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Environment, Food and Rural
Affairs Committee

The Common Agricultural Policy after 2013

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Environment, Food and Rural Affairs Committee

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Summary

The Common Agricultural Policy (CAP) is again at a crossroads: decisions made now will determine our future food prices and availability and shape Europe's countryside and rural communities. This round of CAP reform is being played out against a very different background to past reforms: food security is rising up the political agenda, placing a renewed emphasis on agricultural policy.

The Coalition Government has committed to supporting UK agriculture and encouraging increased production. Funds provided from the CAP are the centre-piece of UK agricultural spending. Defra must engage proactively in Europe to ensure that the reformed policy will deliver a more competitive, productive and sustainable UK agriculture, in line with its commitments.

The primary objective of the Common Agricultural Policy should be to deliver food security for the EU including a significant degree of self-sufficiency. At the same time, the CAP should help farming businesses become more competitive and profitable and should manage our natural resources sustainably, including maintaining agricultural activity in areas where it enhances our physical and cultural landscapes. Recognising the combined challenges of a growing world population, climate change, and environmental degradation, the future CAP must help farmers to produce more while having fewer adverse impacts on our natural environment.

The European Commission has set out a range of options for the CAP after 2013. We are not convinced that any of the options as they currently stand represent a good deal for the UK. In this report, we have set out what changes Defra should seek to achieve on behalf of the UK as a whole. We have focussed on the key issues for UK agriculture: the future of direct payments and the balance between supporting farmers and protecting the environment.

We believe that direct payments have a place within the CAP, for as long as business conditions in agriculture fail to deliver a thriving and profitable industry. While we share Defra's ambition to reduce reliance on subsidies, we are not convinced that simply reducing direct payments is the way to achieve this. If Defra is to retain credibility, it must set out exactly how UK farmers will become self-supporting, against a backdrop of rising input prices and greater competition from third countries. In this context, we encourage Defra to clarify its own food security strategy, taking into account the recommendations of the Foresight report and its own position on the CAP.

Our witnesses rejected the European Commission's proposals to 'green' Pillar 1 through compulsory additional agri-environmental measures as they risk creating additional complexity of implementation while not delivering tangible benefits. We agree that the future CAP should place greater emphasis on sustainable farming, but believe that this will be more successful if farmers are encouraged by incentives rather than stifled by regulation. Additional agri-environmental measures must be directed at 'win-wins' for competitiveness and sustainability if they are to gain traction in the long-term. In principle we agree that strengthening and expanding the agri-environment component of Pillar 2

would be more appropriate than establishing a new raft of measures in Pillar 1. However, if UK farmers are not to be disadvantaged, there must be a common approach and a common target for implementation across Europe. For this reason, we suggest Defra consider whether full EU-financing would be more appropriate for measures that are intended to be applied across Europe.

The Commission's proposals are lacking in both vision and detail as to how it intends to increase the competitiveness of EU agriculture. Elements of their proposals, such as payment ceilings and additional support for small farmers, risk making UK businesses less competitive. Defra should negotiate changes to these elements and ensure that the final legislative proposals represent a clear plan for growth in EU agriculture. In particular, the final proposals must give fuller consideration to rectifying imbalances in the food supply chain and strengthening farm extension services and knowledge transfer. Any new definition of eligible recipients of CAP payments must not disadvantage the UK's tenant farmers and commoners.

Defra's handling of the debate over the future CAP has not impressed us thus far. We are concerned that their stance on direct payments lacks clarity and may reduce their ability to negotiate constructively with other Member States, or with the devolved administrations. It is incumbent on Defra to ensure that the devolved administrations' views are fairly represented. We encourage Defra and the devolved administrations to produce a joint position statement on the CAP post-2013 swiftly.

1 Introduction

1. Agriculture is the main land use in the European Union, covering nearly half of its land area. The agri-food sector represents 8.6% of EU employment and 4% of the EU's GDP.¹ The EU is one of the largest global exporters and importers of agricultural products: its export of agricultural goods, mainly high value or processed products, accounts for about 17% of total global trade.² Consequently, the Common Agricultural Policy (CAP) is one of most important components of the European Union, both in terms of budget and its impact on the EU's 500 million citizens. The CAP accounted for around 43% of the total EU budget in 2010 (expected to fall to 39% by 2013), which is equivalent to about 0.45% of the EU's GDP.³ Through a combination of direct payments to farmers, measures to regulate agricultural commodity markets and grants for improving the environment, the CAP exerts significant influence over the European countryside and rural livelihoods, as well as global food prices and availability. Moreover, as a key player in the World Trade Organisation (WTO), the EU's agricultural policy can shape global trade agreements.

2. In 2006, the European Commission was invited by the Council of the European Union to “undertake a full, wide-ranging review covering all aspects of EU spending, including the Common Agricultural Policy”.⁴ Although there is no requirement to reform much of the underpinning legislation, the Commission has signalled its intention to carry out a review of the instruments within the CAP. Reform of the future CAP is proceeding in tandem with negotiations over the next EU Financial Framework, which must be in place by the end of 2013.⁵

3. The CAP has undergone periodic reform since its inception in 1957, with the overall aim of becoming more market-orientated and less trade-distorting, as well as maintaining discipline within the EU budget. This round of reform will be conducted against a background of financial constraints in many Member States, including those that are major recipients of the CAP. The EU's flexibility over its agricultural policy is further constrained by existing WTO regulations and subsequent commitments that it has made during the Doha Development Round of trade talks.⁶ In addition, concerns over food security are giving a new gravity to agricultural policy.

4. This is the first major CAP reform with 27 Member States, representing a greater diversity of farm structures and priorities. The accession of 12 Central and Eastern

1 European Parliament resolution of 8 July 2010 on the future of the Common Agricultural Policy after 2013 (TA(2010)0286), para F.

2 *Ibid*, para P.

3 *Ibid*, para U; Ev 170.

4 *Official Journal of the European Union*, C 139, 14 June 2006, p 15.

5 In October 2010, the Commission published its review of the EU Budget (Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, and the Committee of the Regions, *The EU Budget Review*, COM(2010) 700 final, 19 October 2010). The Commission must present its proposals for the next Multiannual Financial Framework before 1 July 2011.

6 The Doha Development Round is a round of world trade talks organised by the World Trade Organisation (WTO) with the aim of negotiating changes to the General Agreement on Trade and Tariffs that was agreed in 1993 at the conclusion of the Uruguay Round. The Doha Round talks have been stalled since 2008, but the WTO is drafting new texts with the hope of restarting talks this year (“Doha talks running at snail's pace, agree negotiators”, *Agra Europe*, 11 March 2011).

European Countries after 2003 brought an extra seven million farmers into the EU.⁷ An additional and unpredictable factor is that, under the 2009 Lisbon Treaty, the European Parliament will now have joint decision-making powers with the Council of the European Union. This may make the negotiating process more transparent, but also more complex. Reconciling the varying objectives of 27 Member States and the European Parliament will unquestionably be a political challenge for the EU.

5. The European Commission initiated the dialogue over the ‘CAP post-2013’ with a public consultation held over the summer 2010,⁸ followed by a Communication on *The CAP towards 2020* published in November 2010.⁹ The Agriculture and Fisheries Council produced initial conclusions on the Communication in March 2011; however, these failed to win unanimous support from Member States.¹⁰ The European Parliament is expected to pass a resolution in response to the Commission’s Communication in June 2011. Further, more detailed legislative proposals are expected in autumn after the proposals for the post-2013 EU Multiannual Financial Framework have been published. The Commission hopes to conclude negotiations on the CAP by the end of 2012 to allow one year for implementation.

6. This Committee has a long-standing interest in CAP reform. The previous Environment, Food and Rural Affairs Committee published reports on the *UK Government’s Vision for the Common Agricultural Policy* in 2006, *Implementation of CAP Reform in the UK* in 2004, and *The Mid-Term Review of the Common Agricultural Policy* in 2003, as well as scrutinising the work of the Rural Payments Agency.¹¹

Purpose and Scope of the inquiry

7. In this inquiry we have scrutinised the Commission’s proposals in light of UK interests in particular.¹² Defra is going into negotiations on the CAP that will determine our future food prices and availability and shape Europe’s countryside and rural communities until 2020, or beyond. Our recommendations and analysis set out where we believe the limits to Defra’s negotiating position should be.

7 European Parliament resolution of 8 July 2010 on the future of the Common Agricultural Policy after 2013 (TA(2010)0286), para G. Specifically, the EU was enlarged in 2004 to include: Hungary, Poland, Slovakia, Latvia, Estonia, Lithuania, the Czech Republic, Slovenia. Bulgaria and Romania acceded in 2007.

8 The public consultation was concluded with a public conference in July 2010. A summary of the responses to the consultation together with a video recording of the conference can be viewed on the European Commission’s Agriculture and Rural Development website: <http://ec.europa.eu/agriculture/>

9 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, and the Committee of the Regions, *The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future*, COM(2010)672/5; hereafter “the Communication”.

10 Council of the European Union, *Presidency conclusions on the communication from the Commission: The CAP towards 2020: meeting the food, natural resources and territorial challenges of the future*, 3077th Agriculture and Fisheries Council meeting, 17 March 2011, www.consilium.europa.eu. Seven Member States voted against the document: Denmark, Sweden, the UK, Latvia, Lithuania, Estonia and Malta. “Latest EU Farm Council Wrap”, *Agra Europe*, 17 March 2011.

11 *The UK Government’s “Vision for the Common Agricultural Policy”*, Fourth Report of Session 2006–07, HC 456; *The Rural Payments Agency and the Implementation of the Single Payment Scheme*, Third Report of Session 2006–07, HC 107; *The Implementation of CAP Reform in the UK*, Seventh Report of Session 2003–04, HC 226; *Rural Payments Agency*, Sixth Report of Session 2002–03, HC 382; *The Mid-Term Review of the Common Agricultural Policy*, Third Report of Session 2002–03, HC 151.

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/cap-reform/>

8. The CAP is a convoluted policy, having been moulded to fit the multifarious wishes of governments and Agriculture Commissioners over the years. Since the Treaty of Rome in 1957, the requirements of EU agricultural policy have shifted, notably with a much stronger focus on preserving natural resources, while our future policy will have to meet the challenges of food security and climate change. For this reason, we start with a fresh analysis of the CAP's objectives towards 2020 (Chapter 2) and the internal and external factors to take account of when shaping the new CAP (Chapter 3).

9. The overall size of the CAP budget and the way that it is distributed between Member States will be one of the most important issues for the UK. We give consideration to high-level issues surrounding the CAP budget in Chapter 4. However this report precedes EU-level discussions on the Multiannual Financial Framework post-2013, precluding detailed analysis.

10. The UK tends to take a reformist stance on the CAP, having argued for over ten years that direct payments and market support should be phased out in favour of increased spending on targeted measures to protect the environment.¹³ This places us in a minority within Europe, particularly compared to influential old Member States such as France and Germany. It is already clear that the future of direct payments will be the central issue in the debate over the post-2013 CAP. We address the nature and distribution of direct payments from a UK perspective in Chapters 6 and 7. In Chapter 8, we scrutinise the Commission's ideas for legitimising the CAP by bringing agri-environment measures into its core policy.

11. Turning to the substance of the Commission's Communication, the proposals to restrict payments to active farmers, to give more support to small farmers and to cap payments to large farmers were highlighted by many of our witnesses as issues of importance to the UK. We discuss these and other specific elements of the proposals in Chapter 9. Reflecting Defra's aim to deliver a thriving farming sector, we then discuss ways in which the CAP can enhance the competitiveness of UK agriculture (Chapter 10) and reduce red-tape for farmers and administrations (Chapter 11).

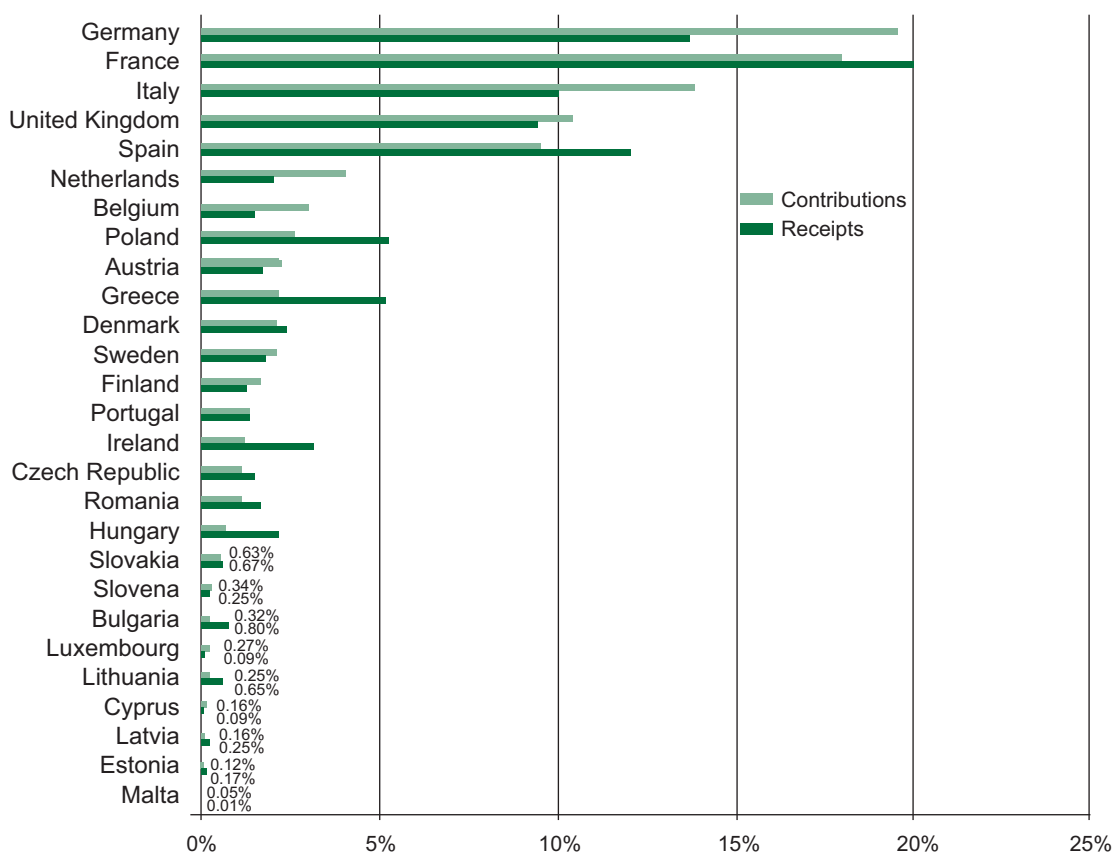
12. We announced this inquiry on 4 November 2010. We held seven oral evidence sessions and heard from 14 organisations or individuals including farming groups, environmental NGOs, the European Commissioner for Agriculture and Rural Development and Rt Hon James Paice, the Minister of State for Agriculture and Food (a full list is given at the end of the report). We received written evidence from 34 individuals or organisations. We also took part in a visit to Brussels to discuss aspects of CAP reform. We are very grateful to all those who helped us with our inquiry. This report is necessarily limited to the details given in the Commission's Communication. This is a rapidly moving area and additional details of the proposals have emerged between evidence-taking and publication of this report.

13 Cunha and Swinbank, *An inside view of the CAP reform process*, 2011, p 121; Defra and HM Treasury, *A Vision for the Common Agricultural Policy*, December 2005; Defra, *UK Response to the Commission Communication and Consultation: "The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future"*, January 2011.

Background to the Common Agricultural Policy

13. The Common Agricultural Policy sets out the EU's common approach to agriculture and its system of payments. It is structured around three groups of instruments: direct payments, market measures and rural development.¹⁴ The CAP receives 98% of the EU's Preservation and Management of Natural Resources budget, which was allocated €416bn for the 2007–2013 Financial Perspective.¹⁵ In 2010, the UK's contribution to the EU accounted for 10.4% of the CAP budget and the UK's share of the allocation for direct payments was 9.5%. France contributed about 18.0% of the CAP budget and received about 20.1% of the direct payments allocation. Greece contributed 2.2% and received 5.2% (Figure 1).¹⁶

Figure 1: Member States relative contributions and receipts from the CAP



Source: European Parliament (2010/117/EU), *Definitive adoption of the European Union's general budget for the financial year 2010*, p 20; Council Regulation (EC) No 73/2009, Annex VIII. The graph shows Member States' receipts from Pillar 1 of the CAP in 2010 as a percentage of the total budget for Pillar 1 and Member States' contributions based on the relative share of each country's payments to the EU Budget. Pillar 2 is not included.

14 There are some additional programmes directed by the Commission such as plant and animal health inspections and promoting fruit in schools.

15 European Commission, *European Union Public Finance (Fourth Edition)*, 2008.

16 European Parliament (2010/117/EU), *Definitive adoption of the European Union's general budget for the financial year 2010*, p 20; Council Regulation (EC) No 73/2009, Annex VIII.

The origin and evolution of the CAP

14. The Common Agricultural Policy was established in the aftermath of the Second World War, following a long period of rationing and food shortages. As a result, a key driver of the original CAP was enhancing self-sufficiency through boosting domestic production; to facilitate this, European prices for agricultural commodities were maintained at levels in excess of the world market. Market price support required a combination of high import tariffs, intervention buying and export subsidies.

15. As yields and production rose, the requirement for public storage (the ‘wine lakes’ and ‘butter mountains’) and for subsidies for exporting excess goods also increased. This had negative implications for the perception of the CAP among EU citizens and in international trade negotiations—disagreements over agricultural support were one of the factors leading to the collapse of the WTO Uruguay Round trade negotiations in December 1990. Moreover, the cost of the CAP almost trebled between 1980 and 1992.¹⁷

16. The 1992 MacSharry reforms aimed to reduce expenditure on the CAP and remove some of the incentives for farmers to over-produce. Payments were decoupled from production for cereals and beef and the intervention prices for cereals, dairy and beef were reduced. Direct payments for cereals and beef, known as the Single Farm Payment, were brought in to compensate producers for the resulting loss of income. For the first time, measures to support rural economic diversification and environmental protection were included in the CAP.

17. The Agenda 2000 reforms, agreed in 1999, were inspired by preparations for the policy and budgetary consequences of the Central and Eastern European Countries (CEECs) joining the EU. These reforms included further reduction of the intervention prices, extension of the dairy quota and the establishment of the rural development regulation. Modulation, which is a transfer from the single farm payment to fund rural development, was introduced on a voluntary basis.

18. The 2003 Mid-term Review of the Agenda 2000 package, also known as the Fischler Reforms, is generally considered to be the most radical of the CAP reforms in that it decoupled farm income support from production in most sectors (Figure 2).¹⁸ The Fischler Reforms also made it compulsory for recipients of the Single Farm Payment to meet environmental and animal welfare standards. In 2002, the Council agreed to limit CAP spending on Pillar 1 at its 2006 levels for the financial perspective to 2013. The 2008 Health Check consolidated the Fischler reforms through decoupling the remaining sectors (except the suckler cow, goat and sheep premia) and confirming the abolition of milk quotas in 2015. The requirement for farmers to keep 10% of their land in set-aside was abolished.

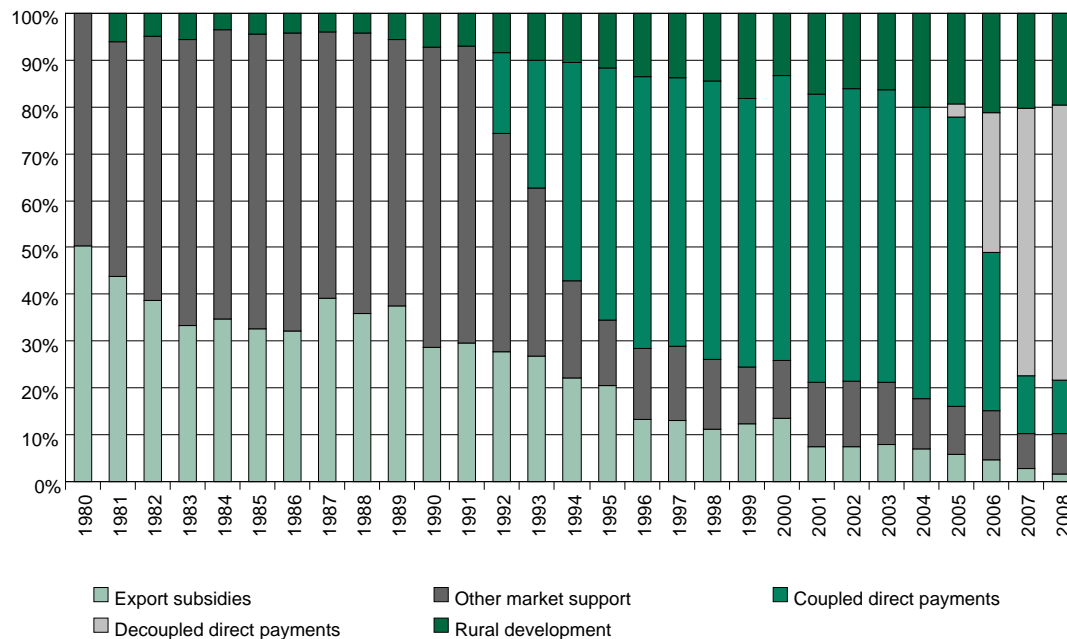
19. The percentage of the EU budget spent on the CAP has fallen from a high point of about 75% in the mid 1980s to under 40% by 2013, even though the agricultural land area has increased by 40% following the 2004 and 2007 enlargements of the EU.¹⁹

17 Cunha and Swinbank, *An inside view of the CAP reform process*, 2011, p 69.

18 Member States were given the option to retain some coupled payments for both cereals and livestock.

19 European Parliament resolution of 8 July 2010 on the future of the Common Agricultural Policy after 2013 (TA(2010)0286), para U.

Figure 2: The evolution of CAP expenditure



Data source: European Parliament Committee on Agriculture and Rural Development, Report on the future of the Common Agricultural Policy after 2013, 21 July 2010, A7-0204/2010, p25

20. Awareness of the CAP's history is an important part of understanding its current logic. Direct payments, the main element of the CAP, were brought in initially as compensation for policy changes that disadvantaged producers. Over time they have acquired new functions, and, through being extended to the new Member States, have arguably become more entrenched within the CAP than was originally envisaged.

The current structure of the CAP

21. Direct payments and market measures make up Pillar 1 of the CAP and are fully financed from the European Agriculture Guarantee Fund (EAGF).²⁰ Pillar 1 accounts for about 80% of CAP spending.²¹ Rural development programmes make up Pillar 2 of the CAP and are co-financed by the European Agricultural Fund for Rural Development (EAFRD) and national governments.²² The UK is the fifth largest recipient of direct payments but has one of the smallest shares of the rural development fund.²³

20 Regulation (EC) No 1290/2005 on the financing of the common agricultural policy established a common legal framework for CAP spending. Regulation (EC) No. 1234/2007 describes the organisation of the common market in agricultural products. Regulation (EC) No 73/2009 established common rules for direct support schemes and certain support schemes for farmers under the common agricultural policy.

21 Pillar 1 was allocated about €313bn for the Financial Perspective 2007–2013 and Pillar 2 €96bn (after modulation). There are other smaller funds in Heading 2, such as the European Fisheries Fund and LIFE+. Source: European Commission, *Investing in our future: the European Union's Financial Framework 2007–2013*, June 2010, p 5.

22 Regulation (EC) No 1698/2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD).

23 During 2007–2013 the UK is projected to receive €23.6bn in direct payments, accounting for approximately 8.5% of the EU total post-modulation (the exact figures will vary). Over the same period, the UK will receive €2bn, or about 2% of the Pillar 2 budget. Sources: Commission Decision of June 2007 (2007/383/EC); Defra, *Rural Development Programme for England 2007–2013 Programme Document*, 2007, informal briefing from Defra.

