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THE FUTURE FINANCING OF THE COMMON AGRICULTURAL POLICY

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LORD WHITTY, MR ANDREW LAWRENCE and MR MARTIN NESBIT

DR JANET DWYER

Evidence heard in Public

Questions 215 - 275

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Witnesses: Lord Whitty, a Member of the House, Parliamentary Under-Secretary of State, Mr Andrew Lawrence, Head of EU and International Agriculture Division, and Mr Martin Nesbit, Head of Rural Development Division, Department for Environment, Food and Rural Affairs, examined.

Q215 Chairman: Minister, good morning. Thank you and members of your staff very much for finding time to come and see us this morning in this inquiry we are conducting into the future financing of CAP. I understand that we have 45 minutes of your time, is that right?

Lord Whitty: A little more, should you so require.

Q216 Chairman: That is extremely generous. We are live on the website. Whether the whole world will hear it or not we do not know. Would you like to introduce your colleagues and is there any opening statement that you would like to make before we start on questions?

Lord Whitty: Just very briefly, if I could take a minute or so. This is Andrew Lawrence who is Head of our EU and International Agriculture Division and Martin Nesbit who is Head of
Rural Development Division. All I would like to say at the beginning is that we are clear that the overall allocation of payments in Pillar 1 of the CAP will represent a real decline in the level of payments and also an entirely new system in that it is decoupled from production. We are therefore in a completely new era of the nature of agricultural support in the EU and therefore it is very timely that you have this intervention, but it is important also to put it into the broader context of the overall EU budget on the one hand and of the developments on world trade on the other. On the rural development side, although we are not clear what kind of ceiling would yet operate within that area, our view is that the present funding and the present requirements on that would fit within the one per cent overall budget which the EU finance ministers and our finance ministers make clear ought to be the objective of the financial negotiations, and that should deliver most of the requirements which are set out by ourselves in our memorandum to you and in the various policy statements that we have made on the CAP reform. You will be aware that the next stage of that reform will be the sugar reform where we will have a number of complications but which will be a major feature of the UK presidency of the EU in the latter part of this year. That is all I need to say now.

Q217 Chairman: We feel that we almost certainly will have to look at the sugar review question later in the year, but I thank you for that and if I could start off the questioning. Obviously in our previous discussions and oral interviews, we have heard on the one hand from the NFU and many others that they think that, for the CAP to be extended into Pillar 2 and so forth in the way that is suggested, an increase of around to 1.14 per cent of national budgets is necessary whereas the Financial Secretary told us very firmly that the figure was going to be one per cent. If the one per cent gross national income were to be the target/were to be the success, to what extent do you think the European Commission and the Council of Ministers would be able to maintain their present undertakings to the agricultural sector? Are they not likely to be compromised by a one per cent figure?
Lord Whitty: I think that the settlement and the financial discipline which goes with the settlement does envisage that there might be some significant reduction in the real value of the single farm payment and I think those who follow these things in the agricultural sector understand that. Were the overall budget beyond into the next phase to be restricted one per cent, then clearly we are further into the possibility of ceilings impacting on the real value of a single farm payment. However, in terms of the objectives that we want for CAP and for rural development, we do believe that those objectives and indeed the rest of the UK’s objectives from the EU could be managed with a one per cent ceiling operating to enforce financial discipline right across the EU budget. So, arguments between one per cent and 1.14 per cent may well be the area in which the finance ministers are negotiating at the end, but the kind of proposal which the Commission have on the table for a very substantial real increase in the budget is not acceptable and is certainly not one which the UK Government and indeed many other finance ministers would be prepared to accept. The one per cent figure is our target in those negotiations.

Q218 Chairman: Before we move on and others start questioning you, may I refer back to the speech which you gave to the Oxford Farming Conference on 5 January. In that, under the heading of “EU Budget Pressures”, you talked about, “Irrespective of wider financial reform the cap set on Pillar One expenditure by the Berlin Ceiling will be hit by about 2008 as direct payments to the 10 accession countries increase – earlier if Romania and Bulgaria are members. That of itself will mean reductions in payments but also some pressure for further reform.” I think one thing that the NFU kept on saying to us was that it did not want further reform. What is in your mind in those words “further reform”?

Lord Whitty: That was not necessarily for me to imply that I wanted further reform because I think a degree of stability for European agriculture at least on the basis of the system is highly desirable and the fact that this round of reform does run to 2013 does give a degree of stability
and fundamentally tampering with that would be a problem, but I think if we are in a situation where we hit the ceiling probably in the Commission's own calculations which are attached to our memorandum, it will actually be 2007 that we would hit the financial discipline coming into effect and of course we have to work out how we deal with Romania and Bulgaria in 2007/2008. If all those pressures were there, then the rest of the EU budget as well as the agricultural budget begins to be under strain and the internal politics of both governments and nations is going to look at the single farm payment and ask, “Is this really the way we wish to maintain for as long as 2013?” As Agriculture Minister, I must try and resist those pressures, that is not to say that some refinement could not be made, but to fundamentally adjust that picture before 2013 seems to me would be a mistake in terms of agricultural policy but I am signalling there and addressing an audience of relatively well-informed farmers there that they cannot expect necessarily that the rest of the world agrees with that or that the rest of Europe agrees with that.

Q219 Lord Plumb: If I may just ask a supplementary. Anticipating that there will be real pressure particularly from the new countries both for funding in Pillar 1 and Pillar 2, do you anticipate that there will be a renegotiation of the agreement beyond that and, if there is a renegotiation, how will that relate to the proposals that Defra are already making on the environmental schemes, those that we have already planned that we have to have? What effect will it therefore have on the budget?

Lord Whitty: On the latter point, the direct effect of the implementation proceeding on Pillar 1 payments will not have a direct effect on the Pillar 2 payments and therefore schemes that we are gearing to the expected level of Pillar 2 payments will not be affected by that. Of course, in the financial negotiations at the end of this year, there will be a ceiling to all budgets including Pillar 2 budget and we will have to fit within that, but I do not see a direct threat to the way in which our environmental stewardship schemes are being proposed. In
relation to a new negotiation, it depends what you mean by “negotiation”. Clearly, a number of things are still being negotiated in relation to reform of CAP, sugar being a big one, and there are continuously reforms, tweakings and embellishments to the CAP system which go on throughout the period. What I do not at present envisage is a fundamental review of the decoupled payment except perhaps to tidy it up and I would hope – and this may be slightly contentious – that the other countries who have based their single farm payment on purely historic payments might recognise that this is increasingly difficult to defend, but that is still within the context of a single decoupled single farm payment into which more will be piled as sugar was reformed and so on, but I would expect that structure to remain barring a major financial crisis on the budget. There are of course other things which we would like to see reformed during that period in parallel. We do not particularly like the remaining quota systems. The fact that the dairy quota has been rolled on for far too long in our view ought to be reviewed and renegotiated. Likewise, we would like to see an end of the sugar quota and others. I suspect that will take some time to negotiate. So, there will be continuous negotiations but not at this point do I envisage a fundamental review of what was agreed in 2003.

Q220 Lord Livsey of Talgarth: With regard to the way that you started off answering the question about whether the budget would be one per cent or 1.14 per cent, what is your view that many countries in the EU believe that the agreement reached in 2002 to set at 1.14 per cent? That is one part of my question and the other is, it is our understanding that only France and Germany support the view of the British Government; is that correct?

Lord Whitty: The first part is a bit of statistical argument which is still going on but, on the second point, France and Germany and Britain are a pretty hefty core of the EU vote. Our understanding is that the Dutch, most of the Scandinavian countries and one or two of the Central European countries also want a limit of that order even if they have not entirely nailed
their colours to the mast of a one per cent figure. So, robust discipline is the order of the day in probably the majority although not necessarily the unanimity of the countries and clearly some of the eastern European and southern countries are not in favour of that and the Commission’s proposals reflect that. I suspect there will be a lot of very hard negotiation to go through.

