Northern Ireland Assembly

COMMITTEE FOR AGRICULTURE AND RURAL DEVELOPMENT

OFFICIAL REPORT
(Hansard)

Common Agricultural Policy Reform

7 June 2011

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:
Mr Paul Frew (Chairperson)
Mrs Dolores Kelly (Deputy Chairperson)
Mr Thomas Buchanan
Mr Trevor Clarke
Mr Willie Clarke
Mr William Irwin
Mr Kieran McCarthy
Mr Oliver McMullan
Mr Conor Murphy
Mr Robin Swann

Witnesses:

Mr Norman Fulton	)	
Dr Seamus McErlean	)	Department of Agriculture and Rural Development
Mr Mark McLean	)	

The Chairperson:

We will have a presentation from the Department of Agriculture and Rural Development (DARD) on the common agricultural policy (CAP). I welcome Norman Fulton, chief agricultural economist, Seamus McErlean, principal agricultural economist, and Mark McLean, senior agricultural economist. You are very welcome to the Committee. I invite you to make a brief presentation.

Mr Norman Fulton (Department of Agriculture and Rural Development): Thank you very much, Chairman.

In November 2010, the European Commission published its communication on CAP reform. It represented preliminary views from the Commission on the future shape of the CAP towards 2020. It was a very high level document, and it contained relatively little detail. In fact, it probably raised more questions than it answered. Nevertheless, the Department conducted a public consultation on the content of that document during December and January. Drawing on the responses from that process, our analysis and further information that we gleaned from the Commission in the intervening period, DARD presented its formal response to the Commission in March 2011. The Committee has a copy of that paper, and I will briefly pull out some of the main issues in it.

First, budgetary issues will be key in the forthcoming reform. There are various aspects to that, starting with the size of the overall EU budget and the proportion of that that will be allocated towards the CAP. Then, there is the distribution of the CAP budget to pillar 1 and pillar 2 and to the member states; the division of those budgets among the regions of the member states; and, finally, in the case of single farm payments, the means by which that budget is allocated to individual applicants. So, it is a fairly complex set of issues.

We expect to see proposals on the overall EU budget by the end of this month, and that should give us some indication of what might be available for the CAP over the next financial perspective. The EU budget and the CAP budget will not be within the gift of the EU Agriculture Council; they will be set by heads of state and the EU Parliament. However, the means by which the CAP budget is allocated to member states under pillar 1 and pillar 2 will be negotiated by the Agriculture Council. We will certainly seek to protect the share of the pillar 1 budget that comes to Northern Ireland, and we will argue for a larger share of pillar 2. The UK and, hence, Northern Ireland have always had a pretty raw deal from the allocation of the pillar 2 budget.

As regards flat-rate support, it seems clear that we will move towards a flat-rate entitlement regime. However, it also seems fairly clear that that will not be set at a common EU flat rate but at a national, regional and possibly even subregional level. We will most certainly be arguing for a regional approach and for the flexibility to look at a subregional approach. However, even then, moving towards a flat-rate payments regime will entail significant redistribution of support between individual farmers. So, we will be looking for a phased implementation and transition of no less than five years to allow the industry time to cope with the challenge that the redistribution will create.

I will move on to the issue of capping of support. The Commission seems set on seeking to impose an upper ceiling on the level of support that can be awarded to any individual claimant under the pillar 1 single farm payment. We agree with that and have suggested a limit of €100,000 for any single applicant, with moneys that are removed from individual claimants being recycled within the same region.

The greening of pillar 1 will be another key element of the Commission's agenda, and we can appreciate the motives for the Commission to green pillar 1. However, pillar 1 already delivers against a green agenda by maintaining active land management across the EU territories. We need to be cautious on that issue, because we do not want to undermine the income support provided by pillar 1 by imposing significant additional costs as a consequence of mandatory greening actions. Any greening requirement must be simple to describe to farmers, simple to deliver and simple to administer. There is a very real risk of creating a complex regime that imposes a heavy bureaucratic burden on everyone, and we must be mindful of that.

