



**Cynulliad Cenedlaethol Cymru
The National Assembly for Wales**

**Yr Is-bwyllgor Datblygu Gwledig
The Rural Development Sub-committee**

**Dydd Mercher, 19 Mai 2010
Wednesday, 19 May 2010**

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Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynndi yn y pwyllgor. Yn ogystal,
cynhwysir cyfieithiad Saesneg o gyfraniadau yn y Gymraeg.

These proceedings are reported in the language in which they were spoken in the committee.
In addition, an English translation of Welsh speeches is included.

Aelodau'r is-bwyllgor yn bresennol
Sub-committee members in attendance

Michael German	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Rhodri Glyn Thomas	Plaid Cymru (Cadeirydd yr Is-bwyllgor) The Party of Wales (Sub-committee Chair)
Joyce Watson	Llafur Labour
Brynle Williams	Ceidwadwyr Cymreig Welsh Conservatives

Eraill yn bresennol
Others in attendance

Ed Bailey	Undeb Cenedlaethol yr Amaethwyr Cymru National Farmers Union of Wales
Yr Athro/Professor Allan Buckwell	Cymdeithas Tir a Busnes Cefn Gwlad Country Land and Business Association
Owain Rhys Evans	Is-Gadeirydd, Pwyllgor Materion Gwledig, Clybiau Ffermwyr Ifanc Cymru Vice Chairman, Rural Affairs Committee, Wales Young Farmers Clubs
Dr Nick Fenwick	Undeb Amaethwyr Cymru Farmers' Union of Wales
Anastassios Haniotis	Y Comisiwn Ewropeaidd European Commission
Mary James	Undeb Cenedlaethol yr Amaethwyr Cymru National Farmers Union of Wales
Dylan Jones	Cadeirydd, Pwyllgor Materion Gwledig, Clybiau Ffermwyr Ifanc Cymru Chairman, Rural Affairs Committee, Wales Young Farmers Clubs
Rhys Lougher	Ffermwyr Dyfodol Cymru Future Farmers of Wales
Julian Salmon	Cymdeithas Tir a Busnes Cefn Gwlad Country Land and Business Association
Gareth Vaughan	Undeb Amaethwyr Cymru Farmers' Union of Wales

Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol
National Assembly for Wales officials in attendance

Aled Elwyn Jones	Clerc Clerk
Gregg Jones	Pennaeth Swyddfa UE Cymru, Gwasanaeth Ymchwil yr Aelodau Head of Wales EU Office, Members' Research Service
Meriel Singleton	Dirprwy Glerc Deputy Clerk

Dechreuodd y cyfarfod am 9.00 a.m.
The meeting began at 9.00 a.m.

Cyflwyniad, Ymddiheuriadau a Dirprwyon Introduction, Apologies and Substitutions

[1] **Rhodri Glyn Thomas:** Bore da iawn ichi. Croeso i'r cyfarfod hwn o'r Is-bwyllgor Datblygu Gwledig. **Rhodri Glyn Thomas:** A very good morning to you. Welcome to this meeting of the Rural Development Sub-committee.

[2] Would everyone please turn off their mobile phones, or any other electronic equipment, as they interfere with the sound? I understand that the simultaneous translation feed should be working in Brussels.

[3] A all di wirio bod y system gyfieithu yn gweithio, Gregg? Can you check that the translation system is working, Gregg?

[4] **Mr G. Jones:** It is working fine.

[5] **Rhodri Glyn Thomas:** Diolch. Estynnwn groeso arbennig y bore yma i Mr Anastassios Haniotis o Gomisiwn Ewrop—ymddiheuraf os y bu i mi gam-ynganu eich enw. Yr ydym yn ddiolchgar ichi am eich presenoldeb y bore yma, a'ch parodrwydd i roi tystiolaeth i'r is-bwyllgor hwn, yn ein hymchwiliad i'r adolygiad o'r polisi amaethyddol cyffredin. **Rhodri Glyn Thomas:** Thank you. We extend an especially warm welcome this morning to Mr Anastassios Haniotis from the European Commission—I apologise if I mispronounced your name. We are grateful to you for your presence this morning, and for your willingness to present evidence to this sub-committee's inquiry into the reform of the common agricultural policy.

[6] Nid ydym yn disgwyl unrhyw ymarfer tân y bore yma, felly os oes larwm tân, dilynwch y tywyswyr, a fydd yn eich tywys allan o'r adeilad. Mae'r offer cyfieithu hefyd yn cynyddu'r sain, os yw pobl yn cael trafferth clywed. Mae'r cyfieithiad ar y pryd i'w gael ar sianel 1, ac mae sianel 0 yn chwyddo'r sain. Nid oes angen cyffwrdd â'r meicroffonau—byddant yn gweithio yn awtomatig. We are not expecting a fire drill this morning, so if the alarm sounds, please follow the ushers, who will lead you out of the building. The interpretation equipment also amplifies the audio, if people find it difficult to hear. Interpretation is available on channel 1, and channel 0 amplifies the sound. You do not need to touch any of the microphones—they come on automatically.

9.02 a.m.

Ymchwiliad i Ddiwygio'r Polisi Amaethyddol Cyffredin: Sesiwn Dystiolaeth— Cynhadledd Fideo Inquiry into the Reform of the Common Agricultural Policy: Evidence Session— Video Conference

[7] **Rhodri Glyn Thomas:** Y bore yma, yr ydym yn ystyried y broses o ddiwygio'r polisi amaethyddol cyffredin. Fe'ch gwahoddaf i wneud sylwadau agoriadol, Mr Haniotis. Os gallwch eu cadw yn weddol fyr, buasem yn ddiolchgar. Bydd cyfle wedyn i Aelodau ofyn cwestiynau. **Rhodri Glyn Thomas:** This morning, we are considering the process of reforming the common agricultural policy. I invite you to make some opening remarks, Mr Haniotis. If you could keep those brief, we would be grateful. Members will then have an opportunity to ask questions.

[8] **Mr Haniotis:** Thank you, Chair, and thank you for the opportunity to provide evidence to your sub-committee. I will be brief.

[9] I will mention the background to the timing of the process for the next reform of the common agricultural policy. As you may know, there will be a European Commission communication towards the end of this year with a broad outline of the future of the CAP post 2013. The dates are tentative, but from around November until July, we will move into a period of formal public consultation and preparation of the legal proposals, which will also include a complete impact assessment of the potential options of the reform of the common agricultural policy. Following the publication of the legal proposals, we will have a period of codecision, which will involve the European Parliament in the decision-making process for the first time, together with the council.

[10] Our new commissioner, Commissioner Ciolos, has announced a large public conference, to be held in July. He has invited all the stakeholders involved in the agricultural sector to that conference, as well as a wider range of stakeholders, from environmental groups, the food chain, and so on, so that he can listen to what wider society has to say about the future of the CAP.

[11] What can we say so far about where we see things going? Every main reform of the CAP has had a big driver. In the 1980s, it was the budget, and in the 1990s it was the World Trade Organisation. In the early 2000s, we had the wider food safety concerns of societies. This time around, it seems that we will have three main drivers. First, there is the debate on the budget, which will take place in parallel. It is an unknown at the moment, but clearly it will have an impact on the future of the common agricultural policy. The second driver is the impact of the economic crisis, which has been much more severe on agriculture than previously thought. One statistic tells the story: in the old member states, the EU 15, in just two years, 2008 and 2009, we lost income gains that we had made since the 1990s. This has nothing to do with reform of the common agricultural policy, and very little to do with developments in agricultural markets. It has almost everything to do with the link between agriculture and the wider macroeconomic situation, and especially the very rapid and dramatic decline of agricultural prices. At the same time, input costs increased and stayed at a high level—they did not follow the path of producer prices. The third big driver will be climate change. In the short term, the challenges are mainly linked to the potential mitigation of the contribution of agriculture to climate change; in the longer term, there will be adaptation challenges.

[12] These three broad drivers affect all three broad policy areas of the CAP, less the market component—because the market measures now roughly correspond to 7 per cent of the maximum budget. The market instruments are in place in the form of a safety net, so if prices collapse we have intervention, as happened with the dairy industry. Dairy quotas are being phased out, and most of our focus will be on food chain issues, issues of transparency, and issues of increasing the bargaining power of the farmers. In the search for the availability and appropriateness of a risk management tool, especially for income variation, most of the debate will be on the future of direct payments, which form the bulk of the budget: 70 per cent of the agricultural budget goes to direct payments. There will be a big debate about the move away from the historical model of support, not only in respect of what farmers receive, but also in respect of the budget that has been available to member states, which also reflects the historical weight of the supported sectors. On the harmonisation of support, the big debate is whether we move towards a full, flat rate across the EU or towards a flat rate that will be calibrated for income differences among member states, and also for issues related to the delivery of basic public goods.

[13] Finally, in rural development, we would need to refine the existing policy tools in the three broad areas of competitiveness and innovation, agri-environmental measures, and measures relating to territorial support. In all that—and I will finish with this conclusion—our focus is how to stress the strengths of the CAP reform process and try to improve the existing

weaknesses. Which are the strengths? We have seen, with a series of analyses, especially analyses that have been done outside the European Commission, that the biggest impact of the common agricultural policy is the environmental and territorial support that it provides. In the absence of the policy, we will not be left without agricultural production in Europe, but it will be much more concentrated in the most competitive regions. We need to stress the balance that the CAP provides, but also try to look at whether there are means by which we can improve the environmental and territorial delivery of the CAP instruments. With that, I thank you for your attention. I will be glad to answer any questions that you might have. Thank you.

9.10 a.m.

[14] **Rhodri Glyn Thomas** Diolch yn fawr iawn, Mr Haniotis. Credaf fod yr agoriad hwnnw yn ddefnyddiol iawn inni, gan ei fod yn rhoi cyd-destun i'r broses o adolygu'r polisi amaethyddol cyffredin. Yr ydym yn ddiolchgar am y sylwadau hynny. Hoffwn ddechrau drwy ofyn cwestiwn cyffredinol. Euthum i Bwyllgor y Rhanbarthau ym Mrwsel ym mis Ebrill. Yr oedd y comisiynydd amaeth yno, ac yr oedd yn awyddus iawn i glywed barn rhanbarthau Ewrop am yr adolygiad. Yr oedd am wybod beth oedd eu blaenoriaethau. Yr ydym yn awyddus iawn, yng Nghymru, i allu bwydo i mewn i'r broses hon. Sut y gallwn sicrhau ein bod yn rhan o'r drafodaeth gyffredinol am adolygu'r polisi amaethyddol cyffredinol?

Rhodri Glyn Thomas: Thank you very much, Mr Haniotis. I believe that that introduction is very useful for us, as it gives the process of reviewing the common agricultural policy some context. We are grateful for those remarks. I will start by asking you a general question. I attended the Committee of the Regions last month in Brussels. The commissioner for agriculture was there, and he was very eager to hear opinions from the European regions regarding the review. He wanted to know what their priorities were. We are eager in Wales to feed into this process. How can we ensure that we are a part of the general discussion on the review of the common agricultural policy?

