

WEDNESDAY 23 JANUARY 2008

Present

Arran, E
Brookeborough, V
Brooke of Alverthorpe, L
Dundee, E
Jones of Whitchurch, B
Palmer, L
Plumb, L
Sewel, L (Chairman)
Sharp of Guildford, B
Ullswater, V

Witnesses: **Lord Rooker**, a Member of the House, Minister for Sustainable Farming and Food, and Animal Welfare, and **Ms Sonia Phippard**, Director, CAP Reform and EU Strategy Programme, Food and Farming Group, Defra, examined.

Q875 Chairman: Good morning. Having finished wine, we are now on the CAP reform: the health check and looking forward. Use your opportunity now, if you want to say a few general things to begin with.

Lord Rooker: I would like to, actually. I am conscious that the last couple of times I have been here I have not, because there has not been the need or I have not come prepared with a statement. However, given the nature of your inquiry and, in a way, the position of flux that the Government and the UK are in, it is a fairly short statement but it would set the scene for the other remarks that I am probably able to give in answer to your questions. Obviously, we very much welcome the inquiry. Given the nature of what you might want to know about today, there is a lot that I will not be able to comment on until we have seen the full legislative proposals in May and here we are, in January. At that point, we will consult our stakeholders of course, and there will be a full consultation; but obviously there is a good chance today to comment on the overall direction of travel. As you know, the Secretary of

State set out a clear vision for farming at a conference last November, just across the river, outlining what we would like to see for farming and from farming. The industry earns its rewards from the market for quality, safety, environmental and animal welfare standards. We want it to be profitable and competitive, domestically and internationally; an industry that works together to meet the challenges it faces and to manage its risks; one that embraces environmental responsibilities, because those who own, manage and work on the land are at the front end of dealing with climate change; and certainly we have to manage the water and the soil better than we have probably done in the past. We see all those as issues which are essential for long-term economic success. We want an industry that is valued and rewarded by society for the environmental goods that it provides. We think that the Common Agricultural Policy reform is a key element in achieving the vision for UK and European Union farming. The CAP as it stands is expensive, wasteful and inefficient in providing ongoing support for farmers. It definitely distorts global markets, weighs farmers down with regulation – and I suspect most of you know that – and it certainly acts as a disincentive to farmers to maximise their competitiveness. Our long-term vision is to see the elimination of Pillar 1 of the CAP altogether, leaving public subsidy targeted at specific public benefits, such as the environmental enhancement through Pillar 2. The health check is an important step in the process. You appreciate that it will not touch the overall size of the CAP budget, but it does offer scope to revise some of the distortions in the Common Agricultural Policy. We therefore very much welcome the Commission’s health check paper, in so far as it is in line with our own vision. It has the potential to bring benefits for farmers and to improve the delivery of the environmental benefits, and we have to make sure that the proposals in May are ambitious in that regard. In order to bring such benefits, we believe that the health check legislative proposals should be underpinned by the following principles and aims: to reduce the regulatory burdens; give farmers greater control over business decisions; to cut further the

trade and market-distorting nature of the CAP; to direct policy and public spending towards delivery of targeted public benefits. This will be a process of negotiation between ourselves, the Commission, other Member States and the European Parliament; and we hope that the Committee appreciates the need for caution in revealing what are our red lines and end-game tactics at this particular stage, in January 2008. There is no secret about what our feelings are on many aspects of the CAP. For example, we want to see an end to coupled payments in all Member States to create a more level playing field and give farmers full autonomy over their production decisions, so that they can compete in a global market. We would like to see the phase-out of export subsidies and intervention, the abolition of milk quotas, and the abolition of set-aside. We obviously have to ensure that we mitigate the environmental effects of aspects of set-aside. These measures have distorted trade, increased costs to consumers, and inhibited farm competitiveness. We would further like to see modulation of funds from Pillar 1 to Pillar 2 towards targeted rural development schemes. Beyond the health check, the Budget review – which will come much later, of course – provides the important opportunity for the European Union as a whole to examine the CAP closely and to consider how that policy should be shaped post-2013, to make sure that it is fit for purpose, delivering, we think, a greater benefit for European Union taxpayers, in line with our vision. In particular, the CAP continues to cost European taxpayers substantial amounts of money. In 2005, Pillar 1 of the CAP cost the European Union Budget more than €42 billion and placed an additional burden on consumers. We will engage with other Member States, the Commission and the stakeholders in the coming years to ensure that negotiations on the next Financial Perspectives address these concerns. I hope that statement gives a flavour of how we wish to proceed, in somewhat general terms but also with some specifics; because the timetable we are involved in is such that – while the health check document was in November last year – it will not be until May this year that we get the legislative proposals. We intend to get political

agreement by, say, November; and I understand that it is agreed that there should be a conclusion of the health check exercise during the French presidency, which will end on 31 December.

Q876 Chairman: Thank you very much indeed, Minister. As you have said, we are here talking in January, waiting for legislative proposals in May, and I recognise the difficulty that creates. This is a public, on-the-record session. Would it be helpful if we were perhaps slightly more informal and stopped the public record for a ten-minute review at the end of the session?

Lord Rooker: I have no objection to that, if we are in a position to be able to assist the Committee. That is what we are here for. We are from the Government. We have come to help.