**Q221 Lord Plumb:** You have already referred to the strains on the budget which I think we can all foresee. Where would you expect the main pressures to come from? Obviously the market situation is going to have quite an effect next year and nobody can anticipate what that is going to do, but will the pressure come from there or will it come from direct subsidies or will it be allied to either of those things and the costs of course of applying the different measures to the new Member States which is again part of the unknown areas? I suppose that my question really is where you see the source of the problem in terms of budgetary pressure generally in those specific areas.

**Lord Whitty:** I think the pressures arise in all of those areas but, formally speaking, the discipline impacts on the direct support and on the market support and direct subsidies. Whilst it is true that there are cross-pressures from the ten coming in, we know what they are in terms of the CAP. The deal was done in terms of the escalation of them to meet through to 2012. So, they are not in a sense new pressures, they have to be built into the system. How we deal with Romania and Bulgaria should they come in has yet to be decided but the existing new Members are not really the problem here, the issue is whether direct subsidies do drift up to hit the financial discipline and the estimates are that it will do so in 2007 and it will therefore be mainly on the direct payments side.
Q222 Lord Lewis of Newnham: You have in part I think touched on this point. Would you expect the financial discipline mechanism to come into effect at its inception in 2007 or may it be delayed or will it not come in at all?

Lord Whitty: Our latest feeling is that it will come in probably at inception. I was being slightly more optimistic at Oxford but I think it is clear now from the Commission’s own figures that we will hit it in 2007.

Q223 Chairman: From inception?

Lord Whitty: From inception effectively, yes.

Q224 Earl Peel: Moving specifically on to the single farm payment, it has been suggested by some that the reduction in the single farm payment as a result of the operation of the financial discipline mechanism could be as much as 30 per cent by the end of the decade. If this is the case, what impact do you think this is likely to have on British farming?

Lord Whitty: I do not think the figure of 30 per cent is one that I would recognise. There are various estimates of what the financial mechanism will require to be reduced over and by 2013 but the estimate for that is the aggregate figure, not the annual figure, of €7 billion reduction which represents roughly five per cent of the total and not 30 per cent. Even taking account of Bulgaria and Romania, it would not go up that much. Thirty per cent is extremely unlikely and I cannot see how anything approaching that would occur in terms of an annual budget figure. Obviously any reduction in single payments will mean further financial challenges for European agriculture as a whole and how our British farmers react to the decoupled payment in total will depend on how they will react to a five per cent or a ten per cent cut in it. Our belief – and I think this is generally clear from the motivations and moving of the single farm payment and the completely decoupled payment – is that they would be freer to respond to the market than they would have been under the old systems and therefore
would be freer and hopefully more creative in meeting even greater pressure should the five per cent come on. A five per cent cut does not remove the very basic support which society would continue to be giving to British farming through the single farm payment which would still be there.

Q225 Earl Peel: Could I briefly press you on the question of the single farm payment because there seems to be a consensus, certainly from those we have discussed this with to date, that it is not a mechanism much loved. As I understand it, it was designed principally, although I acknowledge that there are still some direct payments, and originally designed to pay farmers to deliver an environmental service under the cross-compliance conditions that were attached to the single farm payment. Is this how the Government actually perceive it? In terms of value for money, do you think that the taxpayer is getting a good deal?

Lord Whitty: I think if it delivers both a more profitable and a more environmentally sensitive form of farming within the UK, yes, the taxpayer will get a pretty good deal and it will also remove a great deal of bureaucracy and administrative costs from the relationship between farming and Government, which will also be a pretty good deal from both ends of that relationship. When you say that it is not a loved payment, I think that the details may not be loved but the principle seems to be accruing very substantial support. When we first spoke about decoupling and a decoupled payment in 2003 even, it was pretty unpopular but gradually the majority of farmers and those who follow farming fortunes have come round to the view – and this certainly includes the leadership of the major organisations – that a decoupled payment is highly desirable and does free British farming from a number of the problems that it faced before and that the more entrepreneurial both in an environmental and economic sense will greatly benefit from that. That is not to say that everybody loves it but the principle seems to be quite well loved now compared with some other elements of Government policy. It is the conditions. Some of the conditions are regarded as either
ridiculous or burdensome and cross-compliance particularly, but I think that will sort itself out as we see how we in practice administer it.

**Q226 Earl Peel:** On that basis, given that you obviously support the principles of the Pillar 1 single farm payments, you would be reluctant therefore to see funds transferred under modulation from Pillar 1 to Pillar 2 because it might undermine the Pillar 1 objectives which you described with such enthusiasm.

**Lord Whitty:** Not necessarily. You will know that we went into the negotiations on the mid-term review as then saying that part of this should be a significant switch to rural development outcomes and away from production subsidies. The original proposition from the Commission would have gone further than was the actual outcome in that respect in terms of mandatory modulation. However, at the same time, environmental conditions were imposed on what had previously been production related subsidies. Therefore, some of the objectives of shifting money into Pillar 2 will now be achieved, at least at a minimum level, under Pillar 1. There are still desirable things that you can only do with Pillar 2 money and we would like some more of it provided the current negotiations of the rural development regulation alter the rules a little which more beneficially affect and are available to English/British rural development and farming than they have been in the past. So, whether we need more modulation or not depend a little on how successful those negotiations are but some of the original objectives for that shift have been achieved on a more widespread basis, if you like, through the single farm payment.

**Q227 Chairman:** I perhaps should just throw in, Minister, that I have letter here from our colleague Lord Marlesford saying that he had a written answer, presumably from yourself, dated 7 February that the single farm payment CAP would cost 5.7 per cent more in the first year, 2005, than the cost of IACS in 2004. So much for greater simplicity, less bureaucracy!
**Lord Whitty:** In 2005, that is probably true in the administration because we are introducing a whole new system which requires not only at the same time an IT system which, as your Lordships will know, to introduce is not exactly the easiest thing to do and therefore the costs of actually introducing a system will be very high or relatively high and also we will need to bring in information in terms of the historic entitlements under the nine different systems and some new customers, if you like, will come into the system. So, it is complicated over the next year. However, all that information will be in the system from thereon and we will be, from thereon, paying out a single payment on a single pattern of information which will normally be pre-populated once a year. So, the long-term administrative costs or the medium-term administrative costs will go down. I cannot remember whether it is in Lord Marlesford’s answer but I have given figures, with which I can provide you, of estimates of what the costs would be in 2006 and 2007.

**Chairman:** That would be helpful.

**Lord Plumb:** I am sure that the Minister has heard many times from farmers that they do not want to become a nation of park keepers, that they are farmers and they want to produce food. Nevertheless, I think Pillar 2 has an element of help in the agricultural field. I wonder if you can give us a rough guesstimate – I am sure you cannot do more than that – of what percentage from Pillar 2 would actually be used for agricultural development bearing in mind of course that there is a move and a considerable move to the use of the new entry scheme and so on which farmers will benefit from. It is very difficult to see how a farmer in fact can fully utilise that part of Pillar 2 depending on what it is actually designed for under your scheme.

**Chairman:** I think perhaps we should leave that. We are about to come on to rural development in two questions.

**Lord Plumb:** It is the agricultural portion of it that I was interested in.
Chairman: I think we will come back to that in a second. Let us finish with the single farm payment first, perhaps.

Q228 Lord Livsey of Talgarth: Minister, does your Department consider that farmers should regard the single farm payment as an income supplement or as an integral part of their operational balance sheet?

