

THURSDAY 6 DECEMBER 2007

---

Present

Cameron of Dillington, L.  
Dundee, E.  
Greaves, L.  
Jones of Whitchurch, B.  
Plumb, L.  
Sewell, L. (Chairman)  
Ullswater, V.

---

Witnesses: **Mrs Mariann Fischer Boel**, European Commissioner for Agriculture, and **Mr Poul Skytte Christoffersen**, Head of Cabinet, European Commission, examined.

**Q684 Chairman:** Good morning.

**Mrs Fischer Boel:** I am very pleased to see you here on the day when we have started the conference on the Health Check with representatives from all the different stakeholders. It was a very lively, very frank and open debate. It is a good way to kick off the discussion. Your visit is very timely and I would like to tell you what intentions we have in the Health Check.

**Q685 Chairman:** First of all, Commissioner, thank you very much indeed for finding time to see us. It is always a delight to come and talk with you because it is very helpful for us in preparing our reports to take evidence directly from you. I have to go through a little rigmarole saying this is a formal evidence session of the Sub-Committee, so a note will be taken, but if you would like to go off the record please say so. Obviously a transcript will be available shortly and you will be able to revise it. Would you like to make an opening statement and then we will get on to questions and answers after that?

**Mrs Fischer Boel:** I think it would be useful just to give you the headlines of the Health Check. First of all, I continue saying that the Health Check is not a new reform but it is more

than just fine-tuning. The reason for this Health Check is because of the fact that the world has changed since 2003. We now have 27 Member States, 12 new customers. We have a changing globalised world. Throughout the last six or 12 months we have seen that agriculture has changed from being a surplus production with intervention stocks with too high production to a situation where at this stage there is even a shortage in some areas, but it is a much more balanced market. I think it is a very positive situation for agriculture, it makes it much more positive and it is much more fun for farmers to see that they can respond to the market. In the Health Check we would like to look at the market tools. Do we need export refunds? Do we need intervention systems? What about the set-aside that we have abolished for one year because of the shortage of cereals? The whole quota system is now to be discussed. I have sent some very clear messages on dairy, that we need to increase from April 2008 by two per cent so that we do not spoil the market. There is a shortage in some countries, not in the UK because you do not produce up to 100 per cent of your quota. The Single Payment Scheme has been implemented in many different ways in many different Member States and personally I think we should work towards a more flat rate system, a less complicated system, where you have a payment of the same value, or entitlements of the same value, linked to the area. Within the regions in the UK it would be England, Wales and Scotland where you could diversify but it would be the same payment. From a psychological point of view, I think we will face difficulties in 2013 or 2018, just to mention a year, explaining why two neighbouring farmers get different payments with the same conditions for production because the former owner had dairy production in 2002. That is going to be difficult to explain to taxpayers. We need to move towards a more flat rate. We need more decoupling. There is no reason for maintaining a partial coupling in the cereal sector. Cross-compliance should be simplified but maintained. I have introduced the idea of a progressive reduction of the payments and a discussion on the very small farms. I do not think 0.3

hectares is a farm, by the way. I can guarantee that golf courses have never been eligible for payments and they never will be eligible for payments, just to make it crystal clear.

**Q686 Chairman:** That is one question out of the way then.

*Mrs Fischer Boel:* We know that we will have to respond from agriculture to climate change. We know that we need some sort of risk management and water preservation, bio-energy and biodiversity. We need solutions to all of these new challenges and solutions require money. That is why we have suggested increasing the compulsory modulation which will mean if we can agree with those countries that have introduced the voluntary modulation they should reduce when we increase the compulsory modulation. We have proposed an increase of two per cent which means eight per cent before the end of this financial period. Then a reopening of Article 69. This Article gives Member States the possibility to take up to ten per cent of the direct payment without co-financing and use it for different new challenges. I am open to discuss how. It already exists but it is very narrow. Today, if you want to use Article 69 you can take it from the dairy but then you have to use it in the dairy sector, so it is very complicated. I consider the Health Check to be a stepping stone for discussions on what is going to happen after 2013. That was a very short introduction.

**Q687 Chairman:** Thank you very much. There are a number of detailed points that you have raised that we have got questions on and we will come back to those. Can I start by looking beyond the Health Check, as you indicated in your last sentence virtually. Your Communication praised the degree to which the combination of the 2003 reforms have made EU agriculture much more market-oriented and, as you say, makes it more fun to be a farmer engaging more directly with the market. The success of 2003 linked with what has been happening on world markets and the boom in agriculture really does create an environment where is it not worth trying to be even more ambitious in terms of reform.