[15] **Mr Haniotis:** We provide several possibilities. First, as with the other institutions, the Committee of the Regions will be invited to the big conference to provide its first assessment of where it sees the future of the CAP. Secondly, regarding the impact assessment process relating to the next reform, there is already an inter-service group within the European Commission that meets monthly. We just had our first meeting in May, and we are preparing the next ones. In the context of those preparations, we will invite external participation through organised workshops. The idea has already been floated to invite the Committee of the Regions to participate in the work of the group. Third, there is already the possibility for any stakeholder, including any national or regional Parliament, to make a written intervention regarding the process of preparing for the conference in July. There will also be a formal public consultation that will start after the communication in November, where everyone will again be invited to participate.

[16] You might also need to know that the commissioner is already planning to go around all member states and as many regions as possible in the next month. That will continue after November, and we are always open to finding opportunities to discuss issues with you—at any level that you want—and to clarify more details about the future process. So, within all these opportunities, we can somehow find a way of clarifying any questions that you might have.

[17] **Rhodri Glyn Thomas:** Diolch yn fawr iawn. Yr wyf yn falch iawn o glywed bod y comisiynydd yn bwriadu ymweld â chynifer o wledydd a rhanbarthau â phosibl. Byddwn yn falch iawn o'i wahodd i Gymru. Cynhelir Sioe Frenhinol Cymru yn

Rhodri Glyn Thomas: Thank you very much. I am glad to hear that the commissioner intends to visit as many countries and regions as possible. I would be pleased to invite him to Wales. The Royal Welsh Show will be held in Builth Wells in

Llanelwedd ym mis Gorffennaf. Byddai hynny'n gyfle da iawn iddo gwrdd â llawer o'r bobl sy'n ymwneud â'r byd amaeth a'r economi wledig yng Nghymru. Sicrhawn y bydd dyddiadau'r sioe yn cael eu hanfon atoch, er mwyn ichi benderfynu a fyddai'n bosibl i'r comisiynydd ymweld â ni bryd hynny, neu ar ryw adeg arall.

July, and that would be a great opportunity for him to meet many of the people involved in the agriculture industry and the rural economy of Wales. We will ensure that the dates of the show are sent to you, so that you can decide whether it will be possible for the commissioner to visit us at that time, or at another time.

[18] Yng Nghymru, teg yw dweud nad oes gan y cyhoedd yn gyffredinol ddealltwriaeth lawn, na rhannol, o'r polisi amaethyddol cyffredin. Mae tuedd ymysg y bobl i feddwl ei fod yn darparu cymorthdaliadau i ffermwyr yn unig. A ydych yn credu ei fod yn bwysig ceisio sicrhau bod dinasyddion Ewrop yn ymwybodol o'r polisi yn ei gyfanrwydd, ac o'i gyfraniad i economi Ewrop?

In Wales, it is fair to say that the general public does not have a full, or even a partial, understanding of the common agricultural policy. There is a tendency for people to think that it only provides subsidies to farmers. Do you believe that it is important to try to ensure that the citizens of Europe are aware of the policy in its entirety, and of its contribution to the European economy?

[19] **Mr Haniotis:** Thank you for the question. This is one area that we have identified as a weakness in defending the CAP. In fact, this is also a priority for the new commissioner. It is one reason why he has prioritised such a big conference, although July might seem a bit early to do something like that.

[20] The latest Eurobarometer results show that there is an increased level of support for the common agricultural policy and for the need to support farmers that goes way beyond what one sees in the press. Despite the negative criticisms of the CAP, the great majority of European citizens continue to believe that the CAP and farmers play an essential role and that they should be supported.

[21] At the same time, we have also noticed that there is a significant number of European citizens who do not have a full understanding of the policy. Some of them have not even heard of it. This not only affects the common agricultural policy, it affects Europe in general. One of our first priorities will be to try to find better ways of communicating what the policy is, what it does and why it is so important for the farming community and the wider public. We think that the food crisis, climate change and the impact of the economic crisis provide the opportunity to do so. They have indicated to people that while agriculture is taken for granted, when you have a dramatic crisis, people realise that the cost of food will go up and then the agricultural prices will go down, as a result of events that were not necessarily understood by everybody. I can assure you that we will try to put it at the forefront of our efforts, to better communicate, not only what we have now, but the future direction of our policy. We will try to do a better job in the future.

[22] **Michael German:** I refer you to the three issues that you raised that are underpinning possible changes to the CAP, namely, the budget, the impact of the financial crisis and climate change. I will take those one at a time. On the budget, where do you think we are, in relation to what you know from other member states and from within the Commission itself, on the overall sum of money that you might achieve from the budget review process? Also, will the recently agreed financial stabilisation mechanism have any impact on the size of the budget?

[23] **Mr Hanitosis:** I will be frank with you, and very brief. This is a debate that, in terms of numbers, is premature.

[24] With respect to the second part of your question, the numbers on agriculture are so small in relation to the overall stabilisation package that there will not be an impact, especially because the discussion on the future of the CAP budget is post-2013 and therefore affects the next financial perspective. The budget review should take place in parallel to the legal proposals of the CAP, some time next year. What is expected after the summer is communication along the broad lines of what the budget's priorities are going to be. There is nothing that I can tell you now about the discussion on concrete numbers. What we know is where we are coming from and where we are. That is important because it will have an impact on the future debate.

[25] The share of the CAP in the overall community budget has been gradually and steadily declining. We do not expect this trend to change in the future. That has been the case, despite the fact that we increased the number of farmers because of the successive enlargements. In real terms, the expenditure of the CAP has stabilised. In the debate, there are two different schools of thought. One tends to focus on the fact that the CAP still represents a little over 40 per cent of the community budget, which is, of course, true. The other says that CAP is public expenditure that is done mainly through the community budget and, when taken as a share of the overall public expenditure in the EU, is 1 per cent, or a little bit less than that. What is important is that it is steadily declining. Therefore, the issue for us in the Directorate-General for Agriculture and Rural Development is clear.

9.20 a.m.

[26] It is not only about how much money that we are going to have available to support agriculture, but how that money is going to be spent. There is no guarantee: if there is a cut in the money from the community's budget, there is not going to be an overall increase in public expenditure through the national budgets, with potential consequences for the competitive position of the various member states. These are the issues that have to be discussed carefully when we go into the budget-review process. However, as I said earlier, it is too early to enter into that discussion right now.

[27] **Michael German:** I will come back to how one cuts the cake in a moment—how one divides up in future the available resources that one has—but the second issue that you raised with us, as a pillar that underpins the changes that are driving forward the EU reforms, would be the impact of the financial crisis. What arguments are you deploying in DG Agri, particularly for the Europe 2020 strategy? Where do you see the common agricultural policy playing its part in the stabilisation of the financial crisis?

[28] **Mr Haniotis:** First of all, it plays its part in retaining employment in rural areas. This employment does not only affect farmers, but people involved in the food industry, because the food industry continues to be the largest industrial sector in the European Union.

[29] Secondly, in terms of innovation and development related to the future competitiveness of the agricultural sector in the EU, it is clear that European Union agriculture will always face higher production costs than agriculture in other parts of world, especially in some of the emerging economies. The way out of that is to keep focusing on adding value to our products and on improving their quality. That includes innovation and technology that are linked to the efforts to adapt to climate change and to mitigate its impact.

[30] The third area where we see the contribution of agriculture is in the efforts to improve the function of the food chain. We have seen that what happened with the food crisis—or what was called a food crisis—was a certain degree of market failure with respect to the transparency of price moves, which has also indicated the very weak bargaining power of farmers in certain sectors of the economy. The high-level group for dairy that has been meeting for almost half a year will come up with some conclusions. There is a continuation of

the focus of mainly Commission services on issues related to the food chain, and this is another area where we think that we can contribute to improving the performance of the market and, therefore, mitigate the stress from the financial and economic crisis.

[31] **Michael German:** You mentioned climate change, and I now turn to the third of the challenges that you identified. Commissioner Potočník has said that he thinks that the common agricultural policy should be converted into the common agricultural and environment policy. What does DG Agri think about that?

[32] **Mr Haniotis:** We think that a very significant part of the common agricultural policy delivers environmental objectives. Environmental policy is mainly implemented through regulation, not through the money that is provided in direct support of it. The direct support that is provided by the common agricultural policy provides an indirect contribution to the environment policy through the cross-compliance in two ways. First, it guarantees respect of environmental legislation. Let us be clear that we do not pay farmers to respect the law; we use the current system to penalise farmers if they do not do so, and that acts as an incentive for better functioning environmental legislation. Secondly, by linking the good agricultural and environmental conditions to our agri-environment programmes, we allow our farming sector to increase the level of environmental delivery. That is why the biggest part of rural development measures goes to the environment.

[33] When it comes to the environment, especially when it comes to climate change challenges and the delivery of the public good, it is essential to understand that we need to guarantee the delivery of the private good first in order to be able to deliver the public good. We need an agricultural sector that is economically, environmentally and socially viable. These things are delivered jointly.

[34] We consider that there is significant room for improvement in the future delivery of the environmental benefits that stem from agriculture. That is why the challenges of climate change are very important. However, the bulk of the common agricultural policy should be to continue to guarantee Europe's capacity to produce. We do not want to give farmers signals as to what to produce; the signals should come from the market. We want to provide an income safety net that will allow them to be able to produce and, by doing so, to further contribute to the environmental policy, which is a much wider policy than the CAP.

[35] **Brynle Williams:** Good morning. Do you anticipate a radical transformation of the current two-pillar structure of the CAP?

[36] **Mr Haniotis:** We do not anticipate, nor do we advocate, a radical transformation. We do think that the current structure fits our targets pretty well overall. Rural development policy has to respond to many regional and local particularities. That is why it is important to have a multi-annual programme and to continue to have a contribution in the form of co-financing from the member states.

[37] The first pillar is based on annual budgeting and the community budget. If things continue as they are, one thing that we think could be improved is to have a better link, with regard to the justification and delivery of support, between direct payments and rural development measures, through the public good component of those measures. There could also be a better link between the restructuring of the agricultural sector that is happening through market instruments and rural development. That does not mean that there would be a change in the current structure, but that there would be a better link. I will give you an example of that. In phasing out the dairy quotas, the challenges that competitive regions will face will be completely different from those of the less competitive regions. In competitive regions, we will produce more meat, which means that we need a different type of investment in innovation measures for rural development, different types of agri-environment measures

to better respond to the additional weight of emissions, and a better link to the territorial needs of the economy, including ensuring growth in employment.

[38] In an uncompetitive region, some people will probably leave production. We need to guarantee that those that stay become more competitive, that agri-environment measures focus more on the risk of land abandonment, and that those who leave the dairy sector do not necessarily leave the region. So, there are completely different types of challenges that could be met with the same policy tool, but which require a much more targeted approach at the local and regional level. The market measure that comes from the first pillar is an overall measure that applies the same type of overall orientation for all member states. That is why we think that the current structure should stay as it is.

[39] **Brynle Williams:** To what extent will there be an opportunity to reassess the allocation of rural development funding that is currently given to member states?