Q877 Chairman: That is very worrying! Two of the specifics that you have mentioned – the abolition of milk quotas and set-aside – we have almost subconsciously ticked the boxes on those and seen them as having been achieved, in the bag, as it is. That is the general impression we have had from everybody we have spoken to. There is that assumption around. Perhaps I could go beyond that and look at the extent to which there is a shared vision at a UK level. We have taken evidence not just from the English but from the Welsh, the Irish and the Scots – a delightful experience! – and what I am asking you really is the extent to which you think that, in approaching CAP reform and the health check, the devolved administrations are signed up to the type of vision of the Common Agricultural Policy that was in your 2005 document, and is clearly still driving policy with Defra ministers. I suppose the specific question is whether the devolved administrations are equally keen to get rid of Pillar 1 direct payments as you are.

Lord Rooker: It would be daft for me to sit here and say that we are all 100 per cent in agreement, bearing in mind there have been political changes in all three of the devolved administrations since the *Vision* document. A year ago, the administrations were completely different. There was still direct rule in Northern Ireland, so there was a government direct-rule minister. In Wales there was a slightly different coalition arrangement, as indeed there was in Scotland. In fact, therefore, the agricultural ministers in the four countries that make up the United Kingdom are all from different political parties. That does bring a slightly different perspective. Generally speaking, though, in terms of reform, we are rowing in the same direction; indeed the new administrations are looking at their views. I am not saying that they would be exactly with us on all the minutiae of the detail, but in terms of wanting to get reform, better value for the taxpayer, I do not think there is a major difference. There clearly will be differences, maybe with the speed of process, say, to abolish Pillar 1 and moving to Pillar 2, and the issue of the use of national envelopes, which Scotland uses now in one respect but nobody else does. There is the issue of modulation. There will probably be different views on that. However, I am not aware, from my daily existence or the discussions I have had with them relating to other matters – essentially, disease control in food animals – that we have major fundamental differences that will inhibit our negotiating as a UK Government with the other Member States.

Q878 Chairman: Do you think that you will be able to incorporate it in the UK, with the Scots' emphasis on national envelopes and their concern to maintain something like the beef calf scheme and things like this?

Lord Rooker: Certainly as far as reform is concerned, whether it is the national envelopes or looking at other aspects, what we do not want through the back door are a load of new schemes which are all there as support mechanisms, putting back the worst of the CAP. We are on guard for that. Quite clearly, in the present situation, with what occurred during the

summer of last year in the meat industry, I fully understand why the Scots and the Welsh were taking a slightly different view about support mechanisms, particularly with what happened on the hills. They are quite entitled to do that, as long as they pay for it. We do not rule differences out but what we will be very mindful about and watchful of – and this also applies to other Member States – is that we do not want to rebuild support mechanisms: production subsidies being put in through the back door, really.

Q879 Viscount Brookeborough: In your *Vision* – and you have just made it clear again that you would like to see the end of Pillar 1, namely no direct payments and no market management – if there is to be a compromise in the future or as part of a transition process, and there were to be a residual level of Pillar 1 expenditure, what in your view should it and could it be spent on?

Lord Rooker: Our objective is to see the end of Pillar 1. Going back to the old-fashioned way of running the Common Agricultural Policy, Pillar 1 is money straight into the bank for no particular purpose whatsoever. Unlike the Pillar 2 programmes of environmental goods, environmental benefits, it simply distorts the market; it distorts businesses; and shields people from the realities of competition. Our objective, therefore, is to do that. We are some years down the road; we are not talking about this in respect of the health check. This is for the future. We are talking about 2015-2020. That is some considerable way away. By and large, the general view – and we have always made this clear, there is no secret about this – is that we do not see a long-term future, for the foreseeable future. I cannot really speculate on what they might be used for. Obviously, moving from where we are now to, let us say, the abolition of Pillar 1, there would be substantial transition periods. No one is talking about turning this off overnight. That would be catastrophic for some businesses; for others it would not make any difference, because they are getting such a tiny amount. From the public's point of view, however, there is more and more exposure as to what their tax money

is being spent on. If we can show as a government, and indeed the farming industry can show, good environmental benefits – mitigating climate change, the way we are looking after the soil, keeping the water clean – these are all good things that can be pointed out; whereas at the moment for Pillar 1 you cannot directly show any public benefit for what is, for England, £1½ billion. It is not an insubstantial amount of money.

Q880 Viscount Brookeborough: One could say that it is all very well for Defra, settled in London, and that most of England is an entirely different type of countryside to those areas on the periphery, the devolved areas – being Scotland, Northern Ireland and Wales. To what extent do you think that the environment should continue to be appreciated, as a result of some grazing or some farming in those areas? If that is so, can a future Pillar 2 in lieu of Pillar 1 sustain it? Or are you saying – which is undoubtedly true – that animals produced on the Isle of Skye, the Hebrides or the hills, cannot be produced in England?

Lord Rooker: First of all, if you take the situation regarding, let us say, Northern Ireland, they have a land border with another Member State; obviously, the consequence is vastly different schemes. I think that the thrust will be towards eliminating the subsidies for which they are paid for no particular purpose.

Q881 Viscount Brookeborough: But there is a purpose where sometimes the environment requires some of this marginal land to be grazed, rather than simply left.

