricultural practices from damaging the environment, and uses incentives and rewards to help landowners implement appropriate measures to protect and restore the environment. A paradigm shift to a more sustainable and environmental subsidy regime is long overdue.

1.2 Learning the Lessons of Current Practice

- We recognise the benefits that good quality “higher-level” agri-environment schemes delivered under Pillar II have provided in recent years. For example, in the Goway and Mersey Washlands in England, Cheshire Wildlife Trust is working in partnership with local landowners, businesses and communities to restore, recreate and reconnect a network of wetland habitats providing ecosystem services in conjunction with high quality nature conservation resources of benefit to local people, the environment and economy. With assistance from a wide range of agencies and businesses the Trust is undertaking landscape scale wetland creation by working with landowners farming on the rivers’ floodplains. Higher Level Stewardship is an essential component of this scheme. In the Loddon catchment in Hampshire, the Trust has engaged 32 farmers in a project to manage land and undertake river restoration work in order to reverse the damage caused by diffuse pollution from agriculture. Once again, agri-environment schemes and the guidance and support provided to the farmers by the Trust are a real incentive to farmer engagement. It is essential that budgets for effective agri-environment schemes are protected and enhanced, and that where needed, improvements to current schemes are made. For example, there is a need to consider the most effective ways of developing a co-operative approach across several landholdings.
- We recognise that the current Single Payment Scheme (SPS) can help wildlife rich farms to survive and enable them to continue to conserve the natural environment and the goods and services it provides. For example, a report into High Nature Value Farms (HNVF) in the South Devon AONB⁴² reported that farm business profitability for many HNVF in the area is relatively low and dependent on SPS income. Important additional benefits are delivered by these farms with the support of agri-environment schemes.
- We also recognise the significant contribution that voluntary action to improve the farmed environment is making and the personal commitments that many farmers make to the natural environment. For example, we understand that two of the twenty short-listed applications for Natural England’s Nature Improvement Area “competition”⁴³ are farmer-led. Hampshire and Isle of Wight Wildlife Trust is working in partnership with farmers and the Game and Wildlife Conservation Trust on one of these projects: *Hampshire Farmers Linking Landscapes*.
- We are concerned that reliance on actions and schemes which are temporary, voluntary and where opting in or out is to a degree dependent on market prices and/or a personal commitment to nature conservation or the environment, introduces a high degree of risk and uncertainty over the longer term. The South Devon AONB study concluded that: “*agri-environment schemes are, in some cases, enabling HNMF management only on an artificial, temporary basis which may not be sustainable after the end of an agreement*”.⁴⁴ We believe that longer term appropriate support for such High Nature Value farming systems is essential.
- Without the sustained and focused effort of NGOs such as The Wildlife Trusts and RSPB, who assist farmers in putting together measures and “packages” that maximise the value of subsidies for the environment, the current system would work far less effectively. Reliance on the effort of NGOs, which also depends on funding availability, introduces yet another element of uncertainty and risk that may or may not ensure cost effective delivery of public goods and services into the future.

⁴¹ UK National Ecosystem Assessment (2011). *The UK National Ecosystem Assessment* p199

⁴² Cumulus Consultants (2011). *High Nature Value Farmland in Rural Development Policy*. South Devon Case Study. Report for the European Forum on Nature Conservation and Pastoralism. Issue 2.00. Report CC-P-504.2

⁴³ http://www.naturalengland.org.uk/Images/2nd-stage-applicants_tcm6-28185.pdf

⁴⁴ Cumulus Consultants (2011). *High Nature Value Farmland in Rural Development Policy*. South Devon Case Study. Report for the European Forum on Nature Conservation and Pastoralism. Issue 2.00. Report CC-P-504.2

-
- Whilst we have seen local scale recovery of species such as farmland birds and mammals when appropriate measures are put in place, scaling up of these achievements to create networks of well-connected habitats and sustainable populations of declining species across the landscape is unlikely to be achieved in the absence of a more strategic and consistent approach. CAP payments should be used to help deliver a targeted and strategic approach; bringing about delivery of specific measures that will significantly extend restoration of the natural environment.
 - There is clear evidence that some receiving significant amounts of Single Farm Payment are actually causing damage to the natural environment, whilst other farmers are protecting and enhancing the environment, but currently receive little reward for doing so. This inequitable system is damaging for rural communities and the environment.
 - We also believe that the added value that SPS brings to land and the leverage this provides could lead to greater intensification of farming systems.
 - It is hard to comprehend that taxpayers money can continue to be used to support farming practices that are damaging to the natural environment and that in the long term may compromise the future of sustainable farming. This situation must be addressed through CAP reform.
 - Within the current two-pillar structure of CAP we believe we need a combination of high quality optional agri-environment schemes under Pillar II underpinned by mandatory environmental measures under Pillar I, that together provide a clear roadmap for restoration of the natural environment and sustainable farming and food production.
 - However one of the major challenges is to find an effective system of direct payments linked to greening measures that can be applied across the whole of the EU. We believe that further consideration needs to be given to how to build flexibility into mandatory Pillar I greening measures for Member States.

1.3 *Assessing the Environmental Benefits of the New Proposals*

- Our initial response to the complex CAP reform proposals is one of disappointment and concern.
- The current proposals are unambitious and we also have major concerns about some of the unintended consequences of some of the measures proposed.
- We think that at least at least 30% of direct payments should be contingent on delivery of specific “green” measures.
- No payment should support unsustainable practice that undermines ecosystem function or biodiversity (which underpins ecosystem services). We do not believe that the current cross compliance system is fit for purpose and think it unable to provide robust protection against damaging activities.
- We believe that the specific greening measures outlined in the proposals for Pillar I do, at least in principle, take reforms in the right direction.
- We feel it is important, at this stage, not to reject the proposals outright because they are not perfect. We believe that a nuanced response that puts forward suggestions for improvement is required at this stage.
- These are complex issues and we would like environmental NGOs to work with farming organisations and Defra to improve the current proposals and ensure that the proposals do not inadvertently cause damage to the natural environment.

1.3.1 Crop Diversification

- This measure requires that where the arable land of the farmer covers more than 3 ha and is not entirely used for grass production (sown or natural), entirely left fallow or entirely cultivated with crops under water for a significant part of the year, cultivation on the arable land shall consist of at least three different crops. None of those three crops shall cover less than 5 % of the arable land and the main one shall not exceed 70 % of the arable land.
- This is a step in the right direction, and increased crop diversity would bring biodiversity benefits, for example providing the potential for farms to provide pollen for insects through most of the year, but we are concerned about a number of unintended consequences.
- Firstly the implication for small mixed farms of the low threshold set for this measure. For example low intensity arable cropping can be an important habitat in High Nature Value Farms in the UK. The crop diversification measure could undermine specific measures for key species that are supported by agri-environment schemes and it may make some who farm small mixed farms give up on arable altogether- which could be seriously damaging for declining bird species and rare plants.
- In addition, rather than reducing the area of main crop, farmers may be tempted to bring other land into production as an additional crop, for example to comprise 5% of their arable land. This could lead to areas of valuable semi natural habitat being lost.

1.3.2 Permanent Grassland

- This greening measure requires farmers to maintain as permanent grassland the areas of their holdings declared as such in claim year 2014. Farmers will be allowed to convert a maximum of 5 % of their reference areas under permanent grassland.
- We appreciate the intention behind this measure, but in practice it is far from fit for purpose and it has the potential to lead to the destruction of valuable semi-natural grasslands.
- A serious issue has arisen in relation to the proposed baseline figure (2014). This must be amended so that the baseline is historic. We have already heard of cases where farmers intend to plough up temporary grassland after four years rather than six or more and we have evidence of grassland on coastal grazing marshes in Lincolnshire being lost in the last few months- potentially these losses could be linked to early action being taken to avoid this measure. Unfortunately the Environmental Impact Assessment Regulations are not effective, but their very existence constrains any other actions to prevent such destruction. We would urge Defra and statutory nature conservation organisations to urgently consider what action can be taken to prevent ploughing of valuable grasslands.
- There is no requirement within this measure to bring areas into better management or to protect semi natural grasslands.
- This measure must be enhanced to specifically protect grasslands that are important for wildlife and it must be revised to avoid inadvertently preventing damage to valuable grassland habitats.

1.3.3 Ecological Focus Areas

- This measure requires that farmers shall ensure that at least 7 % of their eligible ha, excluding areas under permanent grassland, is an ecological focus area such as land left fallow, terraces, landscape features, buffer strips and afforested areas.
- We welcome the concept of Ecological Focus Areas (EFA) and believe that if done well the “sparing” of 7% of a land holding for ecological benefit could be effective. However, this measure must be applied to permanent pasture areas as well as arable farms. The latter could address some of our concerns in 1.3.2.
- The success of the measure would rely on the location of the EFA and the management of the land. If management requirements to deliver specific benefits were introduced to EFAs and if the measure were extended to permanent grassland areas, this could protect and increase habitats such as wildlife-rich grasslands.
- There is huge potential for using this kind of “land sparing” to protect, expand and link areas of value for nature to create ecological networks and restore healthy and fully functioning ecosystems. There is no mechanism within the proposed reforms for achieving this and the risk is that we end up with a scattering of disconnected fragments of land for nature, scattered across the landscape. We would like to see a strategic approach to EFAs across the landscape.
- We would like to see consideration of a greater range of options for creating EFAs, which would also link to current agri-environment schemes.

2. COHERENCE WITH AGR-ENVIRONMENT SCHEMES

- Coherence of Pillar I greening measures with agri-environment schemes is essential. Though this has not been made explicit we believe that the land in agri-environment schemes will be able to be included in EFAs. Further clarity is required but if a farmer has say 6.5% of land in agri-environment schemes, we believe it is unreasonable to require a further 7% of land to be taken out of production.
- If a farmer already in agri-environment schemes was required to take 7% of “new” land out of production this could lead to cultivation of land that is already being managed in an environmentally friendly way
- We do not believe that the allocation of 25% of the rural development budget for land management and the fight against climate change is anything like enough to deliver both environmental and climate objectives, or to deliver a key priority of the Rural Development Regulation: “*Restoring, preserving and enhancing ecosystems*”. In this respect a scenario where effective greening measures attached to the direct payments of Pillar I, supplemented by rural development measures that enable “deeper” greening (ie agri-environment schemes delivering significant benefits), could kick start the kind of more extensive restoration of the natural environment on which the long term future of farming and wildlife depends. But the uncertainties attached to the relationship between the greening measures and agri-environment schemes, to the future of agri-environment schemes and their final funding levels; as well as the apparent flaws of the proposed greening measures, introduce a huge element of doubt as to just how effective the combined measures of the two Pillars are going to be.
- We are concerned that, as discussions proceed on the compatibility of greening measures and agri-environment schemes, plans to exercise the facility to move money from Pillar II to Pillar I (reverse modulation) could be developed by Member States and could lead to a reduction of budgets for Rural Development.

3. CONSISTENCY OF GREENING PROPOSALS WITH CAP SIMPLIFICATION AGENDA

- We find it difficult to comment fully on this matter at this stage as we understand that the detail of the greening proposals will be set out in the implementation regulations. However, the fact that unintended consequences could arise from the measures and the current uncertainties that surround some of the measures, suggests there is much work to be done to enhance the clarity and refine the practicalities of the greening measures.