**Mrs Fischer Boel:** In the Health Check?

**Q688 Chairman:** No, looking beyond the Health Check. At least setting a medium-term policy objective that is more radical than we are used to thinking about.

**Mrs Fischer Boel:** When you look at the budget available for agriculture, it was decided by Heads of State in 2002 to put a limit on the expenditure. It is a decreasing trend because the budget is only regulated by an inflation rate of one per cent, which means in the real world it is going down. Secondly, we are now financing the accession of Romania and Bulgaria under the same ceiling and, therefore, we have a budgetary discipline which means when we hit the ceiling, minus 300 million, then we have to reduce the direct payments to the farmers. We already have a decreasing scale plus we have introduced the modulation into the direct payment. The discussion on what our policies are going to look like after 2013 is part of the mid-term review of the Financial Perspectives that takes place in the Commission in parallel. In our first discussions internally here in the *Cabinet*, we would have liked to have had the Health Check and a mid-term budgetary review in parallel. We had already created the headline, "One Vision, Two Steps". We did not manage to convince the 13<sup>th</sup> floor that this would be an idea to pursue. We have had to concentrate on our Health Check and now there is a Communication from the Commission on the mid-term review of the Financial Perspectives but in much broader language where they introduce the idea of co-financing, not specifically linked to agriculture but in general. My personal view on co-financing of the first pillar is that it is the first step to a total re-nationalisation of the Common Agricultural Policy. Could you imagine if we decided that Member States had to pay 40 or 50 per cent of the value of the first pillar. It would be very, very difficult to get agreement in the Council. If it was voluntary for Member States to co-finance I know two countries that would be very hesitant, the UK and Denmark, to co-finance one single cent. Then you would have no level playing field for European farmers any more.

**Q689 Chairman:** I will try something else on you. What about actually saying now that really our ultimate objective is the abolition of direct payments and what we will concentrate on is dealing with issues like the environment and rural development, and even if necessary take them out of the CAP and have completely new mechanisms to deal with those issues?

**Mrs Fischer Boel:** That is exactly what I am trying to do in the Health Check, to say we need more money for the environment, for animal welfare, for competitiveness, for rural infrastructure, for the Internet, for everything in the rural areas. We need more money and, therefore, we want to increase the budget for rural development by reducing the direct payments.

**Q690 Chairman:** Just abolish it!

**Mrs Fischer Boel:** But that will be over my dead body. We need a common policy in agriculture. I am totally on the same line as you. The budget for agriculture will not remain at the same level that we see today after 2013. We need a common policy because we need to respond to the demands of the consumers and taxpayers. We need to be able to say to our farmers that we have certain requirements on environment, on animal welfare, on high standards of production, and we know that we have higher costs of production in Europe than in South America. If we reduce completely without any security net in the market tools then I fear it will end in a situation where we will see a very, very industrialised agricultural sector. By the way, this was one of the ideas in a programme that Gordon Brown launched when he was Chancellor. I do not want an industrialised agricultural sector in Europe. I want to see a diversified sector where there is room for the small ones, for those who want to specialise in fruit and vegetables, organic or whatever, and the big competitive ones as well. If you take away all the direct payments we have no way of securing that we can maintain diversification.

**Q691 Chairman:** What we are saying is that the role of direct payments in the future is going to be much more as a form of compensation, which is the wrong word but nearly the right word, to pay for the enhanced standards that we require of European agriculture so that it is not disadvantaged in the world market.

**Mrs Fischer Boel:** Then we should try to encourage quality and quantity. We are presenting a Green Paper on quality next year. If you look at the competitiveness of the European agricultural sector we will never be able to compete with Brazil on certain production and, therefore, we need to find some niches where we can be strong, where we can take our share of the markets when we look eastwards at the new emerging markets in India and China, and we can only do so because we can do something else. We have a very, very high level of food safety in Europe. We have spent hundreds of millions of euros to win the battle on salmonella, just to mention one. We have specific strict rules on imports of product from hormones, SPS issues, where our consumers do not want to have hormone beef. From my point of view, we should try to keep the European model of agriculture which is a diversified agricultural sector with lots of small producers in niche production and lots of competitive bigger farms. I would like to keep it like this without preventing the sector being dynamic to meet the new challenges. On climate change we need to contribute as well. By the way, agriculture has been reducing the CO<sub>2</sub> emissions since 1990, mainly because of the fact that we have reduced our production, but we need to encourage more innovation and more research in the second generation of biofuels because the first generation is a step on the way to the second generation. If not it is clear that in the future this competition between feed, fuel and food will not be sustainable. Where we can use surplus from our forest sector, where we can use straw, grass, slurry, slaughterhouse waste, that will be the future. Innovation should be at the top of our list. I hope you do not consider me a very conservative Agriculture

Commissioner, I try to move things and sometimes I feel agriculture is a super tanker and you do not turn it around just like that, but I think we have been moving.