We will also have to ensure that the benefits of the greening proposal outweigh the costs and that it sits comfortably alongside what will be happening on pillar 2 and the agrienvironment programmes there. We do not want an additional pillar 1 scheme sitting alongside the single farm payment system. So, we need to keep a very close eye on what will emerge.

Finally, I want to touch briefly on the issue of active farmers. Many people pay a great deal of attention to that issue, and we are certainly very sympathetic to the concept that pillar 1 support should go to active farmers. However, even the Commission recognises that that targeting will pose substantial practical difficulties. An active farmer cannot be defined by production activity. That would undermine the whole system and concept of decoupled support and would expose the CAP to challenge under the World Trade Organization (WTO). So, some other method has to be devised to define what constitutes an active farmer. The trouble is that there is a very high risk of unintended or undesirable consequences when you go down that route. For example, the Commission is reportedly looking at setting a maximum threshold of income that must come from farming and making that an eligibility requirement for claiming pillar 1 support. That could risk excluding from the single farm payment some part-time farmers or those with an alternative source of income, such as a pension, given the age structure of our industry.

It could also create difficulties for farmers whose farming activities may make a loss in a particular year. Therefore, there are real risks in going down that route. From a practical stance, such an approach would draw DARD into examining the sources of income for each and every applicant to the single farm payment scheme. Therefore, a heavy bureaucratic burden would be associated with such an approach.

You also need to consider how the industry and individuals would react to such measures. Undoubtedly, those potentially excluded from the regime would look for alternative options, such as renting their entitlements, in which case they get the value of the support but simply via an indirect means. They may seek to sell their entitlements or seek to increase or resume farming activity to ensure that they remain eligible for support. The latter option could well have the effect of restricting land from coming on to the conacre market. All sorts of issues could emerge.

You also need to consider who will be impacted on by that approach. It could include retired or semi-retired farmers who may be relying on the single farm payment as part of their income. This is a complex issue and certainly not something that we should be rushing into or that should be addressed through a one-size-fits-all approach across all 27 member states. That is why we believe that flexibility is required, with regions given the option of applying an active farmer test, and, if so, of deciding their own approach and how that may be applied in the light of their own circumstances.

I have picked out just some of the main issues from our response to the Commission. Obviously, there are others not touched on, but I want to stop here to give the Committee plenty of time to ask questions on this important matter.

The Chairperson:

I appreciate that. We all realise that it is a complex issue, but one thing that you are very sure of is the cap. How sure are you, though, that you have the figure of €100,000 right? Have you assessed the risk to our largest businesses in the industry and how they can increase exports? How will that cap affect them? Is there also a risk that it could lead to farm splitting? Have you assessed that?

The Department for Environment, Food and Rural Affairs (DEFRA) will be doing a lot of the negotiations on this. What is your relationship with it, and how much of an input will you have? How much will DEFRA take on board the interests of the regions of the UK, and how do you see that panning out for Northern Ireland?

Mr Fulton:

A very small number of farms in Northern Ireland will be impacted on by a €100,000 cap. That small number may even reduce if we were to move towards a completely flat-rate system. There is always a risk of farm splitting. People may seek to do that, but against that you have to set the risk of undermining the credibility and legitimacy of the CAP if individual claimants are receiving very large payments for what is supposed to be an income support measure. It is hard to justify an income support measure where an individual is getting in excess of €100,000 from the system. A balance has to be arrived at, and the judgement that our Minister made is that €100,000 should be set as the upper limit.

The Chairperson:

Was that set under the previous Minister or the new one?

Mr Fulton:

It was set under the previous Minister and the current Minister agrees with it.

As to our relationship with DEFRA, we are in regular contact with that body. We receive regular updates, and we share information with DEFRA and the other devolved Administrations. When it comes to detailed issues within the overall CAP, there is much common ground among all the Administrations on issues such as flexibility and simplification, and so on. The big issue on which there is a significant difference is the budget, and you will not be surprised to hear that. There are also significant differences over the long-term future of pillar 1 support, with DEFRA of the view that we should be moving towards its eventual elimination. It does not feel that it should be eliminated during the next financial perspective but that we should be using the next number of years to prepare for its elimination. We do not agree with that approach. We see an ongoing need for the single farm payment, and we do not see a situation in the foreseeable future in which the industry would be viable without ongoing income support.