Lord Rooker: In that case it ought to be part of a scheme to do it and based, for England's purposes – it is slightly different in Northern Ireland, Scotland and Wales – on some kind of scheme, some kind of arrangement with an end output, so that you have something you can measure; as opposed to now: simply saying, "I've got an area of land that is farmed, in good agricultural condition, and I demand my money". That is not quite the long-term vision that we have. In Pillar 2 and also through the RDAs, we have lots of arrangements for

environmental works and stewardship of the environment. I freely admit that, in the hills, there is very little you can do. The sheep do a really good job for us to make sure the landscape is maintained, as man-made. The city-dwellers like it. They will be the first to complain if we allow it to be covered in bracken. Therefore, there is an environmental benefit to farming the hills, and by and large done with sheep. However, that is something you can measure and I think that is a much better purpose. I think that farmers are much more comfortable in having the money flow when there is an output, because the output is there. It may not be the output in terms of tonnes of sheep meat to market, but we measure it in a different way and it is much more acceptable to the public as well.

Q882 Lord Plumb: May I ask a supplementary? If the Lisbon Treaty goes through, qualified majority voting will include agriculture, which it has not done in the past. A lot of these countries, structurally, are beginning to think in terms of development and therefore using the Pillar 1 fund for structural development. In fact, it should not be available for Pillar 2 use. Will there not be a difference of opinion here at the end of the day, when you get around the table before May and other countries say, “We must continue this fund for a considerable amount of time, in order to make our structural improvements effective”?

Lord Rooker: I might be wrong, and I will take advice from Sonia, but I do not think that the May issue is relevant. It is long-term, abolishing reliance on Pillar 1 to Pillar 2. That is part of the budget post-2013; that is not relevant to the health check, which we will be looking at from May to the end of this year. It is a much longer period for discussion with the 15 Member States plus the new entrants to the EU. It varies, particularly with some of the new Members; the structure of their farming is completely different. However, if they all joined on the basis that there is a load of money out of Pillar 1, then they will be sadly disabused because there will be a different arrangement. It is best that they share the lessons we have learnt, in a way, from running the CAP the way we have done, which has been

anticompetitive and not beneficial. However, this is a long-term discussion, after the health check and then into the Budget, which will be post-2013. We are therefore talking about 2015-2020 for that kind of arrangement, and I suspect there will be a phasing-in and a phasing-out. It is not something that we are under pressure for to deal with this year. It is useful to let the landscape be painted, though, so that people know where the UK is coming from. We are not alone in this. At the end of the day, we will have to face the World Trade Organization and other matters, keeping our farmers and food producers competitive and able to compete on a global scale. At the present time, we are not able to do that.

Q883 Lord Palmer: You virtually answered my question in your opening remarks and in replying to Lord Brookeborough but, in your opinion, what proportion of Pillar 1 spending should be transferred to Pillar 2 and what proportion should disappear altogether? I think I understood you to say that basically 100 per cent should go almost at once.

Lord Rooker: No, I have not implied that at all. I do not carry around all the figures for the UK in my head but, in terms of England, as I have said, it is just over £1½ billion. I am not proposing that overnight we withdraw £1½ billion from what is, in effect, support to farmers in England. No, this requires long-term change. I do not have a figure and the reason, as you will appreciate, is that there is an objective to reduce the proportion of the EU Budget spent on the CAP. It is around 45 per cent or something of that order. It is a phenomenal amount of money. There will be a view amongst Member States, I suspect, that we have seen Pillar 1 go, and "...Right, we'll have that money" and that gets moved to Pillar 2 and maybe other schemes. There will be some countries, and treasuries in some countries, that will say, "Hang on a minute. Perhaps we don't need to raise taxes as much. We'll have that money and take it off the budget". There will be all kinds of negotiating arrangements. At the present time, I understand that Pillar 2 – if you take all the various schemes – is about 20 per cent of the CAP funding. The single farm, direct, inefficient payments form 80 per cent. What we want

to do is get rid of those. I am not in a position to say how much of that we would like to see go over the Pillar 2 and how much we would like to see wiped off the budget altogether; but there will be discussions about this, because there will be an attempt to reduce the overall size of agriculture in the EU Budget. That is not a very precise answer, I am afraid, but it is the one I can give you with some safety for my own skin!

Q884 Chairman: We did invite the Treasury to come along and talk to us but, they did not seem to be particularly keen to do so.

Lord Rooker: I had a chat earlier about that. For all practical purposes, I am the Government and I speak for the Government. I have a standard phrase here, and you read it in a letter that you have had from the Economic Secretary, that “No decisions have been taken on how the Government intends to approach the Budget review or the Commission’s process”. I cannot go any further than that.

Q885 Viscount Brookeborough: You seem to be quite optimistic, Minister, that maybe there would be a reduction in the total budget, but what we have seen in other sectors – be it the wine sector – is that actually the deal in the end was that there would be no reduction in the budget; it would merely be used in different ways, be it a different Pillar.

Lord Rooker: Yes.

Q886 Viscount Brookeborough: Do you have good grounds, from discussions with other countries, for feeling that we will succeed?

Lord Rooker: No, we just have our vision and our attempt. The opportunity does not come along very often to have a look at the fundamentals of the EU Budget. The last one was dealt with and this will be dealt with at, let us say, a much higher political level than my humble

position. You are quite right: it will probably be the result of trade-offs on other issues when the time comes.

Chairman: Let us move on to rural development.

Q887 Baroness Jones of Whitchurch: You have emphasised several times now the importance that you see in Pillar 2 in the future, and you have talked in particular about the increasing environmental responsibilities that you see being carried out under Pillar 2. In fact, we were talking before you arrived about what Pillar 2 really meant and what rural development really meant, and of course it is much broader than just the environmental aspects. There is the economic aspect, the cultural aspects, and others as well. Do you think that we are in danger of overloading Pillar 2 with a whole lot of new responsibilities, way beyond what it was originally intended for, and really way beyond agriculture in the way that we had originally envisaged it?