22. Direct payments are principally decoupled from production and take the form of the Single Payment Scheme (SPS). SPS entitlements must be matched to eligible land. The payment is called the Single Farm Payment (SFP) in the EU-15 Member States.²⁴ The method by which the SFP is calculated varies among the EU-15, either historic or area-based. In historic systems, the payment depends on the individual farmer's receipts in the reference period 2000–02. In area-based systems, a flat rate is paid per hectare and the rate is based on the subsidies received by farmers in the region during the reference period. England opted for a 'dynamic hybrid' system, shifting individual recipients from a historic to a regional per hectare basis over a number of years. Scotland and Wales retained the historic system and Northern Ireland uses a static hybrid system. In most of the new EU-12 Member States, payment is calculated on a flat rate per hectare system, which is called the Single Area Payment Scheme (SAPS).²⁵

23. In return for receipt of the direct payment, the farmer must keep his land in Good Agricultural and Environmental Condition (GAEC) and meet the Statutory Management Requirements (SMRs). This is known as cross-compliance. SMRs are determined by existing EU legislation, while GAEC is defined by the Member States.²⁶ Under EU regulations, at least 1% of farmers receiving direct payments must be inspected annually to ensure they are compliant, and fines are imposed for infractions.²⁷

24. Pillar 2 funds three types of activity (called Axes):

- Axis 1: Improving the competitiveness of agriculture and forestry, for example grants for new machinery.
- Axis 2: Improving the environment and countryside, mainly through agri-environment schemes. The CAP provides the majority of funding for environmental protection in Europe.²⁸
- Axis 3: Improving the quality of life in rural areas and diversification of the rural economy, such as grants to help farmers to diversify or to establish information centres to encourage tourism.

25. Each Member State can choose how to allocate its Pillar 2 budget as long as at least 10% is spent on Axes 1 and 3 and 25% on Axis 2. The Commission has stipulated over 40

24 The 'old Member States', also known as the EU-15, comprise Germany, France, Italy, the Netherlands, Belgium, Luxembourg, Denmark, Ireland, United Kingdom, Greece, Spain, Portugal, Austria, Finland and Sweden. The 'new Member States', or the EU-12, are those states that joined after 2003, which are: Czech Republic, Cyprus, Estonia, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia, Slovakia, Bulgaria and Romania. Different mechanisms are used in the old and new Member States because the EU-12 acceded after the 2003 Fischler reforms established the Single Farm Payment.

25 In this report, the term 'Single Payment Scheme' will refer to the system of deciding the level of direct payments and the Single Farm Payment (SFP) will mean the actual payment received by farmers.

26 Examples of Statutory Management Requirements include regulations on water pollution in Nitrate Vulnerable Zones, protection of the habitats of wild birds and other vulnerable species, regulations on livestock identification and movement. GAEC standards include crop-rotation, maintaining terraces, minimum livestock densities, buffer strips next to watercourses, and hedgerow management. A guide to cross compliance in England is available from www.crosscompliance.org.uk

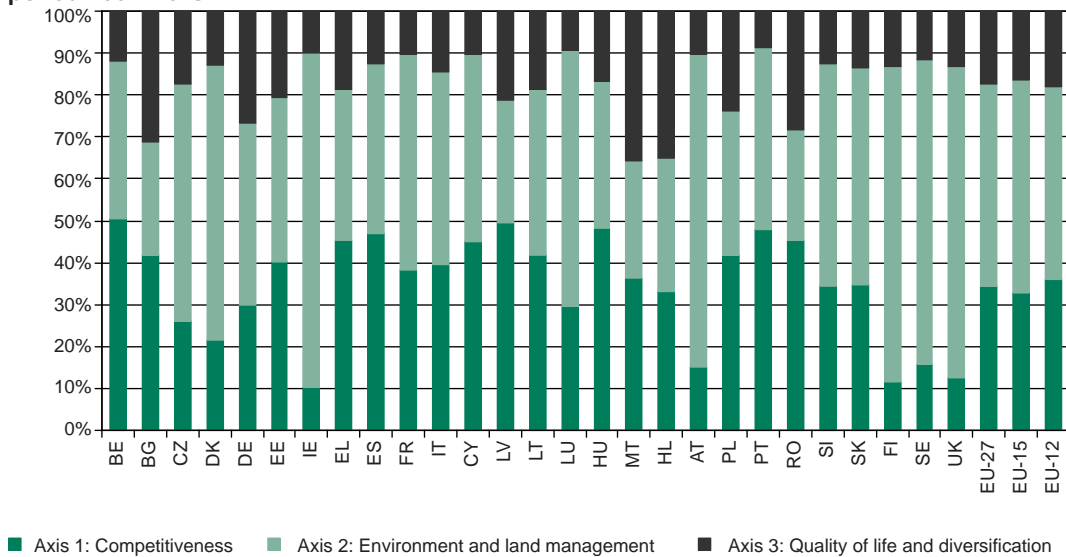
27 In England, separate inspections are performed by the Rural Payments Agency, Environment Agency and the Animal Health and Veterinary Laboratories Agency (AHVLA) to check different aspects of cross-compliance. The Rural Payments Agency (RPA) imposes a fine of 3% of the SFP for the first breach.

28 The main other EU financial instrument for the environment is LIFE+, which was allocated about €2.2bn between 2007–2013. Source: European Commission, *Investing in our future: the European Union's Financial Framework 2007–2013*, June 2010, p 5.

measures that can be applied, from which Member States can choose which to fund.²⁹ In the UK, the choice of measures funded by the rural development programme is a devolved issue.

26. There is considerable disparity between Member States in terms of their allocation to different objectives within Pillar 2. England, under the previous Government, opted to spend about 80% of its total rural development programme budget (the Rural Development Programme for England—RDPE) on Axis 2 agri-environment schemes (the Environmental Stewardship schemes), and about 10% each on improving the vitality of rural areas and competitiveness.³⁰ In comparison, the EU-wide average is about 50% on Axis 2 (environment) and 33% on Axis 1 (competitiveness) (Figure 3).

Figure 3: Relative importance of the three thematic RD axes by Member State for the programming period 2007–2013



Data source: European Commission, *Agricultural Policy Perspectives Briefs, No. 1, January 2011, p5*

29 Council Regulation (EC) No 1698/2005 of 20 September 2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD).

30 EFRA Committee, *Farming in the Uplands*, Third Report of Session 2010–11, HC 556, Ev 45.

2 Objectives of the Common Agricultural Policy

27. The original objectives of the Common Agricultural Policy were set out in the Treaty establishing the European Economic Community (also known as the Treaty of Rome) in 1957. They were retained in the Treaty on the Functioning of the European Union (TFEU) (Box 1).

**Box 1: Article 39 of the Treaty on the Functioning of the European Union (TFEU)
The objectives of the common agricultural policy³¹**

1. The objectives of the common agricultural policy shall be:

- (a) to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, in particular labour;
- (b) thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture;
- (c) to stabilise markets;
- (d) to assure the availability of supplies;
- (e) to ensure that supplies reach consumers at reasonable prices.

The need for a common policy on agriculture

28. When the Treaty of Rome established the Common Market, there was strong state intervention in agriculture in the six founding Member States. If agricultural produce was to be included in the free movement of goods while maintaining state intervention, national intervention mechanisms had to be made compatible across the Community. This is the basic purpose on which the common agricultural policy was founded and remains valid today.³² Dr Moss, Principal Agricultural Economist at the Agri-Food and Biosciences Institute (AFBI) and Senior Lecturer at Queen’s University, Belfast, stated “measures which impact on the functioning of the markets for agricultural commodities should remain common”.³³ The Commission’s Communication states that the “overwhelming majority of views expressed [in response to their public consultation] concurred that the future CAP should remain a strong common policy.”³⁴ A Eurobarometer survey conducted in early 2010 concluded there was “an overall preference for the European level to manage agricultural issues”.³⁵

31 *Official Journal of the European Union*, C115, 9 May 2008, p 62. The Treaty of Lisbon, which entered into force on 1 December 2009, amended the Treaty establishing the European Community, which was renamed the Treaty on the Functioning of the European Union.

32 European Parliament Fact Sheet 4.1.1 *The Treaty of Europe and Green Europe*.

33 Ev 126

34 *The CAP towards 2020*, p 2.

35 TNS Opinion and Social on behalf of the European Commission, *Europeans, Agriculture and the Common Agricultural Policy—Summary Report*, Special Eurobarometer 336, March 2010. It should be noted that only 57% of those surveyed had heard of the Common Agricultural Policy.

29. It is asserted, through the subsidiarity principle, that EU-level action is justified on issues that cross national borders.³⁶ Agricultural policy influences several supra-national issues, such as food security (as agricultural products move freely within the EU), the preservation of natural resources and biodiversity (although specific habitats might be deemed a local issue), and tackling climate change. For the same reason, a common EU agricultural policy is desirable for the purpose of international trade negotiations, giving Member States greater influence than they would have as lone entities.

30. Member States are likely to differ in the priority that they place on agriculture and rural development. The potential for distortion of competition because some producers are supported more than others increases the more CAP expenditure or policy is determined nationally or is co-financed. The Andersons Centre claimed that UK farmers would be placed at a disadvantage if more funding was decided nationally as “the UK Treasury would strongly resist providing funds”.³⁷ Several other witnesses agreed that a ‘renationalisation’ of the budget could harm UK farmers’ competitiveness.³⁸

31. Given the strategic importance of food and the openness of markets within the EU, it is essential that the EU retains a common policy on agriculture. First, this helps to maintain fair competition for agricultural products within the EU. Second, agricultural policy affects cross-border issues such as food security and climate change where action at a supra-national level is appropriate. Third, through acting collectively, the EU is able to be a major player in global agricultural trade.

Objectives and priorities for the post-2013 CAP

32. The Commission’s Communication gives three overall objectives for the future CAP, and several sub-objectives within each main objective (Box 2).

Box 2: The Commission’s objectives for the future CAP³⁹

Objective 1: Viable food production

- to contribute to farm incomes and limit farm income variability
- to improve the competitiveness of the agricultural sector and to enhance its value share in the food chain
- to compensate for production difficulties in areas with specific natural constraints because such regions are at increased risk of land abandonment

Objective 2: Sustainable management of natural resources and climate action

- to guarantee sustainable production practices and secure the enhanced provision of environmental public goods
- to foster green growth through innovation
- to pursue climate change mitigation and adaptation actions

36 European Parliament Fact Sheet 1.2.2 *Subsidiarity*.

37 Ev w28

38 For example, the Tenant Farmers Association (TFA) (Ev 110), the Royal Society for the Protection of Birds (RSPB) (Ev 107), Dr Moss, Principal Agricultural Economist, Agri-Food and Biosciences Institute (AFBI) and Senior Lecturer, Queen’s University, Belfast (Ev 124), the National Assembly for Wales Rural Development Sub-Committee (Ev w23), the Welsh Assembly Government (Ev w31), the Scottish Agricultural College (Ev w35).

39 *The CAP towards 2020*, p 7.

Objective 3: Balanced territorial development

- to support rural employment and maintaining the social fabric of rural areas
- to improve the rural economy and promote diversification
- to allow for structural diversity in the farming systems, improve the conditions for small farmers and develop local markets

33. Although witnesses agreed the need for a common policy, we received mixed views about the objectives of the policy in future, ranging from maintaining farmers' incomes through providing food security to protection of the environment and rural landscapes. In the following section, we present the views of UK interested parties on the purpose of the CAP and recommend a set of objectives and priorities for our agricultural policy.

Food Security

34. Our predecessor Committee in their inquiry *Securing food supplies to 2050: the challenge for the UK* noted the difficulty with defining 'food security'.⁴⁰ For some, food security is simply about access to enough food, for others it is synonymous with self-sufficiency or even food sovereignty.⁴¹ In this report, we concur with our predecessors that food security is 'to have access at all times to sufficient, safe, sustainable and nutritious food, at fair prices, so as to help ensure an active and healthy life'.⁴²

35. The urgent need to address the food security question has been impressed on the Committee by the recent Foresight report, *the Future of Food and Farming*.⁴³ This report confirmed the UN Food and Agriculture Organisation (FAO)'s predictions that food supplies will need to double to meet the predicted demands of 8–10 billion people by 2050, without bringing more land into production. Moreover, this "growing demand for food must be met against a backdrop of rising global temperatures and changing patterns of precipitation".⁴⁴ We also note the conclusions of the *Securing food supplies to 2050* inquiry that: "Doing nothing to contribute to the world's food supplies would be morally unacceptable: at a time when a fundamental shift in thinking is required, the UK should set an example, not bury its head in the sand".⁴⁵

36. This does not mean that we should use the CAP as a tool to increase EU production now beyond the level suggested by market conditions, which would be a return to post-war logic. The National Farmers' Union (NFU) claim that UK self-sufficiency in all food-groups (including for example tropical fruits that cannot be grown here) will fall from 59%

40 EFRA Committee, Fourth Report of Session 2008–09, *Securing food supplies up to 2050: the challenges faced by the UK*, HC 213.

41 Food sovereignty as a term was coined by the Via Campesina in 1996. It encompasses the idea that people should have a right to locally produced and culturally appropriate food and to define their own food production systems (www.foodsovereignty.org)

42 EFRA Committee, *Securing food supplies up to 2050: the challenges faced by the UK*, para 6.

43 Foresight and Government Office for Science, *The Future of Food and Farming: Challenges and choices for global sustainability—Final Project Report*, January 2011, p 15. Further information on the Foresight *Global Food and Farming Futures* project is available from their website, www.bis.gov.uk/foresight

44 *The Future of Food and Farming*, p 15.

45 *Securing food supplies up to 2050: the challenges faced by the UK*, para 47.

to under 50% by 2030 if current trends continue.⁴⁶ However, we should not strive for total self-sufficiency as this would be impossible with our current diets. The UK is currently 72% self-sufficient in domestically-produced foods, which are more relevant to our basic food security in terms of calorific intake than self-sufficiency over all food groups.⁴⁷ The *Future of Food and Farming* report rejected food self-sufficiency but emphasised that food system governance needed to be improved as well, for example to avoid the introduction of export bans at times of food stress.⁴⁸

37. There was a broad consensus among witnesses that the strategic importance of food justified Government intervention through agricultural policy to ensure food security; for many this includes retaining a significant degree of self-sufficiency, at least until global governance of the food system has been improved.⁴⁹ For example, Dr Moss said:

I think it is important that Europe retains a significant degree of self-sufficiency in food for strategic reasons. Very simply [...] we can opt not to buy a motor car, we can opt not to have fancy clothes or live in fancy houses, but food is of absolute importance; imperative importance.⁵⁰

38. Food security involves a balance between production and sustainability. Our future food security depends on sustainable management of the land and preservation of agricultural social capital.⁵¹ The Minister of State for Agriculture and Rural Development told us that it was in the EU's strategic interest to increase food production capacity, pointing out that climate change projections suggest that "northern Europe will be increasingly the bread basket of the world".⁵²

39. We believe that the EU will need to play a greater role in meeting food supply challenges in the future, particularly as future climate change may result in currently productive areas becoming less so. Until failures in the global governance system of food supply are addressed, there remains a strategic interest for the EU to retain a significant degree of food self-sufficiency. The first objective of the Common Agricultural Policy should be to maintain or enhance the EU's capacity to produce safe and high-quality food.

46 "Take action now to avoid food shortage—NFU", *Farmers Guardian*, 31 December 2010.

47 HC Deb, 18 October 2010, c425W

48 *The Future of Food and Farming—Final Project report*, p 19–20.

49 For example, the RSPB (Q 8), TFA (Ev 111, Q 40, Q 58), the Country Land and Business Association (CLA) (Q 78), the National Farmers' Union (Q 124–125, Q 157), George Lyon MEP (Q 297), Brian Pack OBE (Q 342), the Agriculture and Horticulture Board (AHDB) (Ev 161, Q 362), the Food and Drink Federation (Ev 168, Q 398), Mr James Paice, Minister of State for Agriculture and Food (Q 480), the Scottish Agriculture College (Ev w35), Farmers' Union of Wales (Ev w45). See also the European Parliament resolution of 8 July 2010 on the future of the Common Agricultural Policy after 2013 (TA(2010)0286), para 6, 10–11, 67. The previous EFRA Committee concluded in their *Securing food supplies to 2050* report that the UK should not take world food supplies "for granted" and that "A healthy domestic agriculture is an essential component of a secure food system in the UK" (para 47).

50 Q 218

51 See Dr Moss (Q 232), the RSPB (Ev 108), the CLA (Ev 117–118), the Society of Biology (Ev w 19).

52 Q 480. The AHDB similarly said that "the UK is predicted to be less impacted on by climate change than many other countries meaning that our contribution to total food and crop production may potentially need to be greater in the future than at present". (Ev 161).

Agricultural Competitiveness

40. The European Commission believes that improving the viability of EU agriculture in a global market is central to the first objective of maintaining production capacity:

On the one hand, agriculture can potentially contribute substantially to many of the challenges faced by Europeans with right incentives and in the right setting [...] On the other hand, its structure is diverse and economic situation fragile [...] In effect, short-term survival dominates the perception of many farmers over the long-term, broader perspective. If agricultural policy does not address the former, it will have little success in promoting the latter.⁵³

41. In the UK, agriculture accounts for a relatively small proportion of the workforce and GDP (about 0.5% of Gross Value Added.⁵⁴) However, it contributes significantly to other parts of the economy: for example food and drink processing is the UK's largest manufacturing sector and buys two-thirds of the production of British farmers.⁵⁵ The Government wants to rebalance the economy away from services and the financial sector towards manufacturing. UK agriculture could be important in achieving this through its role in supporting the UK agri-food industry.⁵⁶

42. The UK Government and devolved administrations consider improving the overall competitiveness and viability of UK agriculture to be key aims of the CAP. The Welsh Assembly Government wanted a CAP that “strengthens the competitiveness of our land based industries”,⁵⁷ and the Scottish Executive also aims to “optimise the productive use of natural resources”.⁵⁸ Defra called for “transformational reforms which we believe are necessary to deliver a thriving, sustainable and internationally competitive EU farming sector” in order to reduce reliance on public subsidies.⁵⁹ Farming representatives and environmental NGOs also agreed with the need to tackle the issue of farm business competitiveness.⁶⁰

43. Enhancing the competitiveness and viability of the EU agricultural sector should be the second objective of the CAP. A competitive and viable EU agricultural sector is the key to producing more while having less impact on the environment and to reducing farmers' reliance on income support from the tax-payer in the long-term.

53 European Commission, *The reform of the CAP towards 2020: Consultation Document for Impact Assessment*, 2010.

54 Defra, *Agriculture in the United Kingdom*, 2008. Gross Value Added (GVA) of farmers and primary producers was £5.8bn, while GVA of the agri-food sector (including catering and retail) was £85bn, which is 6.7% of national GVA.

55 Ev 167. It has been estimated that, in Scotland, one job in agriculture supports 0.85 jobs elsewhere in the rural economy. (Croasdale S., Hosie D., Hanrahan K. and Young, J., *Input-Output Modelling for the Scottish Government*, 2009, www.scotland.gov.uk).

56 “Cameron urges economy ‘rebalance’ to restore growth”, *BBC News website*, 7 March 2011.

57 Ev w33

58 Ev w38

59 Ev 171

60 For example, the TFA (Ev 110), the RSPB (Ev 106), the NFU (Ev 119).

Natural resources

44. Farmers are responsible for managing over half of the EU's land area.⁶¹ Several witnesses, particularly Defra and environmental NGOs, emphasised the central role the CAP could play in sustainable land management. Defra argued that the future CAP should reward farmers for “delivering environmental benefits by managing the land effectively to promote long term resilience”.⁶² Similarly, the Country Land and Business Association (CLA) told us that:

We genuinely believe that farmers are primarily in business to produce food, but because they manage the bulk of the territory, they're the only businesses out there who can supply biodiversity, landscape management, water protection, climate protection over a wide scale, and in principle they're willing to do this, but they want to see it as a business.⁶³

45. Markets tend not to reward farmers properly for their activities that deliver environmental or societal benefits, such as protecting farmland birds or ensuring a high standard of animal welfare—this is a form of market failure (Box 3). The Royal Society for the Protection of Birds (RSPB) said there is a “clear case for policy intervention, through the CAP, to secure environmental delivery due to the market failure to reward many environmental public goods”;⁶⁴ similarly the Society for Biology said that “public subsidy should be for public goods”.⁶⁵

Box 3: Public Goods and Market Failures

The strict economic definition of a **public good** is a good whose consumption is non-excludable and non-rival. This means that the consumption of such a good by one individual does not reduce the amount of that good which can be consumed by any other individual (non-rival) and no-one can be excluded from the consumption of the good (non-excludable). Examples of public goods are law enforcement, defence and street lighting. Because of the nature of such goods, there is no market incentive to produce them as consumers cannot be charged (via the market) for their consumption, resulting in **market failure**. Consequently, public goods have traditionally been provided by public authorities/government.

Farmers often create public goods, including environmental protection, conservation of biodiversity, soil fertility and water quality, landscape preservation, food safety, animal and plant health, and rural development. Agricultural production also creates negative externalities, for example water pollution, which are not properly accounted for in the cost of the product and are therefore paid for by society. Although some witnesses referred to food production as a public good, this is not strictly true as there are efficient markets for food and if one person consumes the food, there is less available for others.⁶⁶

61 European Commission, *The reform of the CAP towards 2020: Consultation Document for Impact Assessment*, 2010.

62 Ev 172

63 Q 95

64 Ev 107

65 Ev w19

66 Ev 151

46. **The third objective of the CAP should be to ensure the sustainable management of the EU's natural resources, biodiversity and landscapes, recognising that farmers are the managers of over half of the EU's land area.**

Farmers' incomes

47. The European Commission gives “a fair standard of living for the agricultural community” as one of the ways to achieve its mission, which is to promote the sustainable development of Europe's agriculture and to ensure the well-being of its rural areas.⁶⁷ Commissioner Ciolos̄ told us that “one of the most important objectives of the Common Agricultural Policy is to ensure a good standard of living for farmers”, adding that direct payments should ensure a minimum level of income for farmers.⁶⁸

48. This emphasis on income support was not supported by all witnesses. Professor Swinbank, Emeritus Professor of Agricultural Economics, University of Reading, felt there was “no need for income support across the generality of European agriculture”.⁶⁹ Dr Moss and the NFU argued that it would not be possible to deliver every single farmer in Europe an acceptable standard of living via the CAP.⁷⁰ Many agricultural economists question the use of the CAP as an income support policy as it is not means-tested and the available farm income data is not sufficient to enable this. In addition, Member States have their own mechanisms to deal with economic hardship—the Welfare State for example—which arguably are more efficient and targeted than EU-level measures.⁷¹ The Minister described income for farmers as being at the top of his list of objectives for the reformed CAP, but emphasised that he did not mean this to be achieved through subsidies.⁷²

49. Nonetheless there may be a convincing case for maintaining farmers' incomes in some areas of low productivity, where this is necessary to ensure the delivery of important public goods (Box 3). In our report into *Farming in the Uplands*, we concluded that farming activity was central to the future of the cherished landscapes and traditions of upland areas and should be supported through CAP instruments.⁷³ On the other hand, economists have argued that socioeconomic objectives, such as avoiding depopulation, could be achieved more efficiently through EU cohesion funding or national projects than through the CAP.⁷⁴

50. The Minister told us he supported the use of the CAP in economically vulnerable areas, saying “we agree that there should be measures within in it [the proposals from the Commission], preferably in Pillar 2, to support those farmers in the uplands and in the

67 http://ec.europa.eu/dgs/agriculture/index_en.htm

68 Q 172

69 Q 257

70 Q 126, Q 201

71 Ev 154, Q 229. For further information, see *A Common Agricultural Policy for European Public Goods: Declaration by a Group of Leading Agricultural Economists*, 2009, <http://www.reformthecap.eu/declaration-2009> and Tangermann, S., *Direct Payments in the CAP post 2013*, Note to DG IPOL, January 2011, PE 438.624.

72 Q 448

73 *Farming in the Uplands*, para 5, 38, 60.