The Chairperson:
What do you see the Committee's role as being in communicating with DEFRA? Does it have a place, and is it a useful tool in communicating with DEFRA on CAP reform?

Mr Fulton:
Absolutely. I very much welcome active engagement by the Committee, not just in its interaction with DEFRA but with the European Parliament, our MEPs and the Agriculture and Rural Development Committee of the European Parliament. There are a number of ways in which the Committee can be very helpful in trying to influence the debate on this very important issue.

The Chairperson:
Thank you. I will now open up the discussion to Committee members, whom I remind to be as succinct as possible.

Mrs D Kelly:
Thank you for your presentation. I have heard a great deal of debate, in many arenas, about food security. How is that being addressed in the Department? What influence can you bring to bear, given that your paper states that leadership is required throughout Europe on the issue?

That feeds into succession planning and supporting farming families and new entrants. We recently heard about the number of dairy herds that are being sold and about farmers having to shut up shop. How will you ensure that we are fit for purpose? That is particularly important when we look at climate change factors such as the impact that the volcanic ash cloud had on food imports and exports. There is also a very different nature to farming on the island of Ireland, where farms are smaller when compared with those in most of GB and, in particular, England.

Mr Fulton:

As you might expect, food security is a very complex issue, and it must be dealt with in an international context. Many factors come into play, so it is not really something that can be addressed at a regional level. Our contribution to food security, at a regional level, should be to ensure that we have a competitive and productive industry. In many ways, the whole issue of food security provides great opportunities for our industry. It is on the political and policy agendas in a way today that it was not five years ago, and it is starting to be seen as a very important issue.

Mrs D Kelly:

In its most basic form, food security is about the ability of the Government to feed their people. Although there is an international context, it is also about how ensuring that we have the skills and expertise at home to provide for the people.

Mr Fulton:

Our agriculture sector exports between 65% and 70% of its overall output, and we are well in excess of levels of self-sufficiency on key foodstuffs such as milk, beef, sheep, and so on. That is clearly not the situation when it comes to fruit and vegetables, for which we need to trade. We must have that ability to trade. That is why you need to look at food security in a broader context.

Mrs D Kelly:

Yes. I appreciate that.

Mr Fulton:

We are very good at producing food, but a lot of the inputs that we use — feedstuffs, fertilisers, fuel and, increasingly, labour — we import from outside the region. We cannot simply produce food in isolation. We have to be able to bring those inputs into the equation. It is a very complex matter overall.

On your other issue, that of new entrants, we have said to the Commission that in pillar 2 —

the rural development pillar — there is provision for supporting new entrants to agriculture. We have suggested that that must be looked at in the context of pillar 1, which is for basic agricultural support. We are aware that, as time goes on, people try to come in to start up new businesses, but because they do not have single farm payment entitlements, it is difficult for them. They are competing against other farmers for, for example, conacre land. It is an issue that needs to be looked at, but we need to tread warily. What is our definition of a "new entrant"? How do we prevent people who should not be seeking to acquire new entitlements from doing so? It is something that should be looked at seriously in pillar 1, and we have suggested to the Commission that a broader approach to new entrants should be taken.

Mrs D Kelly:

The nature of the lobbying is interesting. One of the criticisms of European engagements is that we were not in at the early stages of policymaking and have to pick up the pieces at the end. I would like to be confident that the Department is in at the early stages, influencing the policymakers and decision-makers in the Commission.

Mr Fulton:

We seek to do that. We have met a number of senior Commission officials. We also seek to engage with them through our MEPs, to try to get directly into the policymaking process. That is important.

Mr Irwin:

For the first time in many years, food security, as another member said, is now firmly on the agenda. Europe has decoupled payments from production, and now we are talking about an absolutely flat-rate payment. Do you accept that that could be dangerous in the long term, as it will encourage people not to produce food? The bottom line is that, if you get the same payment for not producing food, why produce it?