Lord Rooker: In some ways, the way Pillar 2 operates – the concept and the operation, as I understand it – is flexible enough and broad enough for us to deal with virtually all the objectives that we would want to deal with. We look at it through, on the one hand, the stewardship schemes that are funded through Natural England and the rules there relating to the work that is done by farmers in respect of the environment; but also money is channelled through Pillar 2, through the Regional Development Agencies, through various organisations that would not be related to the environment but related to rural life in general. There is a host of schemes out there. In fact, they are so complicated that people set up businesses to explain the schemes to people. In some ways, I do not see that as a criticism; it shows that we think Pillar 2 is broad enough and flexible enough certainly to be able to cope with the Rural Development Programmes that we would wish to operate. Indeed, we have a very substantial Pillar 2 Rural Development Programme over the next five to seven years, running into nearly £4 billion, reaching all kinds of activities. We do not see a threat of it being overloaded. I do

not deny that, if Pillar 1 goes – and we are obviously talking about a decade ahead – and Pillar 2 changes substantially, then certain Member States, and we would be no different, would start to look at delivery mechanisms. As we are now, do we have the machinery of government right for delivering these programmes? Obviously, if we have a different system we will have a look at it; but, at the present time, it is flexible enough and broad enough to achieve our objectives. However, I am not saying that would be the case if, for example, half of Pillar 1 was saved for the taxpayer and the other half went over the Pillar 2. That would be a substantial amount of money – I am just thinking aloud on that – and you would start to look at how you deliver such programmes. Would the present arrangements be sufficient, and also what would the programmes be? At the present time, however, we do not have a problem with it.

Q888 Baroness Jones of Whitchurch: Could a lot more of that be done by individual Member States? Why do it at a European level anyway?

Lord Rooker: That is part of the other issue. Looking at the budget, I keep seeing this word “subsidiarity” and occasionally I ask, “What have we got back? What do we do now that was done for us by the EU some years ago?”. Examples are given, but there is a lot more that we ought to be able to do that does not distort competition, and actually makes it fit for purpose in the individual states. We see that here. Given the fact that it is a devolved issue in the UK, we have enough experience of dealing with different programmes in Wales, Scotland and Northern Ireland, and we can build on that. It can be dealt with at a local level, therefore. I absolutely agree with that. There is no reason at all why Brussels should be dictating the details of Rural Development Programmes – as long as you have a programme, and the big picture is bought into, that we want the European Union to be concerned about the economy, if you like, and quality of life in rural areas.

Q889 Chairman: Several decades ago, when I had a professional interest in rural development, my conclusion was that, if you were serious about rural development in a broad sense, the last thing you should do was to put money into it through farmers or agriculture. Surely the problem with Pillar 2 is that it does not give you that broader flexibility to put money and support into the rural economy beyond the farming/agricultural route?

Lord Rooker: That may be true, but the experience we have through the RDAs anyway, outside of Pillar 2 work, is in creating and sustaining rural business and innovation, to make sure that all our towns and villages do not look like chocolate box lids, where people commute in and out and there is no vibrancy of life. That is exactly the opposite of what we are trying to do, but we are not necessarily using Pillar 2 for that. However, if in the EU context rural development became bigger then, as I have said, we would look at how we would deliver that; but we are not relying exclusively on Pillar 2 for the work that goes on there. You are absolutely right. I have forgotten what the figure is now, but it is confined to one or two per cent of people involved directly in agriculture - who live in the rural areas. I think it is 25 per cent of people who live in rural areas, although the definition can be argued about. So there are lots of other issues that have to be dealt with. The social infrastructure in those areas has to be maintained and enhanced. That is important, and it does not necessarily come through Pillar 2.

Q890 Viscount Ullswater: You have almost answered the question I was going to ask, which was basically, if you are going to get rid of Pillar 1, why not just have a Rural Development Programme and scrap CAP altogether? Perhaps I can phrase it in a slightly different way, however. If this is the trend – and in your *Vision* I think that is the direction in which you are looking – what sort of percentage of Pillar 2, however it is funded, would go back into agriculture under the sort of scheme Lord Brookeborough was mentioning, namely access to marketplace for cows from the Orkneys, grazing the uplands, or the public benefit of

keeping the landscape and the environment? What sort of percentage of that do you think would go back into agriculture, back into the farming side of things?

Lord Rooker: I cannot give a percentage, but I do not envisage reductions in that area. Obviously, the public good that the public will pay for in terms of the landscape, looking after the water, the soil, and the visual amenity, if you like – there is a case for doing more on that. That can really only be delivered through the farmers in that sense, when you are looking at that aspect of it. I do not envisage less, therefore; but I am not in a position to put a percentage on it. We have something of the order of half the farmers in England signed up to stewardship schemes now. We are getting a lot of benefit from it and it has been a good experience for them to be in those schemes. In fact, for the High Level scheme – mainly because of financial restrictions – we had a queue that we could not accommodate, because of the budget problems that arose last year. Do not get me wrong: I am not seeking to come here and say that we want to chop off this source of funding. There is a public good argument. There will always be people – I suspect those who control the overall budgets – who might start to question, “What is the public good of looking after this?” and I think it is the job of everybody else who is involved in this to put a price on protecting the landscape. However, the effects of climate change and mitigation are upfront for everyone to see. All this is very much tied in with that: making sure that we grow the right crops, look after the soil, protect the water – where water will be a serious problem long-term. I cannot put a percentage on it, but I do not see any less than that. However, I am not in a position to play with any figures, because I have no information in that respect.