[40] **Mr Haniotis:** This is a priority and something that we have to do anyway. The current allocation of rural development measures reflects two different trends. There is an allocation key that applies to the new member states, and there is an historical allocation of rural development to the 15 member states of the old EU that reflected different priorities in the past.

9.30 a.m.

[41] This cannot continue post-2013, when we will have the full alignment of direct payments for all member states and when the current distribution will expire. One thing that we have started to do is to look at alternative ways of allocating rural development funds based on a certain combination of objective criteria that would reflect the growth priorities of the policy, but we are only at the very early stages of this process and that would be part of the impact assessment that we are doing for the CAP post-2013.

[42] **Brynle Williams:** Have you reached any views on the role of less favoured area schemes in the future of the CAP? As you are aware, around 70 per cent of Wales is made up of LFAs.

[43] **Mr Haniotis:** No, we have not reached any concrete conclusions on where the system will go in the future. There are two different issues here. First is the issue of the potential better limitation of LFAs based on objective criteria. Work is going on as well as negotiations with member states and with the European Parliament based on the impact assessment that we have done.

[44] Secondly, there is the issue of whether and how you take into account LFAs in the future design of direct payments. If direct payments are to be justified for the delivery of the basic income support and basic public goods support, one question that immediately comes to mind is whether every hectare of land across the union delivers the same basic public good. If not, we must consider whether there are some criteria to take that into account. One thing that comes to mind is LFAs, but the current LFA scheme does not provide support to all farmers within an LFA region, but only to some farmers within an LFA region. So, whether and how to take that into account in a redesign of the future direct payments scheme is one area that we are looking at. However, we have not yet reached any conclusions on this or found any indications that we should change the current system, but this is still one issue that has to be discussed. Part of the reason why it is too early to reach a conclusion is that we are moving towards a potential reallocation of support for direct payments and for rural development measures, and a big anomaly, which is the potential reallocation of support due to the budget. One has to see all of these things in their totality before deciding whether a change in the LFA scheme will have an impact in one direction or the other.

[45] **Brynle Williams:** Could you clarify something from your opening statement? We are discussing Wales as a major LFA region and you said that you saw a concentration of food production in certain regions. This causes concern, given that around 70 per cent of Wales is in LFAs. Did you mention that in passing or is there a serious view on the fact that there will be a concentration of food production in certain regions, because that would cause social problems in Wales, such as the abandonment of land and many other issues?

[46] **Mr Haniotis:** It was not said in passing; it is one of the central arguments for the need to continue with very strong support for European agriculture in general. We have seen, from external studies, that the 2020 scenario has come clearly to this conclusion. However, it is not the only one. It is in regions and areas like Wales that we have the biggest risk; there are also risks in Mediterranean regions. It is the extensive livestock sector that could suffer, if we move away from support. Why? This sector is extensive and it delivers the wider public good that European societies would claim that we wanted to deliver, but it does so with a production cost that is prohibitive in the absence of support.

[47] We have clearly seen that while, on average, the share of subsidies in total agricultural income in old and new member states is between 30 per cent and 40 per cent, in the extensive livestock sector, it is close to 100 per cent. Therefore, it is these types of regions, such as Wales, that will suffer most if we move away from support, or if we introduce dramatic changes to the level of support. This has come out clearly from every study that we have done internally and externally, and we continue to stress this issue. We believe that, if we want to have an environmentally and territorially balanced agriculture in Europe, we have to take into account the potential costs that we will face if we move into a model that ignores the characteristics such as the ones that you describe. Therefore, it is not in passing; it has been one of our central considerations, and we will continue to raise it in every debate.

[48] **Joyce Watson:** Good morning. Have you considered how you propose to work with regional governments in developing your proposals for CAP after 2013, and what have those considerations been?

[49] **Mr Haniotis:** I do not understand whether your question affects the process by which we deal with local government or specific policy questions.

[50] **Joyce Watson:** On the process, how will you deal with regional governments?

[51] **Mr Haniotis:** On the process, the only thing that I can tell you is that we are going to be open to any suggestions that will come from local government. I identified earlier the steps, in procedural terms, of the various interventions. The conference is an informal possibility. The communication is the formal procedure, where, in the context of the commissioner's visit to various member states, the possibility could arise for him to participate. That may be possible in the programme with local government; this has happened in the past, so I do not see why it should not happen in the future, if it is well planned. It is always possible, and we are always open to any other type of formal or informal participation in any working groups that you may have, or in any specific questions that you may have. Therefore, we are open to the extent that we have the resources available for that to respond to any ideas that you might have.

[52] **Joyce Watson:** Thank you.

[53] **Rhodri Glyn Thomas:** Diolch yn fawr i chi, Mr Haniotis, am eich parodrwydd i gyfrannu at ein hymchwiliad, ac am y **Rhodri Glyn Thomas:** Thank you, Mr Haniotis, for your willingness to contribute to our inquiry, and for the evidence that you

dystiolaeth yr ydych wedi ei rhoi i ni y bore yma—mae wedi bod yn ddefnyddiol iawn. Byddwn yn sicrhau bod casgliadau ein hymchwiliad yn cael eu bwydo i mewn i'r broses o ddiwygio'r polisi amaethyddol cyffredin.

have presented to us this morning—it has been very useful. We will ensure that the conclusions of our inquiry are fed into the process of reforming the common agricultural policy.

[54] Yr wyf yn falch gweld bod y system gyfieithu o'r Gymraeg i'r Saesneg wedi gweithio'n dda rhwng bae Caerdydd a Brwsel. Mae hynny efallai yn neges i rai pobl yng Nghymru sy'n ei chael yn anodd i ddefnyddio system gyfieithu. Diolch eto, Mr Haniotis, am eich parodwydd i'n cynorthwyo y bore yma.

I am pleased to see that the interpretation system from Welsh into English has worked well between Cardiff bay and Brussels. That is perhaps a message for those people in Wales who find it difficult to use interpretation systems. Thank you again, Mr Haniotis, for your willingness to help us this morning.

[55] **Mr Haniotis:** Thank you for the opportunity. Good day.

9.40 a.m.

Ymchwiliad i Ddiwygio'r Polisi Amaethyddol Cyffredin: Sesiwn Dystiolaeth Inquiry into the Reform of the Common Agriculture Policy: Evidence Session

[56] **Rhodri Glyn Thomas:** Gwahoddaf gynrychiolwyr o Ffermwyr Dyfodol Cymru a Chlybiau Ffermwyr Ifanc Cymru i ymuno â ni wrth y bwrdd. Croesawaf Rhys Lougher o Ffermwyr Dyfodol Cymru, a Dylan Jones ac Owain Rhys Evans o Glybiau Ffermwyr Ifanc Cymru. Yr wyf yn eich gwahodd i wneud sylwadau agoriadol, a gofynnaf ichi eu cadw yn gymharol fyr. Caiff Aelodau gyfle i ofyn cwestiynau wedyn. Dechreuwn gyda Chlwb Ffermwyr Ifanc Cymru.

Rhodri Glyn Thomas: I invite representatives of Future Farmers of Wales and Wales Young Farmers Clubs to join us at the table. I welcome Rhys Lougher of Future Farmers of Wales, and Dylan Jones and Owain Rhys Evans of Wales Young Farmers Clubs. I invite you to make opening remarks, and I ask you to keep them relatively brief. Members will then have an opportunity to ask questions. We will start with Wales Young Farmers Clubs.

[57] **Mr D. Jones:** I am chairman of the movement's rural affairs committee, and we are very grateful for the opportunity to come here to give evidence as part of the inquiry, especially as we realise that CAP reform is a highly significant part of the future of the Welsh industry, especially for young people. We are always grateful that consultations like this go ahead to make sure that the right lobbying and the right decisions are made at the end of the day.

[58] **Mr Lougher:** Good morning and thank you for the invitation to be here. Future Farmers of Wales has responded to numerous consultations in the past, but this is the first time that we have been invited to give oral evidence; we welcome the opportunity. There are massive decisions to be made about the future, which will affect the younger farmers of Wales the most. So, we are very pleased to be able to give our thoughts to the sub-committee.

[59] **Rhodri Glyn Thomas:** Diolch yn fawr. Yr ydym ninnau hefyd yn falch iawn eich bod yn gallu bod yn bresennol. Fel is-bwyllgor, yr oeddem yn awyddus iawn i gael eich cyfraniad. Mae'n ystrydeb i ddweud mai chi yw dyfodol amaethyddiaeth yng

Rhodri Glyn Thomas: Thank you. We are also very pleased that you could be here. As a sub-committee, we were very keen to have your contribution. It is a cliché to say that you are the future of agriculture in Wales, but these changes will affect your generation

Nghymru, ond bydd y newidiadau hyn yn effeithio llawer mwy ar eich cenedlaeth chi na'r genhedlaeth hŷn, efallai, o amaethwyr. Dechreuaf gyda chwestiwn ynglŷn â rhan Cymru yn y broses o greu polisi amaethyddol cyffredin yn Ewrop. A ydych yn credu ei bod yn bwysig fod Cymru yn rhan o bolisi cyffredin? Fel y gwyddoch, mae dadl ynglŷn ag a ddylid cadw a dosbarthu'r arian o Ewrop, ynteu a ddylid ailgenedlaetholi'r polisi. A yw'n bwysig fod Cymru yn rhan o'r hyn sy'n digwydd yn Ewrop ac yn rhan o'r polisi hwnnw?

more than the older generation, perhaps, of farmers. I will begin with a question on the role of Wales in the process of creating a common agricultural policy in Europe. Do you believe that it is important for Wales to be part of a common policy? As you know, there is a debate about whether Europe should retain and distribute the funding, or whether the policy should be renationalised. Is it important for Wales to be part of what is happening in Europe and a part of that policy?

[60] **Mr D. Jones:** As a nation, it is highly important that we are involved in a common agricultural policy. You mentioned the renationalisation of the policy, but we believe that, if moneys are given to individual countries to spend as they desire, it will create aggravation between member states and, possibly, an unlevel playing field. If Wales is part of a common agricultural policy, we must also ensure that that is exactly what it is and lobby for that to make sure that there is a level playing field, as has been mentioned many times, but it is very important.

[61] **Mr Loughor:** Yes, we very much agree with those comments. The current situation is quite unfair, with the new member states losing out in the common agricultural policy, which, in its current state, is not very common. We need as much fairness as possible across Europe. We need to allow for geographical areas that are not so suitable for farming, because there are big implications for rural populations and so on. However, on the whole, we need a much fairer and simpler system, which would bring opportunities to reduce administrative budgets and get more money back down to grass-roots primary producers.

[62] **Rhodri Glyn Thomas:** Owain, a oeddet ti am ychwanegu unrhyw beth?

Rhodri Glyn Thomas: Owain, do you have anything to add?

[63] **Mr Evans:** Dim ond i ategu'r hyn a ddywedodd Dylan. Mae'n hynod bwysig fod Cymru yn rhan o'r broses sydd yn digwydd ym Mrwsel. Mae pawb yn cydnabod fod ein cynnyrch yng Nghymru, boed yn gnydau, llaeth neu gig, o'r safon uchaf yn Ewrop os nad yn y byd. Mae'n hollbwysig fod marchnadoedd Ewrop yn agored inni er mwyn inni werthu ein cynnyrch.