4. THE “ACTIVE FARMER” DEFINITION

- The ruling states that no direct payments will be granted to natural or legal persons, or to groups of natural or legal persons, where one of the following applies:
 - the annual amount of direct payments is less than 5 % of the total receipts they obtained from non-agricultural activities in the most recent fiscal year; or
 - their agricultural areas are mainly areas naturally kept in a state suitable for grazing or cultivation and they do not carry out on those areas the minimum activity established by Member States in accordance with Article 4(1)(c).
- When considering the impact of this rule it is important to remember that CAP payments are not directly linked to food production and that there is increasing recognition that taxpayers’ money distributed via the CAP should be used to deliver land management that protects and enhances a range of goods and services in a cost effective way.
- Taken together, The Wildlife Trusts manage 2,300 nature reserves covering more than 90,000 hectares of land. We manage this land in ways that provide a range of public goods and services relating for example to biodiversity, recreation, social and cultural values, water quality, food production and carbon storage. The land that we own and manage is a key part of the agricultural landscape and our land is often well integrated with neighbouring farms and landholdings in Living Landscape Schemes. We use livestock to manage our land and “conservation grazing” with rare breeds is an important management tool for many Trusts.
- Some of our nature reserves are working farms. For example Radnorshire Wildlife Trust own and manage Gilfach, a 410 acre hill farm nature reserve north of Rhayader. The farm is a mosaic of habitats including traditional hay meadows, rhos pasture, wet flushes, hill-side scrub and oak woodland. It supports a nature discovery centre visitor centre and Radnorshire Wildlife Trust organises public events at Gilfach every year. This traditional Radnorshire hill farm has remained unimproved since the 1960’s. The Trust purchased the farm in 1988 and with support from volunteers, renovated the longhouse and barn; restored ancient field boundaries and developed a management plan that put wildlife at its heart. The farm is registered as an organic holding and has been entered in the Tir Gofal agri-environment scheme and the Better Woodlands for Wales scheme. A local farmer works in partnership with the Trust to manage the land for conservation, grazing it using traditional breeds like Welsh black cows and local Welsh mountain-cross sheep. The reserve is an SSSI and falls within a Special Protection Area (SPA) for birds. It is a particularly important site for ancient grassland species, waxcap fungi and lichen species.
- Each Wildlife Trust operates as a separate organisation and registered charity, but our preliminary investigations suggest that the active farmer definition will significantly impact on the way in which The Wildlife Trusts are able to manage land in the future. We expect that the majority of individual Trusts will not meet the criteria for “active farmer”. One Trust has commented: *“This would have a severe, if not catastrophic, impact on the management of our land”*.
- We are not clear whether the intention would be to restrict access to agri-environment schemes to “active farmers” only. If that was the case the implications for our land management would be even worse.
- We believe that this rule will be totally unworkable. For organisations like The Wildlife Trusts, income naturally fluctuates year by year. For example a Trust could qualify as an active farmer one year and then in the next year receive a significant legacy that would boost receipts, meaning they would not then qualify.
- We believe that many farmers and land managers who are delivering valuable and multi benefits, whilst at the same time diversifying to increase farm incomes, will fall foul of this rule. It is absolutely paramount that this ill thought out rule does not get taken forward in the final regulations.

Written evidence submitted by Professor Tim Benton,⁴⁵ Professor of Population Ecology, University of Leeds and Champion for the Global Food Security Programme

INTRODUCTION

1. In October 2011 the European Commission forwarded proposals for reform of the Common Agricultural Policy (hereafter CAP) to the European Council and Parliament, initiating discussions that will last up to mid 2013, when proposals are likely to be finalised during the Irish Presidency.

2. The relevant proposals are to (a) end existing direct payments, replacing them with a uniform but more differentiated system, encompassing a basic income support payment, topped up by further payments to encourage practices that are environmentally sustainable (as well as some other measures, such as payments to small farms and new farmers) (Pillar 1) and (b) reform the Rural Development Policy (Pillar 2), under which Agri-Environment Schemes (AES) sit.

3. The reform of Pillar 1 (*vis-à-vis* AES in Pillar 2) imagines a range of greening measures, including maintaining 7% of land in areas focussed on ecology (“Ecological Focus Areas”, EFAs), encouraging rotations, permanent pasture and organic farming.

4. The current academic consensus is that the pressures of increasing demand for food, coupled with climate change, competition for land and the need to mitigate climate change by reducing carbon costs requires that production needs to be maintained or increased.¹⁻³ However, for long-term maintenance of farm production, environmental sustainability is required. This includes valuing ecosystem services for the roles they can play both in terms of direct values to production (eg via soil fertility, pollination, natural pest control) but also the more diffuse environmental services such as biodiversity’s cultural value or the contribution to climate change mitigation of carbon sequestered in the soil.

5. Furthermore, the EU is a key player in global food security and what happens to production within Europe has impacts outside.^{4, 5} For example, reducing production within Europe does not reduce Europe’s demand for food, so any reduction needs to be met with increased production elsewhere in the world. This implies the scope for decreasing local environmental impacts, but exporting environmental costs to other parts of the world (typically Latin America, Sub Saharan Africa or SE Asia), where environmental regulation may be lower, inherent biodiversity is higher and environmental fragility greater, leading to amplification of costs.

6. As a result, recent thinking calls for “sustainable intensification” of production systems globally, not disregarding Europe.¹ A recent interdisciplinary meeting of leading European academics called for both sustainability and production to be at the heart of European thinking due to Europe’s position as a global player in the food system.⁶

7. The definition of “sustainable agriculture” is one of considerable debate at the moment, due to the increased recognition of the possibility for “non local” effects. For example, a production system that decreases yield, whilst having a local benefit, may be more or less sustainable depending on the way the reduction (ie shortfall) in yield is made up necessary to compensate for no change in demand. Similarly, “local production” may be more sustainable or not according to its impact on overall transport and energy costs (eg locally grown greenhouse tomatoes may have a higher carbon footprint than ones grown where sunlight is more available). Likewise, local dairy production may have low environmental impact, but if it relies on feed from the tropics it may contribute to environmental degradation by driving deforestation for soy or palm oil (Raphael Didham, UWA Perth, unpublished case study on New Zealand dairy industry). If “sustainable” is hard to define in operational terms, so also is sustainable intensification. The “producing more with less” is shorthand for producing more food with fewer inputs, with the implication that “fewer inputs equals lower environmental impact”.

8. Recent work suggests that taking into account any reduction in yield to make an area more sustainable, without reducing demand, alters the view of whether practices may be more or less sustainable because of the need for extra land somewhere else to increase production. For example,⁷ showed that if organic yields decrease below 80–90% of intensive yields, a typical UK landscape can produce more of both biodiversity and yield by specialising land within the landscape to production land and biodiversity land, rather than by farming the whole area organically. This debate has been termed the “land sparing vs land sharing” debate: as land sparing (farming intensively and thereby sparing some land for nature) is contrasted with land sharing (farming and managing wildlife on the same land)^{8, 9}—though, of course, the strategies are at either end of a spectrum. In short, if farming practices reduce yield but decrease local negative impacts on the environment it is not clear whether they are more sustainable; only if yield stays the same or increases AND environmental impacts decrease is sustainability necessarily improved.

9. That land sparing has recently seen to be a good option^{7, 8} does not imply that a landscape needs to have large blocks of land created as nature reserves with farming geographically separate. Much of the natural biodiversity of EU agricultural landscapes has co-evolved with agriculture and lives within and on the margins

⁴⁵ My conclusions have benefitted from recent discussions with: Prof Herve Guyomard, INRA; Dr Paul Speight, DG Envi, Dr Martin Scheele, DG Agri; Robert Salmon, NE Salmon, Ltd, farm management; John Ebbage, NE local area advisor, Norfolk; Peter Riley, Prime Agriculture, Nigel Bertram, farmer and Prof Les Firbank, University of Leeds. Disclaimer: *These comments represent Benton’s judgement as a researcher in this area; they should not be taken to represent the views of the Global Food Security programme or any of its partners.*

of it (over 70% of agricultural biodiversity is found outside field centres). Because the scale for which population management is required is greater than the field- or farm-scale, a well-connected landscape made of a network of margins, hedges, green lanes, copses etc, with specialist nature reserves to provide habitat for non-agricultural specialists may be highly beneficial for biodiversity.^{5, 10} Furthermore, there are positive ecological benefits from integrating management at larger scales (ie an isolated organic farm may have—12% higher biodiversity, but a landscape with many organic farms may have “20% more.”¹¹ Thus, ensuring landscape-level conservation measures has been a focus of some recent publications.^{5, 6, 11–16}

10. The consensus “landscape view” view of recent ecological research is also that the landscape context is key to the way that biodiversity responds to management.^{11, 17–23} What is the best strategy for one landscape, with its geographical setting and the mix of farm enterprises, may not be the best strategy for another area. The optimal management strategy will vary with landscape context, leading for a necessity for local tailoring of specificities of schemes to make maximum gains.

Will the proposed direct payments for greening be beneficial?

11. The proposals aim to (a) generate a compulsory amount of non-cropped EFAs of 7% of the total farmed area, across the landscape, (b) encourage heterogeneity by stimulating production of multiple crops (including permanent pasture). The former has the potential to generate landscape-level networks of ecological connectivity, and so has a great potential benefit. The latter has a potential to stimulate greater within-field biodiversity by encouraging landscape-scale heterogeneity by producing a range of within-field habitats at the same time. Both of these interventions have been suggested many times over the last decade as positive interventions eg ¹⁶.

12. Ecology typically requires a larger scale for population viability than single fields or margins, and ensuring landscape level effects has been a consistent call on agri-environment schemes.¹¹ The UK Curry report in 2002 called for “broad and shallow” interventions, and ensuring that all farms manage EFAs is consistent with this approach. Similarly, the requirement for crop diversity ensures both spatial heterogeneity (ie habitat varies across space) and also temporal heterogeneity (ie the whole landscape is not harvested at the same time), both will enhance biodiversity.¹⁶

13. In support of this, a recent report by PBL (The Netherlands Environmental Assessment Agency) suggests that the greening measures will be beneficial for species richness, to the order of a few percent.²⁴

14. Climate change is signalled as an important issue for the CAP for the first time in these proposals, which is to be welcomed. Some measures should assist towards reducing greenhouse gas emissions. Examples are the new cross compliance (Good Agricultural and Environmental Condition) standards on maintaining soil organic matter and protecting wetlands and carbon rich soils and the earmarking of funds in Pillar 2.

15. Thus, depending on the details (see Para 25 below), the greening of Pillar 1 should have positive benefits for sustainability and the proposals are a welcome action to promote environmentally friendly land management at the landscape scale.

The impact of additional greening requirements on food production and the competitiveness of the agricultural industry

16. This PBL report also states: “There would be a clear trade-off between biodiversity gains and production losses. According to model calculations, greening the CAP would lead to a decline in agricultural production, for example, of 2% for grass and 4% for cereals, by 2020, in the EU27. This is mainly due to the projected extensification of grassland and ecological set-aside on arable land.” Within this report, they assumed an ESA amount of 5% (cf 7% in the proposals).