Q891 Lord Brooke of Alverthorpe: Perhaps I may refer to *A Vision for the Common Agricultural Policy*, the 2005 document. Following this through, understandably you cannot put figures on it, but in Chapter 3 you did in fact pose a whole series of questions. The first range of them was on the topic we have just been covering. You go on to say, “Indeed, the

rural economy could benefit significantly from shifts away from general agricultural support towards more targeted rural development". We are now nearly three years on since that was first written. I am wondering, therefore, if you are in a position to put a little bit more flesh on the bones there. While you cannot give figures, can you give some views on the targeted topics you would want to go for, beyond the ones you have just mentioned – because they were essentially of farming?

Lord Rooker: Actually, I do not think I can help. I do not think that I have come with a list on that, unless I have misread my notes. The fact is that we have only just announced the new programme. I think there was a delay in the Rural Development Programme because of the problems in Europe about getting the budget agreed. The €3.9 billion programme was only announced – that is for England, by the way, which would double the size of the previous programme – and I think this is probably the first year that we are involved in that. I am not in a position to give a report back on that. Obviously, there will have to be a report back because it is a large programme. This was announced just before David Milliband would have left the Department, if I remember rightly. I cannot give you a list now, unfortunately, because we are in the first year of that programme, which, as I say, is twice the size of what we have done previously.

Q892 Lord Brooke of Alverthorpe: I am coming new to the subject and I have been reading ---

Lord Rooker: I am brand-new to the subject, by the way!

Lord Brooke of Alverthorpe: I mean in Europe. I am just wondering when, on the Chapter 3 questions, the Government will have reached the stage where it will start to answer some of the questions.

Chairman: Let us move quickly on!

Q893 Lord Plumb: I am not brand-new to the subject! I was quite impressed by your comment about the stewardship scheme and the fact that farmers have responded very well. I think it is encouraging that there was a queue of farmers wanting to come in, who found it difficult to get in. However, last year on the Entry Level scheme there was a decision to stop the management tools, and a lot of people who applied to get into the Entry Level scheme this year have been denied the opportunity to follow it through. The Entry Level scheme, of course, is seen to be the second pillar, if you like, of the stewardship scheme as a whole. I think that a lot are beginning to find the benefits of that – and I do speak from a bit of experience of it – and are disappointed that they cannot get into the scheme because the management tools have gone. Why?

Lord Rooker: I do not know. I will have to find out and write on that. It is one that I cannot give a direct answer to. I just plead guilty. Even though I am farming Minister, it is not part of my day job, in terms of Natural England. This was a policy that was not decided by the UK Government in the first place.

Q894 Lord Plumb: I do know that.

Lord Rooker: It was something we had next to no control over, really.

Q895 Lord Plumb: As I understand it, it was a decision taken in Brussels.

Lord Rooker: In Brussels by the Commission, yes.

Q896 Lord Plumb: I have asked the question there and I have not had an answer. I just wonder where this was blocked. It seems strange to me, because it was such a good scheme.

Lord Rooker: I do not know the background to the Commission decision, but I will certainly make it my business to find out and report back to the Committee with an answer.

Q897 Chairman: I have to say that if Lord Plumb cannot get it out of the Commission ---

Lord Rooker: I was going to say that, but I decided against it!

Lord Plumb: That is not for the record!

Q898 Baroness Sharp of Guildford: If we are looking at the current budget envelope, in a sense the division between the monies in Pillar 1 and Pillar 2 are important – as we can see from what you have already been saying – because to some extent the current spending under Pillar 2 does help to effect the transition from Pillar 1 to Pillar 2 here. How do you respond to the accusations that have been made that the UK Government is partly responsible for insufficient funding being available under Pillar 2, because it pushed cuts through in the last budget deal under the UK presidency, which meant that in effect there was not really enough funding there under Pillar 2?

Lord Rooker: First of all, in reality we ended up, as far as our own programme was concerned, with double the size of the programme in England. We had the presidency at the time and it was a question of trying to get compromises in order to get the decisions through. I do not accept that we therefore have to take any blame for that; on the other hand, we do take responsibility for being in the chair at the time. We had 25 Member States and we had to try to find a workable solution. That was our responsibility. However, the reality is that David Milliband announced a programme that was double the previous programme in respect of England. I do not think it is a question of blame and responsibility. We had responsibility because we had the presidency and our job was basically to bring the 25 to the table and get as good a deal, where people were as content as possible. That means give and take, at the end of the day.

Q899 Baroness Sharp of Guildford: Making trade-offs and that sort of thing.

Lord Rooker: It does.

Q900 Baroness Sharp of Guildford: Perhaps that explains why the Commission feel they do not have enough funds to carry this one through as they would wish to.

Lord Rooker: Yes.

Q901 Viscount Ullswater: Perhaps I could turn to what might come up in May with Article 69. The Commission look as if they wish to reopen this particular argument, where you can via 10 per cent spent on these various sectors for direct payments, as long as the money is kept within the sector. Do you suspect that in May the Commission might come forward and say, “Actually, you can spend this on other sectors” and are you in favour of that? What is the view of the Government on that particular matter? It could become quite wide, could it not?