Mr Evans: Only to echo what Dylan said. It is very important that Wales is part of the process that takes place in Brussels. Everyone acknowledges that Welsh produce, be it crops, milk or meat, is of the highest standard in Europe if not the world. It is crucial that European markets are open to us so that we can sell our produce.

[64] **Michael German:** Apart from simplification, which you mentioned, and which has been called for by everyone who has been involved in European activity ever since the European Union was created—I believe that a simplification process is going on in Brussels at the moment—if you were in charge of the common agricultural policy, what changes would you make to it? What would be the headline changes that you would sign off to make differences? Or would you leave it as it is?

[65] **Mr D. Jones:** Change is not necessarily a bad thing, but when it comes about there is always great aggravation and it creates anxiety. We recognise that there needs to be some change to the CAP as it is at the moment. Do they need to be wholesale changes? I am not sure about that, as I do not know enough about the system to comment. However, there are two pillars at the moment, pillars 1 and 2, and it is important to have those two, as one

focuses more on direct production and the other on rural development. Over the past few years, we have probably seen more movement from pillar 1 towards pillar 2. There has been a reduction in stock numbers and a decline in production in this country over the past few years, and we need to halt that decline. You must keep in mind that any moneys that go from pillar 1 have to go back in pillar 2. For example, if they come out of the beef and sheep sectors in pillar 1 they have to go back to the beef and sheep sectors in pillar 2, and the same would be true for milk, arable or whatever sector for which that happened.

[66] As I said, I do not think that there need to be massive changes, but we need to ensure that farmers are paid to farm. We realise that it is important to have sustainable agriculture. We need a habitat for wildlife. It is pointless to have what is, essentially, nice parkland if you do not have farmers producing food for the nation.

[67] **Mr Lougher:** Food production, the security of food supply and food safety need to be at the centre of the common agricultural policy going forward. We are facing massive global population growth. On a global scale, we may be looking at a population of 9.1 billion by 2050, and I appreciate that that is not mainly within Europe, but Europe has a major part to play in feeding all those people. We could take the opinion that Europe is wealthy and we can always buy in our food, but the more food that we purchase for Europe, the more people will be starving in developing countries around the world. So, we need to focus on food supply and food security. Europe needs to guarantee the security of its own food supply and then look to take advantage of the growing global population. There are some obvious market opportunities for European farmers in the future. So, we need to focus on that.

[68] Secondly, we need to look at Wales's and the UK's total farm incomes in relation to moneys received from the European pot. In many cases, in Wales and the wider UK, the profit levels and margins on farms are similar to the total subsidy received. So, there is a huge reliance on subsidy at the moment and, if that were to be reduced in any way, it would leave a serious and significant shortfall. We need to bear that in mind, as well as the question of the fairness of profit distribution in food supply chains. If farmers were paid a fair price for their produce, we would not need or want much additional subsidy. So, the CAP needs to focus on the whole food supply chain. We are all fully aware of the situation with major retail players at one end. They have now gone beyond national boundaries and are international players, and there is nothing that one Government or country can do about their strength and that imbalance. The CAP needs to look seriously at the profit distribution in the supply chain and ensure that farmers get a fairer percentage of the end retail value of their produce. It seems a crazy situation that, to a large extent, the CAP is supporting supermarkets' profits. It seems a crazy, roundabout way of doing things. There would be huge administrative savings to be made if the food supply chain worked properly. We are in a situation in which the market has failed the food supply chain, and only the supermarkets seem to be benefiting from the current structure. That is a big part that the CAP needs to play.

[69] On pillars 1 and 2, in Wales, the focus has been too much on pillar 2, and we have lost sight of food production and guaranteeing our food supply and food safety. We are young farmers, and we have all been to university and studied agriculture for a few years. The last thing that we need is lots of free training courses and more free advice. Agriculture has suffered from massive underinvestment for the past 10 to 15 years, and that is what is putting a lot of young people off farming. We need to encourage more youngsters into the industry to guarantee our food supply and the investment has helped in agricultural sectors, such as dairy and arable, which are hugely capital intensive. Massive amounts of money are required to maintain those businesses, so that is the area on which we need to be much more strongly focused.

9.50 a.m.

[70] **Mr Evans:** Mae newid ar droed a rhaid gwneud yn fawr o hynny. I fynd yn ôl at fy mhwynt diwethaf, yr ydym mewn sefyllfa gref yng Nghymru i gynhyrchu cynnyrch o safon uchel iawn. O ran y newid yn y PAC, yr unig beth y gallaf ei ddweud—ac mae fy nodiadau yn Saesneg—yw hyn:

Mr Evans: Change is afoot and we need to make the most of that. To return to my last point, we are in a strong position in Wales to produce very high-quality produce. With regard to the change in the CAP, the only thing that I can say—and my notes are in English—is this:

[71] the CAP support must be for environmentally friendly agricultural production and not just for environmentally friendly agriculture.

[72] Yr ydym yn cydnabod y bydd ffermio sy'n ystyriol o'r amgylchedd yn digwydd, gyda phwyslais ar gynhyrchu cynnyrch mewn modd gwyrdd os yw'n bosibl.

We recognise that environmentally sensitive farming is going to happen, with an emphasis on the production of produce in a green way, if possible.

[73] **Michael German:** Rhys mentioned young people, but it was almost in passing. I would have expected you as witnesses to put that at the top of your agenda. Is it because you think that the inherent changes that you have suggested would make it easier for young entrants into farming, or do you want to see specific measures that may help young people into farming?

[74] **Mr Lougher:** If the profit levels were there, young people would come into farming. I studied at Aberystwyth, and the vast majority of my classmates would have liked to go home to family farms, but they all have jobs within the wider agricultural industry. The profit margin is just not there. I am one of the very few who has gone home to take on the farm. It is a big challenge. It is a struggling business, with massive underinvestment, so it is no surprise that it puts young people off. There is quite a simple solution, but achieving it is difficult.

[75] **Mr D. Jones:** The fact that we need a system to encourage youngsters into the industry must surely ring alarm bells. At the end of the day, if an industry is sustainable, it will attract new people. That is possibly why we have not mentioned younger people in general, because we do not want to make it an industry for younger people only; we want to make it an industry for all the people of Wales.

[76] **Brynle Williams:** Hoffwn ddychwelyd at yr hyn a ddywedwyd gennych chi, Rhys. Dywedwyd nad oes digon o bwyslais ar gynhyrchu bwyd a bod mwy o bwyslais ar yr amgylchedd. Ar bwy y mae'r bai am hynny—ar wleidyddion, ar y diwydiant yn gyfan gwbl, neu ar Ewrop?

Brynle Williams: I want to return to what you said, Rhys. You said that there is not enough emphasis on food production, and that there is more emphasis on the environment. Who do you blame for that—politicians, the industry as a whole, or Europe?

[77] **Mr Evans:** Ni welaf fai ar neb fel y cyfryw. Mae pethau'n newid yn flynyddol, ac nid yn y diwydiant amaethyddol yn unig, ond drwy'r byd i gyd. Un peth yr ydym wedi'i gollu yn y blynyddoedd diwethaf yw cefnogaeth y defnyddiwr i'r cynnyrch. Mae gan y diwydiant enw am ei hoffter o gwyno, ond nid ydym yn cwyno'n ddiangen. Mae'r byd yn newid, ac os yw'r pwyslais yn symud tuag at gynhyrchu, a hynny mewn modd llai niweidiol i'r amgylchedd, rhaid newid hynny.

Mr Evans: I do not blame anyone as such. Things change every year, and not just in the agriculture industry, but throughout the world. One thing that we have lost in recent years is the consumer's support for the produce. The industry has a name for having a fondness for complaining, but we do not complain without reason. The world is changing, and if the emphasis is shifting towards production in a manner that is less detrimental to the environment, those

Drwy hynny, byddwn yn newid meddylfryd changes must be made. In doing so, we will
pobl sydd y tu allan i'r diwydiant. change the mindset of people outside the
industry.

[78] **Mr Lougher:** A major reason is that many other organisations are interested in agriculture, such as wildlife and countryside organisations, and they have a stronger lobby and are greater in number than the core farming organisations. That has had a big effect. When you have consultations such as this, you probably get far more responses from people of that mindset than from people who are involved in primary production. So, that is one thing to bear in mind when weighting some consultation responses in favour of others.

[79] Priorities change over the years. Looking back to the late 1980s and early 1990s, farmers were not farming in as environmentally sensible a way as they could have, and there needed to be a shift towards more environmentally sensitive farming and producing food more efficiently with fewer resources. It is not a bad thing. I just think that the momentum has kept going in that direction when, perhaps six, seven or eight years ago, we should have started to shift our focus more on population growth, the number of people around the world who are starving. and the need for food. So, there has been a bit of a lag there. The momentum of the green environmental movement has kept up, when perhaps the brakes should have been put on a bit a few years ago and we should have focused more on food production. Perhaps it has gone too far now, and we need to change quickly. We are focusing our minds in the wrong area at the moment.

[80] **Mr D. Jones:** I would just add a few words to what Rhys has said. Farmers in Wales in particular have changed well. We have adopted these agri-environment schemes and we have done it very well. Basically, public response is one of the main reasons for this. People want their food to come from nicer, greener places, and it is a response that the farmers have made. However, as Rhys has mentioned, there seems to be a huge momentum taking us continually along this path. As I said earlier, at the end of the day, it is all well and good having green parkland in Wales, but if farmers are not there to produce the food, it will be no good for any of us.

[81] **Brynle Williams:** Chair, in your opening question, you asked these young gentlemen what they would do if they had the opportunity to influence the CAP. You made a very serious statement, which I agree with entirely, that young people are not going into farming. We know about the profitability aspect of it, but are there any other aspects that the CAP could help with, to help young people to get farms and get their foot on the ladder?

[82] **Mr Lougher:** The current historical basis of payments needs to be addressed. It definitely disadvantages new, younger farmers. There are many farmers who are no longer actively involved in food production who are getting vast sums of money, so that is the key thing that needs to be addressed. The current situation is not favouring young farmers in that respect at all. So, that is the first thing. We also need the CAP to remove the volatility of global food markets as much as possible and to help us to compete against global competitors, such as the US, that are heavily subsidised. So, there is a role there to create fairness and remove volatility. It is very difficult for a young person to make long-term business plans, given the fluctuations in global food and commodity prices that we have seen in recent years. So, there is a definite role to play there.

[83] The key things that you have mentioned are profitability and fairness in the food supply chains. Tackling the retailers and the imbalance in the food supply chain needs to be done at EU level now. The situation has gone so far and the supermarkets are so powerful that it must be combated at EU level. Measures must be put in place to ensure fairness of profit distribution throughout the supply chain. There is no reason why the primary producers, processors and retailers cannot have an equal profit share or a share that best reflects the

efforts, input, time and cost associated with their part in the food supply chain. It almost needs to be flipped on its head. There is no easy solution. That is the major problem facing young people in farming.