Mr Fulton:

The whole concept behind decoupled support is that it will allow the industry to respond to the market rather than end up on a subsidy treadmill. Farmers had been forced to produce in order to gain support. The more that they produced, the more support they received. Decoupling removed that, so farmers are able to take decisions based on what the market will return for their produce and it does not affect the level of support that they receive through the CAP. It brings farmers closer to the market, and that is a good thing in the longer term.

Obviously, there are difficulties in the short term. The industry as a whole is very much dependent on the income support that comes from the CAP. In a way, that makes it very vulnerable to the CAP and to CAP reform. That is why this reform is so important for our local industry.

Dr Seamus McErlean (Department of Agriculture and Rural Development):
Decoupling also keeps land in good agricultural condition. It allows farmers to respond to the market and, at the same time, ensures that land is kept in good condition and can be quickly brought into full, productive agricultural use if the need arises.

Mr Fulton:
It retains that capacity.

Mr Irwin:
There is a misconception. If land is kept in good condition, it is very worthy and certainly does retain that capacity. If you wind down a business, in any sector, whether it be shipbuilding or car manufacturing, you cannot wind it up again overnight. It will take many years to get back to full production. Livestock is similar to dairy farming in that, once a dairy farm closes down and there are fewer cattle in the herd, there is less production. You just do not change that around overnight, and my fear for the future is that Governments across Europe do not realise that fully.

Mr Fulton:
That is a very valid point. You cannot simply turn on the tap at short notice, so that is an issue. I do not think that many farmers would welcome the alternative of a return to coupled support. Having the flexibility to make your own production decisions but knowing that you have the security of a single farm payment behind you is a better model for many farmers, and I do not think that many would seek to go back to what was before.

Mr W Clarke:

Thank you for the presentation. I do not wish to repeat what others have said. I believe that DEFRA will look after the welfare of the big farmers across the water, particularly those in England. Whatever is negotiated by the so-called UK Government or DEFRA will be to the detriment of the devolved institutions, particularly ours. Is a natural alliance for a regionalised approach, which you mentioned earlier, being drawn up among the devolved institutions, other friendly institutions such as the South and others in Europe on what suits us best?

Secondly, will the green pillar 1 be used to manage landscapes and habitats similar to the agrienvironmental schemes under pillar 2, and how compatible will those be? Will clear guidelines be issued to the farming community? We do not want more red tape, bureaucracy and stringent audits. That puts people off getting involved in the green aspect of farming and the future of farming. It needs to be clear and concise. Will there be an opportunity to look at offsetting the emissions that come from agriculture? This is not about scaremongering but about having a clear and concise programme that farmers can buy into.

Mr Fulton:

You asked about the devolved Administrations working together. There are good working relationships, and we keep in regular contact. In January, the three devolved Ministers wrote collectively to the Secretary of State for Environment, Food and Rural Affairs to state their concern about the DEFRA position. That is an example of Ministers working together. The three Ministers also wrote a letter to the Commission to state their collective position, which was not the same as that of DEFRA. We do work together, and our Minister is seeking meetings with the devolved Ministers in Wales and Scotland, and in Dublin because, of course, there are common interests there.

The Chairperson:

I take your point about the other regions, but surely the only thing that we have in common with the other devolved regions is that we are devolved. Surely we are very different to Scotland and Wales in the area of agriculture.

Mr Fulton:

On the big issue, which is the future of the CAP budget, the devolved Administrations are all agreed. They are not seeking a reduction in the budget. Whitehall has a different agenda. There is a great deal of commonality on the detailed policy issues. There is also commonality with DEFRA on the policy issues, once we move away from the big budgetary question. That is a key difference, and the devolved regions do not see eye to eye with DEFRA on that budgetary matter.

Mr W Clarke:

What is the Commission's view on the regions having an equal say?

Mr Fulton:

The Commission is very open to receiving views from the regions. In discussions and meetings that we have had with it, the Commission has welcomed our intervention. There has been positive engagement, which is very good.