74 *A Common Agricultural Policy for European Public Goods: Declaration by a Group of Leading Agricultural Economists*, 2009, <http://www.reformthecap.eu/declaration-2009>

hills”.⁷⁵ However, Defra’s written evidence suggests this could be achieved through instruments other than the CAP.⁷⁶ Given the importance of maintaining a common system of support for agriculture in the EU, we would argue that any support for farmers in less productive areas should be delivered through the CAP rather than through national instruments—to do otherwise risks creating competitive distortions that could negatively affect UK producers.

51. The impacts of climate change on European agriculture are unpredictable, but it is possible that some currently productive regions will become unsuitable for agricultural activity with consequences for the delivery of public goods. For this reason, future approaches to maintaining agriculture across the EU must be flexible to reflect changing circumstances.

52. The fourth objective of the CAP should be to help to maintain agricultural activity in areas where it delivers significant public benefits, such as the maintenance of biodiversity and cultural landscapes. However, the CAP should not aim to deliver an acceptable standard of living to every farmer in the EU through income support alone—farmers should be encouraged to look to the market for returns.

Diversity of farming systems

53. The Commission’s Communication gives ‘structural diversity’ in farming systems as one of the objectives of the CAP. The EU exhibits a wide range of different farming systems, ranging from semi-subsistence farming to large agri-businesses such as the Co-operative Group. Currently, EU agriculture has been unwilling to adopt some more intensive methods of farming, found for example in South America, such as the use of GM crops, cloning of livestock, or very large-scale dairy units (‘super-dairies’). There was a general view among our witnesses that the public valued the current model of EU agriculture. For example, the CLA said:

This is the genuine question that we all have to ask ourselves: does the European public want and expect that its agricultural land is farmed South American-style, in estates of tens of thousands of hectares with 50 combines in a field? [...] We each have our own personal view on that. Some will say, “If it’s cheap and efficient and high quality”—which it can be, and I’m not saying that those things are bad quality—“then bring it on.” But others will say, “No, that’s not the European way of doing it,” and we’re trying to find a balance in there. We will have some large farms, I hope, but I think Europe wants smaller farms, so that’s part of it.⁷⁷

54. The Campaign to Protect Rural England (CPRE) felt that the preservation of the cultural landscapes generated by farming should be one of the key objectives of the CAP. They expressed concern that a focus on improving competitiveness would lead to intensification and consolidation of production, with negative consequences for European agricultural landscapes and habitats.⁷⁸ During our inquiry into the English Uplands, we

75 Q 460

76 Ev 172

77 Q 93

78 Ev 108

heard how the valued cultural heritage of the uplands, which had been preserved by its history of low-intensity land use, could be threatened by farm restructuring.⁷⁹

55. Structural diversity in farming allows for the continuation of ‘high nature value’ (HNV) farming systems. These tend to be low intensity, low income and small-scale but maintain environmentally-friendly practices such as extensive grazing and leaving land fallow. Conservation groups have stressed the importance of protecting these farming systems as major reservoirs of European biodiversity.⁸⁰

56. Small-scale farming, can also be important in maintaining connections between local communities and their food supply. George Lyon MEP, Rapporteur to the European Parliament’s own-initiative report on the future of the Common Agricultural Policy after 2013, said “Local communities want to see local food production and therefore that is a priority we must still address in the future”.⁸¹ Commissioner Ciolos noted that his public consultation on the future of the CAP highlighted a desire for small farmers to have more opportunities to play a role in the “the delivery of diversity of food and quality of food”.⁸²

57. We note that there are concerns that the untrammelled pursuit of agricultural competitiveness might have unwelcome consequences for the diversity of EU farming and the social and environmental benefits that flow from this, including cultural landscapes and local food sources. Equally, the Common Agricultural Policy should not seek to discourage restructuring and consolidation where this enables farmers to achieve greater competitiveness and profitability. **The fifth objective of the CAP should be to foster diversity in EU agriculture, where this is valued by EU citizens, but not enforce it.**

79 *Farming in the Uplands* Ev w 15; Commission for Rural Communities, *High ground, high potential—a future for England’s upland communities*, June 2010, p 8.

80 Ev w18; European Forum for Nature Conservation and Pastoralism, Birdlife International, Butterfly Conservation Europe and the WWF, *CAP Reform 2013: Last chance to stop the decline of Europe’s High Nature Value farming?*

81 Q 279

82 Q174

3 Drivers for reform of the CAP

58. This is the fifth round of CAP reform in the last twenty years and is unlikely to be the last; the Minister described it as “another stepping stone towards whatever will be”.⁸³ The Commission has given no clear indications as to the long-term future of the Common Agricultural Policy. However, it is likely that some form of common policy will still be needed to avoid distortion of competition.⁸⁴

59. Defra were critical of the Commission for failing to set out a “clear vision for the future of CAP expenditure”.⁸⁵ The RSPB also felt the lack of a direction for the future CAP left farmers “in limbo” and said it would be “excellent if there was a clear signal in 2014 about those groups of farmers that were going to receive income support in the long term”, and those that would not.⁸⁶ Changes to the single farm payment are seen by 65% of uplands farmers as their most important challenge for the future, highlighting the importance of a clear future trajectory for the CAP.⁸⁷

60. The drivers of past reforms of the CAP have been internal budgetary pressures and external political pressures, such as the need to reach an agreement on the WTO Uruguay trade round. The Tenant Farmers Association (TFA) felt that these drivers were weaker this time round as “there is not really the WTO impetus that there was in the last reform, or the reform before that. I know that the budget issues are still important, but they are not as important as they were when the CAP budget was more than half the total amount of spending in the EU”.⁸⁸ Although agreement on the WTO Doha Development Round is being sought, this is not expected to require radical changes to the structure of EU agricultural support as direct payments are considered to be compatible with WTO conditions for non-trade distorting support (that is, ‘Green Box’).⁸⁹

61. A recent political analysis of past CAP reforms concluded that external pressures are more likely to lead to ambitious reform.⁹⁰ The NFU agreed that lack of external factors driving reform made ambitious changes more difficult to achieve.⁹¹

83 Q 450

84 The Commissioner told us that the CAP would have to continue in some form if EU citizens continued to expect EU farmers to produce at higher standards than competing producers in third countries (Q 173). The Minister argued that there would still need to be payments to reward farmers for providing public benefits and these would have to be delivered through a common framework to avoid competitive distortions between Member States (Q 450). See also paras 28–31 of this report.

85 Ev 171

86 Q 4

87 Uplands Farm Practices Survey, cited in *Farming in the Uplands*, Ev 68.

88 Q 48

89 Ev 155–156, 158–159. ‘Green Box’ payments are deemed to be non trade-distorting, for example, decoupled payments are seen as ‘Green Box’ because they do not influence farmers’ production decisions. Under the Uruguay Round Agreement on Agriculture there is no limit on the amount of Green Box support that signatories can offer. On the other hand, signatories are expected to reduce their spending on measures that do affect production (‘Amber Box’), such as payments per head of livestock (coupled payments).

90 Cunha and Swinbank, *An inside view of the CAP reform process*, 2011, p 14.

91 Q 131

62. We believe that the absence of external pressures from the WTO should not prevent the Commission striving for ambitious reform. The recent Foresight report into the *Future of Food and Farming* describes the confluence of a growing population, increasing wealth and changing diets, and the potential effects of climate change as a “major threat that requires a strategic reappraisal of how the world is fed”.⁹² One of the key messages of the Foresight report is that future food security can only be achieved through ‘sustainable intensification’ (Box 4).

Box 4: Key recommendations of the Foresight *Global Food and Farming Futures* project⁹³

Action has to occur on all of the following four fronts simultaneously:

- More food must be produced sustainably through the spread and implementation of existing knowledge, technology and best practice, and by investment in new science and innovation, and the social infrastructure that enables food producers to benefit from all of these
- Demand for the most resource-intensive types of food must be contained
- Waste in all areas of the food system must be minimised
- The political and economic governance of the food system must be improved to increase food system productivity and sustainability, including reducing agricultural subsidies and encouraging free trade

63. The Royal Society has described sustainable intensification as where “yields are increased without adverse environmental impact and without the cultivation of more land”.⁹⁴ The UK Government has committed itself to “work in partnership with our whole food chain including consumers to ensure the UK leads the way on sustainable intensification of agriculture”.⁹⁵ A reformed Common Agricultural Policy could surely play a key part in achieving this policy objective.

64. We believe that the absence of external pressures from the WTO should not prevent the Commission striving for ambitious reform. The aim for this round of CAP reform should be to enable EU farmers to achieve the ‘sustainable intensification’ that is required to meet the global challenges of feeding a predicted world population of 9 billion by 2050 without irrevocably damaging our natural resources.

65. Our predecessor Committee’s report on UK food security concluded that “clear leadership from Defra is crucial to the security of the UK’s food supplies” and encouraged Defra to report its actions to promote UK food security as part of the Departmental Annual Report.⁹⁶ Subsequently, the previous Government published *Food 2030*, its “vision

92 *The Future of Food and Farming—Final Project Report*, p 40. Forecasts suggest the world population will grow to over 9 billion by 2050; economic growth will allow people in less-developed countries to demand a more varied and high-quality diet; and there will be greater competition for land at the same time as the effects of climate change may reduce area of land suitable for agriculture.

93 *The Future of Food and Farming—Final Project Report*, p 12.

94 The Royal Society, *Reaping the benefits: Science and the sustainable intensification of agriculture*, October 2009, p 1.

95 Foresight, *The Future of Food and Farming Action Plan*, January 2011; see also Defra press release 24 January 2011.

96 *Securing food supplies up to 2050: the challenges faced by the UK*, paras 94, 138.

for a sustainable and secure food system for 2030”.⁹⁷ The NFU recently called on the Government to produce a new ‘food plan’ to reflect the challenges identified in the Foresight report.⁹⁸ In response, the Secretary of State referred to *Food 2030* but said: “It has not been at the top of my agenda”.⁹⁹ So far, the Government has not signalled any intention to produce a new food strategy.¹⁰⁰

66. The Government’s position on the Common Agricultural Policy must be coherent with its strategy for ensuring food security. Defra should decide whether, and if so how, it intends to implement the previous Government’s *Food 2030* strategy, taking into account the recommendations of the Foresight *Future of Food and Farming* report and the UK’s position on the future Common Agricultural Policy.

Future agricultural policy and world trade

67. The EU is one of the major players in agricultural trade, importing mainly commodities and exporting high quality and processed products. The evolution of the CAP has been closely linked to the opening up of EU agriculture to world markets, presenting both a challenge and an opportunity for UK producers.

68. Although the EU has granted extensive market access to many of the least-developed countries under the ‘Anything but Arms’ initiative, prohibitive tariff barriers exist to prevent over-quota imports of sensitive products, such as meat and dairy, from more developed countries.¹⁰¹ Resolution of the Doha Development Round could lead to cuts in tariffs of around 50% overall for developed countries, although ‘sensitive’ products, for example beef, would probably be protected.¹⁰² The EU also committed itself to phasing out export subsidies during previous Doha Round trade talks. The WTO is expected to produce a new draft text for the Doha Development Round shortly.¹⁰³ Separately, the European Commission is negotiating a bilateral trade agreement with Mercosur; this could open up European markets to highly competitive agri-food exports from countries such as Brazil and Argentina.¹⁰⁴

69. Econometric analyses conducted by the Agri-Food and Biosciences Institute (AFBI) indicate that trade liberalisation would have a significant effect on food production and

97 HM Government, *Food 2030*, January 2010.

98 “NFU calls for new government food plan”, *Farmers Guardian*, 15 February 2011.

99 “UK farmers’ leader attacks government for lack of national food plan”, *The Guardian*, 15 February 2011.

100 Defra have said: *Food 2030* usefully set the scene and described the key issues facing the food chain. The Government are now taking action to meet their objectives of supporting British farming, encouraging sustainable food production, and helping to enhance the competitiveness and resilience of the whole food chain with the aim of ensuring a secure, environmentally sustainable and healthy supply of food with improved standards of animal welfare. (HC Deb, 7 March 2011, col 767W). At the Westminster Food & Nutrition Forum, *Food and drink industry 2011: challenges and opportunities*, 8 March 2011, the Defra representative said that Ministers had no desire to revisit the themes identified in *Food 2030* (transcript available from www.westminsterforumprojects.co.uk).

101 Ev 159; <http://ec.europa.eu/trade>

102 Ev 128; “New WTO modalities paper—a detailed summary”, *Agra Europe*, 12 December 2008.

103 “WTO officials pledge new Doha draft by end-March”, *Agra Europe*, 31 December 2010.

104 Mercosur is a South American trading bloc comprising Argentina, Brazil, Paraguay and Uruguay. According to the European Commission, negotiations were re-opened in May 2010 and talks were last held in Brussels in March 2011. http://trade.ec.europa.eu/doclib/docs/2006/december/tradoc_118238.pdf

prices in the UK, particularly in the livestock sector.¹⁰⁵ Dr Moss, a lead author on the study, concluded:

... your average farmer is not as aware of the protection that is there with the export subsidies and the import restrictions, but that is really what is maintaining the prices in many cases for Europe [...] It is only when that existing protection is removed that you start to see a big knock-on effect on the beef and sheep meat sectors particularly.¹⁰⁶

70. Farming and land-owning organisations were concerned about the impacts of full trade liberalisation on British producers. They argued that imported products often did not meet the same welfare and environmental protection standards as British products and were therefore cheaper.¹⁰⁷ Under the WTO Agreement on Sanitary and Phytosanitary Measures, governments can regulate trade in agri-food products only on food safety, plant and animal health grounds and as long as these do not act as ‘disguised trade barriers’.

71. The British Retail Consortium (BRC) claimed that retailers sourcing products from outside the UK apply similar standards as would apply if they sourced them from within the UK.¹⁰⁸ This implies that price differences arising from variation in production standards would not reduce the attractiveness of UK products to UK retailers. However, according to the British Pig Executive, in 2005 an estimated 70% of pork imports would have been illegal to produce in the UK on the grounds of pig welfare.¹⁰⁹

72. Farming groups felt that achieving recognition of production standards, such as animal welfare, carbon footprint or water usage, was a key part of moving towards fairer trade and a more sustainable food chain. The AHDB said:

Where there are externalities (or public goods) which are not currently priced/valued by the market or through regulation/taxation on a standard basis across the world, UK farmers need to be supported to compete on an equal footing if we are not to merely export food production to countries where welfare or environmental standards are lower.¹¹⁰

The Foresight report also recommends that “future reform of institutions such as the World Trade Organisation cannot ignore the issues of sustainability and climate change”.¹¹¹ While the CLA and NFU shared this aspiration, they felt that progress within

105 AFBI modelled the impact of (1) implementing the Doha trade round reforms and (2) further reducing import tariffs for agricultural products to bring them in line with the rest of the economy. Implementing the Doha round reforms had little effect on cereals and only a moderate effect (3-6% reduction) on beef, sheep and dairy production compared to a baseline scenario. Further trade liberalisation had considerably greater effects on the livestock sector, with sheep and cow numbers falling by 10% and 20% respectively (Ev 125–150).

106 Q 207

107 For example the AHDB (Ev 161), the TFA (Q 50), the CLA (Q 118, Q 120), the NFU (Q 141) and the Royal Society for the Prevention of Cruelty to Animals (RSPCA) (Ev w5).

108 Q 402

109 British Pig Executive, *An Analysis of Pork and Pork Products Imported into the United Kingdom*, April 2006.

110 Ev 161.

111 *The Future of Food and Farming—Final Project Report*, p 20.

the WTO framework would be slow.¹¹² Defra and the RSPB warned that consideration of standards of production should not become “protectionism by another name”.¹¹³

73. Rather than adding trade barriers, there is a market-based alternative through better labelling of products to enable consumers to make informed choices. However, Professor Swinbank noted that society could not always be relied on to make the ‘right’ choices, arguing that “if in the longer run, with the information, consumers say they do not want to pay higher prices for animal welfare products, it raises a question about that animal welfare legislation itself”.¹¹⁴ The TFA were more blunt, claiming that, “I am afraid the vast majority of people, despite what we hear and see in the press, still buy on price”.¹¹⁵

74. In the interests of fairer trade in the long-term, the EU should argue more strongly for recognition of standards of production (for example animal welfare, use of water, greenhouse gas emissions) within trade agreements. We believe this is essential in achieving the global shift towards sustainable intensification recommended by the Foresight *Future of Food and Farming* report.

112 Q 120, Q 142

113 Q 15, 476

114 Q 245

115 Q 71

4 The budget of the CAP in the post-2013 financial framework

75. Negotiations on the future CAP are proceeding concurrently with negotiations on the next Multiannual Financial Framework. Given the current economic situation in the EU, there is of course considerable interest in achieving greater value for money from EU spending.

76. The Commission has not yet given any figures for the future CAP budget; it is expected to produce a Communication on the next Multiannual Financial Framework before July 2011 including a breakdown of the budget for the CAP. The 2010 EU Budget Review noted that the CAP budget had fallen in recent years, but still represented a major public investment.¹¹⁶ Somewhat surprisingly, the Review did not recommend any direction for the future CAP budget. Commissioner Ciolos has been clear that a significant reduction to the budget would require a substantial re-thinking of the policy.¹¹⁷

77. The European Parliament's resolution on the CAP post-2013 said "it is essential that the budget the EU allocates to the CAP is at least maintained at current levels".¹¹⁸ However George Lyon MEP, who drafted the resolution, suggested this was rather optimistic; he told us:

I don't think that we are likely to see any increase whatsoever in the Common Agricultural Policy budget. Indeed I think it's more than likely that it will start to decrease over time. The question is not if; it is a question of when.¹¹⁹

78. Defra argued unequivocally for a reduction in the budget, stating:

Spending on the CAP will need to reduce very materially during the next Financial Perspective: the future CAP must be affordable, and EU spending on agriculture must deliver real value for money for EU citizens.¹²⁰

79. Our witnesses were cautious about the potential effects of a substantial cut to the budget. The CLA said "Our fear is that the UK will set extremely high ambitions and expect them to be delivered from an unreasonably low budget".¹²¹ The RSPB also felt that the current budget would need to be retained to meet its ambitions, saying "I would wager that to meet those environmental outcomes the CAP budget would not be less than what it

¹¹⁶ European Commission, *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions and the National Parliaments—the EU Budget Review*, October 2010, p 11.

¹¹⁷ Q 196

¹¹⁸ European Parliament resolution of 8 July 2010 on the future of the Common Agricultural Policy after 2013 (TA(2010)0286, para W.

¹¹⁹ Q 278

¹²⁰ Ev 170

¹²¹ Ev 115

currently is, although I appreciate there is considerable pressure for all Member States to reduce spend”.¹²²

80. Witnesses from the devolved administrations did not echo Defra’s calls for a substantially reduced budget. The Northern Ireland Assembly Minister of Agriculture and Rural Development said: “I cannot support calls for significant reductions to the CAP budget and, in particular, to direct support for agriculture”.¹²³ The National Assembly for Wales Rural Development Sub-Committee’s inquiry into CAP reform recommended that “it is essential to protect the CAP budget”.¹²⁴ The Scottish Executive Cabinet Secretary for Rural Affairs and the Environment expressed concern “that the Defra position is clearly being driven by budget considerations and that the UK Government is paying no attention to the needs of farming in the UK and especially in Scotland”.¹²⁵

81. It is important to note that EU funding is the centre-piece of spending on agriculture and the environment in the UK. In 2009–10, the amount that Defra received from the EU to spend on EU-specified agriculture and environment programmes was greater than Defra’s nationally-funded expenditure on all its other responsibilities.¹²⁶

82. In light of current financial circumstances, we believe there is room for savings to be made within the CAP budget while still delivering its core objectives. However Defra must be mindful that severe budget cuts could incur greater costs in the long-term if they result in depleting the EU’s natural and social capital.

122 Q 22

123 Ev w29

124 Ev w22. The Welsh Assembly Government’s response expressly did not express an opinion on the budget (Ev w33).

125 Press release by the Scottish Executive, 19 January 2011.

126 Defra’s budget for 2009–10 was £3.08bn falling to £2.2bn by 2014–15. Its expenditure on the Single Payment Scheme in the same year was £1.89bn and its expenditure on the RDPE was £0.36bn, of which approximately one half is financed nationally, giving a total EU-funded spend of £2.08bn. In 2009–10, the Department spent £0.45bn on its Departmental Spending Objectives related to food and agriculture (DSO6, DSO7), £0.96bn on the environment (DSO 2) and £1.5bn on other objectives. (Sources: Defra, *Resource accounts 2009–2010*, p 49; Defra, *Main Estimate 2010–11 Select Committee Memorandum*; Rural Payments Agency, *Annual Report and Accounts 2009–2010*).

5 The Commission's Communication: the CAP towards 2020

83. The Commission launched the debate on CAP reform through a Communication published on 18 November 2010 entitled *The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future*.¹²⁷

84. The Communication sets out the challenges and the objectives for the post-2013 CAP followed by three options for future reform. Option 2 is the only one that is considered in any detail and is clearly the preferred option. This option outlines moderate reform to Pillar 1 payments while retaining the basic two pillar structure and the existing market measures (Box 5). Option 1, or enhanced status quo, proposes retaining the existing structure but altering the distribution of direct payments to address the issue of equity between Member States. Dr Moss describes this as the “the fallback option if agreement cannot be reached on Option 2”.¹²⁸ Option 3, the radical reform option, envisages phasing out the Single Payment Scheme and most market measures while strengthening environment and climate change measures. The CLA describes this as the British/Swedish vision and notes it has “plainly commanded no general support despite being on offer for five years”.¹²⁹

Box 5: The Commission's proposals for the future CAP—Option 2

Direct Payments:

- More equitable distribution between Member States
- New design consisting of four components
 - a basic payment
 - additional payment for agri-environment activities ('greening')
 - additional payment for farmers in areas of specific natural constraints
 - voluntary coupled support component for specific sectors and regions
- New support scheme for small farms.
- Capping of the basic payment modified by consideration of salaried labour
- Simplification of cross-compliance rules

Market Measures:

- Retain as a safety net in case of price crisis but consider extending existing measures to other products
- Policy tools to improve the functioning of the food chain

Rural Development:

- Focus support on the environment, climate change, innovation and restructuring and strengthen local/regional approach
- Strengthened risk management tool-kit including an income stabilisation tool
- Possible redistribution of funds more objectively among Member States

127 COM(2010)672/5, November 2010

128 Ev 124

129 Ev 114

85. The European Agriculture and Fisheries Council published its conclusions on the Commission's Communication in March 2011; however five Member States (UK, Sweden, Denmark, Malta, Latvia and Lithuania) refused to support those conclusions.¹³⁰

86. A report from the European Parliament is currently being discussed by the Agriculture and Rural Development Committee. A resolution is expected to be voted on in a plenary meeting of the European Parliament in early June 2011. The Commission is expected to produce draft legislative proposals and a further Communication in autumn 2011.

¹³⁰ Council of the European Union, *Presidency conclusions on the communication from the Commission: The CAP towards 2020: meeting the food, natural resources and territorial challenges of the future*, 3077th Agriculture and Fisheries Council meeting, 17 March 2011, www.consilium.europa.eu; "Majority of Member States support strong CAP", *Europolitcs*, 18 March 2011.

6 The Single Payment Scheme post-2013

87. Within the UK, the future of the Single Payment Scheme is probably the most divisive issue among the interested parties, with views expressed to us ranging from 100% preservation to 100% abolition. Moreover, given that direct payments dominate the CAP budget, it is not surprising that they dominate the mind-set of those negotiating the future CAP.