**Q692 Chairman:** You certainly have.

**Mrs Fischer Boel:** I have 27 customers sitting around the table in the Council and they have very, very different views on the agriculture sector and I need a majority.

**Q693 Viscount Ullswater:** Commissioner, can I get back rather more to the detail particularly about the Single Farm Payment. In your very interesting paper you appear to regard the decoupled payment as a success, quite a substantial reform that was introduced in 2003, and yet there is a little hesitancy in it in that some areas, and I think you mentioned suckler cow premiums and perhaps durum wheat, need intervention of some sort or another. I would be interested to know how you propose to identify those particular circumstances which might need this sort of support. Might it not be easier to cope with these problems under the Pillar II way of financing so that you can manipulate that a little bit more according to the market needs over this longer period rather than deal with it in Pillar I?

**Mrs Fischer Boel:** I completely agree with you. First of all, I do not think there is any reason to maintain coupled payments in the cereal sector. On the other hand, I do not underestimate the difficulties that some regions of Europe with suckler cows, which you mentioned, would face with totally decoupled payments.

**Q694 Viscount Ullswater:** You mentioned suckler cows.

**Mrs Fischer Boel:** Then they would disappear. We have no interest in the disappearance of those. It could be sheep, by the way, as well because lawnmowers are much more expensive to manage and there is a shortage of labour as well. We need something. This could be

solved in the best way in the rural development policy. There is no difference of opinion on this.

**Mr Christoffersen:** One of the reasons why we might need some kind of coupling in particular cases, which have to be examined region by region and it has to be very much a regional approach, is that we want to keep Pillar II green in the WTO context. That means we cannot introduce coupled payments into Pillar II because we would destroy the green value of Pillar II. That is why if we want to preserve, for instance, animals or cows in a particular region we have to seek another solution.

**Chairman:** Upland pasture payments.

**Q695 Viscount Ullswater:** An extensive farming payment or whatever.

**Mr Christoffersen:** We do not want to pollute Pillar II.

**Q696 Chairman:** You cannot say beef or sheep but you can say maintenance of pastures, can you not, environmental pastures?

**Mrs Fischer Boel:** You can make agri-environmental schemes ---

**Mr Christoffersen:** But not one linked to a particular production.

**Mrs Fischer Boel:** No. We will be open to ideas.

**Mr Christoffersen:** It is the only way forward to preserve those objectives.

**Q697 Viscount Ullswater:** Can I develop that a little further. At the moment with the change, and we are still pretty early in this reform and some countries have only just introduced decoupled payments, I would anticipate that most farmers think the Pillar I payment is part of their income from farming, they would just consider that is due to them for having given up coupled payments, but that is probably the wrong way for farmers to approach that. I know there is cross-compliance, but in the arable sector you have now got

the rewards from the marketplace being much more substantial and that means people have ploughed up their set-aside in order to gain that financial advantage. Do you think we ought to move quicker in shifting the money from Pillar I into Pillar II and rewarding farmers for the public benefit that they do through Pillar II rather than just giving them a blanket payment and saying “Carry on farming, please”?

**Mrs Fischer Boel:** The rural development policy is where the music will be playing in the future and that is the reason why we have to continue from the five per cent modulation we have today, plus what the UK and Portugal has introduced. We have to do it in a way that means we will get support from Member States. I know there are some stakeholders who would like to see a 20 per cent modulation. We have to try to find a solution.

**Q698 Lord Cameron of Dillington:** A happy medium.

**Mrs Fischer Boel:** Yes.

**Q699 Chairman:** Seventeen and a half per cent?

**Mrs Fischer Boel:** With the plus eight per cent and a possibility to reopen Article 69, which is very attractive for Member States because that is not co-financed whereas rural development is co-financed. If we manage to get through with plus eight then it would be one of the greatest victories we have ever had. It will be extremely difficult. In the 2003 reforms it was 20 per cent as the first proposal and it ended up at five. I could have re-launched 20 but then Member States would have said, “She’s crazy”. We saw last time it didn’t fly so we might end up with almost nothing. This is credible. I would like you to come and join a Council meeting because then you will get an impression of the huge differences between 27 Member States. I was the Minister for Agriculture in Denmark when we were 15 and I would not say it was easier but it was more manageable than with 27. There are such huge

differences. Romania is a good example of a country where their farming is a big strong sector but they are lagging behind now.

**Q700 Chairman:** Is there not the danger that as they become more and more integrated into the benefits of the CAP, and certainly on direct payments, you get direct payment dependency amongst those agricultures?