[84] **Mr D. Jones:** I have very little to add to what Rhys has said. It is difficult to pinpoint the one or two things that you need to do to change the situation. The CAP is a whole package of things that needs to reflect the needs of young people in farming. As I say, I am not keen to see changes only for young people because, as I said, agriculture needs to be an industry for everybody. However, perhaps payments could slightly favour businesses in which younger partners are involved or changes could be made to help with acquiring land.

10.00 a.m.

[85] One of the problems that we have in the countryside, as Rhys alluded to, is farmers who are not actually farming as such, and also farmers who are semi-retired, who are still holding onto the land and farming the same amount of land with half the number of stock. Effectively, that is half of the land coming out of production. If that land were available to a younger person somehow, that would definitely be an advantage to young people in the countryside.

[86] **Rhodri Glyn Thomas:** A hoffet ti ychwanegu rhywbeth, Owain? **Rhodri Glyn Thomas:** Do you wish to add anything, Owain?

[87] **Mr Evans:** There are so many young farmers in Wales at present who are passionate and have the willingness to enter the industry, but, unfortunately, they cannot do so. We need to tackle that problem. There are two issues, one of which has been addressed by Rhys, which is the financial aspect. Agriculture is not profitable at the moment, and if a business is not profitable it might not be attractive. The second issue is that it is far too complicated at present. We need to simplify the process of getting young people into agriculture and simplify the ins and outs of the industry once they are in the industry, and fully support them in the first few years. Dylan mentioned that farmers are an ageing population. The average age of farmers in Wales is, I think, 58 at present.

[88] **Rhodri Glyn Thomas:** It has been 58 for the last 10 years. They seem to be the same farmers, so I think that they would have aged a little in the last 10 years. [*Laughter.*]

[89] **Mr Evans:** Yes. That is a major concern and one that we should be considering. I am not quite sure how to put it, but there needs to be an incentive, not to get them out of the industry but for them to pass the farms or the business over to younger farmers. Their sons, who are now aged 40 or even 50, are not even partners in the businesses. Should anything happen to the father, who is aged 60 or 70, even the inheritance tax alone will be sufficient to see another family go out of the industry. We need to simplify things.

[90] **Rhodri Glyn Thomas:** Sometimes, it is more painful to pass on the cheque book than the business.

[91] **Mr Evans:** That is true.

[92] **Brynle Williams:** To go back to pillar 1 and pillar 2, do you believe that there is a need to redefine the current pillars of the CAP?

[93] **Mr Lougher:** I think that pillar 1 needs to be focused solely on food security and food production. In terms of pillar 2, climate change needs to be addressed more. There is an argument as to whether there should be a separate climate change pillar. If there were, there would need to be some new money to fund that. I do not think that there is money available

within the agriculture industry to be taken out to support climate change. So that would require new money. Again, in the light of changing priorities now, energy production could perhaps be brought in to pillar 2. Help for on-farm energy production and research and development budgets is a key worry for us younger farmers. We have seen those sorts of budgets in Wales, in particular, being eroded and, given the situation that we face now, with population growth and climate change, research and development has a more important role to play than ever before. Therefore, I think that focusing on those things under pillar 2 more than we have done in the past is very important.

[94] **Mr D. Jones:** I could not agree more with regard to pillar 1. It needs to be heavily focused on production. In terms of pillar 2 and research and development, I could not agree more with Rhys. However, if you are to have research and development, you must ensure that you have the means to disseminate that information and transfer the technology. It is pointless finding out all of these things and then keeping it to yourself. In terms of climate change, there is probably merit in looking at climate change and renewable energy as a separate pillar, but I believe that it could be incorporated into pillar 2.

[95] **Brynle Williams:** To what extent would you support the Minister's view that it will be important for Wales and the UK to seek an increase in its current allocation of rural development funds?

[96] **Mr D. Jones:** If possible, I think that it is incredibly important for us to seek an increase in our funds. Agriculture is such an important part of our economy in Wales. It is vital. It is not only about those who are directly involved in agriculture; as we have said already today, people are employed in the wider sector. Therefore, it would be good to have more available. However, having said that, I fully understand the current economic situation. It will be a difficult fight, because I understand from reading some papers yesterday that it will be a battle just to maintain the CAP budget as it is, let alone to ask for more. However, it is certainly something that we should be looking for and the WYFC would fully support that.

[97] **Mr Lougher:** I agree with that. If things such as climate change are going to be brought into pillar 2, then there needs to be new money for that. That is a good argument to push forward for increased funds. Again, we are all aware that there will be immense pressure on the CAP budget at an EU level in future years, but that is perhaps one argument that we can take forward. We have new priorities: climate change, research and development, and an increasing global population. Therefore, there are strong arguments for increasing that budget.

[98] **Mr Evans:** We have heard about environmentally friendly agriculture, climate change and so on. I am a firm believer that funding should be made available to allow farmers to pursue renewable energy schemes. In Wales, especially in the hills of Snowdonia, there is huge potential to install hydro-power schemes that will partly offset our carbon emissions in Wales. Funding should be made available and should be simple to get at. At the moment, it is not. So, with the shift in the priorities and objectives of the CAP, the Minister should perhaps look at making the green or renewable funds more readily available to farmers or landowners. I know that the Assembly Government has targets to offset carbon, but you cannot do that without farmers, I am afraid, as they are the ones who have the land.

[99] **Joyce Watson:** Good morning, all. Do you believe that the current RDP structure should be simplified?

[100] **Mr Lougher:** Yes, I think so. We have touched on this already this morning. A huge amount of the budget is lost on administration. That causes great frustration to many farmers in Wales. The sheer number of people employed to administer these schemes take up a fairly large percentage of the total budget. The system should be simplified to get money to the people who are producing the food. A strong, viable agricultural primary production base will

naturally lend itself to looking after many of the issues that we talk about in pillar 2 in relation to rural development and rural economies. If farming is profitable and going well, the jobs will be there, the young people will be there, and rural communities will flourish. There is great scope for simplification there.

[101] **Mr D. Jones:** I fully agree. The simpler, the better: that is the message that comes back from the grass roots. Although I do not have definite figures, as Rhys said, there is always talk about the amount of money that is spent on administration. However, having said that, we are lucky in Wales to have the system that we have, when we compare it to the system across the border. We would be in a far more difficult situation if we were under that regime. However, we would definitely welcome the system being simplified further if possible.

[102] **Joyce Watson:** Am I to understand from your comments that, in Wales—it is only Wales that we are concerned about, not what happens across the border—you recognise that there have been moves to make things simpler, but you would like to see further work done?

[103] **Mr D. Jones:** I recognise that we are getting a better end result than other places are. Money is going out to farmers when it is supposed to in most cases. With regard to the systems in place, it is possible that some matters have been made simpler, but there is still far too much bureaucracy. So, there is plenty of room for improvement.

[104] **Joyce Watson:** What role should less favoured area schemes play in a future CAP?

[105] **Mr Lougher:** I mentioned earlier that there will always need to be some means of addressing the geographical difficulties that exist in Wales, as well as across Europe. A pure flat-rate, area-based system will never work. It could be disastrous, and you would perhaps see a population exodus away from challenging geographical areas. There will always need to be some sort of additional support to maintain extensive production systems—up in the mountains of mid Wales, or on tough terrain, wherever that may be in Europe. So there will always need to be a distinction there.

10.10 a.m.

[106] **Mr D. Jones:** On LFAs, there will never be a level playing field if we have flat-area payments across the board; LFAs will need greater support, simply to avoid land abandonment. As we have already mentioned, 70 per cent of Wales is an LFA. If that 70 per cent is not allowed to be farmed well, we will have severe problems in Wales. Therefore, we fully support LFAs having greater support systems than other areas.

[107] **Rhodri Glyn Thomas:** A wyt ti eisiau ychwanegu unrhyw beth, Owain? **Rhodri Glyn Thomas:** Do you wish to add anything, Owain?

[108] **Mr Evans:** Nac ydwyf. **Mr Evans:** No.

[109] **Rhodri Glyn Thomas:** Joyce Watson sydd â'r cwestiynau nesaf. **Rhodri Glyn Thomas:** Joyce Watson has the next questions.

[110] **Joyce Watson:** To what extent do you believe that there should be further market orientation—you have touched on that—under the future CAP?

[111] **Mr Lougher:** We need to let the markets rule. The CAP always needs to be there, to take out the extreme volatility that we have experienced—there needs to be that safeguard to guarantee and ensure food supply and safety. We would like markets to operate as freely as possible. The one big aspect that comes into this is food safety—it is not so much about food

supply as about food safety. We cannot and should not allow inferior, potentially unsafe food produce to come into the UK. With the liberalisation of markets, this big issue creeps in, which we have experienced in recent years. Therefore, that is a big challenge.

[112] Therefore, we want a simplification of the whole scheme, but commonality across Europe of food safety standards is important. In the UK, and in Wales, we are at the top end as regards food safety and farm assurance and standards, but with free markets we must allow inferior produce to undercut us. That is a big challenge, which needs to be addressed.

[113] **Mr Evans:** The export market is obviously important to agriculture in Wales. We realise that the import market is also important but, to echo what Rhys has just said, we need to ensure that anything that is imported into this country has been produced to the same level, if not a higher level, as our produce. We should not allow any kind of produce that has been produced—or mass-produced, if you like—to a lower standard than ours into the country.

[114] **Joyce Watson:** Finally, I have some questions on communication. You said that you are very much involved in communication, but this is the first time that you have had a chance to be here in person. Therefore, what do you believe are the best mechanisms to ensure that young farmers are engaged in any consultation to develop the Assembly Government's position on a future CAP?

[115] **Mr D. Jones:** As I said earlier, we are grateful to be here today. You will struggle to find any better mechanisms than sessions such as this, and being given the opportunity to reply to consultations. As long as we are given these opportunities, we will strive to reply, when we can. As I say, our organisation is made up of members who are volunteers, and it will sometimes be a struggle for us to be here. However, we will always try, because we believe that it is important to get our message across. Sometimes, sitting down and writing a report or a response may seem tedious, but we need to recognise that we need to do that, and we need to encourage others to do so as well. I am struggling to think of other suggestions. I cannot think how we could do it much better.

[116] **Mr Lougher:** I would agree with that; I believe that this is the perfect forum. Again, we welcome the opportunity to be here this morning—it is nice to be here and nice to be asked. Responding to consultations and coming to Cardiff to give our opinions is the best way of doing things.

[117] **Mr Evans:** We represent between 6,000 and 7,000 young people who are passionate about going into the industry in Wales, and this opportunity to have discussions with you is a huge step forward from our point of view. Many young farmers to whom I have spoken are thankful for the opportunity for their organisation to be involved in important discussions such as these.