Lord Rooker: We want to understand more about the Commission’s views on this. We are not particularly clear ourselves. As I said in my opening statement, whatever they do seek to clarify, in terms of where the national envelopes might be used, we would be very keen to make sure that they are not used as a back-door method of production support. It would be so easy to make a case, in different parts of different Member States, for all kinds of schemes which, when looked at, are basically supporting something that is inefficient and which perhaps should not be going on. We do not want new distortions, therefore. I understand the national envelopes might be used to address different activities, whether it is water management, climate change or biodiversity. There is a range of issues but, until we know more about their thinking, I am not in a position to give a view. As I say, we are not against it but we will be very watchful. Ten per cent is a lot of money, because you are dealing with big budgets here. Scotland has taken advantage of the current arrangements, but ---

Q902 Viscount Ullswater: Which I take it they would not like to give up?

Lord Rooker: No, I am absolutely certain they would not like to give up. However, we are watchful. First of all, we want to know more about the Commission's thinking. Secondly, we would not want it to be used as a back-door method of production subsidies.

Q903 Chairman: Does not a lot of it, in the southern states, go into olive oil producers? The argument being that, if you do not support the people to produce olives, you will get desertification. That is the old argument – but it is a straightforward production subsidy.

Lord Rooker: It is, but then you have to see whether it is a production subsidy in that sense or – and I do not know the issue in detail – would it be part of an environmental benefit? I do not know whether or not southern Europe will become a desert under climate change, but these are issues that will have to be dealt with in the future in terms of the environment. However, that is our general principle on this. First of all, we do need to watch this, to be careful about the way they could be misused; but we are not saying that they do not have a purpose.

Q904 Baroness Sharp of Guildford: The same argument could be levelled at hill farmers, could it not? If you are going to have to pay to keep the olives in the landscape ---

Lord Rooker: Precisely. The economics in the hills particularly – a really severe disadvantage in any definition of farming – isolated communities; but without millions of sheep on the hills the landscape will be transformed. As I keep saying, the first people to complain about that will be the city-dwellers, who use it as their playground and their green lung. When they say, “Where's it all gone?” we say, “You didn't buy the lamb. The industry collapsed”, and therefore there is an argument for maintaining it; but how do you do it? Do you subsidise it as meat production or do you subsidise the pure environmental goods or the individual families in those areas? It is a very difficult decision, but the principle is exactly the same.

Q905 Lord Plumb: Voluntary modulation has not been very popular with producers here, believing that there is competitive disadvantage with their competitors from other parts of Europe. We understand, of course, that if that is reduced it does not necessarily follow that compulsory modulation will be increased – although we know that the Commission are bidding for an increase. Would it mean that, if it is increased, you would reduce the amount of voluntary modulation to make up the difference? Also, we understand that environment organisations say, and have told us, they rely on some of these funds for many of their activities. We wonder, in that event, whether the reduction in voluntary modulation accordingly would help in the overall use of funds.

Lord Rooker: I have to say that I find modulation an incredibly complicated issue to get my head round. The long and short of it is that, first of all, there is only us and the Portuguese making use of voluntary modulation. You say it is unpopular. Without it, though, we would have far less money for our Rural Development Programme. There is an historical element to this as to why we need voluntary modulation, simply because we had very small programmes in the past. Also, I understand that there is a mechanism where we swap from voluntary modulation to relying on compulsory modulation. At the present time, we get far more bang for our buck out of voluntary modulation than we would do if we swapped over. Pound for pound, we would lose 20 per cent to start with, because there is some mechanism with the compulsory modulation. There is no mention of voluntary modulation in the health check document. We are not really certain, therefore. There is obviously a discussion to be had there. We think that it is good value for money, but I understand that it is unpopular amongst the farmers who are seeing their single farm payment top-sliced, as it were. There is a benefit to the rural economy, and there is no question about that. At the moment, there is a greater benefit from voluntary modulation than the straightforward compulsory. We get a bigger bang for our buck, as it were.

Q906 Lord Plumb: It is very difficult to explain that to farmers who have just had a 17 per cent reduction in their single payments through modulation.

Lord Rooker: Yes, it is to an individual farmer, directly. It is not easy to paint the greater good of the rural community, because obviously they are seeing it in the bank balance. On the other hand, people have to make connections – with families and networks in rural areas. In the rural economy, not everybody depends on farming. Members of families work in different businesses and are involved in different kinds of organisations, some of which are supported through Rural Development Programme measures. But they see it directly, and I fully accept that. They see it on the cheque that comes in. It is not as though it is a surprise to them. We discussed this thing fully before we did it, and we have ended up, as I say, with a large programme for rural development. We think that is for the greater good and, basically, the farmers have to be encouraged, and they are being encouraged, to get closer to the market and be more competitive.

Q907 Lord Plumb: It is difficult to explain it to them on Sunday mornings.

Lord Rooker: It certainly is. I find it not easy to explain when I am up a six-mile, cul-de-sac valley, where there is no end; where there are a couple of farmhouses; when they are looking at whether the offspring want to stay in farming, and what the future of the hamlet is. It is incredibly difficult. I fully accept that. I have been there. It is true, and I grieve for your difficulties on Sunday mornings – but they are nothing as compared to mine!

Q908 Chairman: Is not the root of the problem in the need to rely on voluntary modulation to fund a Rural Development Programme the historic low level of funding?

Lord Rooker: Yes.

Q909 Chairman: Is there a way of tackling that historic low-level base?