17. This report interestingly suggests that farm income will remain static as, despite reduction in production, as demand remains the same the supply-demand forces will result in increased farm-gate prices.

18. Contrary to the PBL report, Matthews²⁵ records that DG Agri impact assessment figures indicate that whilst prices may increase, farm incomes will fall (by on average 2.8%) as prices will not increase enough to cover the direct cost of greening coupled with the reduction in yields.

19. The investment in Pillar 2 into the new European Innovation Partnership initiative for agricultural productivity and sustainability could be an important factor stimulating the development of innovative solutions that promote increased food production but in a way that is compatible with the delivery of the full range of ecosystem services. Hence, there is a mechanism for enhancing innovation and promoting “more with less” which may mitigate against farm income reduction.

Consistency of the greening proposals with the CAP simplification agenda

20. A single direct payment to farmers based on area, and with sufficient prescriptions as to how the ESFs be organised (Para 25) could reduce the farmer- and agency-administrative overheads and therefore be a simplification of CAP administration.

How greening pillar 1 can be made coherent with agri-environment schemes

21. The PBL report²⁴ states: “Greening the first CAP pillar seems an attractive option as it pairs simplicity with CAP legitimisation. However, it holds few possibilities for targeting specific biodiversity in specific areas (eg most-threatened red-list species). Agri-environmental measures from the second pillar would offer more possibilities in that respect, although transaction costs would be relatively high—at least under the current bureaucratic regime.”

22. Agri-environment schemes have the benefit of specificity, whereas Pillar 1 direct payments are a one-size-fits-all option. Much of biodiversity in agri-environments will benefit from generic measures that may result from Pillar 1 (which may bear similarity to current ELS). Agri-environment schemes can therefore be designed to target specific taxa (cf habitats) of concern, or specific habitats associated with place rather than agriculture. Current AES prescriptions, where they have been researched and have an evidential basis for success, could be used as suggestions for management of the EFAs under Pillar 1.

23. Nonetheless, relative to the money invested, AESs have not been notable in generally increasing biodiversity in farmed habitats partly as they may address the wrong scale and partly as they do not address landscape specificity.^{21, 26–29} There have been notable successes where AESs have targeted specific species, where population increases have been produced (eg curl bunting).

24. Thus, investing in greening of Pillar 1 may ensure a mandatory level of “greening” that may be equivalent or better to ELS. The Pillar 2 budget would therefore not longer be required for “entry level schemes” allowing a greater targeting of existing AES money to higher level schemes and ones preserving specific taxa.

Recommendations for improving the greening proposals

25. The “ideal” implementation of the Pillar 1 reforms would be to encourage landscape measures that created a “well connected” ecological landscape of the EFAs (with patches of suitable habitat sufficiently close for dispersal/movement from patch to patch), with multiple linear habitat types creating the connectivity (flower rich margins, grassy margins, hedgerows) and with patches of land for non-agricultural specialists (eg woods, grasslands, wetlands). Furthermore, the specificities of the “ideal landscape” will vary from location to location, depending on the local habitat, geography and biota. Thus, there are four requirements: (1) amount of habitat, (2) its extent over a large scale, (3) its spatial distribution and the connectivity it brings to a landscape, and, (4) its location-specificity. The current proposals address (1) and (2).

26. Given the production-sustainability needs, it remains unclear whether 7% EFA is the optimum proportion. If the EFAs were properly managed and specified (see Paras 25, 27) it may be possible to have a similar impact with a lower percentage.

27. The devil is within the detail: if the EFA is left as unmanaged set aside, it will have rather less ecological value than if it were managed as grassy margins, flower-rich margins, hedgerows, coppices etc) and therefore the greening proposals will have little benefit. Conversely, if the land is managed well, and to encourage biodiversity, a landscape with a 7% network of “green veins” could be highly beneficial. Thus, the management prescription is key. If the direct payments included a results-payment rather than a prescription-payment (thereby allowing land managers to undertake what they are interested in doing) this may have the greatest effects by creating productive partnerships between farmers and agri-environment advisors or agencies or NGOs, although will be the most expensive to administer.

28. The issue of spatial layout is key. A connected landscape requires that there is sufficient connection between habitats for a range of organisms to live, and disperse along/between linear features or patches. Thus, ensuring there is a mix of features, patch sizes and habitats is crucial to developing a connected landscape (7% as a single block will not be as good as 7% as a network).

29. Similarly, within the proposal encouraging crop diversity, from a “sustainability” perspective it makes little sense for “arable land to consist of three different crops simultaneously” on each farm (as a very large farm could comply but still maintain areas of homogeneity greater than on small farms). Ecologically, a landscape-level of heterogeneity would be positive rather than a farm scale. Therefore there is a requirement for a specific scale to be identified (eg 5x5km landscape).

30. Farm size per se is probably irrelevant to ecological sustainability (cf field size, and therefore the amount of margins), the benefits come from sustainable management at the landscape scale. Therefore, ensuring landscape-level compliance through encouraging small-scale farmers to work collectively could be very beneficial. Thus, requiring a landscape-level mixture of EFA and crop types would stimulate cooperation between local land managers (as already exists in the UK with farmers within Catchment Sensitive Farming initiative). The cap on the CAP for large farms may also be counter-productive, as, in my experience some of the most efficient and professional farms deliver many of the best environmental management schemes because (a) they can manage at the landscape scale and (b) they can often invest heavily in good management practices.

31. The proposals suggest that organic farming is in automatic compliance with the requirements of the proposals. Organic farming is undoubtedly good for local environmental management, for many reasons, including that farming rotations create heterogeneity of habitat. However, being organic does not necessarily imply this farming practice is the most sustainable one, because:

- (a) Organic yields may be considerably lower than conventional yields. Ref 4 calculates that increasing organic area to 20% will require an extra 10m ha of land outside Europe to meet our food demands, with the environmental costs that this would entail. Hence encouraging organic production may not encourage global sustainability.
- (b) As organic yields are lower, organic farmers may utilise a greater area of their fields for production¹¹ (eg by leaving narrower margins). Therefore it is unclear that an organic farm would have higher biodiversity than an environmentally managed conventional farm with 7% EFA.
- (c) The benefits of organic farming are often confounded by the fact that organic farms are often situated in more wildlife-friendly landscapes than conventional farms,¹⁹ and given that yields are reduced relative to other farming (see Para 8) (see also <http://www.influentialpoints.com/Critiques/Does-organic-farming-promote-biodiversity.htm#vs>).

Therefore, modern farming methods (eg precision agriculture coupled with environmentally sensitive farming, as espoused by, for example, LEAF <http://www.leafuk.org/leaf/home.eb>) may actually be as beneficial for wildlife without the production costs. Similarly, other farming systems may have a greater environmental benefit than organic, especially when considering different area-specialities across Member States (eg in the UK Traditional Orchards may be very beneficial³⁰) and “low input, low/no till” systems may have a carbon efficiency of up to 1.5x organic or conventional systems.³¹ Organic management also qualifies under Pillar 2 (Article 43) for extra payment—again without great evidential support relative to a range of alternative farming systems.

32. Landscape context is important (paras 9 and 10 above). What enhances sustainability in one place may therefore reduce it in another. It is important to have a “uniform framework” for greening of Pillar 1 but allow prescriptions of (for example) how best to encourage and manage the EFAs to vary across the EU at a fine scale (within the UK, for example, there should be different strategies for, for example, the West Country vs East Anglia).

33. It would be good to see the importance of mitigating soil degradation much more strongly brought out in the cross compliance regulations.

34. To avoid disenfranchising land managers who have successfully managed existing AESs, it will be important that the Greening proposals incorporate their practices (eg within the EFA) without penalty.

CONCLUSIONS

35. The Pillar 1 greening proposal utilises three general measures implemented at the European scale for simplicity. As a result, it is very likely that its efficiency—from an environmental point of view (and also from an economic point of view)—will not be optimal mainly because it is not tailored to local conditions and context. However, it will have the advantage of providing both legitimacy for direct payments and an increase in environmental sustainability (especially if cross compliance is strong).

36. Environmental Pillar 2 measures can then be reserved and targeted to address specific environmental needs (and via the Innovation Partnerships to promote new farm systems and practices). As there is rather limited evidence that AESs have had substantial environmental impacts on agricultural production systems, cross-compliance and greening measures can (should) be viewed as a basic requirement of direct funding, with Pillar 2 AES measures as additional incentives.

37. A final remark: an increased focus on research, research-development and innovation is a welcome initiative. Within this research it is important to focus on a range of areas for innovation: crop improvement (and plant genetics), ecological innovation (enhancing provision of services—like natural pest control—that may aid yields), agricultural and agronomic innovation leading to (new) farm systems and practices etc.

REFERENCES

- ¹ Foresight, *The Future of Food and Farming: Challenges and choices for global sustainability*. 2011, The Government Office for Science, London.
- ² Godfray, H C ea, *Food security: The challenge of feeding 9 billion people*. Science, 2010. 327: p 812–818.
- ³ Foley, J A, *et al*, *Solutions for a cultivated planet*. Nature, 2011. 478(7369): p 337–342.
- ⁴ von Witzke, H and S Noleppa, *EU agricultural production and trade: Can more efficiency prevent increasing “land-grabbing” outside of Europe?* Humboldt Universitat zu Berlin, 2010.
- ⁵ Benton, T G, *et al*, *The scale for managing production vs the scale required for ecosystem service production*. World Agriculture, 2011. 2(1): p 11.
- ⁶ Benton, T G, *et al*, *Warsaw Consensus Statement on Europe as a key player in Global Food Security*. 2011. p 3.
- ⁷ Hodgson, J A, *et al*, *Comparing organic farming and land sparing: optimising yield and butterfly populations at a landscape scale*. Ecology Letters, 2010. 13(11): p 1358–1367.