Divergent perspectives on the future of direct payments

88. The Commission's Communication gives three options for the future of direct payments; however, Commissioner Ciolos made it clear to us that he did not expect them to be abolished soon.¹³¹ The Agriculture and Fisheries Council "broadly agrees that this support has proven its worth and will remain an essential element in the CAP towards 2020".¹³²

89. Defra's position on direct payments is that:

While direct payments will continue during the next Financial Perspective, they should have a clear downward trajectory and be positioned as part of a programme of managed transition planning for their abolition.¹³³

In oral evidence, the Minister emphasised that Defra is "not proposing to end direct payments tomorrow", but that "during this seven-year period, from the beginning of 2014 to 2020, we should be moving in that direction. In an ideal world, yes, we would like to see them end soon after that".¹³⁴

90. The devolved administrations have publically questioned Defra's stance on direct payments. The Northern Ireland Agriculture Minister wrote to the Committee that:

... I take the view that while the next CAP reform should certainly seek to improve the competitiveness of EU agriculture, it cannot be assumed simplistically that an attack on the level of direct support is the way to achieving this.¹³⁵

The Welsh Assembly Government's Rural Affairs Minister called a cut in subsidy "counterproductive".¹³⁶ The Scottish Cabinet Secretary for Rural Affairs and the Environment said "We cannot and will not support any UK response which supports the

131 Q 172, 175

132 Council of the European Union, *Presidency conclusions on the communication from the Commission: The CAP towards 2020: meeting the food, natural resources and territorial challenges of the future*, p 2.

133 Defra, *UK Response to the Commission Communication and Consultation: "The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future"*, January 2011.

134 Q 462

135 Ev w29

136 "Devolved Administrations furious over 'UK' CAP stance", *Farmers Guardian*, 3 February 2011.

abolition of direct subsidy payments to Scotland's farmers".¹³⁷ Nonetheless, Defra have repeatedly said that there is a unified position on the CAP in the UK.¹³⁸

Arguments for the retention of direct payments

Poor business conditions in agriculture

91. The economic dependence of many parts of the UK's farming sector on their single farm payment led several witnesses to argue that they had to be retained. The TFA said:

If you look at Pillar 1, when you look at how many agricultural producers are actually producing, and living, below the official poverty line, it just makes you realise just how important Pillar 1 is, particularly in the tenanted sector, where they have to pay a rent before they take any drawings. Take Pillar 1 away, and I think you take, you snatch the rug from a huge proportion of the tenanted sector.¹³⁹

The CLA warned that abolition of the SFP would be "hugely detrimental".¹⁴⁰ While the NFU share Defra's ambition to reduce reliance on subsidies, they view it as an aspiration rather than as a definite end-point. Peter Kendall, NFU President, said "We want to be in a place where the market returns us a fair living. We want to set a target to try to get there, rather than just say this is about abolishing subsidy [...] There is a lot more to be done before we talk about abolition".¹⁴¹

92. The RSPB agreed that "just taking away the rug of the single payments from farms at the moment would have a devastating impact on farm businesses" but felt that farmers would adapt if support was phased out slowly, even over 10–20 years.¹⁴²

93. A recent study commissioned by Defra supports the position that the profitability of the UK agricultural sector would be severely undermined by abolition of the single farm payment.¹⁴³ While about 15% of farms in the UK had negative incomes even with the direct payments, this position worsens to nearly 60% if the payment is removed. This analysis also suggests that the UK would be the worst-affected of all the Member States (Figure 4).

137 *Ibid.*

138 "NFU11: UK united about subsidies", *Farmers Guardian*, 15 February 2011.

139 Q 50

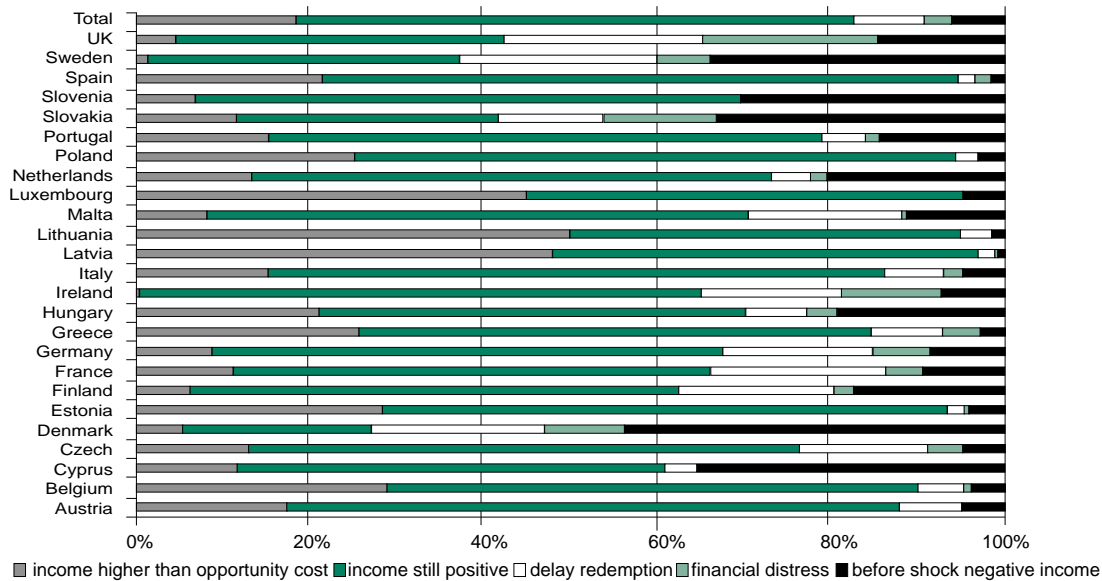
140 Q 91

141 Q 132

142 Q 7. Professor Swinbank agreed that the effects of removing support would be manageable, at least in a global context, if it took place over a number of years (Q 261).

143 Vrolijk, H.C.J., de Bont, C.J.A.M., Blokland, P.W. and Soboh, R.A.M.E., *Farm Viability in the European Union: Assessment of the impact of changes in farm payments*, LEI report 2010–11, April 2010.

Figure 4: Viability of EU farms after abolition of the single farm payment



Source: Vrolijk, H.C.J., de Bont, C.J.A.M., Blokland, P.W. and Soboh, R.A.M.E., *Farm Viability in the European Union: Assessment of the impact of changes in farm payments*, LEI report 2010–2011, April 2010.

94. Econometric analysis conducted by AFBI suggested that “the impact of reducing the SFP is greater in all the Devolved Administrations than in England”.¹⁴⁴ The Pack inquiry into *Future Support for Agriculture in Scotland* concluded that “for most farm types, the subsidy support that farmers receive is greater than their farm income. It is likely that any major change in direct support will result in business failure and widespread reduction in agricultural activity”.¹⁴⁵ The Northern Ireland Assembly said “some £290m was paid through Single Farm Payment (SFP) to local farmers in 2009 and without CAP support, the income of our agricultural sector would have been negative”.¹⁴⁶ The Welsh Assembly Government told us that the Single Payment Scheme (SPS) typically contributed 80%–90% of Farm Business Income in Wales.¹⁴⁷

95. The weak position of farmers in the supply chain was given by many witnesses as a reason for retaining direct support to farmers. The TFA said:

The Commission’s document, with which we agree, indicates that the reason why we continue to need a Pillar 1 is that agriculture has a weak position in the supply chain and is unable to really have its costs of production properly covered, with an element of profit, in the supply chain which exists.¹⁴⁸

The NFU said that “A very important part for us of making us less dependent on Pillar 1 is a properly functioning supply chain”.¹⁴⁹ However the Society for Biology did not agree that direct payments were an appropriate response to supply chain imbalances, stating that

144 Ev 151

145 *The Road Ahead for Scotland: Final Report of the inquiry into Future Support for Agriculture in Scotland*, p 57.

146 Ev w28

147 Ev w31

148 Q 50

149 Q 142

“One aspect of market failure is that the value in agricultural output is largely at the processing and retail end of the chain, not at the farmers' end. This is an issue which European policy should address more vigorously, but not by subsidising the farmer”.¹⁵⁰

96. According to some farming groups, direct payments are also needed to help farmers manage price volatility. The NFU's policy statement on the CAP post-2013 argues that direct payments “provide a degree of income stability to farmers which enables them to maintain productive capacity despite volatile agricultural markets”.¹⁵¹ Dairy UK believed that “The single farm payment provides a degree of income stability which also facilitates investment planning”.¹⁵²

Ensuring EU food security

97. A poll of farmers across six countries found the majority thought that protecting national or regional food supplies was the best purpose for agricultural subsidies.¹⁵³ However, the impact of direct payments on food production is predicted to be moderate rather than severe, not least because the SPS has been designed not to influence production in order not to contravene WTO regulations.¹⁵⁴ The Agri-Food and Biosciences Institute modelled the effects of abolition of the SPS alongside implementation of likely Doha trade agreement modalities (on the assumption that an agreement on Doha would probably be reached before 2020). They found that abolishing the single farm payment would result in significant reductions in sheep and beef production thus reducing the availability to consumers of British beef and sheep meat and potentially increasing the price.¹⁵⁵

98. The moderate effects of the SPS on food production led Professor Swinbank to claim “it is a fallacy to believe that the CAP has much influence on European food security”.¹⁵⁶ Defra's written evidence also argued that “the argument that future food shortages justify blanket subsidies is weak”.¹⁵⁷

99. While direct payments may only weakly influence immediate production levels, they have an important role in determining future food production capacity. Dr Moss said:

... maintaining the agricultural land is very important. How intensively it is used at any one time is not as important as making sure that we are retaining our potential for food production in the future, because we are facing a very uncertain future, not just in terms of climate [...] but in terms of global political issues, population growth and various instabilities in international politics. I think it is very important that we

150 Ev w19

151 NFU, *NFU Policy: The CAP after 2013*, May 2010, www.nfuonline.com

152 Ev w16

153 “Global Poll result: Subsidy delivers food security”, *Farmers Weekly*, 7 February 2011.

154 The modelling work on the impact of changes to the SPS referred to by Dr Moss (Ev 127–150) assumed that the single farm payment did have a moderate production-stimulating effect, based on the effects of reducing farm subsidies on production in the US (FAPRI-UK, *Impact of HM Treasury/Defra's vision for the Common Agricultural Policy on Agriculture in Scotland*, July 2009, p 3). The extent to which UK farmers view the SFP as a production-linked subsidy is not well captured by econometric models.

155 Ev 124 and 127–150, Q 448

156 Ev 153

157 Ev 173

are maintaining our agricultural land, and if that means paying people to retain land that may otherwise not be kept in agriculture, I believe that is a price worth paying.¹⁵⁸

The CLA agreed, stating that “European contribution to global food security demands we protect and develop our food production capacity (not our current production) i.e. keeping land in GAEC [Good Agricultural and Environmental Condition]”.¹⁵⁹ Commissioner Ciolos argued that support to farmers in less favoured areas in particular was in the long-term interests of the EU by preventing over-exploitation of the most productive areas.¹⁶⁰ In addition to the physical condition of the land, preventing land being turned to other uses is an important part of our food production capacity, as is the availability of an agriculturally-skilled labour force.

Direct payments make EU farmers globally competitive

100. Ability to compete against subsidised trading partners is one of the reasons given for the retention of direct payments to farmers.¹⁶¹ The Scottish Executive said direct payments “enable producers to meet the cost of complying with the higher production standards required by European society”.¹⁶² The TFA argued that “direct support through Pillar 1 must continue in order to ensure that producers are properly recompensed for the cost of producing to higher standards”.¹⁶³

101. The Organisation for Economic Co-operation and Development (OECD) calculates annually the amount of money transferred from government and consumers to agricultural producers as a result of policies (the percentage Producer Support Estimate).¹⁶⁴ The EU’s level of producer support in 2009 (24%) was slightly above the average across all OECD countries (22%), and considerably lower than some neighbouring countries, for example Switzerland (63%) and Turkey (37%).¹⁶⁵ Mr Lyon MEP argued that the EU could not afford to phase out its own agricultural support system “while the rest of the world’s still piling support into their agricultural industries”.¹⁶⁶

102. Trade barriers, such as tariffs and quotas, also protect EU producers from being undercut by third-country products that are subsidised or produced to lower standards. Professor Swinbank told us that this rendered the direct payments unnecessary.¹⁶⁷ On the

158 Q 232

159 Ev 117

160 Q 175

161 See also the European Parliament resolution of 8 July 2010 on the future of the Common Agricultural Policy after 2013, TA(2010)0286, para R and Explanatory Statement); the Department of Agriculture and Rural Development, Northern Ireland Assembly (Ev w29); George Lyon MEP (Ev 61).

162 Ev w28

163 Ev 110

164 OECD defines the Producer Support Estimate (PSE) as: an indicator of the annual monetary value of gross transfers from consumers and taxpayers to support agricultural producers, measured at farm gate level, arising from policy measures, regardless of their nature, objectives or impacts on farm production or income. The percentage PSE is the ratio of the PSE to the value of total gross farm receipts, measured by the value of total farm production (at farm gate prices), plus budgetary support. (OECD glossary of statistical terms, <http://stats.oecd.org/glossary>)

165 OECD, *Producer support estimates (subsidies), Agriculture and Food: Key Tables from OECD, No. 1, 2010*, doi: 10.1787/20755104-2010-table1.

166 Q 288

167 Ev 154

other hand, uncertainty over the future trajectory of trade agreements would argue for retaining direct payments.

Rewarding farmers for delivering public benefits

103. Direct payments to farmers are conditional on their meeting certain animal welfare and environment standards, known as cross-compliance. The Agriculture and Horticulture Development Board (AHDB) said:

... if all direct subsidies to support production agriculture were to be removed, it would seriously hamper the policymakers' ability to have any effect on the environment, because in order to claim the single farm payment one has to comply with cross compliance.¹⁶⁸

However, the Minister was sceptical that cross-compliance offered any great environmental benefit beyond that delivered through pre-existing EU regulation.¹⁶⁹

104. Maintaining agricultural activity in some areas of low agricultural productivity delivers numerous public benefits.¹⁷⁰ An analysis of the impact of abolishing direct payments on Scotland concluded that their removal could hasten the decline in rural employment and undermine the viability of rural populations.¹⁷¹ Similar impacts could be envisaged for other regions of the UK that have large areas of low productivity grazing livestock. Mr Lyon MEP argued that these were compelling reasons to continue to financially support farms in disadvantaged areas.¹⁷²

105. The Minister argued that measures to support farmers in less productive areas should take the form of Pillar 2 payments, presumably similar to England's Uplands Entry Level Stewardship (UELS).¹⁷³ We gave detailed consideration to UELS in our *Farming in the Uplands* inquiry and concluded that the current system fails to properly reward farmers as it is based on a system of 'income foregone' (which for many upland farmers is negligible) rather than the value of the public goods they deliver.¹⁷⁴ We also expressed concern that many farmers, especially tenants, found UELS hard to access. It seems unwise to consider replacing direct payments with stewardship schemes in less favoured areas until these issues have been addressed.

168 Q 361

169 Q 463

170 Box 3 and paras 49-52 of this report; *Farming in the Uplands*, p 3.

171 FAPRI-UK, *Impact of HM Treasury/Defra's vision for the Common Agricultural Policy on Agriculture in Scotland*, July 2009, p 22.

172 Q 291

173 Q 460

174 *Farming in the Uplands*, paras 55, 58.

Arguments against the retention of direct payments

Direct payments do not make farming more competitive

106. The main reason given for abolishing the Single Payment Scheme is that it hampers the industry from becoming more competitive, and profitable, by slowing innovation and restructuring. Defra were particularly critical of direct payments' effect on competitiveness or productivity:

The CAP is partly responsible for this [the UK losing ground to the US in productivity terms], by first guaranteeing prices and then, through compensatory and then decoupled payments, guaranteeing a large slice of farmers' income and ossifying existing farm structures; this has dampened incentives for investment in greater farm competitiveness.¹⁷⁵

The Andersons Centre agreed that “support simply allows more (inefficient) businesses to continue”.¹⁷⁶

107. Dr Moss pointed out that farmers might choose to remain farming in order to claim direct payments even if they are not economically competitive as businesses.¹⁷⁷ However, Commissioner Ciolos̄ disagreed, stating that the direct payment was “not enough for a farmer to live on if he is not competitive at the same time”.¹⁷⁸ When we met with the Polish Permanent Representative to the EU, he emphasised that the basic farm payment should be low, in order to incentivise farmers with small holdings to consolidate or leave the industry.

108. An additional criticism of direct payments is that they become capitalised into land values and into higher prices for inputs, reducing the value of the payment to the farmer or tenant. However, capitalisation into land values occurs with other forms of agricultural support as well, including agri-environment schemes.¹⁷⁹ Moreover, the impact on landowners' equity of major changes to their entitlement to direct payments must be borne in mind.¹⁸⁰

The Single Payment Scheme is not targeted

109. The current system of direct payments does not constitute efficient income support, as Dr Moss pointed out:

... the vast bulk of Single Farm Payments are not going to recipients who by any stretch of the imagination would qualify for welfare under our normal meaning of

175 Ev 171

176 Ev w27

177 Ev 124

178 Q 175

179 Q 212; *Farming in the Uplands* Q 72.

180 DG Agri policy brief, January 2011; “Flat rate payments inequitable and impractical—Commission”, *Agra Europe*, 21 January 2011.

welfare where you have these transfers from taxpayers to recipients of welfare grants. So if it was to just be income support for those in need, it is a very blunt instrument.

However, she caveats this by noting that the SPS may be the “the least worst option”.¹⁸¹

110. The current definition of a ‘farmer’ does not require the SPS recipient to be actively producing food, or other agricultural products. For this reason, the CAP has been accused of merely rewarding people for owning land rather than incentivising behaviour that contributes to food security and the other CAP objectives.¹⁸²

More money needs to be spent on the environment

111. Environmental NGOs and the CLA have stressed the short-fall in funding for environmental protection, suggesting that abolishing direct payments would free up money to spend on the environment.¹⁸³ A report produced for the Land Use Policy Group in 2009 estimated that £1–3 billion would be required each year to meet publicly defined environmental objectives through agri-environment schemes in the UK.¹⁸⁴ The RSPB noted that this “is considerably less than the current Pillar 2 allocation for the UK but comparable to the CAP allocation as a whole”.¹⁸⁵

Commercial prospects for agriculture are improving

112. Defra argued that, while the industry was currently dependent on direct payments, future trends would render them unnecessary. According to Defra:

The UK believes that Europe’s farmers have bright prospects. Given a clear enough commitment to improving underlying competitiveness they will earn enough from the produce they sell and from payments for the provision of public goods to provide them with a sustainable income.¹⁸⁶

One of the reasons for optimism, according to Defra, is that rising food prices will mean more income for farmers.¹⁸⁷

113. Farming groups were sceptical whether rising prices would deliver more income for producers. The NFU called the analysis “flawed” because input prices were rising as well as output prices, farmers were more exposed to price volatility, and greater concentration in the supply chain created a downward pressure on prices, reducing the extent to which farmers could benefit from commodity price increases.¹⁸⁸ A report commissioned by the

181 Q 229

182 Q 179

183 Wildlife and Countryside Link, *Beyond the Pillars*, March 2008; European Landowners Association and Birdlife International, *Proposals for the future CAP*, January 2010.

184 Q 20, Ev 107

185 Ev 107

186 Defra, *UK Response to the Commission Communication and Consultation: “The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future”*, January 2011, p 4.

187 Speech by the Secretary of State to the Oxford Farming Conference, January 2011. A transcript is available from www.ofc.org.uk

188 Q 132. Rothamsted Research agreed that recent price rises would not solve the problem of the erosion of the value of primary production (Ev w24).

Foresight *Food and Farming Futures* project noted that the benefits from previous productivity improvements had accrued mainly to processors, retailers and consumers, not producers.¹⁸⁹

114. Defra also felt that “increased demand for the sort of high quality, sustainable and ethically sound produce European farmers are skilled at producing” meant farmers would not need permanent income support in future.¹⁹⁰ The RSPB and BRC agreed that the UK could benefit from developing its competitive advantage in products from systems with higher environmental standards, such as organic or the LEAF marque.¹⁹¹

115. The extent to which increasing demand for high value products would benefit most UK farmers is questionable. Defra’s food industry statistics indicate that price and value for money have become increasingly important in driving product choice, being the main factor determining choice for 47% of shoppers (up from 36% in 2009).¹⁹² The NFU said the “the vast majority of UK production is either commodity or commoditised”,¹⁹³ and the BRC agreed that niche products such as organic were only a small share of the market.¹⁹⁴ The Minister recognised that it would not be an option for all producers, particularly large ones or those in markets such as grain where it is difficult to generate a ‘niche’.¹⁹⁵

Conclusions on the future of the Single Payment Scheme

116. Direct payments currently have an important role in enabling UK farming businesses to compete in a global market while securing an acceptable level of public goods through cross-compliance, which in turn contributes to our future food security. It is clear that without direct payments the majority of UK farm businesses would not be profitable; this risks eroding our food production capacity and diminishing agriculture’s ability to deliver social and environmental public goods.

117. We agree that the current system of direct payments is a blunt instrument and that high levels of direct payments may insulate farmers from the need to become more competitive. Nonetheless, we must recognise the internal and external political constraints on agricultural policy, and that agriculture’s twin roles of maintaining the land and providing food make it unlike other industries. Therefore, while we support Defra’s aim to reduce the industry’s reliance on direct payments, we believe that it is not realistic to expect that the support provided by the direct payment can be stripped away, at least until the causes of the low profitability of many UK farms have been addressed.

118. There are convincing reasons to maintain direct payments to farmers under the current conditions in agriculture, where over half of UK farms would be unprofitable

189 Professor Chris Pollock, *UK Options for sustainable increases in agricultural production*, January 2011, p 28.

190 Ev 170

191 RSPB (Ev 107), BRC (Q 401). LEAF, ‘Linking Environment and Farming’, is a membership organisation that promotes ‘environmentally-responsible farming’. The LEAF logo indicates that the product is produced on a certified farm to high environmental standards.

192 Defra *Food Statistics Pocketbook*, 2010, p 39.

193 Q 143

194 Q 404–405

195 Q 496–497

without subsidy; where UK farmers are expected to adhere to higher standards than their competitors in third countries; and where farming businesses face high levels of price volatility. We recommend that direct payments be retained, at least until the end of the next financial period in 2020. They should be set at a level that is low enough to encourage farmers to seek greater returns from the market; while actions that deliver public goods beyond the basic level provided by cross-compliance should be rewarded through additional payments.

119. We are not convinced by Defra's arguments as to how to reduce reliance on direct payments: it is not clear that merely shrinking the direct payments will be sufficient to deliver a viable farming industry that can be competitive without government support. We recommend that Defra develop its position more clearly, setting out precisely the conditions that must be met before direct payments can be abolished and how reduced reliance on the single farm payment is to be achieved, including the measures needed.

120. It seems inevitable that direct payments will be retained in some form in the next financial perspective. There is pressure within Europe to increase the level of payments to farmers in the new Member States but financial constraints on the EU budget overall suggests that this increase will have to be met within the existing CAP budget.¹⁹⁶ **Given financial constraints on the EU budget, Defra should ensure that UK farmers are prepared for the level of direct payments to fall over the financial period to 2020.**

Defra's handling of the debate over the Single Payment Scheme

121. Defra argues that it has changed position from that outlined by the previous Government in its 2005 *Vision for the Common Agricultural Policy*. The Minister told us that Defra was successfully building support in Europe "because we are taking a very different approach from our predecessors to negotiations—a constructive, at-the-table approach—and we have dropped the rather daft proposition that Single Farm Payments should end tomorrow, which was never going to get us any credibility".¹⁹⁷

122. However, the Commissioner rebuffed the Minister's assertion, pointing out that the UK is only one of 27 Member States and saying he did not think there was majority support for an abolition of direct payments.¹⁹⁸ The Commissioner's view was borne out by subsequent events in the Agriculture and Fisheries Council: while Presidency Conclusions on the Communication have been adopted, the UK refused to support them. *Agra Europe* said:

... the UK, Denmark and Sweden took issue with the paper's outright calls for direct payments to be maintained [...] little progress appears to have been made in reconciling the almost diametrically opposed views of the liberal states and the rest on this key issue, suggesting a major roadblock to reaching unanimity on the paper.¹⁹⁹

196 See George Lyon MEP (Q 287), the Minister (Q 486) and the Central Association of Agricultural Valuers (Ev w5)

197 Q 442

198 *Farming Today*, 7 January 2011.