**Mrs Fischer Boel:** Yes, but imagine if you took in new members and excluded the direct payments, that would not work. You saw the difficulties with the phasing in from 25 per cent. We see this very clearly today in Poland, that you capitalise the value of the direct payment and, therefore, it is going to be very difficult to cut the direct payment because it has been part of the business. On the other hand, it is a disadvantage for young farmers because the land is so expensive that it is very difficult to start from scratch without any ancestors or a rich uncle.

**Q701 Lord Greaves:** Can I take you to the question of capping the Single Farm Payment which you have been suggesting should take place. Can you give the justification for this? What are the reasons why you think it is a good idea? What is your answer to people who say it is going to be penalising more efficient, successful farms and farmers or, in some places, those which employ a large number of people relatively and would therefore have social costs if it affected that employment?

**Mrs Fischer Boel:** First of all, it is not a capping. It is not as in the previous 2003 reforms that when you had received €300,000 then you got nothing more. This is a progressive reduction which means even if you are very big you will only be reduced by 45 per cent, so you will continue to get payments until the very end. It is a completely different set-up from the previous one where you were really punished after 300,000. You can explain that there is an advantage of economies of scale in agriculture. To meet the reduction requirements in fertilisers you need to have the machinery that is modern technology to place the fertilisers in

the drill to have the optimal use of your inputs and this is possible only if you have a certain size. After this, you can explain that there is an economy of scale in the bigger farms. I know it is a very controversial discussion and, therefore, at the other end of the scale I have introduced the idea to see whether it is possible to reduce or get rid of support to the very small farms. In the UK you had so many new beneficiaries that it killed your system actually.

**Q702 Lord Cameron of Dillington:** Yes.

*Mrs Fischer Boel:* We will see whether this 0.3 hectare is really a farm or we can find another level. With 0.3 it is more expensive administratively to pay the direct payment than the money you would receive. It is controversial in some new Member States, Romania among others, where they have very small plots and they have not yet been through the changes in their agriculture sector. I have also clearly said that if the result of this progressive reduction is only that we make a better living for lawyers then I will take that into consideration, of course.

**Q703 Lord Greaves:** Can I divert from that question a little bit and pick up on what you said about Romania. In our previous meeting we had some interesting discussion about the need for structural change, and Romania is a classic example, although there are very many of the other new entrants where this is the case. It is difficult to see, whether or not there is a Common Agricultural Policy in 20 years' time as we would recognise it or not, how the agricultural market within Europe can function properly while there is such a huge disparity in the types of farms and systems. The need for structural change in a country like Romania is glaringly obvious but how on earth is it going to be achieved and where is the investment, the funding, going to come from?

*Mrs Fischer Boel:* When we look at the results of the enlargement in 2004 with ten former Central European countries, it has been working extremely well both to the benefit of the new

Member States and the agricultural sector in those new Member States and the old EU-15. It has been a win-win situation. Lots of investments are taking place in the new Member States, not always investments from the country itself but from people coming from other countries, not buying the land but renting the land with the present domestic legislation bringing new know-how. In general I think it has been a huge success. Romania is a very big agricultural country and we had our doubts as to whether they would be able to manage the payment and, therefore, we introduced a safeguard. As we have not got evidence that everything is working well we still have the safeguard in place and the possibility to reduce the direct payment by 25 per cent. We are aware of the difficulties in Romania. When I visited Poland in 2002 and when I go there now it is a completely different atmosphere, a much more dynamic country and Poland has these very, very small farms. They have now been through the structural changes necessary, as you say. I do not underestimate the difficulties with Romania but I am sure that we will manage.

**Q704 Lord Greaves:** When you say they have been through the changes, it is certainly true, as I understand it, that changes are taking place but there is a huge amount of change still necessary. Are you really saying that is going to happen without any very significant intervention at a European level or at a national level from the government, it is simply happening because the markets are taking care of it? Are you really saying that is the case?

**Mrs Fischer Boel:** We started paying the support funding to the ten new Member States but also to Bulgaria and Romania to make them able to fulfil their requirements within the agricultural sector. We know that new Member States have to apply to the same rule on SPS issues, sanitary and phytosanitary, and therefore there are dairies and slaughterhouses in new Member States that are not able to sell into the market from the very beginning but have the possibility to invest with this support. I do not remember how much money we have spent in Romania to improve their sector but it is significant. There is a willingness in most of the

new Member States to improve the quality of their internal production. With the experiences that we have had since 2004 it has been more positive than we could have expected. I was on the Budget Control Committee and we are finding more difficulties with Greece than with some of the new Member States. They have been doing well because of the fact that eight of them introduced this simplified system, the SAPS system, which is a flat rate system. That was the reason for not facing too many difficulties.