- ⁸ Phalan, B, *et al*, *Reconciling Food Production and Biodiversity Conservation: Land Sharing and Land Sparing Compared*. Science, 2011. 333(6047): p 1289–1291.
- ⁹ Green, R E, *et al*, *Farming and the fate of wild nature*. Science, 2005. 307(5709): p 550–555.
- ¹⁰ Perfecto, I and J Vandermeer, *The agroecological matrix as alternative to the land-sparing/agriculture intensification model*. Proceedings of the National Academy of Sciences, 2010. 107(13): p 5786–5791.
- ¹¹ Gabriel, D., *et al.*, Scale matters: the impact of organic farming on biodiversity at different spatial scales. Ecology Letters, 2010. 13(7): p. 858–869.
- ¹² Ricketts, T H, *et al*, *Landscape effects on crop pollination services: are there general patterns?* Ecology Letters, 2008. 11(5): p 499–515.
- ¹³ Nelson, E, *et al*, *Modeling multiple ecosystem services, biodiversity conservation, commodity production, and tradeoffs at landscape scales*. Frontiers in Ecology and the Environment, 2009. 7(1): p 4–11.
- ¹⁴ Fischer, J, D B Lindenmayer, and A D Manning, *Biodiversity, ecosystem function, and resilience: ten guiding principles for commodity production landscapes*. Frontiers in Ecology and the Environment, 2006. 4(2): p 80–86.
- ¹⁵ Tscharntke, T, *et al*, *Landscape perspectives on agricultural intensification and biodiversity—ecosystem service management*. Ecology Letters, 2005. 8(8): p 857–874.
- ¹⁶ Benton, T G , J Vickery, and J D Wilson, *Farmland biodiversity: is habitat heterogeneity the key?* Trends in Ecology & Evolution, 2002.
- ¹⁷ Bengtsson, J, J Ahnstrom, and A C Weibull, *The effects of organic agriculture on biodiversity and abundance: a meta-analysis*. Journal of Applied Ecology, 2005. 42(2): p 261–269.
- ¹⁸ Ostman, O, *et al*, *Landscape complexity and farming practice influence the condition of polyphagous carabid beetles*. Ecological Applications, 2001. 11(2): p 480–488.
- ¹⁹ Gabriel, D, *et al*, *The spatial aggregation of organic farming in England and its underlying environmental correlates*. Journal of Applied Ecology, 2009. 46(2): p 323–333.
- ²⁰ Otieno, M, *et al*, *Local management and landscape drivers of pollination and biological control services in a Kenyan agro-ecosystem*. Biological Conservation, 2011. 144(10): p 2424–2431.
- ²¹ Batary, P, *et al*, *Landscape-moderated biodiversity effects of agri-environmental management: a meta-analysis*. Proceedings of the Royal Society of London, Series B: Biological Sciences, 2011. 278(1713): p 1894–1902.
- ²² Diekötter, T, *et al*, *Landscape and management effects on structure and function of soil arthropod communities in winter wheat*. Agriculture, Ecosystems & Environment, 2010. 137(1–2): p 108–112.
- ²³ Brittain, C, *et al*, *Organic farming in isolated landscapes does not benefit flower-visiting insects and pollination*. Biological Conservation, 2010. 143(8): p 1860–1867.
- ²⁴ van Zeijts, H, *et al*, *Greening the Common Agricultural Policy: impacts on farmland biodiversity on an EU scale*. 2011, PBL Netherlands Environmental Assessment Agency: The Hague.
- ²⁵ Matthews, A, *The EC's October 2011 Legislative Proposals for CAP Reform*, in ICTSD Issue Papers. 2011, ICTSD.
- ²⁶ Vickery, J A, *et al*, *The role of agri-environment schemes and farm management practices in reversing the decline of farmland birds in England*. Biological Conservation, 2004. 119(1): p 19–39.
- ²⁷ Kleijn, D and W J Sutherland, *How effective are European agri-environment schemes in conserving and promoting biodiversity?* Journal of Applied Ecology, 2003. 40(6): p 947–969.
- ²⁸ Kleijn, D, *et al*, *Agri-environment schemes do not effectively protect biodiversity in Dutch agricultural landscapes*. Nature, 2001. 413(6857): p 723–725.
- ²⁹ Concepcion, E, M Diaz, and R Baquero, *Effects of landscape complexity on the ecological effectiveness of agri-environment schemes*. Landscape Ecology, 2008. 23(2): p 135–148.
- ³⁰ Barker, S, *et al*, *Conserving the wildlife of traditional orchards*. British Wildlife, 2011. 23(1): p 8–16.
- ³¹ Gelfand, I, S S Snapp, and G P Robertson, *Energy Efficiency of Conventional, Organic, and Alternative Cropping Systems for Food and Fuel at a Site in the US Midwest*. Environmental Science & Technology, 2010. 44(10): p 4006–4011.

Written evidence submitted by Natural England

EXECUTIVE SUMMARY

- Natural England is the Government's statutory advisor on the natural environment. Natural England is responsible for delivering, on behalf of Defra, Environmental Stewardship and other schemes which offer payments to farmers and land managers in England for effective land management to protect and enhance the environment and wildlife.
- Our evidence supports the Commission's assertion that there is value in some level of environmental management to be incorporated into mainstream farming across whole landscapes. For example, looking at the aspirations set out within the England Biodiversity Strategy action at this sort of scale is fundamental if we are to achieve the Biodiversity 2020 targets.
- The Commission's assessment of the potential environmental benefits of their particular proposal is, we believe, limited, and largely unsubstantiated. Past evidence suggests that greening, as currently proposed, may not generate environmental benefits on the scale that the Commission anticipate, and in some cases there is a risk of significant perverse effects. The Environmental Focus Area is one element of the Commission proposals that does have the potential to deliver significant environmental benefits, but, as currently defined, this would not be in a way that makes the most efficient use of available land and minimises the impact on food production.
- The addition of greening in Pillar 1 will not make the CAP simpler. However, experience from current delivery has demonstrated that delivering environmental benefits effectively is inherently complex, so a degree of additional complexity is to be expected. The question is whether the additional complexity of the Commission's proposals would be justified by, or proportionate with, improved environmental outcomes.
- The limitations of Pillar 1 funding (annual, non-contractual etc) mean that it is not the ideal mechanism for supporting complex, multi-annual, locally specific environmental management. Experience to date and the available evidence suggest that Pillar 2 is likely to be a more effective mechanism to deliver environmental outcomes.
- Recommendations for improving the greening proposals are essentially policy issues for Government to decide. We are working very closely with Defra (as our sponsoring department) to make available evidence which may support and usefully inform its subsequent chosen policy direction. We would like to emphasise that we are strongly committed to adding constructive value to Select Committee inquiries wherever we can, and it has been helpful to agree with the Committee ahead of our appearance at the proposed oral evidence session on 23 November that Natural England is not able to discuss or comment upon future policy direction. This, as the Committee has recognised, is a matter for Government rather than ourselves.

1. INTRODUCTION

1.1 Natural England is the Government's statutory advisor on the natural environment. Natural England's purpose is to ensure that the natural environment is conserved, enhanced and managed for the benefit of present and future generations, thereby contributing to sustainable development.

1.2 Natural England is responsible for delivering, on behalf of the Department for the Environment, Food and Rural Affairs (Defra), Environmental Stewardship and other schemes which offer payments to farmers and land managers in England for effective land management to protect and enhance the environment and wildlife. These schemes form part of the Rural Development Programme for England (RDPE) (2007–13). It is within this context that our evidence is provided.

2. Will the proposal to green direct payments generate significant environmental benefits?

2.1 Most environmental outcomes depend on positive management to get the best results. This is true for resource protection as much as for biodiversity. Sir Don Curry's 2002 report⁴⁶ supports the Commission's assertion that there is a need for some level of environmental management to be incorporated into mainstream farming across whole landscapes. It was this report that led to the introduction of Entry Level Stewardship (ELS) in 2006. More recently it has been supported by the findings of the Lawton Review,⁴⁷ which has in turn informed the targets set by Government in the England Biodiversity Strategy (EBS).⁴⁸

2.2 The Commission's assessment of the potential environmental benefits of their proposal is somewhat limited and relatively unsubstantiated. We also note that administrative constraints have forced them to put forward proposals that are significantly different to the options they originally assessed. The Commission's

⁴⁶ *Farming and Food a sustainable future* (2002). Report of the Policy Commission on the Future of Farming and Food. <http://www.cabinet-office.gov.uk/farming>

⁴⁷ Lawton, J H, Brotherton, P N M, Brown, V K, Elphick, C, Fitter, A H, Forshaw, J, Haddow, R W, Hilborne, S, Leafe, R N, Mace, G M, Southgate, M P, Sutherland, W J, Tew, T E, Varley, J, and Wynne, G R (2010). *Making Space for Nature: a review of England's wildlife sites and ecological network*. Report to Defra.

⁴⁸ *Biodiversity 2020: A strategy for England's wildlife and ecosystem services* (2011). Defra. <http://www.defra.gov.uk/publications/2011/08/19/pb13583-biodiversity-strategy-2020/>

proposal for crop diversity would not ensure the rotation of crops and their proposal for permanent grassland would not ensure the conservation of grassland of high environmental value. This is discussed further below.

2.3 We feel that a definitive assessment of the potential of the proposals is currently impossible due to the lack of detail in the proposals, much of which is reserved for subsequent implementing regulations and delegated acts. However, we might conclude that it looks unlikely that greening as proposed will generate environmental benefits on the scale that the Commission envisage, and in some cases there is a risk of significant perverse effects. Our evidence to underpin this assessment is outlined below, for each of the specific proposals:

2.3.1 Retention of Permanent Grassland

- Grassland that is not ploughed or otherwise cultivated delivers important benefits for biodiversity, the historic environment and landscape character, climate change mitigation and water quality.⁴⁹ The extent and nature of these benefits largely depend on factors such as location, extent of previous cultivation/fertilisation/reseeding etc and current management practices. The Commission proposals are based on the current definition of permanent grassland which includes land which may be repeatedly cultivated and sown down to grass again. Retaining an overall stock of grassland would help retain current levels of soil carbon, but might fail to target the most valuable grassland which may be species-rich or underlain by archaeological remains or provide valuable habitat for invertebrates or birds. The Commission proposals would not introduce any restrictions on management practice at the parcel level. This severely limits the scope to maximise environmental benefits.
- A range of existing provisions, such as statutory designations, the Environmental Impact Assessment requirements, and the current CAP requirement to maintain the ratio of permanent grassland at Member State-level, all to some extent restrict the potential loss of permanent grassland. The Commission proposals, in the absence of any more specific targeting and management conditionality, would do nothing to enhance these existing provisions.
- Furthermore there is a real risk that this proposal could potentially be harmful, by encouraging increased loss of grassland in the intervening period, before the 2014 reference date, as farmers seek to maximise their flexibility for cropping decisions in future. The majority of key areas are protected by the existing provisions, although we recognise that there remains a risk to some sites. There is also a significant risk to grassland created from arable reversion through agri-environment agreements that are due to expire between now and 2014, with consequent loss of the landscape, resource protection, biodiversity and soil carbon benefits that may have accrued. The Commission has proposed a way of controlling this risk in the form of a new transitional cross compliance requirement to retain permanent grass parcels in the horizontal regulation.⁵⁰ But this may not be fully effective within England as we do not currently have farm level controls on permanent pasture.

2.3.2 Crop Diversity

- A definitive assessment of the extent of change to farming systems, and therefore the extent of any associated environmental benefits, is difficult in the absence of the definition of “crop” in the Commission proposals.
- There is very limited evidence on the environmental benefits of an increase in crop diversity,⁵¹ and much depends on the choice of substitute crops. Conversely there is good evidence on the environmental benefits of crop rotation and also very positive evidence about the benefits of mixed (arable-livestock) farming systems.⁵² Unfortunately the inability to prescribe specific crops, or formal rotation, as part of the Commission proposals means that the environmental benefits of this measure are likely to be considerably reduced.
- Additionally there is a risk of the loss of small areas of arable cropping (>3ha) in predominantly grassland areas because it is impractical to manage three different crops on this scale or in some marginal areas. These cropped areas can be important for biodiversity in pastoral areas^{53,54}

⁴⁹ *National Ecosystem Assessment technical report* Ch. 6 <http://uknea.unep-wcmc.org/Resources/tabid/82/Default.aspx>

⁵⁰ Proposal for a regulation of the European Parliament and of the Council on the financing, management and monitoring of the common agricultural policy. Article 93 “In addition, as regards the years 2014 and 2015, the rules on cross compliance shall also comprise the maintenance of permanent grassland. The Member States which were Member of the Union at 1 January 2004 shall ensure that land which was under permanent grassland at the date provided for the area aid applications for 2003 is maintained under permanent grassland within defined limits”.