[118] **Rhodri Glyn Thomas:** Diolch yn fawr i'r tri ohonoch. Yr ydym yn gwerthfawrogi eich presenoldeb y bore yma, a'r ffaith eich bod wedi ymateb ar bapur ac ar lafar. Yr ydym yn sylweddoli nad yw'n rhwydd i chi; yr ydych i gyd yn gweithio o fewn y diwydiant, ac yr ydym yn deall nad yw'n rhwydd i gael amser rhydd i ddod yma. Mae'n bwysig inni gael persbectif pobl ifanc o fewn y diwydiant, yn enwedig wrth inni drafod materion sy'n ymwneud â dyfodol y diwydiant. Byddwn yn ceisio sicrhau eich bod yn cael eich cynnwys bob amser yn ein

Rhodri Glyn Thomas: I thank all three of you. We appreciate your attendance this morning, and the fact that you have given us written and oral evidence. We realise that it is not easy for you; you all work within the industry, and we understand that it is not easy for you to find the time to be with us. It is important to get the perspective of young people working in the industry, particularly when we are discussing issues relating to the future of the industry. We will endeavour to ensure that you are always included in our discussions.

trafodaethau.

[119] We will take a short break, because we have a change in witnesses and need to get six people to the table.

*Gohiriwyd y cyfarfod rhwng 10.17 a.m. a 10.21 a.m.
The meeting adjourned between 10.17 a.m. and 10.21 a.m.*

Ymchwiliad i Ddiwygio'r Polisi Amaethyddol Cyffredin: Sesiwn Dystiolaeth Inquiry into the Reform of Common Agriculture Policy: Evidence Session

[120] **Rhodri Glyn Thomas:** Yr wyf yn croesawu cynrychiolwyr Undeb Cenedlaethol yr Amaethwyr Cymru, Undeb Amaethwyr Cymru a Chymdeithas Tir a Busnes Cefn Gwlad. Yr ydym yn falch iawn o'ch gweld yma, fel bob amser. Yr wyf yn gobeithio nad ydych yn teimlo ein bod yn pwysu'n ormodol arnoch; gwn eich bod yn ymwelwyr rheolaidd i ddarparu dystiolaeth, ond yr ydym yn gwerthfawrogi eich presenoldeb a'ch parodrwydd i roi dystiolaeth. Mae'n faes eang iawn. Os ydych yn dymuno, gallwch wneud rhai sylwadau agoriadol, ond byddwn yn ddiolchgar pe galloch eu cadw'n gryno.

Rhodri Glyn Thomas: I welcome representatives of the National Farmers Union Wales, the Farmers' Union of Wales and the Country Land and Business Association. We are very pleased to see you here, as ever. I hope that you do not feel that we are asking too much of you in any way; I know that you are regular visitors to provide evidence, but we very much appreciate your attendance and your willingness to provide us with evidence. It is a very broad area. If you wish, you may make some opening remarks, but I would be grateful if you could keep them brief.

[121] **Mr Vaughan:** Chair and members of the sub-committee, first, I would like to thank you for holding this very important inquiry into the most important issues facing the agricultural industry over the coming years. However, I believe that the evidence shows that the future of the common agricultural policy is important not only for the agriculture sector but for the wider community, for the very backbone of the rural economy and for every Welsh citizen. To look at the potential worst outcome of CAP reform in Wales we need look no further than the policies of the previous UK Government and their impact, as predicted by the Food and Agricultural Policy Research Institute. We have provided this information in our written evidence. Its work concludes that scaling down agricultural support and opening up our markets will have dramatic consequences for Welsh agriculture, rural employment and the wider rural communities. Such a watering down of the common agricultural policy will also mean abandoning our food security and deconstructing the framework that could otherwise be instrumental in tackling the key challenges of our age, namely tackling climate change without undermining food production.

[122] The FUW believes that, in order to tackle these issues, we need a robust common agricultural policy that is funded at a level that reflects the importance of these challenges and that, above all, has the future of the family farm at its core.

[123] **Mr Bailey:** Diolch i chi am y cyfle i roi dystiolaeth ar ddiwygio'r polisi amaethyddol cyffredin. Mae'r pwnc hwn yn hanfodol ar gyfer y diwydiant amaethyddol.

Mr Bailey: Thank you for the opportunity to give evidence on the reform of the common agricultural policy. This is a vital subject for the agriculture industry.

[124] Although the European Commission has not yet tabled formal proposals, all the signs emanating from Brussels are that there will be significant and major reform of the CAP and not just the tinkering at the edges that we witnessed in the 2008 CAP health check. In my view, the Welsh Assembly Government's role should be to drive the best deal forward for

farming in Wales, acknowledging that negotiations will take place at member state level and that the final outcome will inevitably represent a compromise at an EU level. Although NFU Cymru is of the view that, as the name indicates, it should be a common policy, avoiding the inevitable distortions of competition that would result from increased subsidiarity or renationalisation, we are of the view that detailed application of the agreement should be the prerogative, in Wales, of the Welsh Assembly Government so that strategic directions can be tailored in terms of implementation to meet the particular needs and circumstances of farmers in Wales.

[125] This time, the CAP reform negotiations will take place against a complex backdrop of increasing global demand on finite and precious resources amid a changing climate and at a time when we are required by society to impact less upon the environment. The CAP helps to address the failure of agricultural markets, which are becoming ever more volatile, to deliver fair and profitable returns to farmers. Without it, farming in Wales and the EU would be unsustainable and farmers would cease production. This would have a massive consequence for the multi-faceted benefits that agriculture produces across the EU.

[126] Without at this stage getting bogged down in detail, the NFU feels that there should be some key principles. First, there needs to be a common policy with no further subsidiarity. There needs to be common funding, and co-funding, co-financing and so on should be avoided, as it leads to a distortion in competition. The two pillar approach should be upheld—that is, direct payments to compensate for market value to help to manage price volatility and reward high standards. With regard to rural development funding, there is an urgent need to review the budget, distribution and the basis of payments for agri-environment schemes. Any shift in the method of payment under pillar 1 should have a long transitional period. Cross-compliance and the bureaucracy attendant upon it need to be reviewed and simplified.

[127] I think that, with these opening gambits, in conjunction with our written evidence, there is sufficient information for you to ask questions.

[128] **Mr Salmon:** Thank you for inviting us to give evidence. You have had our submission, so I will not repeat what is written in that. The Country Land and Business Association has been debating this important issue widely with its membership for the past two years under the direction of Professor Allan Buckwell. It has been a vigorous debate and it is still work in progress. I think that you have had a draft of our work so far.

[129] At this time of widespread financial crisis affecting public funding throughout the major global economies, it is essential that the industry, Government departments and the member state argue from the most defensible standpoints. To this end, we feel that the trick is to retain the key elements of CAP, but to package them in such a way that it is seen to be future-facing. We note that the new EU commissioner's introduction to the launch of the public consultation endorses this approach. That is our standpoint, to a certain extent. We would commend the Assembly as, at the moment, the new schemes being introduced reflect these principles to a very large extent. That is all that we have to say for the moment.

[130] **Rhodri Glyn Thomas:** Diolch yn fawr i'r tri ohonoch. Cyfeiriwn y cwestiynau atoch fel undebau a gallwch benderfynu pwy fydd yn ateb ar eich rhan. **Rhodri Glyn Thomas:** I thank the three of you. We will refer the questions to you as unions and you can decide who will be answering on your behalf.

[131] Hoffwn ddechrau gyda chwestiwn am yr elfennau cyffredin yn y polisi. A ydych yn credu ei bod yn bwysig i Gymru bod ein buddiannau yn cael eu gweld yn y cyd-destun hwnnw? Fel y dywedais wrth y ffermwyr I would like to begin with a question about the common elements in the policy. Do you believe that it is important for Wales that its interests are seen within that context? As I said to the young farmers, there is an

ifanc, mae'r ddadl ynglŷn ag ailgenedlaetholi yn bodoli, er nad ydym yn gweld cynnydd mawr yn y duedd honno. Pa mor bwysig yw ystyried buddiannau Cymru yn y cyd-destun cyffredin hwnnw? Dechreuaf gyda'r CLA.

argument about renationalisation, although we have not seen great progress in that regard. How important is it that Wales's interests should be seen within that general context? I will start with the CLA.

[132] **Professor Buckwell:** I would like to say, first of all, that this is my first visit to the National Assembly for Wales and I am thrilled and privileged to do so. Thank you for the opportunity.

[133] From where I sit in London doing the work for Brussels, for the CLA and European landowners, it is the input from regions like Wales that can make a huge difference. It seems to me that Wales can take pride in showing to the rest of Europe that it is thinking hard about how to integrate agricultural production and care for the landscape, the countryside and the culture of societies in how it deals with its agricultural policy. Some of the steps that you have taken and are taking are illustrative of the direction that the CAP can and should move in.

10.30 a.m.

[134] The Welsh Government has a tremendous role in being confident enough to say, 'We are proud of our agriculture and what we are doing with it; let us help shape this common policy and show other regions that they can do the same thing'.

[135] **Ms James:** From our perspective, it is vital that we play an important role here. Agriculture and rural areas are hugely important to Wales. We need to be in a position to make sure that the strategic direction is right for Wales. We therefore need to influence that direction so that, in terms of implementation, we can bring the roll-out of day-to-day policy lines back to the Welsh Assembly Government level. I emphasise that there is only one Minister negotiating at any one time in Brussels. This is an important subject for the countries of Wales, Northern Ireland, Scotland and England; it is extremely important that Ministers from the devolved areas and England have input into deliberations at that level. It is hugely important, particularly when we get to the endgame, that Ministers are present to influence the UK negotiating position in terms of what comes out.

[136] **Mr Vaughan:** We agree totally with what has been said. We feel that, in the past, we may not have had particularly strong representations from Wales. The Minister from England has been the main guiding voice, and we feel that we have lost out slightly as a result of that. It is very important that our Minister plays a big part in the coming negotiations. It is also vitally important that the agreement, whatever its content when it comes, is tied to every country, and that every country has to do the same things. In the last two negotiations, there have been opportunities for countries to opt out and do their own thing. We feel that that weakens the CAP. We called on Franz Fischler and then on other officials some three years ago to ensure that these rules were the same for every country. There should not be the opportunity to opt out. We hope that the Welsh Assembly Government will carry that message forward.

[137] **Rhodri Glyn Thomas:** Hoffwn bwysio ychydig ar Undeb Amaethwyr Cymru ynghylch y mater hwn. Yr ydych wedi cyfathrebu â mi ynghylch rheoliadau Ewrop, a'r ffaith eich bod yn teimlo, o bosibl, bod Cymru a'r Deyrnas Unedig yn gweithredu'r rheoliadau yn llymach nag y maent yn cael eu gweithredu mewn gwledydd eraill. Yr ydym wedi trafod y mater hwn yn benodol yng

Rhodri Glyn Thomas: I would like to press the Farmers' Union of Wales a little on this issue. You have communicated with me regarding European regulations, and the fact that you feel that Wales and the United Kingdom may be implementing the regulations in a more severe way than they are implemented in other countries. We have discussed this issue specifically in the context

nghyd-destun taliadau. A hoffech fynegi'r farn honno gerbron yr is-bwyllgor?

of payments. Would you like to express your views before the sub-committee?