**Q705 Lord Plumb:** I think you rehearsed a very good speech for the Oxford Conference, if I may say so. A lot of what you have said is important. I would like to pick up one point if I may, first, which just concerned me a little. You said in relation to globalisation, and we are seeing Peter Mandelson later on so we will be talking more about WTO and so on, that we are in a situation where there is a much better balance at the moment. We heard from the Danish representative yesterday of the desperate situation in the pig industry in Denmark and the fact that a number of places are closing and so on and so forth. I know I am bringing this a bit more local.

**Mrs Fischer Boel:** No, that is fine.

**Q706 Lord Plumb:** We have got the same situation in Britain and it is happening in other countries too because of the surprising take-off of grain prices which is affecting the red meat industry in a very big way and the words are “fuel, fibre and feed” and arable farmers are doing exceptionally well but for the livestock farmer, particularly with foot and mouth, bluetongue, TB and so on, it has made it difficult. It worried me a little when you said the balance is better. My colleague reminded me that in the old days we used to talk about horn and corn and up a bit on one and down a bit on the other, and it must be very difficult to get it back. My question is more on managing the market and milk quotas. I know you announced your decision realising the ending of milk quotas presumably by 2015 at the latest and you are

announcing an increase of two per cent which, as you said earlier, will affect more countries than the United Kingdom for obvious reasons. I would have expected you to put it up a bit more actually to make a softer landing when you do decide to remove it. How do you see that working? Do you see a take-up by farmers and what effect do you think it will have on the whole of the milk industry?

**Mrs Fischer Boel:** First of all, the discussion on dairy quotas was part of the 2003 reforms and it was decided to abolish the quota system by 31 March 2015, so this decision has already been taken, this is not a new thing. I said more than a year ago that we need to find a soft landing otherwise we will see a situation where in some Member States the price of the quota will remain very high until the very last moment because there will be people out there saying, "Ah, don't believe in this quota ending, it has been prolonged before so it will probably be prolonged again". I have a certain weakness for young farmers and they would pay a very high price and then there would be zero. That was the reason for introducing this soft landing. For me, a soft landing is to increase slightly the quotas without destroying the market. Then I got a strong signal from the Council in September as to whether it would be possible to increase before 2009, which was our initial idea, 2009-13, the gap that the Health Check is covering. We made an impact assessment and we could clearly see an increase of two per cent, which was the idea in 2003, would not destroy the market and we will present to the Council in December a proposal to increase by two per cent. Further discussions on the quota system for dairy will be part of the Health Check. If we look at the whole period up to 2013 we need a further increase but we will have to be careful to find the right balance because if we increase too much we will see these cycles. Predictability for farmers is extremely important, that they know when they invest more or less - there are always risks - what the political level will be deciding and what their future could look like. To abolish the quota system before 2015 will probably be legally impossible because there might be some

farmers who would say that they had legitimate expectations and, therefore, we would probably face difficulties. That is the idea in the dairy sector. We have invited all stakeholders to a conference in Brussels on 11 January only to discuss dairy because there are many ideas floating around to get rid of the super-levy and other interesting and strange ideas.

**Q707 Lord Plumb:** From all countries?

*Mrs Fischer Boel:* The UK does not produce up to their quota.

**Q708 Lord Plumb:** I am sorry, at the stakeholders' meeting.

*Mrs Fischer Boel:* From all over Europe, yes. This morning there were representatives from all countries via the COPA membership.

**Q709 Chairman:** Could we just go back a little bit on intervention. You said no intervention on cereals but you have made an exception about bread wheat. Why have interventions on bread wheat?

*Mrs Fischer Boel:* Because there are some anxieties in the public outside that bread is a fundamental product in agriculture or is a daily need for consumers. That was the reason for maintaining the possibility of an intervention system.

**Q710 Viscount Ullswater:** So it is strategic?

*Mrs Fischer Boel:* Yes, exclusively. It is not to manage the market because those days are gone completely. We do not want to use the intervention system to manage price levels in the cereal sector, no way.

**Q711 Lord Cameron of Dillington:** So the more expensive bread gets the more you put into intervention logically. If it is strategic, if food is getting too expensive, you put more into intervention.

**Mrs Fischer Boel:** That would be very difficult because when we talk about intervention you would maintain a certain amount for intervention in bread wheat. In the other sectors it will be zero intervention but in wheat, if necessary, we would buy wheat. It is obvious in a market where prices are high that people would never sell for intervention because the price would be much lower than they would normally be able to get in the free market.

**Q712 Chairman:** But if prices were to go down and you had intervention that would really produce a distortion, would it not?