⁵¹ GWCT (2010). *Conserving the Brown Hare*. Game & Wildlife Conservation Trust, Fordingbridge.

⁵² EU DG ENV Contract 07.0307/2009/S12.541589/ETU/B1—Biois Final report 2010. Environmental impacts of different crop rotations in the European Union.

⁵³ Bignal, E M and McCracken, D I (2000). The nature conservation value of European traditional farming systems. *Environmental Reviews* 8 149–171.

⁵⁴ Pastoral (2003). *The nature of European pastoralism*. Information Note 3.

2.3.3 Environmental Focus Area (EFA)

- This is the one element of the Commission proposals that does have the potential to deliver significant environmental benefits. There is a robust body of evidence showing that in the UK and elsewhere in Europe, set-aside did have a positive impact on the farmed environment.⁵⁵ However, the precise potential will be determined by the interaction between the percentage EFA requirement, the eligibility of different features as a contribution to the EFA and the nature of any positive management conditionality required—all factors that remain largely unconfirmed in the proposals.

3. *The impact of additional greening requirements on food production and the competitiveness of the agricultural industry*

3.1 Consideration of the impact of greening on competitiveness could perhaps be best made in the wider context of Pillar 1.⁵⁶

3.2 A degree of impact on food production from greening is inevitable:

- The permanent grassland measure would impact unnecessarily on competitiveness as it would “ossify” land use, limiting the ability of current and future businesses to adapt and respond to the market by ploughing up grasslands of both low and high environmental value and planting crops on land that is well-suited and may have grown them in the past.
- The proposed crop diversity measure may impact on competitiveness as it runs counter to the trend towards block cropping and simplified rotations in response to economic pressures.
- The proposed EFA measure will inevitably lead to some loss of food production. The precise impact will depend on the percentage adopted and the definition of what is eligible (especially the extent to which existing features can count). Evidence suggests that environmental benefits can be delivered in ways that minimise this impact. This could be achieved by supporting additional environmental management requirements for EFA land; for example, the positive management of fallow land, eg by planting and managing a pollen and nectar seed mix. It is less obvious that EFA will impact on the competitiveness of farming except on the most intensive farms on the best land. Precision farming techniques tend to show that for most farms there is a percentage of the land where the cost of the inputs outweighs the return. We feel that there may even be some potential for “win-win” outcomes in this area. For example via certain “smart” implementation models greening could help with soil conservation and securing populations of beneficial insects.

4. *Consistency of the greening proposals with the CAP simplification agenda*

4.1 The addition of greening in Pillar 1 will not make CAP simpler. However, experience from current delivery has demonstrated that delivering environmental benefits effectively is inherently complex so a degree of additional complexity is to be expected. The question is whether the additional complexity of the Commission’s proposals would be justified by improved environmental outcomes. On this point we note the useful guiding principal that is provided in the March 2011 Agriculture Council paper on simplification, which was roundly supported by the UK and around three-quarters of EU Member States, it reads: “An acceptable justification for increased cost might include better targeting of funding towards the provision of public goods, or a reduction in risk to EU funds—providing these benefits exceed the costs of achieving that.”⁵⁷

4.2 Agriculture is diverse and complex across the EU and agricultural interaction with the environment adds to that complexity. Establishing simple and standardised approaches across the EU is therefore a real challenge especially in seeking solutions where all farm systems and all environmental circumstances will add real value. The best that can be expected is a foundation on which more complex and targeted management could be delivered.

4.2 Greening proposals would inevitably add to the overall level of complexity. From a delivery body perspective the addition of greening in Pillar 1 is likely to add complexity in the following ways:

- Delivering environmental management through a combination of annual and multi-annual agreements, with the cross-checks necessary to ensure consistency between these.
- Identifying, mapping and measuring EFA features.
- Managing the transition from the current programme.
- Monitoring Pillar 1 and Pillar 2 compliance.

⁵⁵ Set-aside: conservation value in a changing agricultural landscape—Agriculture Ecosystems and Environment have published as a Special Issue (Vol 143, Issue 1, September 2011) Guest Editors Morris & Báldi.

⁵⁶ Direct Payments in the CAP Post 2013 (2011). Tangermann, S, Department of Agricultural Economics and Rural Development, University of Göttingen, Germany, report for the European Parliament.

⁵⁷ Note submitted by the Netherlands and Danish delegations to the Special Committee on Agriculture on 7 March 2011 entitled “Simplification of the Common Agricultural Policy beyond 2013”, 7206/11, AGRI 181, p 3, <http://register.consilium.europa.eu/pdf/en/11/st07/st07206.en11.pdf>

5. *How greening pillar 1 can be made coherent with agri-environment schemes*

5.1 Depending on which greening proposals are agreed, it seems clear that it will be useful to clearly define the interface between agri-environment schemes and greening. If it is possible to design a greening package that delivers the area that is currently delivered by ELS then it will also be possible to design schemes that would provide incentives to positively manage this area for the environmental benefits it can provide. This would restrict the role of Pillar 2 to that of offsetting the costs of additional positive management.

5.2 Natural England has previous experience of using agri-environment options as “top-ups” to pay for additional management on features which have been taken out of production under other measures. ELS was designed to provide a limited range of top-ups on set-aside land, for example, allowing for top-up payments to encourage the use of this land for growing wild bird seed and pollen and nectar mixes.

5.3 We note that various transitional issues could be addressed to maintain existing agreements and phase changeover.

6. CONCLUSION

6.1 The Commission’s ambition to generate greater environmental outcomes in the CAP, including the ambition to get action across the whole of the farmed environment is backed up by evidence of need. In England, action at this sort of scale is likely to be required if we are to hit the targets set out in the England Biodiversity Strategy “Biodiversity 2020”.

6.2 The current proposals may not be the most efficient or effective way of doing this, either in England or across the EU, as they could lack the important flexibility to target and to tailor eligibility—and are limited by their annual non contractual nature.

6.3 We note that through the current experiences of the Campaign for the Farmed Environment, England could offer some very “real time” practical and pertinent lessons around the potential for environmental delivery in the absence of conditions attached to direct payments.

6.4 The limitations of Pillar 1 funding (annual, non-contractual etc) mean that it is not the ideal mechanism for supporting complex, multi-annual, locally specific environmental management. Experience to date, and the available evidence, suggest that Pillar 2 is likely to be a more effective mechanism to deliver environmental outcomes.

November 2011

Written evidence submitted by the Department for Environment, Food and Rural Affairs (Defra)

INTRODUCTION

1. The EFRA Committee’s inquiry will allow consideration of the impact and effectiveness of the European Commission’s proposals to green Pillar 1 of the CAP and a welcome exploration of the scope for possible alternatives.

2. The Government is in favour of a greener CAP, with a greater proportion spent on public goods, including improved environmental outcomes such as supporting biodiversity and climate change mitigation. Agri-environment schemes within Pillar 2 are the best way to deliver meaningful environmental outcomes, as programmes can be tailored to local conditions and commit farmers to taking environmentally beneficial actions over a reasonable period of time. However, the Government is also willing to consider alternative approaches, provided that they deliver good value for money.

THE COMMISSION’S PROPOSAL

3. The Commission’s proposals for new rules on direct payments include a requirement for Single Payment Scheme recipients to observe (where applicable) three environmental practices, intended to be beneficial to climate change mitigation and the environment, in return for a payment financed from 30% of the national direct support ceiling. The specific practices are as follows:

- Crop diversification: at holding level arable land of more than three hectares must have at least three different crops. None of the crops should cover less than 5% and the main crop should not exceed 70% of the arable land.
- Permanent grassland: farmers must retain areas under permanent grassland (as declared in 2014).
- Ecological Focus Area (EFA): an area equivalent to at least 7% of a farmers’ eligible hectares (permanent grassland is excluded from the calculation) should be used for ecological purposes. Habitats and features that would be eligible to fulfil the EFA requirement may include: fallow land, terraces, landscape features, buffer strips, and areas afforested under pillar 2.

4. Participants in the proposed small farmers’ scheme are exempt and organic farmers will automatically receive the greening payment.

5. Those farmers fully or partially in Natura2000 will need to meet the greening measures, in as far as they are consistent with their Natura2000 management requirements.

Whether the proposal to green direct payments will generate significant environmental benefits

6. We welcome the Commission's ambition to generate greater environmental outcomes in the CAP. However, as currently proposed the Commission's measures are unlikely to deliver additional environmental benefits across the EU because, in attempting to make them applicable across all Member States, they are far too basic in their approach. Moreover, because they will have to be applied as annual measures on a non-contractual basis they will be less effective in ensuring targeted, long term, guaranteed environmental management of the farmland. Consequently, in our view, they fall short of delivering the level of environmental outcomes achieved by England's current Entry Level Stewardship scheme which delivers a basic level of environmental outcomes across 70% of England's agricultural area covering a range of objectives including climate change mitigation, water quality and biodiversity.

THE COMMISSION'S IMPACT ASSESSMENT

Benefits

7. The Commission's impact assessment does not provide strong evidence for the environmental benefits of the proposed greening measures. There is evidence that EFAs could provide benefits in terms of biodiversity, soil quality and potentially lower carbon emissions. However, it is noted that these benefits will be dependent upon which features are included in EFAs. It is argued that there could be reduced carbon released from land by reducing ploughing up of permanent grassland, alongside benefits in biodiversity, soil quality, and so on. However, much of this is based on the premise that specific parcels of grassland would be maintained over a lengthy period of time, rather than that the overall quantity of grassland is kept constant over time. (It is not evident that the proposal would have that effect). Neither does the impact assessment tackle the issue of additionality, ie the extent to which permanent grassland would be managed differently to the way in which it would be managed without this policy change. No evidence is given to support the environmental benefits of crop diversification. Instead the impact assessment is still focused on the former proposal of crop rotation.

Costs

8. The Commission estimates the areas of UK farmland affected by greening measures to be relatively small. For example, they estimate 0.5% of potentially eligible area (PEA) would be forced to diversify and 1% to 2.3% of PEA would need to be set aside after accounting for already fallow land. There is estimated to be an opportunity cost of maintaining permanent pasture for 8% of PEA.

9. The costs per hectare of PEA of each greening measure are estimated to be 0.6 euros for crop diversification, 4 to 10 euros for EFA (for 5% and 10% EFA thresholds respectively) and 27 euros for permanent pasture. It is important to note a few things in interpreting these results.

- First, this is the cost spread across all areas of eligible land, not the cost per hectare of land that needs to change to meet a specific requirement.
- Secondly, it is not clear what has been counted as separate crops eg whether spring and winter barley count as separate crops.
- Thirdly, the quantity of land involved in conversion to EFA (and therefore the costs) is based on the land required to meet the threshold minus land already left fallow. If more features were permitted to count as EFA, eg hedgerows, then a smaller area would face extra cost due to this measure and therefore cost per hectare of PEA would be lower.
- Fourthly, the cost estimates of permanent pasture are not comparable to those of the other measures. They reflect the opportunity cost of not being able to convert grassland to its next best uses, not actual costs faced.
- Fifthly, the burden of costs will vary amongst UK farmers. For example, the Commission highlight that highly specialised cropping farms are expected to be most affected by diversification and livestock farms are more likely to be affected by the permanent pasture requirement.