199 "Liberal dissenters seek to stamp authority on Council CAP reform paper", *Agra Europe*, 8 March 2011.

123. It appears that the Defra position has not been well-understood, particularly by farming groups and in the media. At the National Farmers' Union Scotland conference in 2011, the Minister said he needed to "set the record straight" about Defra's intentions.²⁰⁰ The NFU President told us that the choice of words used by the Secretary of State had not been helpful in winning support to Defra's cause as "using the phrase 'abolition of support' immediately makes farmers very nervous about the long-term trajectory".²⁰¹

124. Ending direct payments is unachievable in the short-term. Defra's adherence to this policy reduces the UK's ability to engage constructively with other Member States and could diminish the UK's influence in this round of reform. Defra should adopt a more pragmatic approach to the negotiations.

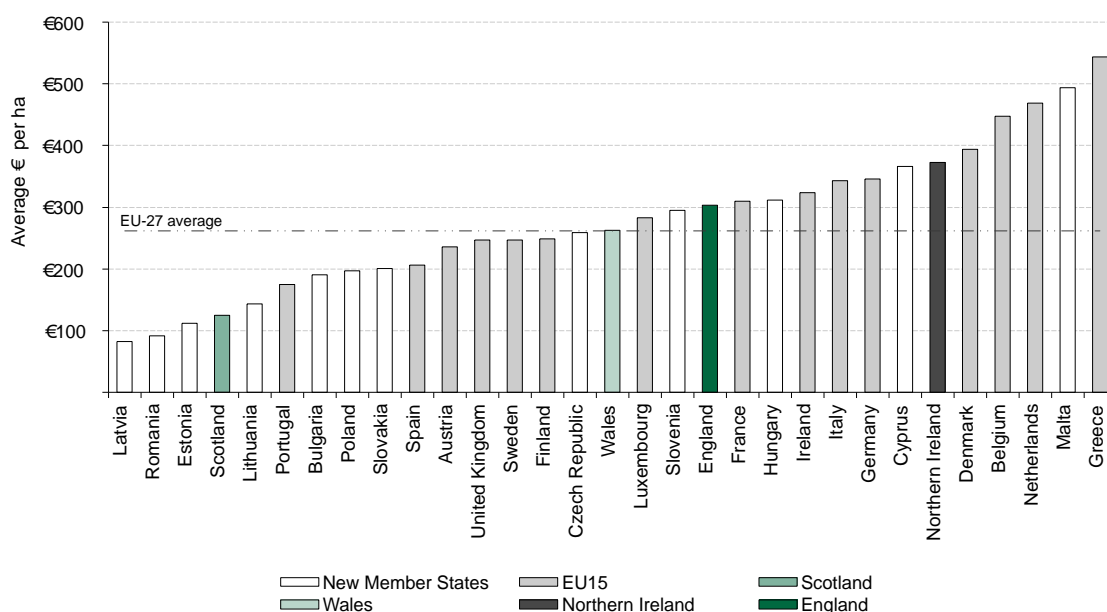
200 "Paice sets record straight on CAP support", *Farmers Weekly* 15 February 2011.

201 Q 132

7 A more equitable distribution of funding

125. There are several problems with the method currently used to allocate Pillar 1 funding (the Single Payment Scheme) to individual farmers, and as a consequence, to Member States. First, old and new Member States use different systems. Second, the historically-based payments used in most old Member States refer to the 2000–2002 reference period—over ten years ago. Third, the Single Payment Scheme was originally intended as compensation for the removal of coupled support in the 2003 Fischler reforms, and thus was implicitly time-limited. Fourth, but perhaps most importantly, the level of payments per hectare is highly variable between Member States (Figure 5).

Figure 5: Pillar 1 (Direct Payments) spending in Euros per hectare of utilised agricultural land



Date source: The Scottish Government, *The Road Ahead for Scotland: Final Report of the inquiry into Future Support for Agriculture in Scotland*, November 2010, p33

126. The European Commission intends to replace the historic basis of direct payments with a new set of criteria. The Communication proposes an area-based payment that would be uniform within a Member State or region—but not an EU-wide flat rate.²⁰² It is not known what the exact criteria would be; the Commissioner told us some distinction between different types of farming will be made, so that similar business models will receive similar payment rates.²⁰³ An alternative, more pragmatic solution is simply to adjust the national allocations to make the per hectare level of payments within each Member State more similar.²⁰⁴

202 *The CAP towards 2020*, p 8; “Flat rate payments inequitable and impractical—Commission”, *Agra Europe*, 21 January 2011.

203 Q 192

204 The Communication refers to both objective criteria and “guaranteeing that farmers in all Member States receive on average a minimum share of the EU-wide average level of direct payments” (*The CAP towards 2020*, p 8). The European Parliament Agriculture and Rural Development Committee’s draft report on the Communication supports the latter option, proposing that “each Member State should receive at least two thirds of the EU average direct payments” (*Draft Report: the CAP towards 2020: meeting the food, natural resources and territorial challenges of the future*, PE458.545v02-00, Rapporteur Albert Dess MEP, 15 February 2011, p 7, para 10).

127. The Minister wanted to move to an area based payment that was more similar between new and old Member States, but felt that an equal rate was not “achievable”.²⁰⁵ The NFU and CLA agreed that a more objective distribution of funding should be one of the aims of this round of reform.²⁰⁶ The Andersons Centre felt that most farmers accepted the end of the historic basis of payments.²⁰⁷ Defra did not agree with paying different rates to land based on its quality or productivity.²⁰⁸

128. Reaching agreement on this politically sensitive issue will be difficult. The Commissioner told us that “it’s an ambition to propose a more equitable system of payments; another is a realpolitik emphasis—the political realism at European level to obtain this”.²⁰⁹ George Lyon MEP noted that “there were seven European countries, older Member State countries, that were utterly against any end date [of historically based payments] whatsoever”.²¹⁰ The NFU warned that “You cannot find a single scenario that is likely to buy a qualified majority within the Council of Ministers”.²¹¹

129. Moving from historic to area-based payments will have varying impacts across the UK (Figure 5). For example, Northern Ireland could lose up to 28% of its single farm payment if UK funding was redistributed on an area basis.²¹² As well as redistribution between the UK’s constituent countries, implementing a flat rate per hectare is likely to result in CAP money flowing from more productive areas to less-favoured areas, which could have considerable effects on individual farm businesses.²¹³ New administrative systems are also likely to be needed, which can be expensive and cumbersome. In England, the difficulties and costs attending implementation of the ‘dynamic hybrid’ system by the Rural Payments Agency have been well-documented.²¹⁴

130. The Communication refers to the possibility of a new distribution criteria for Pillar 2 (rural development) funding as well.²¹⁵ Pillar 2 allocations are based on historic spend in the mid-1990s on rural development policies. The Minister told us that this historic basis was no longer justifiable.²¹⁶ The historic basis has also resulted in considerable variation

205 Q 494

206 CLA (Ev 118), NFU (Q 134).

207 Ev w28

208 Ev 176

209 Q 191

210 Q 308

211 Q162

212 Ev w29

213 The Pack Inquiry into *Future Support for Agriculture in Scotland* gave extensive consideration to different payment criteria and concluded that a flat area-based system was not workable (*The Road Ahead for Scotland: Final Report of the inquiry into Future Support for Agriculture in Scotland*, p 71). Brian Pack told us “What became very clear is a simple area-based payment does not work for the poorer areas of Scotland ” (Q 333). The Farmers Union of Wales said “modelling undertaken by the FUW in 2009 demonstrated that transition to a simplistic flat-rate payment per hectare model would represent significant disruption for Welsh farm businesses [...] The most simplistic model, a single flat-rate payment per hectare for all Welsh land, could result in a net flow of as much as €36 million away from non-LFA [Less Favoured Area] and DA [Disadvantaged Area] land, to SDA [Seriously Disadvantaged Area] and common land” (Ev w42).

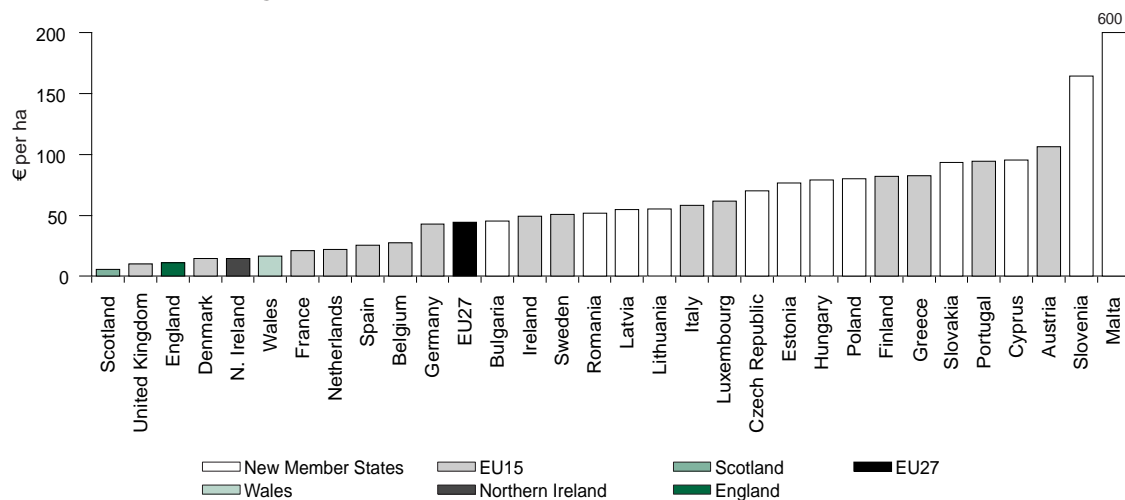
214 National Audit Office, *Second progress update on the administration of the Single Payment Scheme by the Rural Payments Agency*, October 2009, and references therein.

215 *The CAP towards 2020*, p 11.

216 Q 494

between Member States. The UK receives one of the lowest allocations of Pillar 2 spending per area, and Scotland the lowest of all (Figure 6). It is likely that a re-allocation of Pillar 2 based on objective criteria, such as area, would benefit the UK.²¹⁷

Figure 6: Pillar 2 (Rural Development Programme) spending including co-financing in Euros per hectare of utilised agricultural land



Data source: The Scottish Government, *The Road Ahead for Scotland: Final Report of the inquiry into Future Support for Agriculture in Scotland*, November 2010, p34

131. In England, a significant proportion of the current Pillar 2 budget is funded through modulation. Modulation is the transfer of a percentage of each farmers' 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%).²¹⁸ Farming groups felt this created unfair competition and advocated either equal rates or no modulation at all.²¹⁹ However, according to Defra, higher rates of modulation in England are needed to fund environmental stewardship schemes.²²⁰

132. Varying modulation rates across the EU makes the distribution of funding between Member States more complex and less objective, moreover the current system is not in the interests of fair competition for UK producers within the EU market. To avoid a substantial cut to agri-environment schemes, which would undermine the efforts already made, and enable English modulation rates to be brought in line with the rest of Europe, Defra will have to renegotiate a settlement on Pillar 2 that is commensurate with its ambitions.

133. It is essential that the historic basis of payments is replaced with a more objective system, but we recognise that there is no easy solution to what this should be. Given the concerns over redistributive effects between areas within the UK, Defra should argue for national flexibility to allocate payments within Pillar 1, paying attention to the concerns of the devolved administrations.

217 Cao, Y., Elliott, J., Moxey, A and Zahrnt V., *Alternative Allocation Keys for EU CAP Funding*, Report to the LUPG. ADAS UK Ltd, ECIPE and Pareto Consulting, December 2010, p vii.

218 Defra, *Rural Development Programme Document*, 2007.

219 For example, the Farmers' Union of Wales (Ev w46), the TFA (Ev 111), the CLA (Q 89).

220 See Modulation Questions and Answers on the pre-election Defra website. <http://www.defra.gov.uk/foodfarm/farmmanage/singlepay/furtherinfo/modulation.htm>

134. Defra should use its experience of implementing the dynamic hybrid system in England to help guide the Commission's proposals to ensure any new method can be implemented without excessive cost or administrative burden.

135. 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.

8 The balance of funding between direct payments and payments for environmental public goods

136. The balance of funding between direct payments linked to cross-compliance and targeted payments in return for additional public goods is one of the key debates at the heart of this round of CAP reform. The Commission's Communication indicates a desire to allocate more of the money to 'public goods', in particular, measures to protect and enhance the environment, tackle climate change and improve the sustainability of the food supply chain. Commissioner Cioloş described this as improving the environmental performance of the CAP, or 'greening', saying:

With the greening, we propose that our farmers do more, in terms of the management of natural resources, the quality and fertility of soil, and biodiversity, and we will use part of direct payments as an incentive in order to do more production of public goods.²²¹

137. The majority of our evidence supported a greater focus on sustainability and the environmental performance of agriculture, but there was no consensus on the level of budget transfers or how any greening should be carried out. This section will consider the evidence for and against greening of the CAP and the subsequent section will consider the range of suggested options for implementation.

Does the CAP need to be greener?

138. The European Parliament's Resolution of 8 July 2010 on the future of the Common Agricultural Policy after 2013 and the Pack Inquiry into Future Support for Agriculture in Scotland echoed the Commission's desire to place greater emphasis on sustainable farming in the reformed CAP.²²² The Agriculture and Fisheries Council also "endorses the concept of further greening the CAP towards 2020".²²³

139. The RSPB emphasised the importance of "a re-focussing of support towards environmental and climate change objectives".²²⁴ The CPRE similarly called for "a more comprehensive Pillar 2 with a greatly increased level of funding" to provide environmental public goods on a large scale.²²⁵ The Rural Economy Land Use Programme (RELU) argued that the budget for Pillar 2 needed to be radically increased.²²⁶ Professor Swinbank also advocated an increased spend on environmental schemes in Pillar 2 as part of the phasing-

221 Q 187

222 European Parliament resolution of 8 July 2010 on the future of the Common Agricultural Policy after 2013, TA(2010)0286), para 53; The Scottish Government, *The Road Ahead for Scotland: Final Report of the inquiry into Future Support for Agriculture in Scotland*, Chairman Brian Pack OBE, November 2010, p 66–68.

223 Council of the European Union, *Presidency conclusions on the communication from the Commission: The CAP towards 2020: meeting the food, natural resources and territorial challenges of the future*, p 3.

224 Ev 106

225 Ev 109

226 Ev w4

out of Pillar 1.²²⁷ Recent studies have estimated that there is a shortfall in spending on environmental measures in the UK compared to the cost of providing a desirable level of environmental benefits.²²⁸ The CLA pointed out that food prices were likely to rise in future meaning that farmers would need to be paid more to compensate them for taking part in agri-environment schemes.²²⁹

140. Unsurprisingly, farming groups expressed more reservations about ‘greening’ the CAP than environmental groups. The TFA were concerned that the Commission’s proposals could have adverse effects on food security and said “with the extent of cross compliance conditions imposed on farmers within the UK context that there is no scope for further greening of Pillar 1”.²³⁰ The CLA supported a moderate shift towards better and clearer public goods provision, while warning of “a very real danger that we could overload our producers, impeding their economic competitiveness and thus sustainability”.²³¹ The NFU agreed with the past trend to enhance support for public goods, while expressing concern that “in driving farmers into more environmental conditionality, the proposals could undermine agricultural productivity”.²³²

141. However, we heard that targeting more of the available funding on sustainability does not have to come at the cost of competitiveness or food production. Several witnesses described potential ‘win-wins’. The AHDB said the majority of evidence suggested that farms that were more efficiently run in terms of energy use would produce fewer greenhouse gas emissions as well as being more economically competitive.²³³ ‘Precision farming’, for example the use of sensors on tractors to determine exactly where fertiliser is needed, has the potential to deliver productivity and sustainability through reducing inputs. However, these high technology solutions are expensive. Reduced availability of chemical pesticides as a consequence of the shift from risk-based to hazard-based assessment is also likely to require the development and implementation of new pest-control techniques.²³⁴

142. For the UK, protecting our capacity to produce food is an essential part of our future food security. Similarly, the Foresight *Global Food and Farming Futures* project concluded that addressing the sustainability of food production globally was urgently needed in order to meet future food supply challenges. Therefore, while we recognise the concerns of

227 Q 276

228 For example the Land Use Policy Group (LUPG)’s study *Estimating the scale of future environmental and land management for the UK* (December 2009) examined the costs of farmers providing the desired environmental services in the UK. The conclusions of this research were that the costs were approximately three times greater than the current UK expenditure on delivering public goods through environment schemes, i.e. about £1.98bn compared to about £700m on agri-environment. The Lawton report, *Making Space for Nature* (September 2010) estimated the cost of establishing a ‘coherent and resilient’ network of biodiversity reserves as £600m to £1.1bn.

229 Q 78, Q 96. Farmers’ payment for taking part in agri-environment schemes is based on the estimated ‘income foregone’ through carrying out the activity. For example, the income foregone through establishing a field margin would be the lost area that could be cropped. If food prices increase in future, due to rising demand, the income foregone will also increase.

230 Ev 110

231 Ev 115

232 Ev 120

233 Q 355

234 Regulation (EC) No 1107/2009 of the European Parliament and of the Council of 21 October 2009 concerning the placing of plant protection products on the market and repealing Council Directives 79/117/EEC and 91/414/EEC.

farming groups that ‘greening’ might reduce their competitiveness or ability to produce food, we believe that this should not discourage the Commission. The reformed CAP should encourage farmers to produce more while having less impact on the environment (sustainable intensification) as this is in the long-term interest of EU farmers and EU citizens. Investment is needed to encourage the sort of transformational changes required and there is a clear role for the CAP in providing this.

143. We agree that the CAP post-2013 should target more of the available funding on incentivising sustainable farming. However, ‘sustainable farming’ should not be synonymous with simply ‘not farming’: it is essential that ways are found to farm more productively while minimising inputs and reducing negative impacts on the environment. We recommend that any ‘greening’ of the CAP should be directed at activities that promote sustainability alongside competitiveness.

The Commission’s proposals to ‘green’ Pillar 1

144. While the Commission’s intention to gently rebalance the CAP in favour of environmental benefits was broadly supported, we heard mixed views as to whether this ‘greening’ should be carried out in Pillar 1, or Pillar 2.

145. The Commission has suggested a “compulsory additional aid for specific ‘greening’ public goods through simple, generalised, annual and non-contractual agri-environmental actions based on the supplementary costs for carrying out these actions” in Pillar 1.²³⁵ Suggested agri-environmental activities included crop rotation, ecological set-aside and maintaining permanent pasture. The Commissioner explained that the rationale for including these measures in Pillar 1 is that it would be mandatory for Member States to offer the measures resulting in a higher level of production of public goods than if the measures were voluntary.²³⁶ The Commissioner suggested that these top-ups would have a value of up to one-third of the direct payment.²³⁷

146. ‘Top-up’ payments in Pillar 1 were also recommended by the European Parliament’s Resolution on the Future of the CAP after 2013 and the Pack inquiry into *Future Support for Agriculture in Scotland*.²³⁸ The European Parliament resolution said top-ups to Pillar 1 should explicitly reward farmers for reducing their greenhouse gas emissions or increasing carbon sequestration, while agri-environment activities should be paid for in Pillar 2.²³⁹

147. The alternative to the Commission’s proposals is to transfer more of the overall budget into Pillar 2 in order to fund a greater deployment of the existing agri-environment schemes. Defra favour the option of greening the CAP through a greater focus on Pillar 2 agri-environment schemes while also phasing out direct payments in Pillar 1.²⁴⁰ A draft

235 *The CAP towards 2020*, p 14.

236 Q 187–188

237 Q 187, 189

238 *Final Report of the inquiry into Future Support for Agriculture in Scotland*, p 76.

239 European Parliament resolution of 8 July 2010 on the future of the Common Agricultural Policy after 2013 (TA(2010)0286), para 73; Q 318, 319.

240 Defra, *UK Response to the Commission Communication and Consultation: “The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future”*, January 2011, p 3.

report by Albert Dess MEP for the European Parliament also recommended that greening be carried out using the existing Pillar 2 measures. However, in contrast to Defra, Mr Dess suggested that the additional measures be entirely EU-financed and that they would be funded by reducing farmers' direct payments unless they implemented at least two agri-environment measures.²⁴¹ This proposal is being considered by the European Parliament Agriculture and Rural Development Committee.

148. The Commission's proposals to green Pillar 1 did not receive strong support from any of our witnesses. There is a general concern that the Commission's proposals will make the CAP more complicated to administer and would confuse the logic of the two Pillar structure (because agri-environment activities are currently in Pillar 2).²⁴² Some farming groups felt that compulsory agri-environmental measures in Pillar 1 risked reducing the competitiveness of farm businesses through adding burdensome regulations and undermining farmers' ability to make business decisions.²⁴³ The TFA were also concerned they would have a negative effect on food production at a time when the prevailing messages are that EU agriculture will need to increase its food production capacity.²⁴⁴

149. The RSPB and CPRE felt that the Commission's proposals did not go far enough as too few measures were linked to environmental delivery and risked being merely a 'greenwash'.²⁴⁵ Defra agreed with this position, stating that greening Pillar 1 is "is unlikely to deliver significantly greater or more ambitious environmental benefits" than the current programmes.²⁴⁶ The NFU said "there can be no assumption that generalised measures will bring tangible environmental benefits".²⁴⁷ The CLA were the most supportive of the Commission's ideas, arguing that "broad-brush environmental conditions that should apply to most farming" could move to Pillar 1 and "higher level and more regionally adapted environment schemes" remain in Pillar 2.²⁴⁸

150. Several witnesses also expressed concern about expanding Pillar 2, which is Defra's alternative to greening Pillar 1. The central issue appears to be the difficulty of achieving political support in Europe as expanding Pillar 2 would mean greater financial contributions from Member States (because Pillar 2 is co-financed). The CLA said:

241 *Draft Report: the CAP towards 2020: meeting the food, natural resources and territorial challenges of the future*, PE458.545v02-00, Rapporteur Albert Dess MEP, 15 February 2011, para 22.

242 See the Welsh Assembly Government (Ev w30), the Farmers' Union of Wales (Ev w47), the NFU (Q 128) and the Minister (Q 471). The Agriculture and Fisheries Council also "underlines that any further greening should be simple and cost-effective, avoid any overlap between pillars and must be based upon the experience of the CAP's current green policy measures", implying that they also disagree with the proposed greening of Pillar 1 (*Presidency conclusions on the communication from the Commission: The CAP towards 2020: meeting the food, natural resources and territorial challenges of the future*, p 3).

243 For example, the TFA said "with the extent of cross compliance conditions imposed on farmers within the UK context that there is no scope for further greening of Pillar 1". (Ev 110). The NFU said the proposal to 'green' a component of direct payments could result in less market focus (Ev 120) and could be "incredibly complicated" and "anti-competitive" (Q 153). The NFU highlighted their concerns about each of the Commission's four suggested agri-environmental activities in Ev 122–123.

244 The TFA said "There is a real danger that in developing the concept of 'eco-system services' we overegg the pudding with environmental measures without properly balancing the needs of food security" (Ev 111).

245 Ev w2, Q 18-19

246 *UK Response to the Commission Communication and Consultation: "The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future"*, p 7.