[138] **Dr Fenwick:** Diolch yn fawr. Fel y gwyddoch, yr ydym yn pryderu'n fawr ynghylch lefel y cosbau sy'n cael eu gweithredu yng Nghymru. Efallai yr ydych yn ymwybodol bod y ganran o gyfanswm y taliadau sy'n cael eu talu i ffermwyr yng Nghymru—

Dr Fenwick: Thank you very much. As you know, we are greatly concerned about the level of penalties that are imposed in Wales. You may be aware that the percentage of the total payments distributed to farmers in Wales—

[139] Mae'n flin gennyf. Yr wyf am droi i'r Saesneg yn awr gan fod hwn yn bwnc cymhleth.

I am sorry. I will turn to English now because this is a complex issue.

[140] The percentage of penalties applied when taken as a percentage of the total single payments paid in Wales is 0.6 per cent, as you know from the Minister's correspondence. In Scotland, it is 0.25 per cent, and in England, it is 0.14 per cent. That instantly gives us cause for concern. It is not just between member states that there might be disparities in terms of the level of penalties, the way in which rules are interpreted and in which penalties are applied, but even within this member state, the UK, there may be different ways in which penalties are applied.

[141] The whole point of a common agricultural policy is to have things as common as they can be, notwithstanding the differences that are necessary to account for different climates and so on. So, yes, we do have major concerns about that. We also appreciate, however, that the auditors are heavy-handed and that there is a threat of disallowance for Wales, or any region within Europe. We fully appreciate that and we believe that there needs to be a focus on equity and fair-handedness when it comes to farmers throughout Europe. If the auditors are doing the same in Greece as they are doing here, I do not think that such actions are justified, whether it is in Greece or here. The penalties are disproportionate, particularly for someone who inadvertently puts a tick in the wrong place and then sees a year's worth of income go down the drain. No-one would agree that that is a fair way to treat people.

[142] **Rhodri Glyn Thomas:** Ysgrifennais at y Gweinidog ar y mater hwn ac ar hyn o bryd yr wyf yn gwneud rhywfaint o ymchwil i'r sefyllfa sy'n bodoli drwy'r Gymuned Ewropeaidd ynghylch cysondeb ar y materion hyn. Mae'n bosibl y down yn ôl atoch ar y mater hwn yn y dyfodol pan mae'r wybodaeth honno gennym.

Rhodri Glyn Thomas: I wrote to the Minister on this issue and I am currently doing some research into the situation that exists throughout the European Community about consistency on these issues. We may come back to you on this issue in the future when we have that information.

[143] **Michael German:** All of you in your evidence have made criticisms of pillars 1 and 2. Could you tell me whether you think that there is a need for a further definition of what is in pillars 1 and 2, or even in pillar 3, which the NFU suggested, in its evidence, was an issue? Do we need to re-categorise what goes into each pillar apart from the balance between them?

[144] **Mr Bailey:** On the categories of the various pillars, they are fairly plain and straightforward for us to understand. Our concerns are that there should be no more movement from pillar 1 to pillar 2. We have made that clear. On pillar 3, we are talking about a research and development fund, which is new money, set up for the problems that we see ahead in terms of global starvation, possibly in 2050. Not to put too fine a point on it, there are a billion people who are already facing food shortages and, as the world's population increases, we feel that research and development will become increasingly important in terms

of how to produce crops or food from the same piece of land, but that is another issue. As far as pillars 1 and 2 are concerned, the definitions are clear, but we do not want to take more money out of pillar 1 and put it into pillar 2.

[145] **Michael German:** However, you do want to see a pillar 3.

[146] **Mr Bailey:** Pillar 3 would be of interest to us.

[147] **Ms James:** On pillar 3, we can see that there is a need for research and development and that a more integrated approach at a European level would produce significant benefits at a time when there is huge pressure on finance and the economy. However, we would not wish to see the resources that are currently deployed in pillars 1 and 2 being decimated in order to fund a third pillar. We would regard that as new money coming in.

[148] **Professor Buckwell:** We think that the situation is quite complicated enough as it is. We do not need a pillar 3. The characteristics of a pillar 3 are unclear; for example, would it be EU-funded or co-financed? How would it be different from pillars 1 and 2? In my view, the very mention of pillar 3 is unhelpful.

[149] Our suggestion is: let us be less dogmatic about the pillars; let us be clearer about what we want the policy to do, how it should be fairly funded and how the scheme should be effectively and efficiently managed for farmers and for the administration; and let us not get tied up in knots about pillars. Farmers across Europe, as Ed and Mary have just explained, do not like the words 'modulation' and 'pillar 2', so let us not get hung up in wanting to do that. Let us ensure that the payments in pillar 1 do what society wants them to do. So, let us transform the pillar 1 payments, and the phrase that we have used is, 'if necessary', to have the character of pillar 2. In other words, we would make their purpose clearer, make some of them multi-annual rather than annual, so that you immediately reduce the frequency of applications from every year to every five or seven years, which would massively reduce the administrative costs, and we would put it on a voluntary contractual basis.

[150] Let us think in those terms because it is not clear that pillar 2 is related to the environment and pillar 1 to agriculture because a big part of the justification of the single payment is looking after the environment, particularly in less favoured areas or what we would rather call, 'environmentally favoured areas'. Let us simply put that language in the background and decide what the characteristics and the purpose of the policy are and then we will fund it in the correct way.

10.40 a.m.

[151] Incidentally, the idea of moving money to pillar 2 is not liked by Ministers for finance either because there is no willingness to find any more money for co-financing, for match funding, and, therefore, that whole subject is unhelpful. Let us talk about how to do the CAP and how to fund it on a more equitable basis across Europe. If we did that in a more objective and future-facing way, the UK would get a larger share of the CAP funds than it currently does.

[152] **Dr Fenwick:** Our members would not support incorporating what are currently pillar 2 measures into pillar 1, particularly in terms of agri-environment measures. I do not think that it matters whether there are three pillars or 30 pillars; the important thing is that there is sufficient funding for those pillars so that they do what they are there to do. If you move moneys from pillar 1, there is a danger that you not only endanger the economic viability of the agricultural industry, but that you also fall below a critical mass in terms of funding, where you are failing to support farming in terms of the objectives of pillar 1, but you are not providing sufficient funding for pillar 2 and pillar 3 either because you are spreading your

money ever more thinly.

[153] If we are to make moves to address climate change, for instance, our belief is that the budget needs to reflect that. So, the budget needs to be increased. Politically, that may be extremely naïve, but the reality is that if you are going to take direct payments away from farmers—you have seen the figures that we have provided to you—you will significantly undermine their economic viability. You will potentially export food production to areas where carbon emissions and greenhouse gas emissions are far higher, which will not help anyone. So, you are failing in that respect as regards a potential third pillar in terms of climate change, and you are also not providing enough funding to pay farmers for managing climate change. So, you need to have funding that reflects the aims, no matter how many pillars you have.

[154] You also need funding that is fair between member states. Wales loses out significantly when it comes to rural development funding from Europe, because we have failed historically to claim what other countries have claimed.

[155] **Michael German:** On that point, it is something that the Country Land and Business Association raised and now you have raised it, namely that the Minister wants to raise money for rural development funding in pillar 2, which will require co-financing from within our budget in Wales. What arguments would you use to convince Welsh Ministers that they should put in more co-financing and that the European Union should put more into the UK for the rural development plan?

[156] **Dr Fenwick:** To deal with the latter point first—

[157] **Michael German:** In a sense, that is the easier one.

[158] **Dr Fenwick:** Exactly. The common agricultural policy should, by definition, be common, and yet we have seen this movement away from it being common because of the Fontainebleau agreement. This is one of the reasons why we asked for three people to be present here, because I am no expert on rural development—I do not deal with rural development per se. However, my understanding is that the Fontainebleau agreement is a disincentive for us to draw down what we could draw down from Europe. That has led to our allocation for rural development funding from Europe to be lower than it would be. So, it does not reflect the needs and the environment of Wales. Other countries may have claimed more than they should be allowed, but it is certainly not anything like fair between member states and regions of Europe. That is an argument in favour of a common agricultural policy rather than a nationalised element of a policy throughout Europe.

[159] **Michael German:** How do you convince the Welsh Ministers of health, education and so on, in the current climate?

[160] **Dr Fenwick:** The evidence makes it clear that we are facing huge challenges, not just in terms of food security, but in terms of addressing food security issues over the next 20 years to 30 years while mitigating the impact of climate change. Farming has a central role to play in mitigating the impact of climate change, whether it is through reducing the carbon emissions of food production in Wales or the use of farmland as carbon sinks, where it already serves an important purpose. We need to ensure that that continues to happen and that improvements are made in Wales's contribution to mitigating climate change. That is one of the major issues facing mankind, now and in future generations. There is a responsibility on us to act.

[161] **Mr Salmon:** I will let Allan answer the European dimension of the question, but in Wales, our main challenge is trying to preserve the budget that we have. We have to make

that case. It can be made, and for all the reasons that Nick has given, such as the fact that society will increasingly value the contribution that land management makes beyond food production if it wants it to be preserved. We will have to make that case in the current financial climate, as I have already said—Allan has a far more informed view of the European perspective—but it may not be that easy.

[162] **Professor Buckwell:** It is pointless asking the UK Government or member state Governments for more co-financing. It is clear that there is no willingness to do that, as they are trying to do the opposite, which is to cut public expenditure on this policy. It seems to me that our job is to defend as much of what we have as possible. The UK has signalled, in the way that it did the last reform, that it wants to reduce the co-financing in pillar 2, rather than increase it. That is why we are saying that we have to be more imaginative to achieve what we want with the existing funds.

[163] The arguments as to how to get a better share for the UK and for Wales are much more straightforward. In principle, the door is ajar, because the redistribution of CAP support is on the agenda. It is being driven by the new member states, but we can apply the same arguments to all the member states. If we say that the distribution, particularly of existing pillar 2 funds, is done on an objective basis, it will essentially be about land management, land area and the proportion of that land area that is designated as environmentally favourable, interesting and useful, which is a giant part of Wales, and these criteria will be helpful in getting a better share. They are objective and forward looking, and they tune into the agenda of the public wants from the CAP, which is, of course, food security, stability in food production, food safety and so on, but also environmental security. It wants the landscape to be looked after, along with water protection, soil protection and a reduction in climate change, greenhouse gases and so on. They are the arguments that we can use to define the criteria to ensure that the UK and its regions get a better share of existing funds. That is the argument.

[164] **Michael German:** The problem is still the other half of the equation, is it not? How do you manage without co-finance? All of you are right; you can make the argument for European money to come in, but if you have to co-finance it, how do you convince UK or Welsh Ministers that that is important? What arguments would you put forward?

[165] **Professor Buckwell:** That is why we are not asking for more co-financing. We are not asking to transfer more money into pillar 2. We are saying, 'Evolve and adapt the existing instruments to more defensibly deliver on this broader agenda, and accept the fact that there will be less co-financing'. So, the single payment, which is 100 per cent Brussels funded, will continue, but it will be defended more obviously and directly partly, and you should notice the 'partly', as payment for public goods, which is obscure the moment.