10. The Commission also estimates wider impacts on commodity prices through changes in crop production due to the crop diversification and EFA requirements. Livestock farms are highlighted as potentially facing higher input costs as the price of feed increases.

OUR INTERIM ASSESSMENT

11. The lack of detailed eligibility conditions (to be agreed in implementing regulations and delegated acts) makes a definitive analysis difficult. However, our assessment suggests the following:

(a) Crop Diversification

12. Introducing a variety of crops into production can have a number of positive environmental effects for example on soil quality and protection. It can also prevent the build up of crop-specific pests and weeds.

Further, diversification can have benefits for both landscape character and biodiversity where there is a predominance of one or two crops. The precise benefits are highly dependent on which crops are adopted and how they are rotated. However, as the Commission itself recognises, the environmental and agronomic benefits of this measure are severely limited by the inability to specify the crop because of World Trade Organisation (WTO) constraints on direct support for production and by the inability to require rotation because of the practical difficulties of administering and enforcing this as an annual measure in Pillar I.

(b) Retention of Permanent Grass

13. Protecting permanent grassland can have benefits for biodiversity, historic interest, landscape character, climate change mitigation and resource protection. The extent of the benefit realised by this greening option, however, would depend on how permanent grassland is defined and what management practices are permitted. The current definition of permanent pasture in the draft regulations does not distinguish between valuable permanent pasture which is rarely, if ever, cultivated or re-seeded and more likely to consist of semi natural vegetation and less valuable pasture which is periodically cultivated or re-seeded.⁵⁸ This undermines, if not negates, many of the potential benefits. A measure which sought to protect this higher value pasture and maintain it under management would benefit soil and resource protection, help store carbon and ensure the maintenance of a significant biodiversity resource.

14. Instead the Commission proposals add little by way of environmental outcomes to the provisions already present in the CAP regime. The Commission proposals essentially place the national requirement for Member States to ensure that the ratio of the land under permanent pasture at national level in relation to the total agricultural area should not fall below 10% (compared to the baseline year) at the farm level. However, without also distinguishing higher value pasture the measure is unlikely to provide additional environmental benefit.

15. The current CAP control on permanent grassland operates at a Member State level. This permits cultivation and re-seeding of grassland, and limited production of some forage crops. The Commission's proposals imply that a restriction will apply at an individual farm level in 2014 and 2015. The precise nature and impact of the control is unclear, but the inference is that farmers may no longer be able to plough this grassland. Consequently some farmers are considering taking pre-emptive action in the short term to avoid the risk of possible restriction in the future. This threatens to damage old unploughed grassland that may have become an important carbon store as well as developing an environmental value. Although there are potential mechanisms in place such as the Environmental Impact Regulations (applying to semi-natural habitats only) that may limit some of this damage, there are concerns that damage will result as a consequence of giving notice of the proposals and the apparent selection of a future baseline. The Commission has indicated that it intends to roll forward the current cross-compliance rule on permanent pasture in order to mitigate this.

(c) Ecological Focus Areas

16. This measure, depending on detail, could have benefits for biodiversity, resource protection, landscape character and greenhouse gas emissions. The extent of those benefits is critically dependent on the final percentage requirement for EFA, the targeting of the areas and the eligibility of different features as contribution for the EFA requirement. However, there would have to be sufficient Member State discretion allowed to ensure the measure could be applied in ways appropriate to specific national circumstances and environmental priorities. In such circumstances the potential environmental benefit of EFA could be significant.

(d) Other Considerations

17. The 30% of Pillar 1 devoted to greening will vary in size between Member States depending on the size of their Pillar 1 allocations. The costs of implementing greening also vary considerably between Member States. In the UK this could mean a payment of around £50–60 per hectare (though this is a very rough estimate depending on assumptions about Pillar 1 allocations which are far from settled), considerably more than the £30 per hectare payment rate used for Entry Level Stewardship. However, the size of the greening payment does not reflect, nor attempt to reflect, either the cost to farmers of the greening requirements or the benefits to the public of greening.

18. WTO rules require that agri-environment schemes in the so-called Green Box (as current schemes such as Environmental Stewardship are) pay only for the income foregone by the land owner/manager, the additional costs incurred and the transaction costs. The implication of the Commission's Impact Assessment is that they intend to get around this, by not declaring the greening payment as an agri-environment scheme but instead as an income support scheme. It remains to be seen if this is really credible. Declaring greening as an income support scheme also comes with rules to fit within the WTO Green Box—primarily, that the payment cannot be tied to production or factors of production. This therefore limits what greening, as envisaged by the Commission, can ask of farmers and achieve for the environment.

⁵⁸ Article 4 (h), COM(2011) 625/3.

The impact of additional greening requirements on food production and the competitiveness of the agricultural industry

19. A concern about the impact of greening on food production and competitiveness comes from the proposal that farms should have 7% of their agricultural area as an EFA. If this means simply increasing the amount of productive land out of production, this could decrease the amount of food produced by EU farms. This could then have the effect of increasing grain prices and also the price of livestock sector outputs through an increase in their feed costs. The EU's net trade position might be expected to worsen due to lower production. For example, its exportable surplus in grain would be expected to diminish. Careful consideration therefore needs to be given to the proportion of land which should be managed as EFAs.

20. The degree to which EFAs will require productive land to be taken out of production will be a factor of the features which would be allowed to count towards the total. Additionally, the proportion of land which should be set aside as EFA could be mitigated by the type and extent of environmental management which should be undertaken on them. In short, the size of the EFA could be traded off against the amount of environmental management that takes place in it.

Consistency of the greening proposals with the CAP simplification agenda

21. The CAP has become complex and cumbersome to administer, leading to significant costs to national governments and to farmers, who have to comply with complicated legal requirements. The UK is committed to the goal of a CAP that is significantly simpler overall for farmers, administrators and paying agencies and that can be operated more cheaply and more efficiently than the current regime.

22. The direct payments proposals are a great deal more complex than before and applicants will face greater risk of inadvertent errors resulting in significant financial penalties. In particular instead of the single top slice of direct payments allowable under article 68 at present the new single payment scheme would now have potentially four top slices (for small and young farmers, an optional payment for Areas of Natural Constraint (ANC) and greening).

23. The greening proposals themselves create further complexity and are likely to add additional administrative burden to farmers and paying agencies with little by way of offsetting environmental gains. The crop diversification proposal for example appears at odds with the simplification agenda for the customer. Enforcement of this provision could require validation that farms have arable land consisting of at least three crops none of which cover less than 5% of the arable land with the main one not exceeding 70% of the arable land. The scheme that preceded the Single Payment Scheme had 135 crop codes and the move to fewer codes under the Single Payment Scheme was a welcome simplification for customers which reduced the scope for audit criticism where they had entered the wrong land use code. At present a single land use code "OT1" covers arable crops in England. Potentially additional codes might need to be reintroduced in order to differentiate between different crop types. Initial analysis suggests that approximately 71,000 claims contain at least some arable land and might have to use additional land use codes.

24. On permanent pasture the reference area would under the proposals be evaluated on a holding basis rather than on a national basis, as at present. Arguably the existing national requirement to maintain the area of permanent grass, coupled with the Environmental Impact Assessment provisions already provide a more specific safeguard, especially for higher environmental value grassland that is not covered by statutory designations. These arrangements are well established, simpler to administer and have given rise to no particular concerns about the retention of permanent pasture.

25. The percentage based quantification of Ecological Focus Area will add complexity to claim processing. Even if there was simply a basic requirement to take a certain area of land out of production, with no specific management requirements, a certain amount of complexity would still arise from the need for accurate calculation of the eligible area.

How greening pillar 1 can be made coherent with agri-environment schemes,

26. There are a variety of ways in which greening could be made coherent with agri-environment schemes. Some have already been suggested as possibilities. For example receipt of greening in Pillar 1 could be made conditional on participation in entry-level type agri-environmental schemes (under Pillar 2). Alternatively some form of entry-level environment scheme membership in Pillar 2 could be considered sufficient condition for receipt of greening payments—effectively a derogation from the greening requirements. Or Member States could be given significantly greater flexibility to design stringent greening requirements that suit their own conditions and avoid unnecessary burdens of farms. However, none are without their disadvantages and will vary as to the additional environmental benefit they bring to the CAP, the potential legal constraints they face, and the value for money they represent.

27. The UK wants to be able to continue its ambitious agri-environment programme. We recognise that there is concern about how the greening of pillar would relate to agri-environment schemes. If greening measures similar to those proposed by the Commission are finally adopted, agri-environment schemes, and ELS in particular, will inevitably need adjustment in order to reflect the legislative baseline measures in Pillar 1 either under cross-compliance or through greening.

28. If that is the case we will want to ensure there is an appropriate and acceptable balance between the potential environmental benefit on the one hand and degree of delivery disruption on the other. It is too early to say how this would be done in practice but, while we need to comply with the regulations, we would want to ensure farmers, land-mangers and other stakeholders are properly involved and consulted and that we manage the negotiations and policy development in a way that ensures that agri-environment agreements holders continue to be paid for environmental land management measures they deliver over a number of years that go beyond the requirements of Pillar 1 and are not left worse off or penalised for having entered into agreements. We would seek to ensure that any adjustments that would absolutely have to be made to existing agreement would be made in a way that would not require farmers to take land out of production beyond the future requirements of cross-compliance and/or “greening” measures.

Recommendations for improving the greening proposals.

29. A CAP which delivers greater environmental outcomes through expenditure on public goods is best delivered through Pillar 2 where programmes can be targeted at local conditions, be both multi-annual and contractual, and offer better value for money. If additional environmental measures are to be included in Pillar 1 they must, at minimum, deliver meaningful environmental outcomes and provide a strong base for actions under Pillar 2.

30. The option of transfer of funds from Pillar 1 to Pillar 2 is not covered by the Committee’s questions. The Commission proposals now provide for up to 10% transfer from Pillar 1 to Pillar 2 alongside greening. Flexibility to move resources between pillars is potentially the most flexible mechanism available to Member States to maximise the environmental outcomes from the CAP and the one delivering both the most additionality and the least disruption to existing agreements.

31. With regard to improving the greening proposals themselves, the extent of additionality of any greening is a key consideration. Greening options with low or no additionality represent poor value for money and will make little contribution to the overall environmental outcomes of a reformed CAP. Options with high additionality would underpin and provide a baseline across the EU for more focused and targeted agri-environment schemes potentially providing greater ambition and scope for expansion of activity within Pillar 2.

32. We recognise that there is a difficult balance to strike between achieving the Commission’s laudable aims of enhancing environmental outcomes most effectively and adding too much administrative burden. However, we do not think the Commission’s greening proposals find the right balance between complexity and additional environmental outcomes.

33. Providing more flexibility for Member States to define land to be included in the Ecological Focus Area, and management practices appropriate in their countries; whilst removing those elements of the proposal which offer least for the environment (such as crop diversification), might offer some scope for redressing some of that balance.