247 Ev 123

248 Q 107, Q 115

The problem with shifting the policy to Pillar 2 [...] was that the opportunity was offered to the Member States with voluntary modulation, and all but the UK ignored it because they didn't want to put any additional money into matched funding, into the co-financing. So, whilst we might be in principle in favour of co-financed Pillar 2 measures, the political reality is that there isn't the money to do it.²⁴⁹

George Lyon MEP, speaking at the 2011 Oxford Farming Conference, agreed that Member States were more likely to embrace greening if it was entirely funded through Pillar 1.²⁵⁰ Brian Pack warned that expanding Pillar 2 risked creating a "very uncommon market" because "new Member States cannot afford their share of the finance; therefore, they can't draw down the European money".²⁵¹

151. Defra's ambition to rebalance the CAP budget in favour of Pillar 2 would have implications for the UK Exchequer because the UK will have to co-finance any increased EU spend on Pillar 2. If a large proportion of the current Pillar 1 budget were to be shifted in to Pillar 2, UK spending on agriculture and the environment would increase significantly compared to its current levels. When we questioned Defra on this, their response was "we shall be seeking to strike the right balance between a Pillar 2 budget which will deliver the required outcomes at best value for money and which will be affordable for the taxpayer".²⁵² We are not convinced that Defra has fully considered how their aim to shift most of the CAP budget into Pillar 2 is to be afforded.

152. Strengthening Pillar 2 is not necessarily consistent with the simplification agenda. The CLA and NFU argued that Pillar 2 environmental stewardship payments are more complicated and expensive to administer than direct payments. According to Defra, environmental stewardship schemes are cheaper to administer than direct payments: the cost of administering an environmental stewardship scheme payment in England is £700 per claimant while the cost of administering an SPS claim in England is £850 per claimant.²⁵³ It should be borne in mind however that the cost per claimant of administering the SPS in Scotland is only £300.²⁵⁴

153. It appears that neither the Commission's proposals nor Defra's alternative offer a universally acceptable solution to greening the CAP. The decision between greening Pillar 1 and expanding agri-environment schemes in Pillar 2 must be made on the basis of which policy will be the most effective and simple to implement, tempered with a consideration of the political realities. The evidence that we received suggested a number of criteria against which proposals to green the CAP must be considered.

154. The proposed additional greening measures must deliver tangible benefits: they must be ambitious and challenging or else they risk losing credibility and accusations of 'green-wash'. Measures should focus on farming more sustainably, for example, using fewer

249 Q 93

250 "Mixed views over 'green top-up' plans for CAP P1", *Agra Europe*, 14 January 2011.

251 Q 349

252 Ev 177

253 Ev 176

254 National Audit Office, *A Second Progress Update on the Administration of the Single Payment Scheme by the Rural Payments Agency*, October 2009.

inputs of chemicals, energy and water or helping biodiversity to co-exist with farming. ‘Greening’ through taking land out of production alone is not conducive to meeting future food supply challenges or reducing farmers’ reliance on direct payments. A commitment from farmers to carry out measures over multiple years may deliver more environmental benefits than annual schemes.²⁵⁵

155. Uptake of the scheme should be common across all Member States, as much as possible. The current framework of Pillar 2 results in significant variation between Member States in the type of activities that are funded (Figure 3). This creates competitive distortion where some payments directly increase farmers’ competitiveness (Axis 1) while others are broadly neutral or mildly deleterious (Axis 2).

156. One solution would be to make agri-environment measures compulsory. However this is likely to be perceived by farmers as just an extension of cross-compliance, which risks reducing farmers’ engagement in the process and undermining voluntary efforts such as the Campaign for the Farmed Environment.²⁵⁶ Providing farmers with incentives to implement agri-environmental measures would be preferable to more regulation. Reducing the level of direct payments is one way to make agri-environment schemes more attractive to farmers. The take-up of environmental stewardship in England (almost 70% of available land is in an agri-environment scheme) suggests this approach could be successful.²⁵⁷

157. We suggest there is a strong case for full EU-funding of additional EU-wide greening measures, not Member State co-financing. Co-financing is advantageous in that it encourages financial discipline on the part of Member States.²⁵⁸ However, as co-financing is a direct cost to Member States they are naturally less willing to take-up these measures.²⁵⁹ EU-financing of EU-wide agri-environment measures would break the negative associations with Pillar 2 agri-environmental schemes, thus increasing take-up. There would be budgetary implications of this change as Member States would be required to increase their EU contributions (while national contributions would fall). Reducing the level of direct payments would counteract this to some extent however fuller analysis can only be made in light of the entire post-2013 EU budget.

158. Any new greening proposals must be compatible with the UK’s current agri-environment programmes so that UK farmers that have already joined these programmes are not penalised.²⁶⁰ Additional green measures should not generate undue administrative

255 See the CLA (Q 111–112) and UK Research Councils’ Rural Economy and Land Use Programme (RELU) (Ev w5).

256 See for example the NFU (Ev 121), the CLA (Q 95) and George Lyon MEP (Q 316). Academic studies into farmers’ engagement with agri-environment schemes have supported this view for example, a study into German arable farmers’ views of ecological set aside concluded “the voluntary aspect of the nature-conservation concept (as a future agri-environmental programme) is highly valued by the farmers and contributes to their acceptance of the concept” (Siebert et al., *Assessing German farmers’ attitudes regarding nature conservation set-aside in regions dominated by arable farming*, Journal of Nature Conservation, 2010).

257 Natural England, *Environmental Stewardship Update* June 2010. 69.5% of England’s utilisable agricultural area (UAA) was in an agri-environment scheme in May 2010. Natural England’s target was for 70% of UAA to be in an agri-environment scheme by March 2011.

258 Ev 177

259 This issue is discussed further in the DG IPOL study for the European Parliament, *Direct Payments in the CAP post 2013*, 2009, p 97.

260 See the NFU (Ev 121), the CLA (Ev 117) and the Welsh Assembly Government (Ev w32).

burdens, for farmers or governments. The CLA's proposals for multi-annual, outcome-based contracts might offer a way to do this.²⁶¹

159. The Commission's proposals to green Pillar 1 through compulsory additional annual agri-environmental activities have failed to win support from UK interested parties. **Defra should not support the Commission's current proposals for greening Pillar 1 as they risk reducing the competitiveness of UK farming and increasing the complexity of the CAP while not delivering an improved environmental performance.**

160. **We recommend that additional greening measures bear many of the characteristics of Pillar 2 agri-environment schemes, namely voluntary for farmers, incentives rather than regulation, and multi-annual. The design of the additional measures is crucial to the success of the scheme and the guiding principle must be to mainstream sustainability into successful, competitive agriculture. We believe that EU-wide buy-in is more likely if these additional greening measures are entirely EU-financed. Funding them from the existing Pillar 1 budget is one way to maintain budgetary discipline while incentivising farmers to implement the additional measures.**

161. The European Parliament's draft report on the Commission's Communication was published after we had finished taking evidence,²⁶² and has not been agreed by the European Parliament Agriculture and Rural Development Committee. We have not examined it in detail, but their ideas for greening the CAP appear to chime with many of our recommendations above.

162. **We encourage Defra to analyse the impact on the UK were the Commission to take forward the innovative ideas in the European Parliament Agriculture and Rural Development Committee's draft report for greening the CAP through EU-financed agri-environmental measures in Pillar 2, incentivised by reductions to farmers' direct payments if they do not adopt some of the measures.**

261 Ev 117

262 *Draft Report: the CAP towards 2020: meeting the food, natural resources and territorial challenges of the future*, PE458.545v02-00, Rapporteur Albert Dess MEP, 15 February 2011.

9 Additional proposals for direct payments

The future of coupled payments

163. The key development in the evolution of the CAP over the past decade has been the major shift away from payments linked to production to decoupled payments. It is expected that 94% of Pillar 1 payments will be decoupled by 2013.²⁶³ Importantly, this ensures that direct payments are compliant with WTO regulations.²⁶⁴ There is clearly no advantage in a CAP reform that would risk breaking our current agreement with the WTO, given the common desire to make progress on the Doha Development Round. Unlike most Member States, the Single Payment Scheme in the UK is fully decoupled.

164. The Commission proposes no major changes in terms of coupling: the majority of subsidy would continue to be through the decoupled direct payment while retaining voluntary coupled support for vulnerable areas or sectors within clearly defined limits (equivalent to the current Article 68 measures).²⁶⁵ The Commissioner explained that retaining coupled support was needed to maintain agriculture in certain regions:

We also have to recognise that, in mountain areas for example, without coupled payments, we used to not have milk production. Milk production is important not only for the production of milk, but also for the maintaining of the landscape and maintaining the population in this area.²⁶⁶

165. We heard many objections to coupled support. Defra questioned why the Commissioner had not completed the process of abolishing coupled payments, stating “This type of payment is particularly damaging to competition and with Article 68 payments running at some €800m, this is an issue which we expected the Commission to tackle”.²⁶⁷ The Welsh Assembly Government said “We see a continuation of voluntary coupled support as an anathema and contrary to fair competition”.²⁶⁸ The RSPB were

263 European Parliament Directorate General for Internal Policies (DG IPOL), *The Single Payment Scheme after 2013: New Approaches—New Targets*, March 2010, PE 431.598, p 21.

264 ‘Green Box’ payments are deemed to be non trade-distorting and under the Uruguay Round Agreement on Agriculture there is no limit on the amount of Green Box support. Coupled payments are seen as trade-distorting because they influence production. In order to comply with Green Box conditions, support for a number of Article 68 measures, such as payments for disadvantages faced by particular sectors, is limited to 3.5% of national ceilings.

265 Under Article 68 of the Treaty of the Functioning of the European Union, Member States can use 10% of their national envelopes, without co-financing obligations, for particular targeted measures. There are now five purposes for which the money can be used: protecting the environment, improving the quality and marketing of products (which was permissible under Article 69 prior to the Health Check) or for animal welfare support; payments for disadvantages faced by specific sectors (dairy, beef, sheep and goats, and rice) in economically vulnerable or environmentally sensitive areas as well as for economically vulnerable types of farming; top-ups to existing entitlements in areas where land abandonment is a threat; support for risk assurance in the form of contributions to crop insurance premia; contributions to mutual funds for animal and plant diseases. In Scotland, Article 68 measures are used to finance the Scottish Beef Calf Scheme, which is a headage payment scheme to support specialist beef producers with an annual budget of around £20 million.

266 Q 193

267 Ev 172

268 Ev w30

“vehemently opposed” to any retention of coupling.²⁶⁹ Dairy UK agreed that voluntary coupled payments risked creating distortions and should be minimised.²⁷⁰

166. On the other hand, the Scottish Executive argued that coupled payments had to be retained in the future CAP “in order to guard against undesired outcomes such as land abandonment in the most vulnerable areas”.²⁷¹ The Pack Inquiry considered coupled payments in depth and concluded they were the most appropriate means of stabilising livestock production in less favoured areas (which make up 85% of Scottish agricultural land) because the low productivity of this land meant that payments based on area alone were nonsensical. However, noting that the previous system of coupled payments encouraged “the keeping of breeding stock solely to collect the subsidy cheque”, they advised that the budget be fixed at the outset to prevent over-production.²⁷² The Scottish Agricultural College agreed that the principle of decoupling as a means of freeing farmers to react to the market is sound, but argued that coupled payments might be justified for food security or protection of ancillary industries if their removal would lead to collapse of the industry.²⁷³

167. In our inquiry into *Farming in the Uplands*, we concluded that unrestrained coupled payments could lead to over-grazing but headage payments coupled to strict environmental safeguards might be useful in some circumstances.²⁷⁴ Specifically, where maintaining livestock production is seen as advantageous for the delivery of public benefits, payments per head may offer a more simple, transparent and fair means of paying farmers, particularly tenant farmers. The current system of income foregone fails to properly reward farmers in areas of low productivity for their delivery of public goods. We also note that, while Defra may dislike coupled payments, they must take into account the views of the devolved administrations as they have a greater proportion of less favoured land that would be eligible for coupled payments.

168. We support the decoupling of subsidies from production. However, we note that coupled payments may be an effective way of supporting particular production methods where these deliver public benefits, such as livestock farming in the uplands. We recommend that optional coupled payments should be retained in the future CAP, as long as these are held within strict limits and are compatible with the EU’s existing World Trade Organisation commitments.

Targeting of direct payments to active farmers

169. The Commission’s Communication states that payments need to be better targeted on “active farmers” in order to make a more efficient use of funds and legitimise the CAP. The Communication intimates that a more exclusive definition is needed but gives no details on who might be excluded. In oral evidence, the Commissioner explained his thinking as

269 Q 30

270 Ev w17

271 Ev w39

272 *The Road Ahead for Scotland: Final Report of the inquiry into Future Support for Agriculture in Scotland*, p 77.

273 Ev w34

274 *Farming in the Uplands*, para 46.

“a farmer produces products for the market and a public good, and I think both objectives have to be covered by a farmer”.²⁷⁵ This implies that farmers who are not actively producing agricultural goods should not receive payments.

170. The current definition of a farmer is:

A natural or legal person who exercises an ‘agricultural activity’, defined to mean the production, rearing or growing of agricultural products including harvesting, milking, breeding animals and keeping animals for farming purposes, or maintaining the land in good agricultural and environmental condition (GAEC).²⁷⁶

Member States can choose to exclude natural or legal persons from the direct payments schemes whose business objectives do not consist of agricultural activities or whose agricultural activities are insignificant.²⁷⁷ This raises questions about the status of institutions such as charities that farm for environmental purposes primarily, e.g. the RSPB,²⁷⁸ and whether tenants or landowners should be entitled to payments.²⁷⁹

171. Several witnesses raised objections to the Commission’s ideas for an EU-wide definition of an active farmer. The CLA questioned whether a better definition of an active farmer was needed at all, stating “This isn’t a problem in the UK because we have a perfectly adequate description of what is eligible land and what isn’t”.²⁸⁰ Professor Swinbank argued that restricting payments to farmers that were actively producing agricultural products could contravene WTO regulations as non-trade distorting subsidies should be decoupled from production.²⁸¹ Several witnesses expressed concern that a definition of an active farmer linked to production in any particular year would generate increased complexity for auditing of payments.²⁸² There is also a risk that the new proposals would deter businesses from adopting more competitive business structures, such as contract farming, in case it erodes their right to payments.²⁸³ More fundamentally, the Commission’s proposal to allow only individuals producing agricultural products to receive direct payments would appear to challenge the role of direct payments as a reward for the delivery of basic public goods, for example, keeping grazing livestock to maintain landscapes.

275 Q 179

276 Article 2 of Regulation (EC) N° 73/2009).

277 This provision is optional for Member States under Article 28(2) of Regulation (EC) N° 73/2009, but no Member State currently chooses to apply it.

278 Q 262

279 Ev 111

280 The CLA added that, under the UK implementation of the Single Payment Scheme regulations, land that is being used for non-agricultural purposes for more than 28 days per year can be excluded (Ev 118).

281 Ev 156

282 Including Professor Swinbank (Q 263), the CLA (Q 121, Ev 118) and the Department of Agriculture and Rural Development, Northern Ireland Assembly (Ev w29). Defra’s response to the Commission’s consultation states “The UK would also be concerned with any proposals that imposed significant new checks and burdens that would be disproportionate to the benefits, and it will be important for any proposals on “active farmers” not to create significant new uncertainty or audit risk for paying agencies” (*UK Response to the Commission Communication and Consultation: “The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future”,* p 6).

283 Ev 116

172. A significant concern for the Tenant Farmers Association (TFA) is “the extent to which support accrues to owners of land as opposed to active farmers”.²⁸⁴ The TFA recommended three criteria in addition to the current definition of a farmer: first, they must be in occupation of the land concerned; second, they must be in day-to-day management; and third, they should be taking the entrepreneurial or business risk of operating the land. The Country Land and Business Association (CLA) agreed that the definition proposed by the TFA was “not unreasonable”.²⁸⁵ While we recognise that this is an important issue for tenants and landowners, our discussions with the Commissioner did not suggest that the new definition of an active farmer is specifically intended to reconcile the tenant/landowner question. The TFA also felt that the UK’s system of tenanted land was not well understood by the Commission.²⁸⁶

173. In evidence to our *Farming in the Uplands* inquiry, we heard that tenant farmers and commoners were disadvantaged by the replacement of the Hill Farm Allowance with the Uplands Entry Level Stewardship Scheme (an agri-environment scheme) in England, for example, because they could not get permission from landowners to enter the scheme.²⁸⁷ It is essential that if more of the overall CAP budget is to be channelled through agri-environmental measures rather than direct payments, tenants and commoners are able to access these funds.

174. We are not convinced that a more restrictive EU-wide definition of an active farmer is needed, and are concerned that this will contravene the principle of simplifying the CAP through adding additional audit requirements. The onus should be on Member States to determine if additional criteria are needed to exclude particular groups beyond the existing regulations.

175. Defra must ensure that the Commission’s final proposals do not disadvantage the UK’s tenant farmers or commoners through restricting their access to direct payments or payments linked to agri-environmental measures.

Capping of payments

176. The capping of payments above a particular level of income has been a controversial feature of Commission reform proposals since the 1990s.²⁸⁸ The Commissioner has suggested a payment ceiling of €200,000–€300,000 that could be modified to take into account salaried labour intensity (for example to reward farms that make a substantial

284 Ev 111

285 Q 122. In supplementary evidence (Ev 119), the CLA gave this definition: An active farmer is a person with management control of agricultural land appropriate to the purpose of the payment, who is taking business risks in managing it to produce agricultural products or environmental public goods. With specific reference to UK tenancy law, the CLA added: “we would of course expect that in the case of 1986 Act (succession) tenancies the active farmer who has the necessary control and who will be the payment claimant can only be the tenant farmer. For any multi-year FBT [Farm Business Tenancy], it would also normally be the case that the tenant is the only person in a position to have the land at his disposal for a SPS [Single Payment Scheme] claim. In all other cases it could in principle be the land owner or another party to whom the land owner has devolved the appropriate authority who can make the SP [Single Payment] claim.”

286 Q 41

287 *Farming in the Uplands*, para 52–55, see also the TFA’s evidence to this inquiry (Q 66).

288 Cunha and Swinbank, *An Inside View of the CAP Reform Process*, February 2011, p 108.

contribution to local employment).²⁸⁹ The Agriculture and Fisheries Council appeared to reject the Commission's proposals.²⁹⁰

177. The underlying argument for capping appears to be public disquiet around wealthy or large landowners receiving large CAP subsidies.²⁹¹ Commissioner Cioloş said "It is difficult for me as Commissioner to explain to the taxpayer that we will give €1 million or €2 million a year as subsidies to these farmers to support their minimum level of income".²⁹² We agree that this poses a presentational problem for the Commission if it attempts to justify the CAP as an income support policy. However, as Professor Swinbank noted, most taxpayers would view even €300,000 as a very generous ceiling for any sort of income support payment.²⁹³ As discussed in Chapter 2, we do not agree that direct payments should be viewed primarily as income support.

178. Part of the rationale for direct payments is to secure a basic level of public goods and compensate producers for the high costs associated with meeting EU standards. It is reasonable to expect that the provision of many environmental public goods and the costs of cross-compliance would scale with the farm area or the size of the business.²⁹⁴ This weakens the case for capping if payments are distributed more objectively in future. The CLA said "part of the payments are compensating for the higher costs, and bigger producers incur more of these higher costs".²⁹⁵

179. Aside from its lack of coherence with policy objectives, capping direct payments could have perverse consequences for the competitiveness of EU agriculture. Many witnesses pointed out that farmers could simply restructure their businesses to avoid losing the payment; this could generate additional business costs and result in less competitive businesses while not freeing up additional revenue.²⁹⁶ The Commissioner argued that large farmers based their business decisions on factors other than the level of their direct payment,²⁹⁷ but the NFU were not convinced by this argument.²⁹⁸ Capping of payments is likely to disproportionately affect UK farmers as our farm sector has already undergone

289 Q 185, *The CAP towards 2020*, p 8.

290 *The Presidency conclusions on the communication from the Commission: The CAP towards 2020: meeting the food, natural resources and territorial challenges of the future* state "Notes the significant opposition of Member States to the introduction of an upper ceiling for direct payments received by large individual farms, as well as the request that any proposal should be made in a manner which does not affect the competitiveness of agricultural holdings and the necessary simplification of the CAP" (para 14).

291 Q 322

292 Q 185

293 Ev 154

294 See the Central Association of Agricultural Valuers (Ev w8), the CLA (Q 106), George Lyon MEP (Q 323); *The Road Ahead for Scotland: Final Report of the inquiry into Future Support for Agriculture in Scotland*, p 69.

295 Q 106

296 For example, the Central Association of Agricultural Valuers (Ev w8), Dairy UK (Ev w16), the Andersons Centre (Ev w27), the CLA (Q 106), the NFU (Q 129), the AHDB (Q 387–388), and Defra (Ev 96). The CLA also noted that the modification based on salaried labour intensity could create a disincentive for improving labour productivity (Q 100), while the Agricultural Valuers felt this would be damaging to UK farmers that make extensive use of contracted labour (Ev w8).

297 Q 186

298 Ev 122

rationalisation and consolidation, leading to increased farm size.²⁹⁹ This could place the UK at a competitive disadvantage compared to other EU countries.³⁰⁰

180. A few witnesses, including the Northern Ireland Assembly, the Farmers' Union of Wales and the TFA did not actively object to capping. The TFA noted that a cap at €300,000 was unlikely to affect their members.³⁰¹

181. Capping of Pillar 1 payments risks hindering the industry from becoming more competitive by discouraging farm consolidation and could be ineffective in the long-term as farm businesses find ways to avoid the payment ceiling. Defra should not support the Commission's proposal to place a payment ceiling on Pillar 1.

Support for small farmers

182. The Commission's Communication advocates a new approach to small farmers, recommending that a "simple and specific support scheme for small farmers should replace the current regime in order to enhance the competitiveness and the contribution to the vitality of rural areas and to cut the red tape".³⁰² The Communication does not provide a definition of a small farmer. However, there is an accepted EU definition based on the predicted profit from a particular area or number of livestock.³⁰³ More simply, there is a broad consensus that semi-subsistence farms or small farms are those that operate on an agricultural area of 5 ha or less.³⁰⁴ There are an estimated 11 million semi-subsistence farmers in the EU, mainly in the new Member States.³⁰⁵

183. The Communication is vague on the nature of this support scheme; it could refer to additional funding, simplified cross-compliance, or other administrative changes. The Commissioner told us that he did not intend to increase the direct payments for small farms but rather to simplify it and bring in other instruments, such as training or promoting access to local markets.³⁰⁶ Options for reducing the administrative burdens for small farms include lowering their cross-compliance (or greening) requirements or allowing them to submit an SPS application only once every few years, rather than annually.³⁰⁷

299 Average UK farm size in 2007 was about 81 ha compared to an EU-27 average of about 12 ha (Sources: EUROSTAT, <http://epp.eurostat.ec.europa.eu>; European Parliament resolution of 8 July 2010 on the future of the Common Agricultural Policy after 2013 (TA(2010)0286), para J).

300 Ev 172

301 Q 50

302 *The CAP towards 2020*, p 9.

303 The EU Farm Accountancy Data Network defines 'small farms' as eight European Size Units (ESU) or less, which is a reflection of the estimated gross margin of the farm per hectare or animal. 1 ESU represents €1200, but the purchasing power of this varies between Member States. In the UK, a farm of 16 ESU or more is defined as commercial whereas in Romania, a farm of more than 1 ESU is commercial (http://ec.europa.eu/agriculture/analysis/fadn/index_en.htm)

304 Davidova, S., *Semi-subsistence farming in Europe*, Background paper for the European Network for Rural Development, April 2010.

305 Eurostat *Farm Structure Survey 2007*.

306 Q 194

307 Tangermann, S., *Direct Payments in the CAP post 2013*, Note to DG IPOL, January 2011, PE 438.624.

184. Much of the evidence that we received expressed concerns about the Commissioner's drive to support small farmers. Farming organisations felt it could be anti-competitive through discouraging farm consolidation,³⁰⁸ and Dr Moss noted that small farms were less likely to innovate.³⁰⁹ Similarly, Defra said that "a minimum level of direct payment for small farms—however defined—would provide a perverse incentive to such farms to remain small and would impede consolidation, which is one potential route to competitiveness".³¹⁰ George Lyon MEP also questioned "whether it ends up actually supporting small farmers to stay small farmers all their life?"³¹¹ However, some witnesses supported a simplified application system for small farmers, for whom the cost of administering the payments can be close to the value of the payment itself.³¹²

185. The lack of detail in the Communication makes it difficult to assess the impact of the proposed support scheme for small farmers on UK agriculture, but it is unlikely to benefit much from a scheme based on size or income alone as our farms tend to be larger and the cost of living higher than in other Member States.³¹³ It is also important to note that merely receiving a small direct payment does not mean that the individual is a subsistence or family farmer—the recipient could be a large organisation that holds only a small amount of farm land. This strongly argues that any support scheme must be explicitly targeted at helping farm businesses become more competitive or profitable, rather than blanket income support.