**Mrs Fischer Boel:** If?

**Q713 Chairman:** If cereal prices generally were to go down and you kept intervention for bread wheat, people would flock into bread wheat for the intervention price and that would produce an enormous distortion.

**Mrs Fischer Boel:** No.

**Q714 Chairman:** You do not think it would?

**Mrs Fischer Boel:** No.

**Q715 Lord Plumb:** The yield is so much lower anyway.

**Mrs Fischer Boel:** You have to take into account that bread wheat requires a special way of producing it. It is more difficult to produce bread wheat than other wheat because of the contents of the starch. The starch part has to be high and with the present reduction that we have in the country and the use of fertilisers because of the Nitrate Directive it makes it very difficult to produce bread wheat. It is not that easy, therefore I do not think it will happen that everybody will go into bread wheat.

**Q716 Chairman:** It is a food security issue.

*Mrs Fischer Boel:* The yields are lower in bread.

**Q717 Lord Cameron of Dillington:** I have two questions, one a detailed question and one more forward looking. The detailed one is on set-aside. We totally approve of zero set-aside and, in fact, the abolition of set-aside, but you did say in your Communication that you felt there were other ways of dealing with the environmental problems that come along with the abolition of set-aside. Have you got any solutions to dealing with these environmental problems?

*Mrs Fischer Boel:* We had a discussion this morning. I said that set-aside has never been an environmental measure.

**Q718 Lord Cameron of Dillington:** No, but it has turned out that way.

*Mrs Fischer Boel:* There were lots of people from Birdlife International.

**Q719 Chairman:** We know them.

*Mrs Fischer Boel:* They reacted immediately. It is not a total abolition of the set-aside, it is simply we do not have any compulsory set-aside so farmers can still maintain areas, and I know they are going to do so. If you are a farmer and you have a forest you would never plant close to the forest because nothing grows there anyway, so why not keep it? A lot of farmers would like to go hunting as well, so it could be nice in some areas. I do not consider zero set-aside as the outcome. We have to find solutions in the agri-environmental schemes if we can make it interesting for farmers to say, "Yes, we would like to take this scheme up". The problem is if we make it compulsory then we cannot use rural development. We have to make an attractive agri-environmental scheme that can take over the environmental benefits that there have been from set-aside.

**Q720 Lord Cameron of Dillington:** So that is more money to Pillar II again, very good. We approve.

**Mrs Fischer Boel:** That is why we need more money in Pillar II.

**Q721 Lord Cameron of Dillington:** My longer term question is I have seen particularly the Single Farm Payment at a flat rate, decoupled, as being a step to much more market orientation, possibly even complete market orientation, and yet one of the problems you have to deal with is the ups and downs of food production in the marketplace, for weather, for financial reasons, even in Australia or wherever it might be. All businesses have to cope with risk and you have a big chapter on risk in your Communication, which is good. Would it not be better if we could put more of that risk into the hands of the farmers? Instead of having the Single Farm Payment to support farmers - I am talking long-term, 2015 onwards - would it not be better if the EU paid half an insurance premium for farmers to cope with the risk and then it withdrew, it is the farmer's insurance policy? The Single Farm Payment seems very unsatisfactory and I am thinking of ways of giving more responsibility to the farmers to pay.

**Mrs Fischer Boel:** The ideas on risk and crisis management will always leave the responsibility to the farmer to tackle the normal risks that are in every business.

**Q722 Lord Cameron of Dillington:** Not in the wine sector it does not.

**Mrs Fischer Boel:** Wait and see what is coming up. I hope it will be positively received. We do not want a European scheme for crisis management, we want Member States to create schemes, but we would be open to look at the possibility of co-financing the premium via the rural development scheme.

**Chairman:** That is all right. That is good.

**Q723 Lord Cameron of Dillington:** Good.

**Mrs Fischer Boel:** That could be a possibility. We cannot prevent farmers from taking certain risks, that has always been the case. I am not going to try to translate what President Sarkozy means.

**Q724 Lord Cameron of Dillington:** Nor is he, I doubt.

**Mrs Fischer Boel:** If there should be any expectations of an income safety net, forget it. This would be a countercyclical payment, exactly what we are accusing the Americans of using as the most trade distorting measure. If you hear this idea, please kill it. It is not “green box” when we discuss the WTO terms, it is the most trade distorting ever. That simply will not fly. I think the majority of Member States would not accept this step back.