November 2011

Further supplementary evidence by Defra

1. Please could you provide a list of the engagement meetings with other Member States or with the European Parliament that Defra has participated in at a ministerial level and at official level since the draft CAP legislative proposals were published. Please could you provide a similar note setting out the bilateral meetings that took place in advance of the last CAP reform in 2003 [Q 164]

Ministerial Engagements with other Member States and the European Parliament since 12 October 2011

KEY

ALDE: Alliance of Liberals and Democrats (European political party)

COMAGRI: European Parliament Committee on Agriculture

ECR: European Conservatives and Reformists (European political party)

EP: European Parliament

DP: Direct Payments regulation

Council: (attended by the Agriculture Ministers of each EU Member State)

Finance and Controls: Finance and Controls horizontal regulation

MoS: Minister of State for Agriculture

MS: Member State

RD: Rural Development Regulation

SCA: Special Committee on Agriculture (attended by director and UKRep counsellor, and equivalents from each EU MS)

sCMO: Single Common Market organisation regulation

SoS: Secretary of State for Environment, Food & Rural Affairs

Stockholm Group: Pro-reform like-minded member states group comprising Denmark, Sweden, Netherlands, Czech Republic, Estonia, Latvia, UK and Germany (observer)

WG: Working Group (attended by Defra regulation leads and equivalents from each EU MS)

| | | |
|------------------|--|------------|
| <i>October</i> | | |
| 20–21 | Agriculture Council—MoS and SoS | Luxembourg |
| | SoS—Aigner (Germany) bilateral | |
| 20 | Like-minded Ministerial Dinner—MoS with Dutch, Danish and Swedish counterparts | Luxembourg |
| <i>November</i> | | |
| 7 | CAP joint debate at the European Parliament with the Commission and Presidency—MoS | Brussels |
| 14–15 | Agriculture Council—MoS and SoS | Brussels |
| | SoS—Ciolos (Commission) and Devolved Administrations Bilateral | |
| 28 | European Affairs Sub-Committee Berlin Visit | Berlin |
| | MoS—Kloos (Germany) bilateral | |
| 28 | Westminster Food & Nutrition Forum—Lord Taylor (attended by UK MEPs and EU MS Embassy representation) | London |
| <i>December</i> | | |
| 15–16 | Agriculture Council—MoS and SoS | Brussels |
| <i>January</i> | | |
| 11 | MoS visit to all key MEPs in COMAGRI (including all UK Conservative ECR MEPs, chair De Castro, rapporteurs Dantin, La Via and Capoulas Santos) | Brussels |
| 21 | SoS attendance at the 4th Berlin Agriculture Ministers' Summit | Berlin |
| | SoS—Seeder (Estonia) bilateral | |
| | SoS—Aigner (Germany) brush-by | |
| 23–24 | Agriculture Council—The Single Common Market Organisation, including sugar, crisis instruments and producer organisations. | Brussels |
| 30 | MoS visit to the Czech Republic | Prague |
| | MoS—Bendl (Czech Republic) bilateral | |
| <i>February*</i> | | |
| 21–22 | National Farmers Union conference | Birmingham |
| | SoS—Agriculture Commissioner Ciolos bilateral | |
| | MoS—de Castro (COMAGRI chair) | |

*Agricultural Council due in February cancelled by the Presidency

Officials' engagements with officials from other Member States and the European Parliament since 12 October 2011

| | | |
|----------------|--|-----------|
| <i>October</i> | | |
| 19 | Pre-Council videoconference with German officials | London |
| 20–21 | EU budget conference on the Multi Annual Financial Framework 2014–2020 (co-hosted by the European Commission and the EP) | Brussels |
| 21 October | Officials meeting with Dutch colleagues | The Hague |
| 24 | SCA | Brussels |
| 27 | CAP allocation seminar for national experts | Brussels |

November

| | | |
|-------|--|----------|
| 9 | Rural Development WG | London |
| 9–10 | Single CMO WG | Brussels |
| 11 | Pre-Council videoconference with German officials | London |
| 17–18 | Direct Payments WG | Brussels |
| 21 | SCA | Brussels |
| 22–23 | Rural Development WG | Brussels |
| 23 | Finance Reg WG | Brussels |
| 23–24 | Single CMO WG | Brussels |
| 25 | Egmont—Royal Institute for International Relations seminar “The CAP POST-2013: More equitable, greener and market-orientated?” organised with the Polish Presidency | London |
| 28 | SCA | Brussels |
| 28 | Direct Payments WG | Brussels |
| 30 | Rural Development WG | Brussels |

December

| | | |
|-----|--|----------|
| 1 | Conference on risk management in CAP 2020 | Warsaw |
| 7 | Rural Development WG | Brussels |
| 7–8 | Single CMO WG | Brussels |
| 8 | Rural Development and Single CMO discussions with ECR group coordinator and ALDI agriculture spokesperson’s office | Brussels |
| 12 | SCA | Brussels |
| 16 | Finance Reg WG | Brussels |
| 19 | “CAP Reform Through Analytical Lenses” meeting organised by the EP COMAGRI, European Commission DG Agri, and the Polish Presidency | Brussels |

January

| | | |
|-------|---|----------|
| 9 | SCA | Brussels |
| 12 | Direct Payments WG | Brussels |
| 16 | SCA | Brussels |
| 17 | SCMO WG | Brussels |
| 17–18 | Rural Development WG | Brussels |
| 18 | AGRIFIN | Brussels |
| 19 | Meeting with DG AGRI to discuss the Rural Development regulation and the Horizontal Finance and Controls Regulation | Brussels |
| 20 | Direct Payments WG | Brussels |
| 30 | SCA | Brussels |
| 30–31 | Rural Development WG | Brussels |
| 31 | SCMO WG | Brussels |

February

| | | |
|-------|---|------------------|
| 1 | sCMO WG | Brussels |
| 3 | Meeting on Greening & DP with French officials | Paris |
| 3 | Stockholm Group Meeting on greening | Tallinn, Estonia |
| 6 | SCA | Brussels |
| 10 | Direct Payments WG | Brussels |
| 13 | SCA | Brussels |
| 13 | Finance and Controls WG | Brussels |
| 16 | Rural Development WG | Brussels |
| 17 | SCMO WG | Brussels |
| 20–21 | Direct Payments WG | Brussels |
| 22 | Rural Development WG | Brussels |
| 27 | SCA | Brussels |
| 28–29 | CAP Communications Group | Paris |
| 28 | Direct Payments Seminar organised by the Slovenian government | Brussels |

ADDITIONAL NOTES

In addition to the above engagements, UKRep staff have daily meetings with key MEPs in the European Parliament and attend all possible monthly and additional meetings of the Committee on Agriculture (COMAGRI) to provide the link between the Parliament and Defra. The UK provides briefing before each

session. Officials meetings with Commission staff have not been included in the list of engagements, nor have Organisation for Economic Co-operation and Development engagements, which have not formally include CAP in meeting agendas up to now.

It is not possible to provide a note setting out the bilateral meetings that took place in advance of the last CAP reform in 2003. This would involve a significant investment of staff time researching this information in closed files and divert staff from working on the current Commission proposals.

2. Could you advise how many Agriculture Council meetings where the CAP will be discussed you expect will have been held between date of the Secretary of State's evidence session with us and the expected date of agreement of the CAP

During the Danish Presidency the CAP will be discussed 6 times (see list of dates and indicative agendas below).

The Presidency concludes at the end of June but we expect Council discussions on CAP to continue into 2013 and to conclude sometime next year. It is likely that CAP will appear on most (monthly) Agriculture Council agendas until the agreement is reached.

| | |
|---------------|---|
| 23 Jan | 1. Proposal for a Regulation of the European Parliament and of the Council establishing a common organisation of the markets in agricultural products (Single CMO Regulation) (reform package)— <i>Orientation debate</i> |
| February | 1. Agriculture Council (cancelled by Presidency) |
| 19–20 March | 1. Proposal for a Regulation of the European Parliament and of the Council establishing rules for direct payments to farmers under support schemes within the framework of the common agricultural policy (reform package) 2. Proposal for a Regulation of the European Parliament and of the Council on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) (reform package)— <i>Orientation debate</i> 3. Simplification of the CAP |
| 26 & 27 April | 1. Proposal for a Regulation of the European Parliament and of the Council establishing rules for direct payments to farmers under support schemes within the framework of the common agricultural policy (reform package)— <i>Orientation debate</i> 2. Proposal amending Council Regulation (EC) No 1290/2005 of 21 June 2005 on the financing of the common agricultural policy (transparency)— <i>Presentation by the Commission + Orientation debate</i> |
| 14–15 May | 1. Proposal for a Regulation of the European Parliament and of the Council establishing rules for direct payments to farmers under support schemes within the framework of the common agricultural policy (reform package) 2. Proposal for a Regulation of the European Parliament and of the Council on the financing, management and monitoring of the common agricultural policy (the horizontal regulation) (reform package)— <i>Orientation debate</i> |
| 12 June | 1. (poss.) Reform of the Common Agricultural Policy— <i>Progress report</i> |
| 18–19 June | 1. Proposal for a Regulation of the European Parliament and of the Council on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) (reform package)— <i>Orientation debate</i> 2. Reform of the Common Agricultural Policy— <i>Progress report</i> |

3. The Committee requested a short note explaining the timing of key decisions during the last major round of CAP reform

The table below summarises the key decisions that have been taken on CAP reform since the MacSharry Reform in 1992 until the current proposals. It includes key decisions on the last major round of CAP reform in 2005.

| <i>EU process</i> | |
|-------------------|--|
| 1992 | MacSharry Reform —in run up to the conclusion of the Uruguay Round of the GATT, significant reductions in market price support agreed under the CAP in return for compensation (direct payments) paid on a per hectare or per head of livestock basis. Introduction of “accompanying measures” including agri-environment schemes. Expenditure under these schemes during 1992–99 was used as the basis for “historical” EU15 rural development allocations for the period 2000–13. |
| 1999 | Agenda 2000 —Cereals intervention prices cut by 15%, beef intervention price cut by 20% over 3 years and dairy prices cut by 15% over 3 years (albeit delayed until 2005–08). Further direct payments as compensation. Agreement that should be a mid-term review in 2002–03 (gave rise to decoupling—see below) Introduction of first Rural Development Regulation (1257/99) which brought together range of measures for the first time—establishment of Pillar 2 of the CAP. |