Lord Whitty: That is quite an interesting question for individual farmers and their accountants! I think what is clear, to answer a slightly different question, is that the old system whereby, if you like, their variable costs, i.e. the number of sheep they were producing and the amount of grain they had, was offset by the payment will no longer be the case. In other words, this is not a subsidy to their production levels and therefore to their variable costs. My personal view, which may not be entirely in line with the advice they are getting from their accountants, is that they should nevertheless regard this as a contribution or an offset to their fixed costs because basically it is keeping the land in good condition and the other basic things that you need to carry on farming and they should offset it against their fixed costs. That is my slightly esoteric view and it is not one that I would say is necessarily government policy. That seems to be a much better system than being stuck in working out how many sheep you have because you were getting a single farm payment set against the number of sheep. That seems to be daft because the whole point of decoupling is that you focus on what the real price is and what the real market is so that you get some fixed cost salaries, which would seem to be sensible. Putting it a building society, which is what some accountants are advising them to do, also seems to be fairly daft because it is a contribution that society, the taxpayer, the European Union will pay towards keeping farming going and avoiding abandonment of the land and so forth. I think that the best advice would be to set it against fixed cost but that is my view, it is not necessarily the Government’s view and it may not be precisely what the accountants are saying.
Q229 Lord Livsey of Talgarth: In the light of that answer, what will the implications be for farmers if the single farm payment were substantially reduced?

Lord Whitty: As I said in response to Earl Peel, clearly a five per cent reduction in the real value of it would put greater cost pressures on them but it would still be a very substantial support to their fixed costs which – and I know that farmers do not like me saying this but I do have to remind them from time to time – no other industry gets.

Q230 Lord Christopher: Is not the definitive answer to the question what the Inland Revenue says?

Lord Whitty: No because your income and your expenditure have to be set on your balance sheet somewhere and it is always hugely complicated by the fact that most farmers do other things besides farming. So, when the tax comes, it has to be taken account of and certainly the Inland Revenue have some fairly severe views on that. Conceptually, when you are planning your rough budget as distinct from your tax return – I appreciate that I am dealing with a world expert here – then we are talking about seeing it as a contribution to carrying on farming, i.e. your fixed costs, rather than a contribution towards your decisions on what you are producing and how much you are producing.

Q231 Earl Peel: Going back to what you have described, I can see great difficulties arising in the future because, as I understand it, there are quite a number of regulations and directives emanating from Europe in the pipeline which are going to be imposed on farmers. The single farm payment was designed to cover those expenses but, if that is not going to be increased, surely farmers are going to be rather worse off or considerably worse off at the end of the day when these new regulations and directives come into being.

Lord Whitty: Whether we change the system or not, these new directives and regulations will come into being and the question is whether they are better placed to deal with changing
demands of the environment and food safety and so on with a system which allows them to
decide what they produce, their method of production and so forth within those rules and the
single farm payment is not intended as a payment to comply with regulations. With one or
two minor exceptions, by and large, we do not pay people for complying with the law and
certainly it is true that the law will change and we are very much engaged with the leaders of
the farming industry to see how best those new regulations can be dealt with in an holistic
way, which is what the whole farm approach is about, and trying to minimise the number of
regulators and regulations which farmers have to deal with. Regulations will not go away and
indeed in one sense they will increase, but the way in which we actually impose them can be
made much more efficient and much more user friendly.

Q232 Baroness Maddock: Can I ask you about the future of the single farm payment. Do
you see this as becoming a permanent part of European agricultural rural policy or would you
see it as a transitional measure and would it be phased out sooner rather than late?

Lord Whitty: Nothing is permanent in the European Union. This system has been agreed to
run to 2013. It may be modified partially but I do not see it being modified drastically, as I
said in an earlier answer, over that period. I think I would be a little unwise to speculate quite
what finance ministers and agriculture ministers are going to think in 2013. I will have a go if
you like but I had probably better not on the record!

Chairman: I think that leads on to Lord Sewel’s question very neatly.

Lord Sewel: On the basis of what Lord Whitty has been saying, I am terribly tempted to
explore the differences between England and Scotland in regard to single farm payments, but
I think I will resist that temptation.

Chairman: Scotland is based on history!
Q233 Lord Sewel: Lord Whitty has made some interesting comments on how robust he thinks the historic basis is, but I will resist that temptation and go on to something else and put in some figures really because, according to the latest report from the Commission, the cost to the budget of the single farm premium to ten of the EU-15 in 2005 will be €15.1 billion of which €3.7 billion comes to the UK. Once payments are made to all 27 Members, the total annual expenditure on single farm payments will exceed €38 billion. Looking at that figure, do you believe that paying that amount to farmers each year is really politically sustainable?

Lord Whitty: I think perhaps one might query some of the precise figures. It is clear that there is a big escalation of the figures with the structure of farming and the dependence on agriculture of some of the larger new Members including Bulgaria and Romania. It is certainly not sustainable unless the public and the non-farming based political leadership can see some clear return from that in terms of the way in which we deliver the landscape and the environment and, particularly in more southern countries, avoid desertification and abandonment of land. If you can show that, I think there will be continued support for some of the system but probably not at that level of expenditure. The issue is whether the challenge to that occurs before or after 2013. At the moment, I am saying that financial discipline and other budgetary pressures plus a bit on the world trade dimension may well reduce the real value of it to some extent during the 2013 period but, probably beyond 2013, the question will be asked again, is this viable long term? Does society really wish to have that level of shift to general agricultural production? The answer may be “yes” but it may be and is more likely to be, “We will give it to some aspects of agriculture but not right across the board.” I am hugely speculating and I underline that I am talking beyond 2013. I think it would be wrong to say that there will be no appetite for continued support for agriculture across Europe at that
point because I think there will be, but the issue of what it is and how large will be an issue by that time.

Q234 Lord Sewel: Does the issue of some form of reform come about very heavily on the agenda in the lead-up to that period?

Lord Whitty: If the issue of some kind of reform does come up, then I suspect there will be pressures on other parts of the EU budget at that point. It may not be an agriculture-driven reform or a perception of an agriculture-driven reform.

Q235 Chairman: Is there not quite a real danger that, quite a long time before that, a certain number of the non-agricultural public will say, “Why is so much money being spent to give to farmers to do nothing on their land?”

Lord Whitty: The answer to that is they are not being paid to do nothing. They are being paid to keep that land available for farming and most of them will actually farm on it and indeed it is a more defensible position than saying we should pay people for the number of sheep they have whether people want to buy the sheep or not and even, if I can allude briefly to Scotland, pay people for the number of sheep they used to have! I think it is a more politically and presentationally defensible position. That is not to say that it will not come under political and presentational pressure.

Chairman: We will turn on to the subject of rural development, if we may because time is getting on. First of all Earl Peel and then Lord Plumb if he wishes to ask the question that I would not let him ask earlier.

Q236 Earl Peel: Minister, the question of rural development. The Financial Secretary has told this Committee that the UK Government’s priority for Pillar 1 is “to take opportunities
for reform within the spending limits already agreed.” What opportunities for reform might there be, do you think?

**Lord Whitty:** That relates back to what I was being asked by Lord Plumb. There is quite a lot of tidying up to do. I suspect that some of the historic element may have to be at least reduced in those countries that are going to go down that road. There is also market interference in relation to quotas. For example in dairy, there is supposed to be a limit on production but there is actually an incentive to over production, and the more quotas we can get out of the system the better. So, all of those things could be done without actually necessarily a fundamental reform and I think probably that is what the Financial Secretary was referring to, but he is also referring to what we have just been discussing in terms of the run up to 2013.

**Q237 Earl Peel:** Leading on from that, we have received evidence suggesting that there might be scope for greater modulation from Pillar 1, indeed most people seem to think this is a desirable objective, in order to support Pillar 2. Minister, do you believe that this is realistic given the historical resistance to reduction in Pillar 1 support?