**Lord Cameron of Dillington:** I agree.

**Q725 Viscount Ullswater:** There is one thing that bothers me about this shift from Pillar I to Pillar II because in all our discussions it has been, “Oh, let’s move that into Pillar II” and there seems to be an endless series of things which qualify for Pillar II, whether it is co-financing or financing. I was very taken by what you said about these small farms getting Single Farm Payments and the cost of the bureaucracy of giving them monies is greater than the monies they receive. When I look at all the axes and all the things which are available under Axis 1, Axis 2, Axis 3 and Axis 4, are we not running into that sort of danger again, that the bureaucracy of administering these schemes in Member States is going to be so great that most of the financing is going to go on the administration? Tell me I am wrong.

**Mrs Fischer Boel:** In this Commission we have a headline saying “Simplification” and in agriculture I think we are the winner of the day on simplification. It might be because there are lots of possibilities to simplify. What we have done on set-aside, on the reform in fruit and vegetables where we reduced the number of entitlements and previously we had an entitlement for fruit and vegetables and for set-aside, and this can all go I hope. That is the

reason why I am looking forward to a flat rate system because then it will be a simple system. Cross-compliance has been accused of being very, very complicated. We had a report the day before yesterday which shows it is much, much less complicated than it is now labelled. I must say when I look at the results - it is six different Member States we have been looking at - they are very different, which means that there are some Member States that are over-implementing ---

**Q726 Lord Plumb:** We can name one.

*Mrs Fischer Boel:* --- which means adding national things on top of what was the intention. I am really going to look into this because I am constantly accused by Germany and it turns out that Germany is a country that made it much more complicated for their farmers than anyone else. Member States need to help to simplify things.

*Mr Christoffersen:* Just on your particular question, I heard a suspicion that by saying there are a number of new challenges which we see and have to solve through rural development that means we will add a number of new instruments in the rural development field. But on our analysis thus far shows that we can use some of the existing possibilities in the rural development scheme to respond to most of the new challenges. The question is only to reinforce those particular possibilities financially. We talked about compensating for the disappearance of set-aside, but we have plenty of possibilities inside the present rural development scheme for supporting activities that could do that. Do not assume that by saying that we have new challenges to respond to that this means adding new additional possibilities in the scheme, it could just be about reinforcing the use of some of those that already existed.

**Q727 Baroness Jones of Whitchurch:** That fits very neatly into the question I was going to ask because you have talked about climate change and indicated that could be dealt with

effectively through elements of Pillar II. Given the broad spectrum of issues around climate change, not only about drought, flooding and so on but the need to reduce CO<sub>2</sub> emissions and so on, how would you realistically manage those issues? How could you do that within the current Pillar II requirements?

**Mrs Fischer Boel:** First of all, the paper on energy and transport from the Commission on 10 January this year gives some clear signals on the reduction of CO<sub>2</sub>: 20 per cent by 2020 and 30 per cent if we get others on board hopefully at the Bali meeting. Secondly, by 2020 ten per cent of our energy demand should come from renewable energies and here agriculture can contribute. In fact, it is the only one that can contribute in the transport sector. That is the reason for the clear signals from the agricultural sector that we will be able to deliver on the reduction of CO<sub>2</sub> emissions via bioethanol or biodiesel but we require that the production takes place in a sustainable way, which does not mean we will accept that pastures are ploughed up or forests are cut. We will put the same requirements on imported energy, be it oil or fuel, biodiesel or ethanol. We can deliver our part. We can do quite a lot more within the primary production reducing emissions from a manure tax to ensure that you do not blow the manure up into the air but place it on the soil directly, you do not bring it out in the autumn where the snow absorbs it. There is quite a lot that can be done. I have flagged up the idea in the Communication that we do not need the energy scheme that we have at present. We have the possibility to pay farmers €45 per hectare on up to two million hectares for growing energy plants, but today we have a well-functioning market so I hope we can agree this will disappear and then maybe spend the money in innovation or the possibilities of developing the second generation of biofuels instead.

**Mr Christoffersen:** As the Commissioner has said, one very typical example of where we need to do more is on manure because the greenhouse problem from agriculture is not so much CO<sub>2</sub> as the other types of greenhouse gases.

*Mrs Fischer Boel:* Methane.

*Mr Christoffersen:* This is a very important point. We have possibilities in the rural development scheme but we need to reinforce the use of those possibilities. Another important part of climate change is the whole water management and water conservation policy and that is one area where we need to do more.

**Q728 Baroness Jones of Whitchurch:** We heard this morning from your finance colleague that because everybody can see that the environment is a key policy issue coming up everybody is suddenly adding the environment on to their list of responsibilities and in the budget round they will be a factor, they will all be saying, “We can solve your environment problem out of our budget and our responsibilities”. Do you think there is going to be an inevitable level of duplication because some of the areas you are talking about do not fit naturally with the existing farming regime as it stands? We are talking about quite a big shift.

*Mrs Fischer Boel:* In which area would you solve it?