[166] **Ms James:** I refer back to the evidence that you were given this morning by Anastassios Haniotis. He said that he envisaged that there would continue to be two pillars, but that there would need to be a revisiting of the budget distribution in pillar 2. NFU Cymru has had grave concerns about that. Traditionally, we have only had 3.5 per cent of the allocation at a European level, which is paltry compared to what it would have been had other key objectives been used to determine the level of funding. We do not want to see a further shift from pillar 1 to pillar 2 that has no impact in terms of additional co-funding under pillar 2. However, when the budget is allocated according to new criteria, particularly in the context of the UK and Portugal, they should take account of the fact that money in these countries has been modulated over very many years and taken from the single farm payments in order to bolster inadequate funding for rural development because of the lack of funding from the rural development budget.

10.50 a.m.

[167] **Brynle Williams:** To what extent do you agree with the Minister's view that there needs to be greater flexibility in the way that the rural development plan is structured and delivered?

[168] **Mr Bailey:** On the rural development plan, we are going on to pillar 2 of the funding. As we have stressed, there should be no more movement from pillar 1 to pillar 2. To a certain extent, my concerns are that you are having to justify payments. The way I would like to look at justifying this is that it should possibly be considered as an investment in the future. If we are to receive extra money or maintain the budget that we have, we should be looking at it as an investment in the future in the same way as money for education is an investment in the future. So, we should move away from apologising for asking for the same amount of money and instead explain why we should have it and what benefits it will bring.

[169] With regard to your question about flexibility, Brynle, yes, there should be a degree of flexibility because, often enough, it is fairly difficult to constantly adapt to changes in rural development plans, and certainly to the pillar 2 side of it. To have that flexibility would be most useful. Having said that, we do not want to move too far down the road of subsidiarity. We must understand that certain countries have different needs, but we do not want those needs to affect the marketplace, which could happen quite easily because one Government might take advantage of the system while another Government probably would not do so.

[170] **Ms James:** May I add to that briefly? On the breakdown of the axes within pillar 2, we certainly do not feel that there should be a minimum spend specified for the four axes under pillar 2. We think that that is too restricting and does not provide sufficient flexibility. The other issue is that we feel that the LEADER+ element—axis 4 of pillar 2—would be better served under structural fund measures, rather than being incorporated into the CAP process.

[171] **Dr Fenwick:** There are levels of flexibility, and it is obviously pragmatic to allow flexibility for a common policy that applies from the Mediterranean right up to near-Arctic regions to take account of that diversity in terms of soil type and climate. We must have that flexibility, but there are levels at which allowing flexibility will result in a situation that is analogous to market distortion between countries. That is not desirable and it contradicts the purpose of the common agricultural policy. So, you have to be very careful that flexibility is applied where necessary, but it should not result in market distortion. At the moment, I think that we have a situation like that, as has already been referred to, with regard to Portugal and the UK being allowed to move moneys from pillar 1 in a way that other member states are not allowed to do.

[172] **Professor Buckwell:** Chairman, the rural development regulation already has flexibility. It is a menu-driven approach; member states and regions choose from quite a long list which of the instruments they want to deploy in their regions, and they get on with it. They do it within a programme in a five or seven-year package. That flexibility exists, and we certainly would not want that to be restricted at all; it is necessary for the reasons that people have quite rightly spelled out. Our concern is that we are discussing this almost as though we can simply carry on with the present policy, and yet we cannot. The threat that we face is that the budget is going to be cut. The part of the budget that is under the biggest threat is the single payments ceiling. Our observation is that a big part of European and Welsh agriculture is pretty damn dependant on those payments. So, if we are going to defend those payments in the longer term, we had better offer the public a better explanation of what they are for. This is why our explanation will be that the payments address a combination of food and environmental security, and that we have to integrate the environmental security part into pillar 1. There is no point in talking about having more pillar 2, as it would require more co-financing—we are back to that argument.

[173] Let me put it another way. The apparatus that you have constructed, if you do not mind me calling it that, under Glastir integrates what we in England have in three completely different components of entry-level, higher-level and uplands environment schemes. In my view, you have already brought that together intelligently. What I am asking is, given the rates of payment for those schemes, would Welsh farmers have accepted £28 a hectare as a basic payment, and £34 in the less favoured areas, had there not been a single payment? The answer is, 'of course not'. The Treasury's view is that the single payment should be wiped out over five years. However, if there was no single payment, those figures would not have been agreed; they would have been much higher. So, we are saying, 'Fine, let's have that discussion. Let's talk about doing, as a core part of the single payment scheme, the core, wide-application environment schemes, and fundamental support for farming in environmentally favoured areas', as I insist on calling them. That would integrate what the UK is currently spending in pillar 2. What we are saying is, 'Let us think of a more imaginative and forward-looking way to rearrange and defend existing support'. In my view, it is easier to make this argument in Wales than in eastern England, for example, and in many other parts of Europe, too.

[174] **Joyce Watson:** To what extent should a future CAP move towards further market orientation, in your opinion?

[175] **Dr Fenwick:** Are you asking whether it should be more in line with market demands?

[176] **Joyce Watson:** Yes.

[177] **Dr Fenwick:** It has to be positive for agriculture to move in that direction. If consumers demand levels of animal welfare and that type of thing, farming should adapt to those market requirements. However, there has to be a safety net. The big danger is that such a move, when coupled with market liberalisation, could result in the majority of consumers choosing to buy on price as opposed to other standards. The work that we have presented and summarised in our evidence shows that that would simply export food production to countries that we know have low standards of traceability, animal welfare and carbon or greenhouse gas production. So, it has to be balanced. A safety net needs to be in place to minimise market volatility. The one thing that will drive farmers out of production as much as low returns is price volatility. It means that you cannot invest because you have no idea what your income will be in two years' time, or even in 18 months' time. So, while this is a positive thing, there have to be safeguards.

[178] **Professor Buckwell:** It is unstoppable. For the marketed goods that farmers provide, of course there is a need to be market oriented, and we have to strive to be more competitive and productive. There is a big agenda and common agreement about that, and we need more research and development to ensure that British and Welsh agriculture remains that way. It means that we accept the full decoupling of payments from production and so on, because it has to be market oriented. In so far as all that goes, that is fine.

11.00 a.m.

[179] I also accept the reservations that were just voiced about safety nets, but—and it is a big 'but'—a huge amount of what farmers produce, and of what Welsh farmers produce, is not marketed commodities, but non-marketed environmental services or, to use the current jargon, 'ecosystem services'. Those are absolutely wanted, because they are about the preservation of the cultural landscape and biodiversity and looking after the soil, water and the atmosphere. Those are services that only farmers and other land managers can provide because they are the ones who manage the land and they are wanted by society, and those

services are in short supply and are likely to be in shorter supply in the future. The more pressure that is placed on food production, the more pressure there is on the environment. Those are the things that, if we do not pay for them, we will not get. That is why a bigger role for the CAP—and notice that I said it will be ‘bigger’, and not the entire role of the CAP—in future will be to guide the proper payment for the delivery of those services. So, market orientation is fine for marketed goods, but there should be appropriate policy, assistance and incentives for the non-marketed goods.

[180] **Mr Bailey:** To pick up on the point that Allan made about society needing the environment—society will also need food. You are perhaps making a mistake if you think that in Wales we think that the LFAs, as we call them, or EFAs, as you probably call them, should not be there for the production of food. You must also bear in mind that looking after the environment is paid for by the farmers in income foregone. We cannot adjust that very easily, but we need to look at that and do that.

[181] Going back to the original question, Wales went down the decoupling route several years ago, as did England and one or two other countries, but there are many countries in Europe, including Scotland, I hasten to add, that have not decoupled completely and that is what causes the problems, to a certain extent, as far as the marketplace and fairness in the marketplace are concerned. You might have a Welsh farmer producing food, which is very important, but doing so at a disadvantage compared with someone in France, who might be doing it at a subsidised cost. We are sitting in a fairly comfortable position at the moment purely because of the weakness of the pound, which has had a big impact over the last 12 or 18 months. Had that not been the case, we would have been screaming even louder for a fairer state of play in Europe. The opportunity is now there for us to have a fairer state of play, whereby we all decouple and can all rely on the market, not just to drive our own business decisions forward, but also to ensure fair play in Europe.

[182] **Dr Fenwick:** When you look at market orientation, you also have to look at where the power lies within the supply chain. That is crucial. It is all very well to hand over more control to those who dominate supply chains, but all you will end up with is prices being pushed increasingly downwards, as happens with the major retailers. They want the lowest possible cost and the highest possible profit. We have seen that over and over again. Unless you have that control over the supply chain and allow farmers to exert more pressure on the supply chain by enabling competition law to allow farmers to group together in stronger co-operatives, then you are potentially facing a downward spiral. Once you get to a critical mass in an area such as Wales or the UK, then you end up with factories or processing plants that are not viable, which further adds to price decline and then it really becomes a vicious circle. So, if we are talking about markets, you must also bear in mind the control over markets and who currently has that control. At the moment, it is the Tesco of this world.

[183] **Rhodri Glyn Thomas:** Diolch i'ch tri. Yr wyf yn ymwybodol nad ydym wedi llwyddo i ymdrin â phob mater sy'n codi, ac yr wyf yn siŵr bod materion yr ydych am eu codi gyda ni yn ymwneud â'r adolygiad o'r PAC nad ydym wedi cael cyfle y bore yma i fynd i'r afael â hwy. Ysgrifennwn atoch gyda rhai cwestiynau ychwanegol, ac y mae pob croeso ichi ysgrifennu atom, os ydych yn teimlo nad ydym wedi cyfeirio at rywbeth y teimlwch ei fod o bwys.

Rhodri Glyn Thomas: Thanks to the three of you. I am aware that we have not managed to deal with all the issues that arise, and I am sure that there are issues that you want to raise with us relating to the reform of the CAP that we have not had the opportunity to address this morning. We will write to you with some additional questions, and you are welcome to write to us, if you feel that we have not referred to something that you feel is important.

[184] Byddwch chi a'r tystion eraill yn cael cofnod o sesiwn y bore yma er mwyn ichi

You and other witnesses will receive a record of this morning's session for you to check its

sicrhau ei fod yn gywir. Diolch yn fawr unwaith eto i'r chwech ohonoch am eich tystiolaeth.

accuracy. Thanks again to the six of you for your evidence.

[185] Cynhelir cyfarfod nesaf yr Is-bwyllgor Datblygu Gwledig ddydd Mercher, 16 Mehefin yn y Senedd yma ym mae Caerdydd.

The next meeting of the Rural Development Sub-Committee will be held on Wednesday, 16 June in the Senedd here in Cardiff bay.

11.05 a.m.

Cynnig Trefniadol Procedural Motion

[186] **Rhodri Glyn Thomas:** Cynigiau fod **Rhodri Glyn Thomas:** I move that

yr is-bwyllgor yn penderfynu gwahardd y cyhoedd o weddill y cyfarfod yn unol â Rheol Sefydlog Rhif 10.37(vi).

the sub-committee resolves to exclude the public from the remainder of the meeting in accordance with Standing Order No. 10.37(vi).

[187] Gwelaf fod yr is-bwyllgor yn gytûn. I see that the sub-committee is in agreement.

*Derbyniwyd y cynnig.
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 11.05 a.m.
The public part of the meeting ended at 11.05 a.m.*