**Lord Whitty:** There has been historic resistance to it and there is always historic resistance to any change. I think that if you look, for example, in Central Europe, the unnatural position would be that we have a lot of farmers, especially in Poland though the other new Member States do not have quite as many farms as people think but Poland certainly does, and we therefore have to look after the farmers and anything that moves money away from direct payments to farmers is not a bad thing, but actually the real economic problems for the rural countryside in Poland is the condition of the land and the lack of infrastructure. Actually, if Poland gets to an objective assessment, they may well want to see more money spent on those aspects of rural development than on straightforward keeping otherwise uneconomic farmers in business. Therefore, I think the pressure to defend the present system may reduce. As far
as the UK is concerned, of course we are voluntarily modulating, as are Germany, at a higher rate than the mandatory requirements and the degree to which we go down that road or indeed argue for a higher level of mandatory modulation does depend a little on what the Pillar 2 will provide, what the UK’s likely share of it is going to be and whether we can use it for our wider rural development objectives. The old system (a) did not give the UK its fair share and (b) was quite inflexible in some respects. We are having some success, but we are not there yet, in these current negotiations to improve that situation.

Q238 Earl Peel: Is there not in fact a danger that, if money is transferred from Pillar 1 to Pillar 2, it goes into the general pot and, on the Government’s concept that in fact need should be the demand rather than historical support, there is a danger that that money is actually going to move away from countries like the UK?

Lord Whitty: You are reading across the Government’s view on structural and cohesion funds into Pillar 2 whereas actually the objectives of the two are different. Within structural funds, it is certainly the Government’s view that that should be used for those regions of Europe which are the most disadvantaged, but there is also a policy objective to maintain the landscape and avoid land abandonment right across Europe which is the main Pillar 2 objective. It is a different sort of need and one which applies just as much to the northern countries as it does to some of the countries which would benefit from a more focused expenditure of the structural funds.

Q239 Lord Plumb: My question earlier was really related to the degree of diversification and diversification is something now that has been wholly accepted by the whole industry both in the use of land and also the use of buildings in order to make an income from a farming enterprise. The question, really following Earl Peel’s earlier question, is how much of Pillar 2 is really going to be used for agricultural development? I know that it is almost
impossible to say at the moment but that degree of diversification, whether it is for non-food products for instance or whether it is there for further development of the use of the land or whether it is for not farming at all but keeping the farm tidy, which is of course the responsibility of the land occupier, I think is itself important. On modulation as a whole, do you foresee this taking place on a European scale or can it be done nationally? There is a good deal of flexibility already in the whole scheme but if one country is going to modulate more than another, does this not lead to the creation of unfair competition?

**Lord Whitty:** This is one of the great dilemmas. There has been a lot of argument that we should bring more agricultural policy and rural development policy back to the national level and indeed the sub-national level. When we do it, obviously it means it is not an entirely uniform position across Europe or even, as Lord Sewel was just saying, across the UK, but that in a sense is a product of subsidiarity and, if it does create market distortion, then we have to do something under single market dimension to offset it. I think in general it is the same amount of money. It may be distributed in different ways in different countries and to meet slightly different objectives, but it is a transfer from the national share of the European budget to the rural areas and it may be spent in a different way but it is not less money or more money. For the immediate future, there is the ability, for those who have already decided to modulate voluntarily, to modulate higher than the mandatory level. That may or may not continue forever but it is there now and the UK has taken advantage of it as has Germany. One could argue that what then happens is that the rest of Europe catches up with those who have been ahead or that there is greater devolution of decisions on this and that may be a long-term position. As far as the actual balance of expenditure under Pillar 2 is concerned, then at the moment under UK plans, the bulk of it will be spent on the environmental stewardship schemes and therefore go back to land managers in that way. The proportion of the current ERDP which is actually spent on agricultural development in the commercial
sense is actually relatively small, it is less than 10 per cent, and that will probably roughly continue although there may be one or two other things added to that and also part of it is for agricultural diversification as well but the biggest single element is the agri-environment schemes.

**Chairman:** I think that we are now straying into a little bit of extra time, if we may, but we will try not to keep you, Minister, for too long.

**Q240 Lord Livsey of Talgarth:** Minister, do you agree with the increase in the rural development budget as proposed by the Commission or should increased spending for rural development only come from reductions in Pillar 1 spending and subsequent modulation? This does bear on some of the territory that we have already been over and I do not know whether the fact that your department and the Treasury produced a joint paper was for a tactical reason or whether the Treasury was in fact keeping a tight rein on your department but that is perhaps peripheral.

**Lord Whitty:** You will have to ask the Treasury that! It is just a good example of joined-up government, Chairman! The ceiling, if you like, for the Pillar 2 expenditure will be set in conjunction with the ceiling on all other aspects of EU expenditure apart from Pillar 1 which has already been set by the Berlin Ceiling. The general view is that a one per cent overall figure could allow for enough expenditure within Pillar 2 but it may not be precisely in line with that one per cent, it will be part of those negotiations. We certainly do not see the necessity for a significant external increase in Pillar 2 over and above that as part of the Commission’s proposals that there be four per cent increase, or whatever it is, increase in the budget as a whole. Rural development, which must be favoured in those negotiations, is not going to create that kind of pressure for new money and therefore any additional money over and above where it is fixed in this ceiling would have to come out of modulation in Pillar 1.
Q241 Lord Livsey of Talgarth: The one per cent which you have been advocating would surely reduce Pillar 1 spending whereas, if there were a 1.14 per cent, the pressure would not be on to do that.

Lord Whitty: I have already said that the financial discipline will reduce the real value of Pillar 1 spending. A 1.14 per cent would make it slightly less but there would still be a reduction in the real value.

Chairman: The words “financial discipline” seem to have a very well known echo.

Q242 Lord Haskins: The Treasury has talked about renationalising a lot of these fundings particularly in rural development funding. In effect, a degree of renationalising takes place at the moment because of match funding and the Treasury, for its own reasons, has been quite cautious, let us say, in the past with match funding compared with others. How do you see that is going to develop with the rural development funding becoming more important and is there effectively a case for renationalisation because we are, in a way, renationalising by the use of match funding?

Lord Whitty: We are not allowed to use the term “renationalisation” or “repatriation”, they are both politically incorrect but I know what you mean! An element of subsidiarity is achieved by the mechanism of requiring match funding and the way our colleagues in Great George Street interpret that is, if they are being asked to match fund, then it is subject to the same assessment as any other proposal for Government expenditure in terms of value for money. I have to say that under the Pillar 2 hitherto we have received, we have not actually had any inhibition on the Treasury recognising that the schemes that we have put into place are value for money, including the new entry level scheme and environmental stewardship scheme. So, whereas there may be other areas of public expenditure where the requirements on match funding may be an inhibition, we have not yet seen it in relation to what the
Treasury as well as ourselves regard as a desirable refocusing of rural support into Pillar 2. Theoretically, you must be right.

Q243 Lord Haskins: There is a suggestion that the French, for example, would be more ambitious for match funding than the British.

Lord Whitty: Yes, but that partly relates to the way in which the schemes under Pillar 2 have hitherto been couched and indeed the fact that the original allocations for rural funding were based on historic payment which were relatively small in the UK, so the fact that the French have done rather better out of it than us I think is not necessarily an indication for the future.

Q244 Earl Peel: Minister, you may be interested to know that when we asked Mark Feltham of English Nature whether the UK biodiversity action plan targets could be met under the existing Pillar 2 funding, he said that that would not be possible unless there was more money coming from the UK Exchequer and I would imagine that that would also refer to the objectives as far as Natura 2000 sites are concerned. So, clearly that is one element which is going to require additional funding from the UK if those objectives are going to be met.