Lord Rooker: We made the case in Brussels. We have 12 per cent of the viable land of the 15 Member States and we get 3½ per cent of the money. I think that is the reality. However, I freely admit that there is a historical issue here of the UK – and this goes back under both governments – not paying sufficient attention to rural programmes. So when it came into Brussels and someone had the bright idea of doing this, they had to look at the historical cut-off point of what Member States were doing and then apportion the money based on what had happened in the past. We were actually at an incredibly low level. It was in 1990, or something like that. That is a long time ago. We ought now to be saying, “Let’s look at, say, even the last five years. Let’s reapportion this amount of money”. We would end up getting a lot more than 3½ per cent.

Q910 Chairman: That is a live issue now.

Lord Rooker: It is a live issue, yes.

Q911 Earl of Arran: My Lord Chairman has already touched upon this, and I am suspicious of what the answer might be. So far, the Treasury have felt disinclined to come and talk to us about how the CAP will feature in their policy on the forthcoming EU Budget, saying that their policy was still being formulated. I suspect that is the answer you might give, Minister, but I would be interested to hear what your answer is.

Lord Rooker: I have not come here to cause problems between myself and the Treasury! The fact is that the size of the CAP as a percentage of the EU Budget is enormous, and it will be a really big issue. There is no question about that. The Treasury is in the position of formulating what the response is going to be. No decisions have been taken, and that is why the Treasury were obviously quite content for me to come here and say that rather than a Treasury minister. Your Lordships’ House does not have a Treasury minister, as you know. I cannot recall whether there has ever been one, but it is not as though you have a captive

member of the House who is a member of the Treasury team. I have no explanation, other than what you have had in the letter from the Economic Secretary.

Q912 Earl of Arran: Would you hope that, when indeed they have formulated their policy, they might come to talk to us?

Lord Rooker: I think that when people have really good policies that they are proud of, they ought to take every opportunity of coming to Parliament to boast about them. That is my view.

Chairman: Then we look forward to seeing you again, Minister!

Q913 Earl of Dundee: We note that you were concerned about the possible introduction of new EU risk management measures. We also know that these reservations are shared by the EU Trade Commissioner, Peter Mandelson. Why do you take this view and where do you see risks?

Lord Rooker: Our view is that farmers and those working on the land, looking after the landscape, are really businesses. Let us not put too fine a point on this. There is the odd hobby farmer, and I suppose there are others who do not do it themselves. However, they are all businesses, and all businesses are duty-bound to take cognisance of the risks that are involved in the business they are running. I am not quite sure where the issue of risk management comes in. It could be potentially – and I only say “potentially” – another area where back-door subsidies will be the order of the day. Other businesses – non-farming, non-agricultural – have to take account of the risks of running their business, whether it is manufacturing, petrochemicals, woodworking, whatever. They are duty-bound to do that as part of running the business. We see it as no different for farms; so we are a bit suspicious of the concept of, let us say, a new scheme of risk management – because anything with the word “scheme” in usually has a pound sign or a euro sign at the end of it. In other, narrower

areas, particularly in disease control, we are having discussions and have just published a consultation paper, where those who look after food production animals have to be fully aware of the risks involved in that and take account of it. We are not certain that every animal-keeper is fully aware of the risks that are involved. We know that from the recent outbreaks, frankly. Therefore, we try to bear down on making sure that companies are taking account of the risks. We do not have a great push for this. Getting insurance, I fully understand, is not easy. Crops in the ground cannot be insured. I have talked to insurance companies about insuring food animals. It is not easy; though it can be done at the margins. In terms of bearing down on managing the risks, we see that as a matter for the industry, not for Brussels to come along and impose some scheme or some regime of risk management – when other industries cope with it perfectly well, and from professional point of view as well. This is not us, by the way, saying that we are not interested or saying that it is not our responsibility. We are clearly saying it is the responsibility of the industry.

Q914 Earl of Dundee: On your suspicions and caveats here, how much solidarity do you expect to get from various of our EU partners, such as the German Government perhaps?

Lord Rooker: I do not know about particular governments. Maybe very little. We are trying to modernise and trying to avoid mistakes of the past. It may be, in trying to explain to some of the accession states, we say, “Actually, we did it this way in the past and it didn’t work. It is best that you don’t spend 20 years creating the same kinds of problems that we had with the CAP to start with”. I am not certain about individual countries, however. This is something that will have to be discussed. I am just giving the UK Government’s view on this: that this is one where we do not want issues brought in to distort trade, distort competition, and to be used as a back-door method of further subsidies. Sonia can provide the German position. You asked about Germany, so something must be known about Germany.

Ms Phippard: It is simply to confirm what the Germans said at the Agriculture Council on Monday, which was that they can see that Member States might want to use Pillar 2 mechanisms to encourage risk management provisions where they are not there at the moment; but they are completely opposed to using Pillar 1 for risk management, which is where the French, for instance, are coming from.

Q915 Chairman: The Pillar 2 approach would be to help the industry set up its own mutual insurance scheme, would it not?

Ms Phippard: Yes.

Q916 Lord Plumb: Which Germany has at the moment. They have an insurance scheme; they have a stock insurance scheme, which started years ago.

Ms Phippard: They do in certain parts of Germany. In Bavaria, I believe.

Q917 Viscount Ullswater: Perhaps I could go back to your risk assessment analysis, Minister. If it is a single business, if it is your own business, you can comprehensively understand the sort of risk that you are likely to take; but sometimes you are overwhelmed by things, particularly like foot-and-mouth, which is not of your own choosing, or bluetongue, which is a new risk that I do not think people could have taken into account. Although that particular disease might not have struck you personally, it can destroy the marketplace for your animals, because of movement restrictions or whatever it is. Is there a way that the industry could be encouraged, with government's backing, to set up insurance schemes, if there is not to be any form of direct replacement values given by the Government?