186. An EU-wide support scheme for small farmers is unlikely to offer many benefits to UK farmers and risks distorting competition if it takes the form of additional payments to farmers with holdings below a particular size. Options for reducing the administrative requirements for small holdings should be developed further, consistent with the overarching aim of simplifying the CAP.

Support for Less Favoured Areas or Areas of Natural Constraint

187. Under the current CAP, areas designated as 'less favoured' are eligible for additional support payments under Pillar 2. Payments must be paid annually per hectare, and "should compensate for farmers' additional costs and income foregone related to the handicap".³¹⁴ Currently, over 50% of the EU agricultural land area is classified as Less Favoured, although not all of this receives extra payments.³¹⁵

188. The Commission proposes an additional income support to all farmers in 'areas of specific natural constraint' in the form of an area-based payment as a complement to the

308 See for example the NFU (Ev 120), Dairy UK (Ev w17) and the AHDB (Ev 162).

309 Q 209

310 *UK Response to the Commission Communication and Consultation: "The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future"*, p 6.

311 Q 282

312 Including the NFU (Q 149) and George Lyon MEP (Q 282).

313 Ev 162

314 Council Regulation (EC) No 1698/2005 of 20 September 2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD).

315 European Union Committee, 13th Report of Session 2008-09, *The Review of the Less Favoured Areas Scheme*, para 8.

support given in Pillar 2.³¹⁶ It is unfortunate that we do not have a definition of what the Commission means by ‘areas of specific natural constraint’ as this hampers our ability to assess the impact of the Commission’s proposals. The Commission is reviewing a new set of criteria for designating Less Favoured Areas (or areas of specific natural constraint) based on biophysical conditions, for example temperature, following impact assessments by Member States. As discussed in our report, *Farming in the Uplands*, Defra has indicated that the new criteria would exclude areas of the South West and parts of the Welsh borders as they failed to take account of the UK’s maritime climate (such as rainfall patterns). We recommended that the Government put up a robust defence of the English uplands in its discussions with the European Commission.³¹⁷

189. We carried out a detailed examination of support to English hill farmers from the CAP in our *Farming in the Uplands* inquiry. We draw Defra’s attention to our recommendations, in particular noting that payments based on compensating farmers for ‘income foregone’ through carrying out agri-environment measures fail to adequately reward farmers for providing public goods, such as the valued landscapes, heritage and biodiversity of the uplands.³¹⁸

190. We received little evidence on the impact of the Commission’s planned changes to support for Less Favoured Areas. However, supporting Less Favoured Areas in Pillars 1 and 2 would appear to be adding additional complexity, without a clear indication of what the benefits would be. Moreover, as Less Favoured Areas payments are currently co-financed, Member States have an interest in restricting how many farmers receive them. If payments were entirely EU-financed (which they would be if payments were made through Pillar 1), this check would be removed. We are concerned about the financial implications of this, particularly without a robust definition of an ‘area of specific natural constraint’.

191. Drawing on our conclusions in the *Farming in the Uplands* report, we urge Government to ensure that the areas currently recognised as uplands are properly represented by the new definition of areas of specific natural constraint. We are not convinced that the Commission’s proposals for payments for areas of specific natural constraint in Pillar 1 offer any improvements over the current system.

³¹⁶ *The CAP towards 2020*, p 9.

³¹⁷ *Farming in the Uplands*, para 24.

³¹⁸ *Farming in the Uplands*, para 60; see also the RSPB’s evidence to this inquiry (Q 36).

10 Increasing the competitiveness of EU agriculture

192. The Commission’s Communication states that reform of the CAP is needed “to retain and enhance competitiveness in a world characterised by increasing globalisation, and rising price volatility”.³¹⁹ The growing world population and the expansion of global markets means this is a time of opportunity for EU farmers—but also of challenges, not least the need to be competitive on a global level while managing the increasing costs of inputs, such as oil, fertilisers and water.

193. Enhancing and nurturing EU agricultural competitiveness should be central to the Commission’s proposals. However, the CLA said the Commission had “no new ideas”,³²⁰ and the NFU warned that some of the Commission’s proposals “represent a tactical, rather than strategic move that could harm competitiveness”.³²¹ The Agriculture and Horticulture Development Board (AHDB) agreed that “some of the proposals could hamper the ability of the UK agricultural sector to be competitive in both the EU and global market”.³²² Dairy UK felt the Commission actively discriminated against “the type of commercial farming that has developed in the UK”.³²³ Defra acknowledged that “the Communication fails to articulate the ambition needed to promote EU agricultural competitiveness and risks missing an opportunity to put in place reforms to make the progress required by 2020”.³²⁴

194. The Government “wants to see a more innovative, self-reliant, profitable and competitive UK and EU farming industry with the ability to mitigate or withstand shocks and to recover quickly from them”.³²⁵ Defra’s ambition of weaning farming off public subsidy relies on finding ways to increase the competitiveness and viability of EU agriculture. However, when questioned, the Minister was unable to offer any new policy tools to enhance competitiveness, except for suggesting greater flexibility in how Pillar 2 resources could be deployed and reiterating that the Single Farm Payment would have to go down in future. He told us “it is not for governments to determine that sort of detail”.³²⁶

195. The Commission’s Communication is lacking in both vision and detail as to how it intends to enhance the competitiveness of EU agriculture. While Defra is highly critical of the Commission’s lack of vision, we did not find the Minister’s own answers as to how the competitiveness of EU agriculture is to be increased particularly convincing. We urge Defra to present the Commission with an alternative vision and supporting measures, drawing on the ideas in this report.

319 *The CAP towards 2020*, p 6.

320 Ev 171

321 Ev 119

322 Ev 161

323 Ev w16

324 Ev 172

325 *Ibid.*

326 Q 465

196. Currently, Defra spends only 10% of its budget for the Rural Development Programme England on Axis 1—measures for competitiveness.³²⁷ The Minister has previously agreed that this balance is far from ideal, stating “certainly if we were to succeed in 2013, as I would hope so, in getting a bigger share of the Rural Development Programme, which the UK should have, I would want to revisit those percentages”.³²⁸ However, in evidence to this inquiry, he would not confirm this commitment, stating only that “our two priorities will be the environment and competitiveness”.³²⁹

197. Rebalancing the allocation between Axes in Pillar 2 would allow more measures that assist UK producers to become more competitive to be funded. Defra has chosen not to implement measures in England which are available in other Member States, for example, to help young farmers or support early retirement or to help producers meet new EU standards.³³⁰ The Andersons Centre said new entrants schemes should be available,³³¹ and the CLA and NFU called for measures to help farmers meet the costs of new EU environmental regulations, such as on Nitrate Vulnerable Zones.³³²

198. In England, the competitiveness and rural livelihoods elements of the Rural Development Programme (Axes 1 and 3) have been delivered through the Regional Development Agencies (RDAs). We are concerned that the abolition of RDAs (by March 2012) will compound the difficulties farmers and local communities already encounter in receiving information and accessing funding.³³³ In February 2011, the Minister announced that the responsibilities of the RDAs with respect to the RDPE would transfer to Defra alongside changes to the governance structure and the geographical distribution of regional offices.³³⁴

199. After 2013, we urge Defra to revisit its balance of funding between the three axes of the Rural Development Programme to channel more funds into measures to enhance competitiveness, currently Axis 1 of Pillar 2. Given that the mechanism for delivery of the socioeconomic elements of the RDPE will have to change, there needs to be sufficient warning as to how funds will be administered so that those who qualify are able to access them.

327 <http://www.defra.gov.uk/rural/rdpe/secta.htm#q2>

328 *Farming in the Uplands*, Q 211.

329 Q 487

330 Defra, *Rural Development Programme England Programme Document*, 2007, Ch 5. For example, France, Germany, Denmark, Italy and Spain offer early retirement and support to young farmers, Italy and Spain also offer help to comply with EU standards.

331 Ev w27. The European Council of Young Farmers (Ev w15) and the TFA (Q 48) also gave supporting new entrants as their priorities for this round of reform.

332 Q 99 (CLA), Q 141 (NFU).

333 *Farming in the Uplands*, para 115.

334 HC Deb, 28 February 2011, c6WS.

Research and Knowledge Transfer

200. Strengthening agricultural Research and Development (R&D) coupled to more effective Knowledge Transfer were seen by many witnesses as the key to improving both the competitiveness and sustainability of agriculture.³³⁵ The Society for Biology said:

Research, knowledge and trained people are vital to develop and deliver sustainable agriculture and effective agricultural policy [...] We have major technical and scientific challenges to overcome if we are to develop a sustainable CAP that reflects multiple demands for food security and productivity, improved environmental quality and better social health, wealth and welfare. However, there is currently inadequate investment in all forms of agricultural training and research, and a dearth of suitably qualified and skilled people.³³⁶

The NFU suggested “we can look ways of incentivising smart use of modern technology, whether it be precision farming technology, smarter buildings for housing livestock or anaerobic digestion”.³³⁷ The Minister agreed that the way to achieve sustainable intensification of agriculture “is about research, developing new technology and, indeed, spreading that technology out into the farming industry. One of the things that we would like to see from the CAP is the opportunity to use more of the Pillar 2 money in that regard”.³³⁸

201. The Commission’s Communication refers to knowledge transfer as one of the available tools but gives no information on what form this would take or the level of funding. The Commissioner told us that the post-2013 CAP would have new financial instruments “to encourage farmers and the agri-food industry to take the results from the research and to put them into practice” and said there should be greater partnership between research organisations and farming groups.³³⁹

202. There are some existing provisions in the CAP for knowledge transfer and extension activities. Since 2007, Member States have been obliged to set up Farm Advisory Systems (FAS), primarily aimed helping farmers understand and meet cross-compliance requirements.³⁴⁰ However, a recent review of the FAS found its effectiveness is limited by the low number of farmers seeking advice (only 5% in 2008) and also by the restricted scope of the advice offered as in about half of Member States the FAS focuses strictly on cross-compliance rather than on broader issues of competitiveness or sustainability.³⁴¹

335 For example, the CLA (Q 97), NFU (Q 139), Dr Valentin Zahrnt (Ev w3), The Scottish Agricultural College (Ev w35), the AHDB (Ev 161), The Andersons Centre (Ev w27), RELU (Ev w5).

336 Ev 19

337 Q 141

338 Q 458

339 Q 178

340 Article 12 and 13 of Council Regulation (EC) No 73/2009. There are additional measures under the Rural Development Programme (Council Regulation (EC) No 1698/2005) to assist farmers with the costs of attending the FAS and to help Member States set up these services.

341 European Commission, *Report on the application of the Farm Advisory System (FAS) as defined in Article 12 and 13 of Council Regulation (EC) No 73/2009*, November 2010.

203. In England the AHDB, which has an income of about £50m annually, undertakes research and knowledge transfer activities.³⁴² Much of its work is contracted out to ADAS, formerly the Ministry of Agriculture, Fisheries and Food (MAFF)'s Agricultural Development and Advisory Service, which was privatised in 1997. ADAS have said that privatisation resulted in work being less 'joined-up' with some areas being neglected, and a reduction in extension services to individual farmers.³⁴³ Extension services are also provided by representatives from the input industries, however there is a concern that these do not provide impartial advice.³⁴⁴ Defra did not believe that changes to the existing measures in Pillar 2 were needed to better assist farmers to make use of new technologies, but rather argued for "a shift away from the Axis approach to more easily facilitate use of different measures to achieve multiple outcomes" and "consideration to be given to the potential for novel financial instruments, including loan funds, to maximise the impact of the available public funding".³⁴⁵

204. It appears that, both in England and more broadly in the EU, knowledge transfer and extension services are not being provided as much or as effectively as they might. There is a clear role for Government in improving the delivery of these services in research areas that deliver public benefits through contributing to food and environmental security. **Research, development and innovation are vital to achieving the science-led sustainable intensification that will be needed to meet global challenges. The CAP post-2013 must place a greater emphasis on knowledge transfer and farm extension services. The Commission should consider strengthening the Farm Advisory System and expanding its remit to include competitiveness and sustainability.**

Improving the functioning of the supply chain

205. The Commission's Communication suggests that the poor functioning of the food supply chain is jeopardising the long-term prospects of the agricultural sector.³⁴⁶ It draws attention to the steadily decreasing trends in farmers' share of the value added by the food supply chain, which fell from 29% in 2000 to 24% in 2005. Recent analysis of the British pig industry by the British Pig Executive provides an example of this trend: between November 2010 and January 2011, retailers and processors made £192m and £100m respectively in profit from pork products while producers lost £35m.³⁴⁷

206. According to the Commission, reasons for farmers' weak position in the food supply chain include the imbalance of bargaining power along the chain, fragmentation of the

342 The AHDB is an independent levy board funded by statutory levies from the agriculture and horticulture sectors. It is technically a non-departmental public body and is accountable to Defra. It works in six sectors: Dairy, Beef and Lamb, Horticulture, Cereals and Oilseeds, Pigs, and Potatoes. AHDB's statutory purpose is defined as:

- increasing efficiency or productivity in the industry;
- improving marketing in the industry;
- improving or developing services that the industry provides or could provide to the community;
- improving the ways in which the industry contributes to sustainable development.

343 Oral evidence to the House Lords European Union Sub-Committee D inquiry into *Innovation in EU Agriculture* on 15 December 2010, Q 242–5, Q 255–260.

344 *Ibid*, Q 260.

345 Ev 176

346 *The CAP towards 2020*, p 10.

347 The British Pig Executive, *Profitability in the Pig Supply Chain*, March 2011.

farming sector, lack of transparency around prices, and the functioning of the agricultural commodity derivatives markets.³⁴⁸

207. The Commission's intention to address farmers' lack of value share and the imbalance of power in the food supply chain was shared by many witnesses.³⁴⁹ The Scottish Agricultural College said "it is essential that across the food supply chain, a more equitable and stable distribution of value is obtained".³⁵⁰ The NFU stressed that a properly functioning supply chain was an essential step to reducing farmers' reliance on subsidies.³⁵¹ We also note the recent complaints by pig producers that the rising price of feed is not being reflected in the prices paid by retailers and processors.³⁵²

208. The British Retail Consortium (BRC) told us that retailers already "work closely with their supply chains and have a good knowledge of farming costs and will factor that in to their decisions on price".³⁵³ Instead, the BRC blamed problems in the dairy industry on other "large parts of the food sector", including Government, hospitality, catering and processing, that were not willing to enter into dedicated supply chains.³⁵⁴ Nonetheless, a recent investigation by the investment bank UBS into food price inflation highlighted potential imbalances of power in the UK food supply chain. The UBS report found that UK food inflation was more than twice the average in the eurozone and concluded that it has significantly outstripped food retailers' cost inflation. They said this could allow UK politicians to suggest that food price inflation is 'unfair' or 'excessive'.³⁵⁵

209. The Commission's Communication advocates improving the functioning of the supply chain but fails to suggest any concrete measures to achieve this. One option would be to extend the proposals to improve contractual relations in the dairy sector (the 'Milk Package') into other sectors.³⁵⁶ The NFU were supportive of the ideas in the Milk Package.³⁵⁷ The NFU further suggested that imbalances across the supply chain could be corrected by supporting producer organisations, creating more market transparency, improving farmers' marketing and promotion skills, but also not impeding consolidation of farming businesses.³⁵⁸ The AHDB said greater market transparency and longer-term

348 *The CAP towards 2020*, p 10.

349 For example, the TFA (Ev 110), the NFU (Q 128, Q 130, Ev 119), Society for Biology (Ev w19), National Assembly for Wales Rural Development Sub-Committee (Ev w23), George Lyon MEP (Q 296). The European Parliament passed a Resolution of 7 September 2010 on "*Fair revenues for farmers: A better functioning food supply chain in Europe*". The Agriculture and Fisheries Council Conclusions also "underlines the importance of seizing the opportunity of the CAP 2020 reform to improve the functioning of the food supply chain" (para 22).

350 Ev w34

351 Q 128

352 "Pig farmers descend on Westminster", *Farmers Guardian*, 3 March 2011.

353 Ev167

354 Q 419

355 "Supermarkets are raising prices faster than inflation, says UBS", *Daily Telegraph*, 1 March 2011.

356 The Milk Package includes provisions for written contracts between milk producers and processors, the possibility to negotiate contract terms collectively via producer organisations in a way as to balance the bargaining power of milk producers relative to major processors, and measures for enhancing transparency in the market.
http://ec.europa.eu/agriculture/milk/index_en.htm

357 Q 144

358 *Ibid.*

contracts were needed in the dairy sector.³⁵⁹ The TFA argued that the direct payments were needed to compensate farmers for their weak position in the supply chain.³⁶⁰

210. In the UK, contractual relations along the food supply chain are covered by the Groceries Supply Code of Practice (GSCOP) that came into force on 1 February 2010. The GSCOP gives suppliers access to independent arbitration and protects them from practices such as being asked to cover the cost of theft. It covers the ten biggest grocery retailers—those with annual sales of over £1bn. The GSCOP was set up following a recommendation by the Competition Commission, which also recommended the establishment of an ombudsman to levy penalties on large grocery retailers for non-compliance.³⁶¹ The Government intends to publish a draft Bill setting up the Grocery Code Adjudicator (GCA) under the aegis of the Department for Business, Innovation and Skills shortly, possibly in May 2011.³⁶²

211. Most witnesses agreed with the need for an ombudsman (or adjudicator) to enforce the GCSOP.³⁶³ The TFA believed that “the introduction of such a function is long overdue and whilst it will not in itself solve all the supply chain problems, it will be of significant benefit”.³⁶⁴ The Food and Drink Federation also said there should be “an early introduction of the Adjudicator”.³⁶⁵ However, the BRC wanted to wait and see how the GSCOP was working before “rushing into” bringing in an Adjudicator.³⁶⁶

212. Imbalances in the supply chain result in poor returns to farmers, reduce their profitability and prevent them becoming less reliant on the single farm payment. The Commission has recognised this but has failed to provide concrete suggestions for improving the situation. Defra must ensure that the Commission’s intentions are taken forward and expanded in the draft legislative proposals for the post-2013 CAP.

213. It appears that supermarkets’ prices do not fully reflect changes in the costs incurred by businesses further down the supply chain and livestock farmers feel their livelihoods are at risk as a result. **We urge Defra to work across Government to ensure that the forthcoming Grocery Code Adjudicator has sufficient powers to enforce the Groceries Supply Code of Practice and protect the interests of UK farmers.**

Price volatility and market management measures

214. Food price volatility has increased in the past few years.³⁶⁷ On 3 March 2011, it was announced that the FAO Food Price Index (FFPI) had risen for the eighth consecutive month, reaching its highest level (in both real and nominal terms) since the index began in

359 Q 380, Q 383

360 Ev 110

361 *Supermarkets: controls over buyer power*, Standard Note SN/SC/1187, House of Commons Library, October 2010.

362 HC Deb, 17 March 2011, Col 478.

363 These include the RSPB and CPRE (Q 17), the TFA (Q 50–54), and the NFU (Q 133).

364 Ev 110

365 Q 435

366 Q 241

367 Foresight Project on Global Food and Farming Futures, *Synthesis Report C10: Volatility in food prices*, p 4.

January 1990.³⁶⁸ Although the Foresight *Future of Food and Farming* report concluded that it was “very difficult to predict” whether food price volatility would increase in future,³⁶⁹ there is a widely-held concern that volatility will increase. The Commission’s Communication states “the perspectives for agricultural markets are expected nonetheless to be characterised by greater uncertainty and increased volatility”.³⁷⁰

215. Volatile prices are detrimental to consumers, producers and government. They can cause social instability, distort investment decisions and hinder fiscal management as well as increasing the risk of hunger or poor nutrition when prices rise.³⁷¹ However, interventions to reduce price volatility (such as export bans or national food reserves) can be expensive, politically difficult, and risk exacerbating the problem through distorting world trade and preventing transmission of market signals.

216. The market measures elements of the CAP are one way to manage price volatility, for example through intervention buying, private storage and export subsidies when prices fall very low; the CAP is less well-equipped to deal with high prices.³⁷² The percentage of the CAP budget spent on market measures has fallen from 74% in 1992 to less than 10% at present.³⁷³ The EU’s use of export subsidies has been criticised internationally in the past for their effects on agriculture in developing countries. The Commissioner emphasised to us that this was no longer the case, saying : “I just want to underline the fact that export subsidies represented last year, in 2010, only 1% of the total budget of the CAP, so how can we say that the Common Agricultural Policy has an influence on agriculture in other parts of the world?”³⁷⁴ During negotiations on the Doha Development Round, the EU committed itself to phasing out export subsidies.

217. The Commission’s Communication gives three options for the future of market measures (Box 6).

Box 6: The Commission’s proposals for market measures in the post-2013 CAP

Option 1

- Streamline and simplify existing market instruments where appropriate
- Strengthen risk management tools

Option 2

- Improve and simplify existing market instruments where appropriate
- Strengthen existing risk management tools
- introduce an optional WTO green box compatible income stabilization tool to compensate for substantial income losses

Option 3

- Abolish all market measures, with the potential exception of disturbance clauses that could be activated in times of severe crises

368 <http://www.fao.org/worldfoodsituation/wfs-home/foodpricesindex/en/>

369 *The Future of Food and Farming—Final Project Report*, p 108.

370 *The CAP towards 2020*, p 5.

371 HM Government, *The 2007/08 Agricultural Price Spikes: Causes and Policy Implications*, May 2010.

372 Q 227

373 European Parliament resolution of 8 July 2010 on the future of the Common Agricultural Policy after 2013 (TA(2010)0286), para U.

374 Q 176–177

218. Defra's position is that price volatility is best managed by encouraging the development of market based solutions (such as futures markets or insurance), emphasising that these should be based in the private sector rather than publically subsidised.³⁷⁵ It called for the phasing out of export subsidies and reduction of intervention prices in dairy and cereal sectors to levels commensurate with long term lows. From this, it would appear that Defra aligns more with the Commission's Option 3 although this is not explicit in their response.

219. Market measures are likely to be a highly divisive issue in Europe. George Lyon MEP pointed out that some Member States saw the current high levels of price volatility as a justification for a return to greater market intervention and price control.³⁷⁶ Our evidence suggests there is no desire among UK interested parties to expand the existing market measures but there was support for retaining some measures as a safety-net.³⁷⁷ The NFU and TFA also argued that direct payments helped farmers cope with price volatility.³⁷⁸ The Pack inquiry into *Future Support for Agriculture in Scotland* supported the use of market-based risk management instruments such as futures markets to help farmers manage price volatility, but also warned that these would be difficult for small businesses to access.³⁷⁹ Similarly the TFA expressed concerns about the complexities of these sort of instruments and the problems faced by short-term tenants in using futures contracts.³⁸⁰

220. In January 2011, the Commission developed its ideas on the "income stabilisation" tool referred to under Option 2.³⁸¹ We have not taken evidence on this tool specifically. However, we note the general principle that any tool must be simple to implement and should not distort the market within the EU, which argues against a high degree of flexibility in implementing the tool. We are also concerned about the potential ramifications for budget discipline of this sort of insurance mechanism and the potentially high administrative cost of auditing farmers' eligibility for compensation.³⁸²

221. Defra should resist any attempt to use current price volatility as a justification for re-establishing significant market management measures, including excessive price support or quotas. We welcome the reduction in the use of export subsidies and strongly recommend that they be removed from the CAP after 2013. There will continue to be a role for intervention buying in the CAP after 2013, but only as a safety net in times of genuine crisis.