Lord Whitty: We think that there will be arguments obviously for more funds on a lot of fronts but the new stewardship provisions, both on the elementary level and more specifically higher level schemes, will provide significantly more resources for biodiversity objectives. I have no doubt English Nature and others will argue that they need more but it is more than they have had

Earl Peel: That did not quite answer my question.

Chairman: Next a question from Baroness Maddock and then we will have a final question on Doha and then we will say “thank you very much”.

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Q245 Baroness Maddock: Lord Whitty, I wanted to ask really about administrative costs of schemes. How do the costs of administering the existing rural development schemes compare with administering the single farm payment in the United Kingdom? We have touched on that earlier. How is value for money assessed? Do you think that the process will need to be increasingly robust if we are going to have more money made available through rural development schemes in the future?

Lord Whitty: If the first part of the question relates to the Pillar 1 expenditure, then the new system – and this is partly elaborating what I said earlier – when it is bedded in, will have seen a reduction in the proportion or the equivalent going on administration. Before the RPA’s creation, it was roughly seven pence in the pound and it is now down to just over five pence and, with a hiccup in introducing the scheme, it will be down to four pence in 2006 and I will give you more detail on that as I promised earlier. On the ERDP, because the issue is rather different depending on the different schemes as to what the level of administrative costs are but, if you take it across the board, it was about 14 pence in the pound. As we are rationalising again in that area as well from the ten schemes which were there as higher level schemes under the old system into the entry level scheme and then into a more rationalised higher level scheme, we expect that cost to come down. I am not sure that we have very clear estimates as to the exact degree to which that will come down, but it will come down and, as regards some of the individual schemes in the past which have even higher than 14 per cent administrative costs, those kinds of figures will not be seen again under the new system.

Q246 Lord Sewel: You have spent the whole morning to a large extent identifying and quantifying pressures on agriculture expenditure and possibly the likely need for further readjustments in agriculture. Does that not make it essential to try and get more resource into rural development, the trouble being that rural development, as defined in the European context, does not actually deliver much in terms of economic and social development in rural
areas? It gives a lot in terms of agri-environment but it does not do a great deal in terms of putting broader rural development possibilities into the countryside. What are the mechanisms that are available to do that?

**Lord Whitty:** I think that is fair comment and I think that part of our look at our negotiating position in relation to the rural development regulation aspect of Pillar 2 currently is to allow more flexibility to do things like that, to move some money into economic and social area as well as in the environmental area on specifically agricultural related areas. I would say there was an even bigger requirement for those changes in areas like Poland, that I was talking about, or the eastern area like Hungary or whatever where really rural communities are very much in need of infrastructure developments. That is part of the negotiations. In addition, we are having, as a result of part of Lord Haskins’s contribution to these matters, a rationalisation of our funding streams in total, a big chunk of which will be delivered through the RDAs which will be almost entirely economic and social, and I think the total figure of transfer from the past system of funding now via to the RDAs, which would include some Pillar 2 funding, is 72 million, to go into economic schemes precisely for that rural development objective.

**Chairman:** Then it is very appropriate that Lord Haskins should ask you the last question.

**Q247 Lord Haskins:** Just to come back to farming and we have talked too much about farming in this Committee but there we are. You said that the farmers have a reasonably good deal out of the single payment and I would agree with that. At the time, you talked about the five billion and five per cent over seven or eight years as something people could live with. You also said that Pillar 1 to Pillar 2 would not be a huge transfer in the total context of things. However, Doha, if it takes place, would have a huge impact on agricultural income like ten per cent on cereals and ten per cent on dairy products. How do you think you are going to cope with those sorts of impacts on European agriculture? Are those as serious as I am suggesting?
**Lord Whitty:** They are serious. They are also not instantaneous. As you all know, we run into a serious discussion on the Doha round at the end of this year in Hong Kong and to some extent our decoupling and hopefully some measure at least of sugar reform by then will put us in a good position, negotiating with the other trading partners, on having removed trade distorting subsidies from our agricultural support. Not everybody will buy that at face value and there will be a lot of negotiations and which bit falls into which box, but I think that the European Union is on the front foot in that regard. They are also on the front foot but slightly less clearly in that we have committed ourselves to eliminating export refunds which will hit some areas of surplus production within Europe, though probably not proportionately the UK, rather the opposite in terms of the UK. Then of course the reduction of tariffs, which will inevitably be part of the Doha round, will also sharpen up the competition in certain areas. It will also give us the huge opportunities in other markets for both farming and food-based industries as well as for manufacturing and other goods. So, the balance of opportunity as against cost is, I think, even for food and agriculture, hugely in favour of a liberalising outcome for Doha. The other aspect is that whatever is agreed in Hong Kong and beyond will not happen overnight and there will be phased introduction, if history is anything to go by, over quite a long period of time.

**Q248 Chairman:** Minister, thank you very much indeed. We could go on questioning you for even longer but it is very kind of you to give us so much of your time. We do appreciate it and, to your officials also, thank you for coming. We will send you a copy of the evidence in draft and, if there is any mistake that you wish to correct, doubtless you will do so.

**Lord Whitty:** Thank you very much and best wishes for the outcome of this inquiry which I will, as they say, read with interest but, in this case, it is genuinely meant, I will!
Witness: **Dr Janet Dwyer**, Reader in Rural Studies, Countryside and Community Research Unit, and Senior Associate, Institute for European Environmental Policy, examined.

**Q249 Chairman:** Dr Dwyer, you heard the Minister’s replies. Thank you very much for coming this morning. As I said to the Minister, we are live on the website, so you may wish to be aware of that. Is there anything that you would like to say to us before we go into the questions?

**Dr Dwyer:** No, I do not think so at this stage. I have been very interested in the discussion that has preceded my session.

**Q250 Chairman:** You will have heard what the Minister was saying and, in a sense, a number of my questions to you are very much the same as what we were asking the Minister and do not hesitate, if you think it is appropriate, to comment on the Minister’s reply. Just to start off, do you see the single farm payment becoming less important in ten years’ time and its cost to the community budget declining? In your judgment, should plans be made for the phasing out of direct payments to farmers?

**Dr Dwyer:** I think I would tend to agree with the Minister on this point in that I think we have a tendency in the UK, because of our historical position in relation to the CAP, to see the single farm payment as, in a sense, the writing on the wall for support for agriculture through a conventional production support approach. I think the view in the other Member States is significantly different from that. I think, for example, in France, there is very much a feeling that the SPF, (single farm payment), and decoupling have been forced upon the Union largely as a result of external pressures, both the enlargement and the situation in the WTO.
Q251 Chairman: So, it is relatively unpopular with the farming industry in France?

Dr Dwyer: Yes. I think decoupling is certainly seen as a very risky step to have decided to take at the European level in France and I do not think that there is any view in France that, in the long term, a kind of Pillar 1 support for the farming community should wither away, in the way that has long been the view in this country.

Q252 Chairman: Do you think that is totally related in France to both history and the percentage of the French population that is still engaged in agriculture as compared to that in the UK?

Dr Dwyer: It would be difficult to say that now, I think. You could certainly have said that ten years ago. The rapid structural change that has taken place in French agriculture over the last 15 to 20 years has really led to a situation where although it is still much more tied to agriculture culturally and in terms of family connections and things than it is here, it is not … well, things are changing very quickly. I think there are a number of different factors in play in France, in terms of their view in relation to agricultural support. On the one hand, one does still have the traditional view, if you like, that farming is the backbone of the rural community, the rural economy, and that support for farming is essential to maintain rural life and rural landscapes. On the other hand, there has also been the French *vocation exportatrice* attitude which is much more to do with the idea of using public money to give an industry a comparative advantage in an international market, which is in a sense, completely contrary to the tenets of the free trade position that is espoused in Doha and the WTO.