I will turn now to your second issue — the greening of pillar 1 — and what is going to be there. We are not entirely clear at this stage, but the Commission has talked about giving it four headings: permanent pasture; green cover; crop rotation and set-aside. Those four headings were in the communication back in November. We have no further detail on the actions that would be required under those headings. I think that the Commission is still thinking its way through exactly what would be required.

I agree with you on compatibility. We cannot have any conflict or overlap between what would be required in pillar 1, which will be mandatory, and what would be happening in pillar 2, which will be optional for individual farmers. There needs to be a good synergy between what the two pillars are trying to achieve. That is an important aspect. That might mean that some actions that are being taken forward under pillar 2 will end up being taken out and moved into pillar 1. However, we do not know at this stage. We have to wait to see the detailed legislative proposal later this year.

CO_2 emissions has not been mentioned specifically in the context of pillar 1 —

Mr W Clarke:

It has not?

Mr Fulton:

It has not, but it will be a prominent feature of pillar 2.

Mr McMullan:

Thank you for your presentation. I want to comment on active farming and the definition of a "small farmer". It is worrying to read about the different regulations and the possibility that a small farmer's income will be looked at to determine whether he is viable for receipt of single farm payment. We fought long and hard to get planning here right, and one of the main things in planning in agriculture is the single farm payment. If a farmer is in receipt of it, he qualifies. There are a lot of things tied in with the small farmer. Are we now going to look at the small farmer's income to see whether he is a viable unit? That was done under the old system, so nothing much has changed there. A quarter of an acre could have been a viable while a place with 20 acres might not have been viable. That was the old system.

We talk about the regions — the likes of England, Scotland and Wales. I think that they are on a different plain, because quite a number of landowners there are tenant farmers, not landowners. That is the difference between there and here in the Six Counties. We own the land. Owing to the geographical spread, a small farmer here could have 30 or 40 acres. He is still contributing. If it becomes statute, it would worry me that those incomes will be looked at as a means of cutting back and saving money. In other places, television and public celebrities, for want of a better word, are able to draw down entitlements because of their investments when they may never have set foot on the ground. We should not lose sight of the contribution that the small farmer makes.

The use of the term "small farmer" sometimes worries me, because a small farmer could have 30 or 40 acres and play a vital role in regenerating the community, and that money is spent through the community. When I saw that in the Department's submission to the Commission, it worried me. When I read it and saw some of the wording used — it basically says that as long as member states deem it to be OK, we do not mind — it was sort of worrying.

Mr Fulton:

That is not what we meant to convey. What we are saying is that, although we are sympathetic to the concept of money going to active farmers, we see huge practical difficulties in delivering that. The exclusion of small famers may well be one of the unintended and undesirable consequences of going down that route. That is why we are saying that that sort of issue needs to be looked at and decided on in a regional context. We need to look at that issue in Northern Ireland, and if there were general agreement here that we should try to target support towards some definition of "active farmers", that would be fair enough, and we would look at how we might do that.

We should be able to decide on that rather than have something imposed on us from Brussels, particularly something that may be poorly defined, lack clarity and be difficult to implement. In that event, we could end up actually being sanctioned through audit for having not applied it correctly. That is a big worry for us as well. Therefore, we are keen to secure regional flexibility on that issue so that we can take a decision here that suits our circumstances. I think that that is very important.

To pick up on your point about saving money, this whole issue of targeting support towards active farmers is not about saving money. In fact, it would not save anything. It is really about targeting resources towards a particular group that is defined as "active", however you choose to define that term.

Mr McMullan:

The rural development programme that the European Commission introduced targets small farmers and allows them to apply for money under elements in that programme. However, we then read here that the Commission is going down a route that goes against the very programme that it introduced.

Mr Fulton:

Absolutely. Elsewhere in pillar 1, it is suggesting that small farmers should possibly receive additional support, so there is a contradiction there. Again, we have a concern about that.

Mr Murphy:

A lot of the concerns about the potential outcome of this have been raised, such as where we might be going with the definition of a "farm" and a "farmer", and where that might lead us. I suppose that the fact that you are making your own submissions to the Commission is an indication of your relationship with DEFRA. You argue that a better approach to pillar 2 would be to empower the member states and regions and to pursue strategic outcomes. How likely is that? Does that not fly in the face of what European development has been about, which is to swim in the other direction when it comes to empowering member states?