| <i>EU process</i> | |
|--------------------------|--|
| 2002 | Chirac and Schroeder agree on the “Brussels ceilings” for Pillar 1 of the CAP through to 2013 (P1 expenditure to fall by 1% p.a. in real terms). This paves the way for a deal at European Council on the 2004 enlargement at European Council, brokered by the Danish Presidency. It also effectively pre-empted the 2005 FP Budget negotiations |
| 2003 | Significant CAP reform deal —Member States (MSs) agree to the decoupling of (a large proportion of) direct payments. NB a useful reform, reducing economic distortions but also a good deal for farmers—they receive the same amount of money, with fewer conditions. Introduced “compulsory modulation” for EU15—transferring funds from P1 to P2. |
| 2004 | EU enlarges from 15 to 25. Introduction of Single Area Payment Scheme (SAPS) for eight of the EU10. |
| June 05 | Agreement of new Rural Development Regulation for 2007–2013 (1698/2005). Luxembourg unable to agree financial perspectives (FP) package under their Presidency. |
| Dec 05 | UK publishes a CAP Vision Paper in the run up to the FP deal, calling for the phase out of Pillar I (direct payments and market price support) by 2015–20. While this vision was not supported by the Commission, the majority of MSs or many domestic stakeholders it changed the terms of the debate on CAP reform , focusing on the big picture rather than the traditional approach of looking at how to cut the next slice of salami. The Vision Paper put a lot of evidence into the public domain, but it was silent about the way that the Pillar I transition might be managed, and said little about Pillar II, except to endorse the notion of public money for public goods. Future deal on financial perspectives for 2007–13 agreed under UK Presidency. ⁵⁹ The deal on the CAP was criticised (by some) for protecting Pillar 1 and cutting Commission’s proposed budget for Pillar 2. It also contained controversial provisions to continue to allow for Voluntary Modulation VM—the practice of “top slicing” a proportion of national Pillar 1 receipts and moving the amount into Pillar 2)—crucial for UK, who is the only MS to use VM. |
| March 06 | French publish a 5 page CAP memorandum (key themes—stabilisation of agricultural revenue and CAP simplification), to which 11 other MSs sign up and four additional MSs support verbally in Council. ⁶⁰ A riposte to the UK’s CAP Vision. |
| Sept 07 | Sarkozy speech on the CAP at Rennes . Widely interpreted (even in the FT initially) as sending reformist signals. But the four key words were “ambitious budget” and “community preference” . |
| Oct 07 | October 2007—Publication of UK’s Global Europe document on free trade and openness, and the future focus of the EU Budget, both of which supported UK’s CAP reform proposals. |
| H1 08 | International commodities crisis —world agricultural prices for grains and oilseeds peaked July 08, but higher agricultural prices and higher energy prices still feeding through to food price inflation thereafter. Raft of international activity. |
| May 08 | Chancellor writes to ECOFIN in May , highlighting amongst other things, (1) the incongruity of continuing to apply high levels of agricultural import tariffs at a time of high food price inflation, and (2) the ongoing need to reform the CAP. Useful language (the need for a more market oriented agricultural sector in the EU etc) in the food prices note from June ECOFIN to June European Council. |
| June 08 | The UK’s Budget Review Response was purposefully quiet about the CAP emphasising instead a positive agenda and the scope for “principled spending” through the EU budget. |
| <i>French Presidency</i> | |
| July 08 | July 2008, DDA negotiations fail —a deal would have placed pressure on the remaining market price support arrangements under the CAP. |
| Aug 08 | The French Annecy paper is published to tee up discussion on the CAP post 2013 at the Agriculture Council informal at Annecy later in September . It pushes goals on food safety, food security, territorial cohesion and climate change/environment. The paper argues that direct payments are justified by differences in regulatory standards between EU and 3rd countries, and majors on risk and crisis management. French are seen as laying the ground for possible Council conclusions on the principles that should guide the future of the CAP . A related key development at Annecy is the emergence of the new MSs as a bloc calling consistently for the equalisation of direct payments across the EU. |
| Nov 08 | CAP Healthcheck deal—a 2nd order reform—tweaking of existing instruments within existing budgets. |
| Nov 08 | Special Agriculture Council on Future of the CAP . Proposed Council conclusions not agreed by all MS (UK, SE and Latvia against, later joined by DK and NL). |

⁵⁹ <http://register.consilium.europa.eu/pdf/en/05/st15/st15915.en05.pdf>

⁶⁰ Greece, Spain, Ireland, Cyprus, Lithuania, Italy, Luxembourg, Hungary, Poland, Portugal and Romania all signed up to the document, whilst Germany, Belgium, Finland and Austria were all reported as speaking up in Council to support.

| <i>Czech Presidency</i> | |
|---------------------------|---|
| June 09 | Czech Presidency tries and fails to get Ag Council conclusions on future of CAP post 2013. 6 MSs vote against and HU abstains. Importance of EU12 bloc, unhappy re P1 allocations, increasingly apparent |
| <i>Swedish Presidency</i> | |
| July 09 | L'Aquila G8 joint statement on global food security —helpful language on trade, less helpful references on addressing speculation |
| Summer | Commission draft Budget Review paper leaked |
| Nov 09 | 5 page declaration by academic agricultural economists from 22 MSs debunks the arguments for direct payments and calls for phase out of Pillar 1. |
| Dec 09 | France convenes G22 MSs to discuss dairy sector “crisis”—not agreed with Swedish Presidency. |
| <i>Spanish Presidency</i> | |
| Jan 10 | HMG Global Food Markets work (on 2008 price spikes) published |
| Mar 10 | Sarkozy calls for inclusion of agriculture in Barroso’s EU2020 strategy document (which had omitted it). |

4. The Secretary of State explained that Defra were developing a “points” system for greening activities [Q 170]. We understand this may not be ready by the 20 February deadline given above; however we would be grateful if you could keep the Committee updated as your ideas about this system develop

Negotiations on Greening involve all the Member States and the European Parliament and are at an early stage. This means that ideas are currently evolving and we will update the Committee at suitable points in those discussions.

5. Has the “points” system referred to above been discussed with the Devolved Administrations, and if so, what was their response?

Officials from Defra and the Devolved Administrations regularly exchange views on CAP Reform, including greening. The Devolved Administrations for Scotland, Wales and Northern Ireland are aware of the current Defra work on this issue.

We have yet to reach an agreed view but the Welsh Government have already made clear their view that farmers who are members of the Welsh agri-environment scheme Glastir should be considered as having met the greening requirement, as in the current proposals for those in Organic schemes.

6. Could you provide us with the figures on the uptake of agri-environment schemes referred to in Q 216

Uptake of agri-environment schemes in England as at end-January was:

| <i>Scheme</i> | <i>No. of agreements</i> | <i>Area (ha)</i> | <i>% of Utilisable Agricultural Area (UAA)</i> |
|---|---|----------------------------|--|
| Countryside Stewardship Scheme | 6,041 | 171,156 | 1.8 |
| Environmentally Sensitive Areas | 5,719 | 340,683 | 3.7 |
| Entry Level Stewardship (ELS) (including Organic ELS & Uplands ELS) | 41,458 | 5,578,268 | 60.0 |
| Freestanding Higher Level Stewardship (HLS) | 1,072 | 104,148 | 1.1 |
| Total | 54,290 | 6,194,255 | 66.7 |
| <i>No. of Uplands ELS agreements</i> | <i>Severely Disadvantaged Area (SDA) (ha)</i> | <i>% of SDA under UELS</i> | |
| 5,307 | 801,587 | 62.1% | |
| <i>No. of Higher Level Stewardship (HLS) agreements</i> | <i>HLS Area (ha)</i> | <i>% of UAA under HLS</i> | |
| 8,597 | 886,055 | 9.5% | |

| <i>No. of organic ELS agreements</i> | <i>Organic Area (ha)</i> | <i>% of UAA under organic management</i> |
|--|--------------------------|--|
| 2,398 | 237,754 | 2.6% |

In 2011–12, 972,000 ha of ELS (18%) expired and 1,082,000 ha renewed in ELS or entered ELS afresh. Consequently total ELS coverage (including OELS) has slightly increased over the 2011–12 financial year rising by 110k ha from 5,468,000 ha to 5,578,000 ha (a 2% increase). In addition, information on progress towards getting more environmentally effective options within ELS agreements will be available at the end of the financial year but current indications are good.

Uplands ELS agreement progress is as planned, with above-target numbers of applications received.

In contrast, OELS coverage has not increased. Total OELS coverage has fallen in the 11/12 financial year so far, going down by 46,000 ha from 284,000 ha to 238,000 ha (a 16% decrease). Natural England is looking at the fate of this expired land, particularly to check whether there has been a movement away from Environmental Stewardship as a whole, or simply a move from OELS to ELS.

On HLS, from 1 April to 31 January, NE had offered 2,081 HLS agreements more than any previous year's total. The area uptake is also larger than last year, but slightly below profile.

7. Could you clarify whether there will be any penalty for current agri-environment scheme members who wish to opt out before 2014 because they are concerned about the potential consequences of greening?

Ministers have already pledged to make sure that English farmers who are thinking about entering or renewing agri-environment agreements could choose to opt out without penalty if they had to make changes to their agreements as a result of CAP greening. We would not however want current agreement holders to make hasty decisions and would encourage all farmers in our schemes to continue with their agreements. Farmers wishing to withdraw from their agreements ahead of the new programme and before the five or 10 years of their agreements has expired would not be able to benefit from any penalty-free withdrawal clause and would be required to return all payments received during the life of their agreements, plus interest, in the normal way.

8. Could you clarify the meaning of the response to Q 220

If an Ecological Focus Area forms part of the greening measures under the legislation eventually agreed, there will nevertheless be some scope for it to be developed in ways which reduce the requirement for productive land to be set aside: in particular, the Commission has indicated willingness to allow the inclusion of, for example, landscape features or buffer strips; and it may be possible that features such as hedgerows could be counted in ways which reflect their environmental and landscape value, rather than just their area. The Commissioner recently indicated at the NFU Conference 2012 that he was open to investigate this sort of approach further.

9. Is Defra pressing for a greater rate of modulation from Pillar 1 to Pillar 2 than the 10% proposed by the Commission?

We have been clear in our ambitions for a future CAP. That includes improved value for money, with a higher proportion of CAP funds for delivery of public goods, such as protection of the natural environment and climate mitigation. We believe that Direct Payments under Pillar 1 should be phased out, reducing farmers' reliance on subsidies as we focus on promoting increased competitiveness and the delivery of public goods which are best achieved under Pillar 2.

The UK Government has ambitious environmental commitments, building on the success of our existing agri-environment schemes. One of the ways to ensure such schemes are resourced under a future CAP is to seek flexibilities that enable us to target funding where it can be most effective.

We note the Commission proposals provide for up to 10% transfer from Pillar 1 to Pillar 2 alongside greening. The ability to move resources between pillars is potentially the most flexible mechanism available to Member States to maximise the environmental outcomes from the CAP and the one delivering both the most additionality and the least disruption to existing arrangements. We would like the level of flexibility to transfer funds from Pillar 1 to Pillar 2 to be at least doubled.

Alongside such flexibility, we are calling for a Pillar 2 to have a greater share of a smaller CAP budget, and be distributed between MS according to objective allocation criteria.

10. *Have you received any further information from the Commission on the criteria that will be used to allocate Pillar 2 funding, and how this might affect the UK's allocation?*

We have not received further information from the Commission on the criteria that will be used to allocate Pillar 2 funding and how this might affect the UK's allocation. We are pressing the Commission to provide this information.

11. *Have you considered reviewing your plan for the future funding of the RPA if the final greening proposals look set to increase the complexity of administration?*

A Future Options Programme (FOP) is examining options for the procurement and delivery of RPA functions including the administration of the new CAP arrangements. This work is at its early stages, and no budgets for implementation have yet been set. The cost of implementing the FOP will depend on the complexity of the schemes, and one of the UK objectives will be ensure that the administrative burden on both farmers and the RPA is minimised consistent with achieving our policy objectives.

6 March 2012