Q253 Chairman: I think that, in answer to the second part of my question, we would say that, should plans be made for the phasing out of direct payments to farmers, it is extremely unlikely that some of our continental neighbours such as the French, would ever agree to it. That is putting words into your mouth.
**Dr Dwyer:** Yes. I think it is extremely unlikely at least until 2013. I think the bigger issue will be the budget, the budgetary contribution to Europe as a whole. Given that the French have already signalled that they would like to reduce their overall budgetary contribution, one begins to see some kind of ---

**Q254 Chairman:** Because they are in the one per cent league, are they not?

**Dr Dwyer:** Yes. So, one begins to see some kind of tension developing within the French political perspective on, do we need a strong and large CAP or is it more important to actually reduce our overall contribution to the European budget, of which the CAP of course is a very significant part?

**Q255 Lord Haskins:** Just following up on that, my reading of it is that the French Government tacitly has moved very dramatically by even going so far as it has gone on these reforms and, whilst in public they may not be saying the historic things, the things that need to be said, by the time you come to 2013, the French Government may well be very much in line on these reforms.

**Dr Dwyer:** I think that is ...possible.

**Q256 Earl Peel:** Dr Dwyer, you say in your paper when discussing the fact that Pillar 2 could be protected under the one per cent club objectives through modulation and I quote from your paper when you say, “while at the same time promoting more significant agricultural reform in respect of Pillar 1” and I was just curious to know what you meant by that.

**Dr Dwyer:** Perhaps because we are the UK, we might tend to forget that there are a number of regimes within the CAP which at the moment remain unreformed. We are very aware of the fact that the dairy regime and the sugar regime are on the cards for reform in the next few
years but the agreements that were made in April 2004 in respect of the southern regimes and the southern crops, so the olive oil regime, the wine regime and fruit and vegetables, are generally less costly regimes than the big ones, the arable, the beef and the dairy, but they are also regimes where only a partial level of decoupling has been so far agreed and I think the Commission certainly has an agenda which involves continuing reform of these partially reformed regimes. So, there is an ongoing agenda of incremental reform of the CAP in Pillar 1.

**Q257 Lord Livsey of Talgarth:** Dr Dwyer, I very much agree with your interpretation of the situation in France and if you add the ten new countries to that perspective, one can see quite a number of things emerging. I am going to ask you, if the various factors likely to bear on the agricultural budget in the period to 2013 result in the need to make large cuts in agricultural spending, particularly in single farm payments and other direct payments, do you believe that these payments should be made more degressive in order that in fact the most efficient farmers receive the smallest payments?

**Dr Dwyer:** Firstly, I think that when we talk about large cuts in agricultural spending, we need to bear that in perspective. For example, because we are not part of the euro, the support that we provide to our farmers through the CAP can fluctuate quite significantly year on year as a result of fluctuations in the exchange rate between sterling and the euro. During the late 1990s, we saw the effects of that in the extreme, as the pound appreciated against the euro after its launch, of order of farm incomes being cut by 30 to 40 per cent in a single year. When we are talking about cuts needing to be made to the single farm payment as a result of the application of the ceiling at European level, my view would be that it is highly unlikely that one would see cuts of that kind of order having to be made in the period between now and 2013. I would be very surprised if we were in a situation where, in one year, the single farm payment had to be reduced by 40 per cent. I do not think that Europe would agree to
those sorts of things going through. Having said that, if cuts have to be made in single farm payments and one is talking about maybe cuts of five or ten per cent over that period, there is then the separate argument of how you target those cuts and whether you do them across the board, and that really depends upon what your understanding is of the objectives behind single farm payment. It was interesting to hear the discussion on that point this morning because I do not believe that Europe sees these payments as being payments for environmental management. They are payments that are offered as compensation for the series of price cuts and then the move from direct payments in the past and, on that basis, they are at the moment working in a way such that some of the most efficient farmers receive some of the largest quantities, in absolute terms, of payment. The move to the single farm payment will move towards a system, gradually over eight years and only in England, whereby every farm receives the same level of payment per hectare regardless of their efficiency but also regardless of other factors. So, we are redistributing, if you like, the balance of weight of payment between different kinds of farm over time. That will not happen obviously in Scotland, Wales and Northern Ireland where they have not opted for an area based payment.

With regard to the arguments for giving less money to the most efficient farmers, there are not very strong arguments to support a view that less efficient farmers can provide a greater degree of public benefit. In certain areas, for example, some work has been done on older farms and on the coincidence of farms being managed by older people and those farms being rich in environmental assets, but often those farms are also farms which have less management expertise in relation to environmental benefits. So it is almost by happy accident there is a coincidence between that group of farms and environmental benefit, but it is not necessarily going to be perpetuated in the long term because those people do not necessarily actively manage. There are some organisations I believe Sustain, in the past has argued that more money should be given to less efficient farmers on public goods grounds, environmental
and social grounds. That the argument is not entirely well made, in my view. I think there might be, on purely equity grounds, an argument for restricting the sheer scale of single farm payment that goes to some of the largest farms, but that is really a different matter.

**Q258 Lord Livsey of Talgarth:** There are a huge number of issues there but do you think, very simply, that if farmers were paid in euros, this would help to cushion some of these impacts?

**Dr Dwyer:** I think it could bring greater stability to farming incomes in the UK. So, in that sense, yes.

**Q259 Lord Christopher:** We have had some evidence that the Pillar 2 expenditures in the new Member States have to some degree been limited to their capacity to take it up. Have you any knowledge of the percentage of available farms taken up by the new Member States and, in your opinion, is there in fact – and it may vary from country to country – a maximum capacity to uptake this in the economy?

**Dr Dwyer:** Thank you for giving me prior warning of this question because I was able to search the web and I discovered a very interesting paper by Alan Wilkinson, a former DG Agri Unit director I think, on SAPARD spending by the new Member States to date and the current figures, or the most recent figures in his paper, show that the commitments for spending over the whole of SAPARD, ie including both the ten new Member States but also Bulgaria and Romania, was around about 60 per cent of the total funds allocated. Everyone has recognised that this thing was very slow to start because, to begin with in the first couple of years after the SAPARD instrument, (the rural development instrument for pre-accession), was agreed, a great deal of emphasis was placed upon making sure that the paying agencies in these countries were adequate to exercise the disbursement of funds in a proper way. So, for

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the first couple of years, nothing much happened, but the spend now is on a really rapidly increasing trend and in fact there have been some reports in AGRA Europe recently that some countries are expecting to overshoot massively on their expenditure on these programmes, in relation to their original allocations. The Commission is seeing that as good news because it says that where people are applying for SAPARD and there is no SAPARD funding left, they can then be transferred into the successor rural development measure which is now available to those ten countries that have joined the European Union. This measure is called the transitional instrument for rural development, a special measure which mirrors the Pillar 2 measures available to the old Member States.

Q260 Chairman: Could I just anticipate a later question which I was going to ask you that, in relation to rural development schemes, are you aware of difficulties arising from fraud and let us say perhaps pretending that a scheme is a rural development scheme when it is something quite different?

Dr Dwyer: I think that those two points are actually quite different. I am not aware of big issues in relation to fraud in Pillar 2 spending. My impression has been that there are more significant issues in relation to fraud for the structural funds measures across Europe, but I could not comment on the detail of that. However, the whole nature of Pillar 2 as an instrument and the different measures that are embraced within that very long menu means that Member States have a huge amount of flexibility of interpretation, shall we say.

Q261 Chairman: Discretion?