375 UK Response to the Commission Communication and Consultation: "The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future", p 5.

376 Q 315

377 These include the TFA (Q 55), George Lyon MEP (Q 315), Brian Pack OBE (Q 348), the AHDB (Q 368), and the Farmers' Union of Wales (Ev w46).

378 TFA (Q 55), NFU (Q 128).

379 *Future Support for Agriculture in Scotland*, p 90.

380 Q 51, Q 57

381 Briefly, such a tool pays compensation payments to farmers suffering from a severe loss of income compared to the same farmers' average income. In order for the tool to be in compliance with WTO green box rules, the compensation can only be paid to farmers suffering from an income drop of more than 30%, and maximum 70% of the loss could be compensated (http://ec.europa.eu/agriculture/publi/app-briefs/03_en.pdf).

382 Ev 177

222. We note that tools such as futures markets help some farmers manage price volatility, but we are concerned that smaller producers in particular will be unable to benefit from them. If Defra wishes to continue to promote these tools, particularly as a replacement for current market measures, it must ensure that they will be accessible to all farmers and that guidance and training on using them will be available.

11 Simplification

223. Simplification and reducing the administrative cost of the CAP was a shared aim among witnesses,³⁸³ in particular, Defra.³⁸⁴ The Communication also gives simplification as one of the Commission's objectives.³⁸⁵ A clear policy with clear objectives and relatively simple instruments is vital to achieving this aim. Implementation of the CAP is a major expense, particularly in England where in 2008–09 administering each Single Farm Payment was estimated to cost over £1,700, compared to less than £300 in Scotland.³⁸⁶ Moreover, according to Defra, the cost in England alone of responding to EU audits of the CAP is over £1.6m per year.³⁸⁷ The Central Association of Agricultural Valuers noted “the government's negotiating position should take into account the Rural Payments Agency's ability to implement any changes”.³⁸⁸

224. We support the aim of simplifying the CAP and recommend that Defra robustly resist the imposition of policies that would create undue bureaucracy and burden for farmers or the government payment agencies. We are particularly concerned that the Commission's proposals for a multi-tiered single farm payment will necessitate expensive new computer and control systems. We encourage Defra to negotiate a simpler payment scheme that can be adapted to the existing instruments.

225. However, we note that much of the additional complexity and ‘red-tape’ is added at national level. We await with interest the conclusions of the Red Tape Task Force, expected in May 2011. We have a strong interest in ensuring farmers are not unduly burdened with regulation, nor tax-payers with implementation costs, and intend to revisit the issue of implementation of the CAP in future.

383 Among others, the RSPB (Ev 106), the NFU (Ev119), the Farmers Union of Wales (Ev w47), National Assembly for Wales Rural Development Sub-Committee (Ev w22), the Department of Agriculture and Rural Development, Northern Ireland Assembly (Ev w29), the Scottish Government (Ev w39). The Pack inquiry into *Future Support for Agriculture in Scotland* also makes several recommendations regarding simplification (p 91–92).

384 Ev 171, Ev 173

385 *The CAP towards 2020*, p 7.

386 National Audit Office, *A Second Progress Update on the Administration of the Single Payment Scheme by the Rural Payments Agency*, October 2009. According to Defra, the cost of administering an SPS claim in England will fall to £850 per claimant in 2010-11 (Ev 176).

387 Ev 173

388 Ev w38

12 Defra's handling of the response to the Communication

226. The previous Government, as recently as January 2010, was committed to abolishing Pillar 1 of the CAP by 2020.³⁸⁹ The current Government has said it would like direct payments to be phased out, but will not give a deadline.³⁹⁰ In recognition of this shift in attitude, it would seem sensible for Defra to produce a position paper making its stance clear to interested parties in the UK and Europe. Yet Defra indicates it has no intention of doing so.³⁹¹ Moreover, the UK refused to sign up to the EU Agriculture and Fisheries Council Conclusions on the Commission's proposals.

227. Discussions over CAP reform in the UK have been dogged by disagreements between Defra and the devolved administrations.³⁹² This is not ideal and surely cannot help the UK to press its case in Europe. We are not convinced that Defra Ministers have recognised the scale of differences between them and the devolved administrations. Mr Paice told us "actually once you move away from the totality of money to how it is spent in the structure of the CAP, there is a great deal more synergy between us and the devolveds. We all want the same thing".³⁹³ Yet the devolved administrations' own position statement on the CAP highlights key areas of disagreement, notably "Direct Payments must [...] remain in place and the UK should not adopt a negotiating position seeking to phase them out".³⁹⁴

228. Defra must balance its twin roles of representing English interests and negotiating on behalf of the whole United Kingdom. Agricultural conditions and priorities vary across the UK which can make it difficult to reach a common position; nonetheless, it is incumbent on Defra to ensure that the views of the devolved administrations are fairly represented in negotiations with the EU. We encourage Defra and the devolved administrations to produce a joint position statement on the CAP after 2013 swiftly.

389 HM Government, *The 2007/08 Agricultural Price Spikes: Causes and Policy Implications*, January 2010, p 17.

390 Q 442

391 Q 436

392 "Scotland and Westminster still poles apart on CAP reform", *Farmers Guardian*, 17 February 2011; "Devolved Administrations attack Spelman over CAP", *Farmers Guardian*, 20 January 2011.

393 Q 443

394 <http://www.scotland.gov.uk/News/Releases/2011/01/19115551>

13 Conclusion on the Commission's Three Options

229. Although the Commission outlines three options for the CAP post-2013, it appears to us that these do not represent a genuine choice.

230. Maintaining the status quo as outlined in Option 1 is undesirable as the historic system of payments cannot be continued to 2020 without severely compromising the relevance of the CAP and entrenching distortions between Member States. Moreover the future CAP must place greater emphasis on sustainability alongside productivity, reducing the adverse effects of farming on the environment and making a positive contribution to achieving the EU's targets on climate change and biodiversity. Equally, abolition of direct payments and market measures as suggested in Option 3 is clearly not advisable in the period to 2020 given farmers' dependence on income support and trade protection, nor is this option likely to win support in the European Council or Parliament.

231. However, this does not mean we should accept the middle way, Option 2, as it stands. While we support the principle behind greening Pillar 1, we are concerned that the proposed system of multi-tiered payments will be complex to administer and risks adding additional layers of regulation for fairly marginal environmental benefit. We recommend that the Commission instead look at greening the CAP through the existing structures in Pillar 2 backed up by strengthened incentives and targets to ensure uptake is achieved widely across Europe.

232. We have expressed several additional reservations about the proposals for direct payments. We consider that capping direct payments and giving additional financial support to small farmers would be disadvantageous to UK producers and would not enhance agricultural competitiveness. We question the value of a new definition of an active farmer that could generate additional administrative burdens. However, we welcome some aspects of Option 2, including the commitment to a more equitable distribution of Pillar 1 and Pillar 2 funding and strengthening of knowledge transfer instruments.

233. We believe that the Commission's Option 2 offers the most benefits to UK farmers, rural communities and the agri-food industry. However we have reservations about some of their ideas, in particular, 'greening' Pillar 1 through compulsory additional agri-environmental measures. We recommend that Defra offers its support to Option 2 while working proactively in Europe to negotiate changes to some aspects of the proposals and explore additional options for 'greening' the CAP, as outlined in our recommendations.

Conclusions and recommendations

Objectives of the Common Agricultural Policy (CAP)

1. Given the strategic importance of food and the openness of markets within the EU, it is essential that the EU retains a common policy on agriculture. First, this helps to maintain fair competition for agricultural products within the EU. Second, agricultural policy affects cross-border issues such as food security and climate change where action at a supra-national level is appropriate. Third, through acting collectively, the EU is able to be a major player in global agricultural trade. (Paragraph 31)
2. We believe that the EU will need to play a greater role in meeting food supply challenges in the future, particularly as future climate change may result in currently productive areas becoming less so. Until failures in the global governance system of food supply are addressed, there remains a strategic interest for the EU to retain a significant degree of food self-sufficiency. The first objective of the Common Agricultural Policy should be to maintain or enhance the EU's capacity to produce safe and high-quality food. (Paragraph 39)
3. Enhancing the competitiveness and viability of the EU agricultural sector should be the second objective of the CAP. A competitive and viable EU agricultural sector is the key to producing more while having less impact on the environment and to reducing farmers' reliance on income support from the tax-payer in the long-term. (Paragraph 43)
4. The third objective of the CAP should be to ensure the sustainable management of the EU's natural resources, biodiversity and landscapes, recognising that farmers are the managers of over half of the EU's land area. (Paragraph 46)
5. The fourth objective of the CAP should be to help to maintain agricultural activity in areas where it delivers significant public benefits, such as the maintenance of biodiversity and cultural landscapes. However, the CAP should not aim to deliver an acceptable standard of living to every farmer in the EU through income support alone—farmers should be encouraged to look to the market for returns. (Paragraph 52)
6. The fifth objective of the CAP should be to foster diversity in EU agriculture, where this is valued by EU citizens, but not enforce it. (Paragraph 57)

Drivers for reform of the CAP

7. We believe that the absence of external pressures from the WTO should not prevent the Commission striving for ambitious reform. The aim for this round of CAP reform should be to enable EU farmers to achieve the 'sustainable intensification' that is required to meet the global challenges of feeding a predicted world population of 9 billion by 2050 without irrevocably damaging our natural resources. (Paragraph 64)

8. The Government's position on the Common Agricultural Policy must be coherent with its strategy for ensuring food security. Defra should decide whether, and if so how, it intends to implement the previous Government's *Food 2030* strategy, taking into account the recommendations of the Foresight *Future of Food and Farming* report and the UK's position on the future Common Agricultural Policy. (Paragraph 66)
9. In the interests of fairer trade in the long-term, the EU should argue more strongly for recognition of standards of production (for example animal welfare, use of water, greenhouse gas emissions) within trade agreements. We believe this is essential in achieving the global shift towards sustainable intensification recommended by the Foresight *Future of Food and Farming* report. (Paragraph 74)

The CAP budget after 2013

10. In light of current financial circumstances, we believe there is room for savings to be made within the CAP budget while still delivering its core objectives. However Defra must be mindful that severe budget cuts could incur greater costs in the long-term if they result in depleting the EU's natural and social capital. (Paragraph 82)

The Single Payment Scheme after 2013

11. There are convincing reasons to maintain direct payments to farmers under the current conditions in agriculture, where over half of UK farms would be unprofitable without subsidy; where UK farmers are expected to adhere to higher standards than their competitors in third countries; and where farming businesses face high levels of price volatility. We recommend that direct payments be retained, at least until the end of the next financial period in 2020. They should be set at a level that is low enough to encourage farmers to seek greater returns from the market; while actions that deliver public goods beyond the basic level provided by cross-compliance should be rewarded through additional payments. (Paragraph 118)
12. We are not convinced by Defra's arguments as to how to reduce reliance on direct payments: it is not clear that merely shrinking the direct payments will be sufficient to deliver a viable farming industry that can be competitive without government support. We recommend that Defra develop its position more clearly, setting out precisely the conditions that must be met before direct payments can be abolished and how reduced reliance on the single farm payment is to be achieved, including the measures needed. (Paragraph 119)
13. Given financial constraints on the EU budget, Defra should ensure that UK farmers are prepared for the level of direct payments to fall over the financial period to 2020. (Paragraph 120)
14. Ending direct payments is unachievable in the short-term. Defra's adherence to this policy reduces the UK's ability to engage constructively with other Member States and could diminish the UK's influence in this round of reform. Defra should adopt a more pragmatic approach to the negotiations. (Paragraph 124)

A more equitable distribution of funding

15. It is essential that the historic basis of payments is replaced with a more objective system, but we recognise that there is no easy solution to what this should be. Given the concerns over redistributive effects between areas within the UK, Defra should argue for national flexibility to allocate payments within Pillar 1, paying attention to the concerns of the devolved administrations. (Paragraph 133)
16. Defra should use its experience of implementing the dynamic hybrid system in England to help guide the Commission's proposals to ensure any new method can be implemented without excessive cost or administrative burden. (Paragraph 134)
17. 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. (Paragraph 135)

The balance of funding between direct payments and payments for environmental public goods

18. We agree that the CAP post-2013 should target more of the available funding on incentivising sustainable farming. However, 'sustainable farming' should not be synonymous with simply 'not farming': it is essential that ways are found to farm more productively while minimising inputs and reducing negative impacts on the environment. We recommend that any 'greening' of the CAP should be directed at activities that promote sustainability alongside competitiveness. (Paragraph 143)
19. Defra should not support the Commission's current proposals for greening Pillar 1 as they risk reducing the competitiveness of UK farming and increasing the complexity of the CAP while not delivering an improved environmental performance. (Paragraph 159)
20. We recommend that additional greening measures bear many of the characteristics of Pillar 2 agri-environment schemes, namely voluntary for farmers, incentives rather than regulation, and multi-annual. The design of the additional measures is crucial to the success of the scheme and the guiding principle must be to mainstream sustainability into successful, competitive agriculture. We believe that EU-wide buy-in is more likely if these additional greening measures are entirely EU-financed. Funding them from the existing Pillar 1 budget is one way to maintain budgetary discipline while incentivising farmers to implement the additional measures. (Paragraph 160)
21. We encourage Defra to analyse the impact on the UK were the Commission to take forward the innovative ideas in the European Parliament Agriculture and Rural Development Committee's draft report for greening the CAP through EU-financed agri-environmental measures in Pillar 2, incentivised by reductions to farmers' direct payments if they do not adopt some of the measures. (Paragraph 162)

The future of coupled payments

22. We support the decoupling of subsidies from production. However, we note that coupled payments may be an effective way of supporting particular production methods where these deliver public benefits, such as livestock farming in the uplands. We recommend that optional coupled payments should be retained in the future CAP, as long as these are held within strict limits and are compatible with the EU's existing World Trade Organisation commitments. (Paragraph 168)

Targeting payments to active farmers

23. We are not convinced that a more restrictive EU-wide definition of an active farmer is needed, and are concerned that this will contravene the principle of simplifying the CAP through adding additional audit requirements. The onus should be on Member States to determine if additional criteria are needed to exclude particular groups beyond the existing regulations. (Paragraph 174)
24. Defra must ensure that the Commission's final proposals do not disadvantage the UK's tenant farmers or commoners through restricting their access to direct payments or payments linked to agri-environmental measures. (Paragraph 175)

Capping direct payments

25. Capping of Pillar 1 payments risks hindering the industry from becoming more competitive by discouraging farm consolidation and could be ineffective in the long-term as farm businesses find ways to avoid the payment ceiling. Defra should not support the Commission's proposal to place a payment ceiling on Pillar 1. (Paragraph 181)

Support for small farmers

26. An EU-wide support scheme for small farmers is unlikely to offer many benefits to UK farmers and risks distorting competition if it takes the form of additional payments to farmers with holdings below a particular size. Options for reducing the administrative requirements for small holdings should be developed further, consistent with the overarching aim of simplifying the CAP. (Paragraph 186)

Support for Less Favoured Areas

27. Drawing on our conclusions in the *Farming in the Uplands* report, we urge Government to ensure that the areas currently recognised as uplands are properly represented by the new definition of areas of natural constraint. We are not convinced that the Commission's proposals for payments for areas of specific natural constraint in Pillar 1 offer any improvements over the current system. (Paragraph 191)

Enhancing agricultural competitiveness

28. The Commission's Communication is lacking in both vision and detail as to how it intends to enhance the competitiveness of EU agriculture. While Defra is highly critical of the Commission's lack of vision, we did not find the Minister's own answers as to how the competitiveness of EU agriculture is to be increased particularly convincing. We urge Defra to present the Commission with an alternative vision and supporting measures, drawing on the ideas in this report. (Paragraph 195)
29. After 2013, we urge Defra to revisit its balance of funding between the three axes of the Rural Development Programme to channel more funds into measures to enhance competitiveness, currently Axis 1 of Pillar 2. Given that the mechanism for delivery of the socioeconomic elements of the RDPE will have to change, there needs to be sufficient warning as to how funds will be administered so that those who qualify are able to access them. (Paragraph 199)
30. Research, development and innovation are vital to achieving the science-led sustainable intensification that will be needed to meet global challenges. The CAP post-2013 must place a greater emphasis on knowledge transfer and farm extension services. The Commission should consider strengthening the Farm Advisory System and expanding its remit to include competitiveness and sustainability. (Paragraph 204)
31. Imbalances in the supply chain result in poor returns to farmers, reduce their profitability and prevent them becoming less reliant on the single farm payment. The Commission has recognised this but has failed to provide concrete suggestions for improving the situation. Defra must ensure that the Commission's intentions are taken forward and expanded in the draft legislative proposals for the post-2013 CAP. (Paragraph 212)
32. We urge Defra to work across Government to ensure that the forthcoming Grocery Code Adjudicator has sufficient powers to enforce the Groceries Supply Code of Practice and protect the interests of UK farmers. (Paragraph 213)

Market management measures

33. Defra should resist any attempt to use current price volatility as a justification for re-establishing significant market management measures, including excessive price support or quotas. We welcome the reduction in the use of export subsidies and strongly recommend that they be removed from the CAP after 2013. There will continue to be a role for intervention buying in the CAP after 2013, but only as a safety net in times of genuine crisis. (Paragraph 221)
34. We note that tools such as futures markets help some farmers manage price volatility, but we are concerned that smaller producers in particular will be unable to benefit from them. If Defra wishes to continue to promote these tools, particularly as a replacement for current market measures, it must ensure that they will be accessible to all farmers and that guidance and training on using them will be available. (Paragraph 222)

Simplification

35. We support the aim of simplifying the CAP and recommend that Defra robustly resist the imposition of policies that would create undue bureaucracy and burden for farmers or the government payment agencies. We are particularly concerned that the Commission's proposals for a multi-tiered single farm payment will necessitate expensive new computer and control systems. We encourage Defra to negotiate a simpler payment scheme that can be adapted to the existing instruments. (Paragraph 224)

Defra's handling of the negotiations

36. Defra must balance its twin roles of representing English interests and negotiating on behalf of the whole United Kingdom. Agricultural conditions and priorities vary across the UK which can make it difficult to reach a common position; nonetheless, it is incumbent on Defra to ensure that the views of the devolved administrations are fairly represented in negotiations with the EU. We encourage Defra and the devolved administrations to produce a joint position statement on the CAP after 2013 swiftly. (Paragraph 228)

Conclusion on the Commission's proposals

37. We believe that the Commission's Option 2 offers the most benefits to UK farmers, rural communities and the agri-food industry. However we have reservations about some of their ideas, in particular, 'greening' Pillar 1 through compulsory additional agri-environmental measures. We recommend that Defra offers its support to Option 2 while working proactively in Europe to negotiate changes to some aspects of the proposals and explore additional options for 'greening' the CAP, as outlined in our recommendations. (Paragraph 233)

Formal minutes

Declarations of interest

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

11 January 2011

Miss Anne McIntosh declared the following interest:

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

Richard Drax declared the following interest:

That he 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.

Tuesday 5 April 2011

Members present:

Miss Anne McIntosh, in the Chair

Tom Blenkinsop
George Eustice
Mrs Mary Glendon

Neil Parish
Amber Rudd

Draft Report (*The Common Agricultural Policy after 2013*), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 233 read and agreed to.

Summary agreed to.

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

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

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

Written evidence was ordered to be reported to the House for printing with the Report.

[Adjourned till Wednesday 27 April 2011 at 2.30 pm

Witnesses

	<i>Page</i>
Wednesday 8 December 2010	
Gareth Morgan , Director of Agricultural Policy, Jenna Hegarty , Agriculture Policy Officer, Royal Society for the Protection of Birds; and Ian Woodhurst , Senior Rural Policy Officer, Campaign to Protect Rural England (CPRE)	Ev 1
George Dunn , Chief Executive Officer and Greg Bliss , National Chairman, Tenant Farmers Association (TFA)	Ev 10
Tuesday 11 January 2011	
William Worsley , President, and Professor Allan Buckwell , Director of Policy, Country Land and Business Association (CLA)	Ev 19
Peter Kendall , President, and Tom Hind , Head of Economics and International Affairs, National Farmers' Union (NFU)	Ev 28
Thursday 13 January 2011	
Dacian Cioloş , European Commissioner with Responsibility for Agriculture and Rural Development (via video link)	Ev 38
Wednesday 19 January 2011	
Dr Joan Moss , Principal Agricultural Economist, Agri-Food and Biosciences Institute (AFBI) and Senior Lecturer, Queen's University, Belfast	Ev 46
Professor Alan Swinbank , Emeritus Professor of Agricultural Economics, University of Reading	Ev 53
Wednesday 26 January 2011	
George Lyon MEP , Rapporteur to the European Parliament report on the future of the Common Agricultural Policy after 2013	Ev 60
Brian Pack OBE , Chair of the inquiry into Future Support for Agriculture in Scotland (via video link)	Ev 69
Tuesday 1 February 2011	
John Bridge , Chairman, Tim Bennett , Sector Chair, DairyCo, and Jonathan Tipples , Sector Chair, HGCA (Cereals and Oilseeds), Agricultural and Horticultural Development Board (AHDB)	Ev 75
Andrew Opie , Director of Food and Sustainability Policy, British Retail Consortium, and Andrew Kuyk CBE , Director of Sustainability and Competitiveness, Food and Drink Federation	Ev 83

Tuesday 8 February 2011

Rt Hon James Paice MP, Minister of State for Agriculture and Food, and
Martin Nesbit, EU and International Agriculture, Department for
 Environment, Food and Rural Affairs

Ev 93

List of printed written evidence

1	Royal Society for the Protection of Birds (RSPB)	Ev 106
2	Campaign to Protect Rural England (CPRE)	Ev 108
3	Tenant Farmers Association (TFA)	Ev 110
4	Country Land and Business Association (CLA)	Ev 114, Ev 116, Ev 118
5	National Farmers' Union (NFU)	Ev 119, Ev 121
6	Dr Joan Moss	Ev 123, Ev 127, Ev 151
7	Professor Alan Swinbank	Ev 152, Ev 157
8	George Lyon MEP	Ev 160
9	Agriculture and Horticulture Development Board (AHDB)	Ev 160, Ev 162
10	British Retail Consortium (BRC)	Ev 164, Ev 166
11	Food and Drink Federation (FDF)	Ev 167, Ev 169
12	Department for Environment, Food and Rural Affairs (Defra)	Ev 170, Ev 174

List of additional written evidence

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

13	Unite the Union	Ev w1
14	Valentin Zahrnt	Ev w3
15	UK Research Councils' Rural Economy and Land Use Programme	Ev w4
16	Agricultural Christian Fellowship	Ev w5
17	The Woodland Trust	Ev w6
18	The Central Association of Agricultural Valuers	Ev w7
19	The Fairtrade Foundation	Ev w9
20	Royal Society for the Prevention of Cruelty to Animals (RSPCA)	Ev w11
21	Devon County Council	Ev w12
22	CEJA—European Council of Young Farmers	Ev w13
23	Dairy UK	Ev w16
24	Society of Biology	Ev w18
25	National Assembly for Wales Rural Development Sub-Committee	Ev w22
26	Rothamsted Research	Ev w23
27	The Soil Association	Ev w25

28	The Andersons Centre	Ev w27
29	Dept of Agriculture and Rural Development, Northern Ireland Assembly	Ev w28
30	Welsh Assembly Government	Evs w30, w31
31	Scottish Agricultural College	Ev w33
32	National Farmers' Union Scotland	Ev w36
33	The Scottish Government	Ev w38
34	Farmers' Union of Wales	Ev w39

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 2010–11

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
Fourth Report	The draft National Policy statement (NPS) on Waste Water	HC 736
First Special Report	The National Forest: Government response to the Committee's Fourth Report of Session 2009–11	HC 400
Second Special Report	Dairy Farmers of Britain: Government response to the Committee's Fifth Report of Session 2009–10	HC 401