Lord Rooker: In some ways that is the very issue we want to discuss with the consultation document that we put out in December on cost and responsibility-sharing. That is the very issue. There are some practical difficulties, but we are consulting on the issue and not on a

policy, because we then want to formulate a policy. Europe itself is discussing these issues, particularly regarding disease in animals, to formulate a policy. But you are quite right, because I discovered during the foot-and-mouth outbreak that, where it first started, the three farmers who were first affected – the two who had foot-and-mouth and the other one where we slaughtered on suspicion – were model farmers. They were doing everything that the UK Government would expect from farmers. They had diversified; they were running other businesses; they were getting value-added. They were model farmers. One of them was even insured for interruption of business. Unfortunately, the small print made it clear that it did not work when it was foot-and-mouth. The interruption of his business was his farm shop. If it had burnt down or a lorry had gone into it or it had been flooded, he was covered for loss of his goods and stock and interruption of the business while it was put right. Because it was foot-and-mouth, he was not covered. I think that is outrageous, in a way. It was not as though it was his animals. He may have been a farmer and not affected; he could have been the next-door farmer. That is the very issue that we want to discuss with the consultation on cost and responsibility-sharing. Only about 15 per cent of animal and crop farmers in the UK carry any kind of insurance, some of which is there only to top up – in other words, it is fixed in with the government compensation for slaughter of animals. Obviously we pay compensation where we slaughter compulsorily. Bluetongue is a different issue. The issue of bluetongue for later this year, which we fully expect to come back, will be serious. Once we classed bluetongue as being there, we did not slaughter. Because we do not slaughter, we do not compensate. That is a thorny issue, and we are in ongoing discussions with the industry regarding bluetongue over this very issue of what farmers do. I was at a farm in Lincolnshire post-floods, to have a look at the consequence of flooding. The destruction of the crop in the fields was terrible to see. One of the farmers had an ancillary business of potatoes. He had a large factory, preparing, scrubbing and washing, and all kinds of things. As he said, if his

factory had been struck by lightning or had burnt down, he was fully insured; all his risks were covered for that. The crop in the field – nobody will insure him for that. He wanted to cover the risk but could not; there is no mechanism for that. As you can well appreciate, the cost of disease control can be enormous. This is something we have to discuss with the industry, therefore. That is what we are doing now. It is a narrow part of it, in terms of animals; but, with climate change, new diseases coming and, I might say, endemic diseases – we still have the issue of bovine TB – with the exotic diseases, where we have different policies for operating, we want to share the risks and the responsibility with animal-keepers. That work is ongoing now, quite separate to the health check, quite separate to this analysis. However, our experience will form part of our discussions in Brussels, as and when a proposal has come forward from the Commission.

Q918 Lord Palmer: Before we leave risk, you would accept, would you not, that farming is completely different to any other sort of business when it comes to risk, in that you have this problem of the weather? For a purely arable farmer, the right weather at the right time can make an entire difference in yield – which, particularly with wheat at £160 a tonne, can mean an enormous amount of money. You would accept that, would you not?

Lord Rooker: I accept that agriculture is different to many other businesses and industries. When you have a factory that is stable in one location – goods in and goods out, people turning up at the same place – it is also quite different to, let us say, the construction industry, where you have a peripatetic workforce and you never know where you will be working. There are differences there. The weather affects a lot of businesses. It is difficult to mitigate it because the landscape is not covered, for a start. I have met farmers who quite rightly say to me, “Jeff, we expect this land to flood in the winter. We take account of it with what crop we put on there. We are now in the middle of July and it is under three feet of water. We don’t normally expect it to flood in the growing season. This is a bit of a problem for us, you

must appreciate” – and I certainly do. Because in this country the primary producers do not, as in other countries, have a big enough stake in the rest of the chain – by co-operative marketing and advance preparation – they are extremely vulnerable, both to the weather and also to the market. We have seen that in the summer. To that extent, I do accept that it is completely different to any other industry, yes.

Q919 Lord Palmer: Could you expand on your reservations about capping? Do you think in reality that these proposals will continue, bearing in mind the strong opposition that they face, not only from our own Government but also from the German Government?

Lord Rooker: We are very opposed to upper limits. All that will happen – and we are beginning to see this anyway in the threat of capping of the single farm payment – is that people will spend money on lawyers, dividing up their businesses. For some it will be very difficult. I do not want to go into individual details but, for the largest farmer in the country, it is almost impossible but not completely out of bounds, and actions are being taken. This is not a good use of resources. It is barmy. We are opposed to it, and therefore we hope that it will not see the light of day. I have not come with a figure of the distribution. There are some incredibly large payments. Everybody knows; the figures are all published anyway. The largest recipient of the single farm payment is the Co-op – the largest farmer in the country, almost by definition. There are very few large ones. There is a big bloc in the middle and, of course, there is this huge tail. We are certainly opposed to capping at the upper limit but we certainly want to have a bigger *de minimis* at the lower level, if you like – to chop out a few tens of thousands of recipients, which I consider to be a complete and absolute waste of money, of resources of my department, in the structures that we have had to set up to make those payments. Hopefully, the penny will drop that simply capping will not have the effect that those who propose it may think. All it will do is cause land parcels to be

divided up; and the only people gaining out of that, as far as I can tell, will be the lawyers, preparing the necessary documentation.

Chairman: It may now be an appropriate time to move into a more off-the-record, informal session, Minister.