Dr Dwyer: Yes, about how they decide to use Pillar 2 money to promote rural development. Whereas we have decided that, in large part, for the UK as a whole, we are spending a large proportion of support on the less-favoured areas, other countries are spending a large share of their support on such things as village renovation which, for example, is very popular in
former East Germany. Spain is spending the largest share of its rural development money on upgrading its agricultural irrigation systems as part of its national water plan, and the Austrians are spending by far the largest part of their budget on agri-environmental management. So, the second part of your question is really highlighting this issue, that what rural development may mean across Europe may vary considerably between countries.

**Q262 Lord Plumb:** I am very well aware of the work that your institute does and the work you have done in particular in trying to help or look at the ways of funding the development of rural economies. Would this be beneficial if it were funded instead by incorporating the structural and cohesion funds together? Would this be of benefit and perhaps therefore giving it the opportunity for targeting a wider range of rural businesses and activities bearing in mind of course that farming is a rural business?

**Dr Dwyer:** I think there are a couple of issues here. One is that because the structural and cohesion plans have been dealing with a multifaceted problem, i.e. economic development, for a much longer period than the CAP has had to deal with those sorts of issues, there is considerable experience among both those people in Brussels and the administrators and deliverers in the Member States, in dealing with a complex issue such as would be presented by rural development. So, in that sense, there is certainly some potential benefit from bringing the structural and cohesion funds’ experience to bear in delivering Pillar 2, but I am also mindful of what Lord Whitty said in the previous session about the difference in character between Pillar 2 and the kind of purely economic and social development that the structural funds have been previously involved with. (Having said that, some very interesting projects have been funded with structural fund money which very well combine environmental, social and economic objectives together). I think that the issue about moving rural development funding to structural and cohesion funds is that one would lose the formal link with Pillar 1 of the CAP, in which context the modulation principle has now been at least
established. If one moved rural development funding to the regional development bit of the Commission, that link would not exist anymore and I would argue that it would be very difficult to seek to establish it. Also, there is this situation of how to bring together the environmental land management element of Pillar 2 with the economic and social development focus of structural and cohesion fund delivery which, at the moment, does not give that issue particularly high prominence. There are some commentators who would say that, in many Member States, structural and cohesion funding has been too urban biased, has been insensitive to rural needs and has underplayed the opportunities that could be taken in the rural economy for an improved future.

Chairman: I think that is extremely interesting. This is the first time we have actually had evidence given to us, as far as I am aware, about what other continental countries are doing in this relationship. If you did feel that we had not asked you all the questions about it, if you would care to drop us a note about it, Dr Dwyer, I think it would be very interesting indeed. This is actually, certainly for me, new information and I think it very interesting indeed.

Lord Plumb: Particularly to expand on the euro, Chairman!

Chairman: Are you long or short, Lord Plumb?

Lord Plumb: I just want to know whether there is benefit or not. That is the simple question.

Q263 Lord Lewis of Newnham: What proportion of the rural development schemes in the UK are currently funded by the UK rather than from the EU budget? The Minister referred to RDAs and the potential there but presumably, if it is done, it is done in a relatively localised area.

Dr Dwyer: This is very interesting because the proportion of EU funding of UK rural development schemes, if you take that term in its broadest sense, ie not just focused on Rural Development Regulation schemes, (the Pillar 2 schemes), is probably very small and there are
there is a significant sum of money going into rural areas for economic development in ways that are nothing to do with the CAP. One could think, for example, of the current budget of the Countryside Agency, of which £70 million a year goes into, broadly speaking, socio-economic development in the countryside. One could include of the role of the Enterprise Agencies in the devolved administrations. Highlands and Islands Enterprise spent £69 million in 2003, although some of that may be European co-financed, but Scottish Enterprise, outside Edinburgh and Glasgow, is spending more than £100 million a year on enterprise and some of that must be rural. Secondly, within the scope of the Pillar 2 schemes itself, one has to think about two things: one is Fontainebleau and the Fontainebleau rebate mechanism which means that when a scheme is apparently 50 per cent co-financed by the European budget, because of Fontainebleau, it works that 85 pence in the pound is UK money and the remainder is European money. So, that will decrease the proportion of European funding that is going into even the Pillar 2 schemes within the UK. Then, beyond that, if you read the rural development programmes, as well as EU co-financed measures they notify a number of state aids. These are measures that are 100 per cent UK funded because they are not eligible for funding under Pillar 2 but they are part and parcel of the schemes that are being offered under the programme. So, for example, all the capital items funded in agri-environment schemes in England are funded as state aids over and above the annual management payments, which are co-financed by Europe.

Q264 Lord Lewis of Newnham: With the Fontainebleau Agreement, you also have the probability or possibility, if I can put it that way, that of course the Treasury may not be prepared to give their particular proportion, their 85 pence as it were. So, this must complicate the issue quite significantly.
Dr Dwyer: Yes. It was interesting when Lord Whitty said that he did not feel that the Treasury’s view had been a constraint upon the development of Pillar 2 schemes in the UK. My view would be different from that. I think that we have a poor allocation of funds under the current programming round precisely because of Treasury squeeze on the growth of these kinds of things in the 1990s. So, if you compare our agri-environment schemes with those in many other European countries, we still have a relatively low proportion of farmers involved in these schemes. In some other countries, the proportions are 80/90/95 per cent whereas ours is somewhere between 10 and 20 at present. It will grow with the entry level scheme, but that is in the future. Also, funding on agricultural development, farm diversification and farm investment was very sharply cut back in the 1990s because it was non-compulsory CAP spend and the Treasury took the view that anything that was non-compulsory in MAFF’s enormous budget should be cut to the absolute minimum. The allocations to the current programming round budgets were based very heavily on past spending. So, the UK ended up with a much, much smaller share than it should have, arguably, based on more objective criteria.

Chairman: I think that leads us on directly to a question that Earl Peel wants to ask.

Q265 Earl Peel: I think that Dr Dwyer may have actually answered that question. Would a significant cut in the rural development funds available from the EU have a large impact on schemes in the UK or could adequate funding be found from within the UK? Bearing in mind the comments I made earlier to the Minister about English Nature’s concern that the biodiversity action plan objectives would not be met unless additional funds are put in over and above, the answer has to be, “More money, please” I would have thought.

Dr Dwyer: Yes. I think the answer is certainly “more money”. Where that money comes from all depends on the position of the UK in relation to how far it is playing this game in Europe, if you like. If we accept that at the moment most rural development money in the UK is the UK’s own money, then the answer to the first part of your question could be that a cut
in European funding for rural development would not make a big difference; but it would politically, because at the moment the agri-environment programmes, the specific ones that English Nature would like to see growing, are the ones that are most heavily locked into the CAP system and they are something that traditionally our other rural development expenditure has not had much to do with. So, if you want to grow those, you would seek to do that, I think, within the broader sphere of European spending and spending shifts. The other concern here is what is happening to the CAP as a whole. If you want to see the longer-term aim as shifting money from production support in farming towards broader rural development, you need to again play the European game and you need to achieve that shift at European level. If you disengage and start saying, “We are going to do rural development entirely with our own money”, then you lose the battle over the future of Pillar 1, it seems to me.

Q266 Chairman: Could I just come back to a point you made earlier. Did I hear you right in saying that you thought that between 10 and 20 per cent of UK farmers were in some way involved in environmental schemes involving money through environmental sensitive agreement or whatever, but that the comparative figures in continental farms would be 80 to 90 per cent?

Dr Dwyer: Not in all countries. I think that the average figure is somewhere around 20 per cent but, in Finland and in Austria, the figure is above 90 per cent.

Q267 Chairman: What is it in France?

Dr Dwyer: I am afraid that I do not have the figure in my head but I would imagine that it is somewhere around the average.