**Q729 Baroness Jones of Whitchurch:** By having an almost separate function that deals with the environment issues rather than trying to fund it out of the existing budgets.

*Mrs Fischer Boel:* Normally I have a very good imagination. You might create a new fund to finance investment in agriculture via the addition of a different budget. I will not kill any ideas from the beginning but it sounds a bit difficult.

*Mr Christoffersen:* In general today if you look at the instruments which the Commission has at its disposal they can legislate and force Member States to undertake certain environmental measures but agriculture is the main instrument for the Commission to do things directly for the environment. The second pillar, cross-compliance. If you are looking at measures inside the Commission today which have a direct bearing on the environment most of them are under your responsibility.

**Mrs Fischer Boel:** They are coming from agriculture. I think it would be difficult to find another financial donor.

**Mr Christoffersen:** We are actually saying we are prepared to finance this by moving more money into the second pillar.

**Q730 Baroness Jones of Whitchurch:** But presumably by increasing. You are not saying you are going to do it on a ---

**Mrs Fischer Boel:** Not increasing.

**Q731 Baroness Jones of Whitchurch:** You are going to do all the climate change stuff within the existing budget?

**Mrs Fischer Boel:** The budget for agriculture will not be increasing after 2013. We will have lots of different challenges but we have not asked for more money. We will simply try to reallocate within our budget from the more traditional direct payment into the rural development policy.

**Q732 Earl of Dundee:** You mentioned that there will not be an increase in funds to the CAP from the EU budget and you also suggested that compulsory modulation should be accompanied by decoupling. Is this not a recipe for distorting competition within the Single Market given that there really is so much variation in different EU States in their political priorities as well as in the relative strengths of their farm lobbies?

**Mrs Fischer Boel:** First of all, I think the discussion on financing for agriculture will be negotiated together with the British rebate. It is always a French/English discussion.

**Q733 Lord Cameron of Dillington:** And the other rebates.

**Mrs Fischer Boel:** You get the biggest ones. That is the reason for not expecting any higher budget in the future. Personally, I know those of you who are close to farming society know

that farmers would love to make their income from their production instead of from payments. If this is what we can see on the horizon and hopefully this is where we are heading, higher prices, I am very happy to see the price increases in agriculture because for 15 years we have been in a decreasing situation. Those who are complaining about milk prices, as long as they never complain about buying a litre of Coke, which is sometimes more expensive than a litre of milk, I could not care less.

**Q734 Lord Greaves:** Water, never mind Coke.

**Mrs Fischer Boel:** I have carefully looked into the prices of water and unless you are going for a very special one it is still cheaper than milk, but Coke is a different matter.

**Q735 Chairman:** Finally, I think something that has underpinned a lot of our discussion is to identify what aspects of the CAP it is essential to keep common across all Member States and what aspects you can allow to have greater variability in the context of particular problems of Member States. Have you got a thought on that, what is absolutely essential to keep hold of across the board?

**Mrs Fischer Boel:** I want to keep a certain level of direct payment co-financed exclusively from the Commission. We all know going from the northern part of Finland down to Sicily that there is a huge difference and that is the reason why we have introduced the possibility in the rural development policy for Member States to make their own programmes tailor made for the challenges they face in their specific regions. This must continue because you can never make a one-size-fits-all programme in rural development. Those are two huge differences between the direct payment and the rural development policy. I am sure we will have a discussion raised by the new Member States as to why their direct payment is lower than that of the old Member States because of the history of the direct payment which originally was a compensation for the drop in prices in the McSharry Reform. As this can no

longer be the only explanation I am sure you will see a queue of new Member States saying, “We need a flat rate but this has to cover the whole of the European Union”. That is going to be a very, very difficult discussion. If this happens then you will see a severe or huge reduction in the old Member States and an increase in the new Member States because the levels are completely different. This is for the discussion that will take place. It is a fantastic job I am in, you can imagine.

**Q736 Lord Cameron of Dillington:** Article 69, which seems to be pretty important, do you have support for your desire to relax the rules in Article 69?

*Mrs Fischer Boel:* I do not know yet because we have not started the discussion.

**Q737 Lord Cameron of Dillington:** That is going to be quite important, is it not, particularly all this talk about more rural development?

*Mrs Fischer Boel:* Why should Member States be against it?

**Q738 Lord Cameron of Dillington:** I do not know, but I never understand what Member States do.

*Mrs Fischer Boel:* If it is voluntary why they should they block the possibility for those who want to use it to make it much less complicated.

**Q739 Chairman:** Thank you very much indeed. We look forward to the outcome on wine.

*Mrs Fischer Boel:* Really. The most important request from the UK is to increase the de minimis.

**Chairman:** Thank you very much indeed.