Given your relationship with DEFRA and your concerns about its approach, particularly its view that single farm payments could be done without, which would probably devastate a large section of our agriculture industry, is it a double-edged sword to argue for more power to be given back to member states when deciding who is eligible for support under the CAP?

Mr Fulton:

The 2003 reforms really did provide significant regional flexibility across pillar 1 and pillar 2. Therefore, I do not really think that seeking regional flexibility swims against the tide, particularly given that there is an enlarged EU, with 27 member states, and huge diversity in the issues affecting various member states. We really need that regional flexibility, within an overall framework, to tackle the issues that exist in regions and localities. I do not think that that is a particular problem. There obviously has to be an overall framework in place, because member states cannot just have carte blanche. However, the Commission has to recognise that competition between regions in the EU must not be distorted, and it must keep an eye on such issues.

Since its inception, pillar 2 has been all about regional flexibility and allowing regions to implement the mix of measures that is best suited to tackling problems that exist in those regions. That is firmly embedded in pillar 2, and we would like flexibility to continue in pillar 1. We think that it is an important issue.

Mr Murphy:

What about DEFRA having more of an authority and its overall approach? It has expressed a view on single farm payments.

Mr Fulton:

In our view, DEFRA places itself in a difficult position in that, at a macro level, it argues for a reduction in the overall size of the EU budget, a proportion of which goes towards the CAP, yet it will also seek to maximise its share of the budget that will come to the UK. Adopting such a stance places DEFRA in a difficult negotiating position.

Mr Murphy:

Some parties here have the same problem in relation to the Budget.

Mr Fulton:

We have pointed it out to DEFRA, but that is the stance that it is taking nevertheless. It places DEFRA in a difficult position.

Mr Swann:

Thank you, Mr Fulton. I want to go back to the greening of pillar 1. I read in your briefing paper that the Department fully understands the Commission's motivation for seeking to green pillar 1. Although I understand the Commission's motivation, I do not accept it. The paper states that the message needs to be better articulated and recognised. Are you confirming now that the Department of Agriculture and Rural Development will be the champion of the greening of pillar 1?

At paragraph 52 of your submission, you ask for an increase in pillar 2 funding. You are asking for an increase in pillar 2 funding and for the further greening of pillar 1. Therefore, you are moving more moneys to green projects and away from active farmers.

At paragraph 56, you refer to skills and lifelong learning. I declare an interest as a member of the Young Farmers' Clubs. Will the Department work in conjunction with the likes of the Young Farmers' Clubs to make pillar 2 moneys strategically available to deliver those priorities?

Mr Fulton:

As regards the greening of pillar 1, what we actually said was that we believe that pillar 1 is already delivering on the green agenda. That is the message that needs to be articulated and recognised in the Commission and beyond. The reason why we say that we understand the Commission's very strong desire to green pillar 1 is that it is seeking to create greater legitimacy for pillar 1 in the eyes of the taxpayer. That is why it is seeking to do this.

As regards greater funding for pillar 2, we are not asking for a continuation of modulation, if that is your concern. Under the current programme and the previous programme, the UK received a disproportionately small share of pillar 2 funding. On any objective criteria, the UK and, therefore, Northern Ireland received a very poor allocation, particularly compared with what is received south of the border. On a pro rata basis, we received nothing like what the Republic of Ireland received. That is why we were forced down the route of voluntary modulation. That was the only way of constructing a meaningful and balanced pillar 2 programme. We are certainly not asking for a continuation of modulation. What we are saying is that the European pot of pillar 2 funds needs to be distributed fairly. That means more coming to the UK and hence to Northern Ireland.

Skills and lifelong learning is an important issue, certainly for the industry to move forward in respect of competitiveness and to improve its sustainability. Those issues need to be addressed, and, if that can be done through pillar 2, it is an additional way of taking forward the agenda. We would like that to happen.

The Chairperson:

OK. Thank you, Mr Fulton and your team, for the presentation. I am sure that we will be seeing a lot of you.