Q268 Chairman: My impression of the French ones if that it would be very much lower.
Dr Dwyer: That is interesting because the French changed their agri-environment schemes to coincide with the Agenda 2000 reforms and, certainly before then, they had a thing called Pime a l’herbe which was a simple premium paid to anybody who had permanent grassland; that was an agri-environment scheme that had quite a high level of uptake, as you might imagine. After 2000, they changed their agri-environment schemes and merged them into a new scheme (the contrats territoriale d’exploitation) which has now been dismantled and replaced but, as a result of that, I would imagine that the proportion would have gone down.

Chairman: As I say, if you could drop us a note about this, we would be very grateful.

Q269 Lord Sewel: I wonder whether we need to be a little tougher in terms of defining what we mean by rural development and therefore to be more specific about the objectives of rural development and how we assess rural development because, Lord Whitty did seem to met the overwhelming case to have economic and social development in the countryside given the continuing pressures on agriculture and yet, in terms of what is funded under Pillar 2, that is not close to what I see traditionally as rural development. Is that partly because of what we have chosen to do as a Member State under Pillar 2 or is it a fundamental weakness of Pillar 2 itself?

Dr Dwyer: I agree with your assessment. My own view about rural development would be that an emphasis on social and economic is important but the environment has to be in there as well. One should be looking for sustainable rural development, so economic and social ---

Q270 Lord Sewel: It is the three components of sustainability.

Dr Dwyer: That is right.

Q271 Lord Sewel: Two of them are economic and social components.
Dr Dwyer: That is right, within the overarching constraint of wishing to maintain the natural
capital of the rural environment. The Pillar 2 measures as a whole, at the European level,
reflect the notion of sustainable rural development relatively well because they have measures
for competitiveness, they have measures for the environment and they have measures for the
broader social and community aspects of rural development. We have taken a position in the
UK, which is for a mixture of historic and, if you like, public concern reasons, I think, to
emphasise in our spending firstly, the less favoured area payments which, for example, in
Scotland are by far the largest element of the programme. I think over 50 per cent of the
Scottish programme goes on LFA payments. The figure in Wales is also very high. Secondly,
we spend a significant proportion of our programmes on the agri-environment payments,
because they have been a particularly popular new development in relation to agricultural
management. There has been a groundswell of UK support for growing those schemes. By
contrast our position in respect of social and economic development has been either that this
is done through other mechanisms, or in the ways in which it is done through Pillar 2, it is
very closely linked to agriculture and is relatively minor by comparison with other countries.
If you consider the fact, for example, that some of the eastern German regions are spending
40 per cent of their RDPs on village renovation ---

Q272 Lord Sewel: What does that mean? What are they doing?

Dr Dwyer: It is quite similar to a lot of the programmes that the Countryside Agency has run
in this country, a kind of combination of village design, parish planning, parish paths
partnerships, these community-based holistic planning exercises trying to really create an
engine for new community benefit and new economic benefits through a partnership based,
bottom-up, multi-sectoral approach. In sum, I do not think the regulation is constraining that
broader view, I think it is the UK’s choices.
Q273 Lord Plumb: Will those schemes include affordable housing?

Dr Dwyer: No, not to my knowledge but I am not a legal expert on the situation in Germany. It is interesting when you start making comparisons between countries because, in different Member States, obviously certain basic services are considered as being a staple that the state will always provide. I made a presentation at Salzburg where I cited the example of Pillar 2 money in England being used to fund a nursery to provide childcare, and the Swedes were horrified and they said to me afterwards, “If anybody ever thought that that would have to be done through project funding in Sweden, there would be uproar because the state provides these things.” So, it is quite difficult once you start making comparisons.

Chairman: I think Lord Livsey’s next question takes us a little further into this.

Q274 Lord Livsey of Talgarth: You state in your evidence that you believe that the rural development regulation could do much more to increase the transparency, accessibility and simplification of rural development programmes. How might this be done? Can I say that we have heard in this Committee previously and indeed today that the administration of the single farm payment scheme is about six per cent and Lord Whitty has just told us that he has an objective of four per cent, yet we have been told by environmental bodies that it is 30 per cent that goes on administration. What about rural development? How much does that cost and could this be made more transparent and in fact actually assessed as a result of more transparency?

Dr Dwyer: I am getting more pessimistic as time goes on about the new rural development regulation which is currently being debated by Council in Brussels because the Commission definitely sought to achieve a simplification of the regulation through this next round, but what has happened is that they have been too modest in their proposals and they are now being beaten back to a position whereby the new regulation is going to look very similar to the old one, with the same number of measures and not a great deal of simplicity in the
programming process, nor the monitoring and control requirements. I think it would have been possible to be more ambitious in proposing a draft regulation for discussion by Council, and that could have been done by learning much more from the experience of the structural funds and the way in which they have worked. For example, the current regulation with its 22 measures is agreed by many people to be too complicated for a lot of people to understand and to enable people to work in integrated ways with those different measures. I think it would have been possible to rebrigade the same range of actions under a much smaller number of measures, say seven or eight for the new regulation, whereas, as it is, we are going to be having 24 or 25. So, that is one example. In relation to monitoring and control, I think that we need to take a step forward: again, learning from the lessons of the past (though there are no obvious models in place that I could recommend). It seems to me that monitoring and control at the moment places still too much of the burden upon making sure that the detailed rules and regulations, even at the level of the local delivery bodies, are adhered to, rather than focusing more upon the outcome at the end of the day. What is the result of the spend of this money and is that meeting our strategic objectives? The Commission finds it very difficult, I think, to step back from regulating things in detail, particularly in DG Agriculture because of the culture that has been created by direct payments in Pillar 1. The way that they look at regulating spend is: minutiae in advance, and then less emphasis on what actually are the effects. That is where the switch needs to occur, but it does require a bit of farsighted thought about how that can be done. The structural funds, by comparison, do allow for greater flexibility in the choice of how instruments are delivered but then DG Agri will say that they have been subject to more fraud, so obviously the system is not perfect. I do think that more effort needs to be put in looking to shift the system in the way that I have just described.
Chairman: Thank you very much. I am afraid that time is closing in on us. Baroness Maddock has a final question to ask you which follows on very much from what we have been saying.

Q275 Baroness Maddock: I think that you have covered quite a lot of it. It was the same question that I asked Lord Whitty which was really about comparing the costs of administration and I think what you have been saying is leading me to believe that his idea that somehow they are going to cut the costs, I think he said it was about 14 per cent of the admin on rural development and, if what you are saying is true, his idea that he is going to cut the costs on that is a little ambitious.

Dr Dwyer: I think there is another point that I would like to make here and that is that administration of the single farm payment and administration of the kind of schemes one is running under the second pillar are not actually the same beast, and you should not expect to have the same low overheads on what are much more complicated schemes, where it is much more important for the state to assist with the process of a kind of creative use of the money, taking risks and making the most of opportunities that might exist for rural development. For example, in relation to environmental schemes, what gets counted as administrative overhead includes an element of advice and support to people in making sure that the money they get is used to deliver environmental benefits. It seems to me that if you were very strict about that, it should not be counted as an administrative overhead, but it is at present and that is one of the reasons why those figures are high. On the business development side, I think similar arguments can be made. However, I would say that I think the ERDP administration of the non-land management parts of Pillar 2 has been quite inefficient, and I have hopes that when some of these things are moved to the RDAs, they might learn some lessons from that process and provide a much easier access and a much less bureaucratic procedure for accessing those funds.
Chairman: Thank you very much indeed. One of the things that probably puzzles and worries us all is the actual implementation of more money going into the rural development side of things. It is actually going to be very complex with a lot of lack of clarity and a lot of expense in setting it up, whether it is permissible etc. If you care to, with the continental examples Dr Dwyer, expand a little on that to us, I think we would be very grateful because it is quite unknown territory really in many ways. Thank you so much for coming this morning. I did not add at the beginning and I should have done that we much appreciate your written evidence, it was very helpful, and we much appreciate your answers to our questions today. Thank you very much indeed.