

WEDNESDAY 28 JANUARY 2009

Present

Arran, E
Brooke of Alverthorpe, L
Brookeborough, V
Caithness, E
Cameron of Dillington, L
Dundee, E
Livesey of Talgarth, L
Palmer, L
Sewel, L (Chairman)
Sharp of Guildford, B
Ullswater, V

**Memoranda submitted by National Farmers' Union, NFU Scotland,
Farmers' Union of Wales, NFU Cymru and Ulster Farmer's Union**

Examination of Witnesses

Witnesses: **Mr Andrew Clark**, Head of Policy Services, National Farmers' Union;
Mr Jonathan Hall, Head of Rural Policy, NFU Scotland; **Dr Nick Fenwick**, Director of
Agricultural Policy, Farmers' Union of Wales; **Mr Dai Davies**, President, NFU Cymru;
Mr Graham Furey, President, Ulster Farmers' Union; and **Mr Seamus Maginn**, Chairman,
UFU Hill Farming, Ulster Farmers' Union, examined.

Q47 Chairman: May I thank you all for coming. It is good of you to find the time to come
along. You have already received the list of questions with the nine areas we want to explore.
Perhaps one of you could answer a question and then, if anyone has another take on it or
disagrees with what has been said, feel free to make that clear. If you are relatively content
with what has been said by a colleague, we could move on to the next question. This is an
evidence-collecting session. You can correct or modify the transcript of your evidence when

you receive it. This session is being webcast. I will start with a general question. What do you see as being the justification for LFA payments? Why should they be there? What is the public getting in return for financing LFA payments?

Mr Davies: LFA is very important as far as Wales is concerned. The way I see these payments is of course to ensure that we have sustainable farming in the hills. Of course it is important to those farms in the hills to make sure that we look after the environment; the social aspect is very important as well; and of course it creates economic activity in the hills. As for LFA demarcation in areas such as Wales at the moment, distance from the marketplace is a major issue for many of these areas, and we want to make sure that we do not get rural depopulation. Tourism is very important to us and of course by looking after these fragile landscapes, we make sure that there is a spin-off as far as the tourist industry is concerned as well.

Mr Hall: I agree very much with that. In many senses, LFA payments perform a unique role. They stand out in many rural development programmes. As you all know, they are a Pillar 2 rural development measure but the function that they play is different from that of other rural development measures. In particular, it is different from agri-environment schemes; in many senses they are more akin to a Single Farm Payment, more like a Pillar 1 payment and in fact they underpin farms and crops in Scotland. Across the board, there are some 13,000 participants in the LFA scheme in Scotland. That then enables them to deliver all sorts of other things via the rural development programme. I think that subtle difference is really quite important as to where they sit in the policy make-up. I know there is a further question about that later. I think they have bridged the gap between single farm, Pillar 1 payments on the one hand and very targeted measures of rural development programmes on the other, the Pillar 2 payments. They are more about facilitation and enabling farms and crofts across a large disadvantaged area, particularly in Scotland where you are looking at 85 per cent of

Scotland being designated as LFA, then to deliver all the things that Dai Davies has just referred to.

Q48 Lord Livsey of Talgarth: I wonder if one of you has information as to what proportion of the net farm income is coming from the LFA?

Mr Furey: Within Northern Ireland, 33 per cent of the net farm income is the LFA payment. The average net farm income in Northern Ireland is small; it has varied between £6,000 and £8,000 over the last three or four years. The average payment is £1,500 per farm. Obviously different farms have varying payments. It has been worked out that the LFA payment is 33 per cent of the net farm income

Q49 Viscount Brookeborough: Are those percentages changing because of the changes in the rate of the pound to the euro? Will this be reflected the whole way through?

Mr Furey: That is a very interesting question. The Northern Ireland LFA payments were set down in euros as opposed to pounds, even though that has been paid out in sterling these last few years but because of the varying rate this year and because it is stated in euros, we have been discussing that with our department and we feel there is an extra payment to come this year. They said they had made a mistake in actually setting up the scheme. That is separate to everyone else. The figures are €30 and €60 converted to £20 and £40 for the last number of years but this incoming year, set on 1 January, farmers should get around probably £28 and £56. The department has said that they will honour their debt.

Q50 Viscount Brookeborough: What about the rest of the United Kingdom?

Mr Davies: I know that Andrew wants to come in here because he is an encyclopaedia of data but I would mention initially that in the areas we are dealing with as far as farming is concerned it is very volatile and as far as Wales is concerned in 2001/2002 the average farm

incomes for LFA farms was £1,600 whereas this year it was £12,200. Because of the nature of the land you are farming, that can be very volatile. The average LFA payment in Wales is about £2,500, and so you can see it is going to be well in excess of 100 per cent of LFA incomes in a bad year and it can be down to 20 per cent in a good year. The question you ask about the value of the pound is interesting. That question was asked to our Minister, Elin Jones only last week, whether there was an opportunity of having a supplementary payment this year because of the weakness of the pound against the euro. She said that these payments are based on seven years and therefore this year might be a good one but perhaps in six years' time it might be a bad year. Her answer is that they have to balance things out a little.

Q51 Viscount Brookeborough: So who is saving this money and where is this little pool of money being held for good or bad?

Mr Davies: We did ask the Minister that question. The answer was that she would try to level it out.

Q52 Chairman: Because it is denominated originally in euro, you are arguing for an uplift on that basis.

Mr Furey: We would be asking for that on the whole Rural Development Programme.

Chairman: You want to win on that and of course you would be winning on the fact that because of the weakness of the pound, you have a competitive edge in export markets as well. So it is a double gain, it is not?

Q53 Viscount Brookeborough: But you have to accept that one day it might be the reverse

Mr Clark: This matter was discussed in an NFU Council meeting yesterday and there was a great deal of interest in the relationship between Rural Development Programme payments

that are set for seven years, and set presumably on the basis of modulation receipts, some of which are received in euro and some in pounds, and what the impact would be of changing exchange rates. At the present moment, we do not have a satisfactory answer or one that we understand, shall I say, from Defra as to where the benefits from the changing exchange rates are falling: either it is the Commission or the Treasury or Defra. What was clear from the point of view of the farming community is that apart from the single payment scheme, on the rural development side, Pillar 2 payments, we have not seen any advantage yet. I have other information which I provided in our evidence on page 2 about the balance of net farm income and grants and subsidies. I will not go into detail on that as it is in the paper. I have also done a breakdown.

Q54 Chairman: What proportion of grants and subsidies are represented by LFA payments?

Mr Clark: In the last year, 2007/08, and this is for England (there are differences across England, Wales, Scotland and Ulster), net farm income for LFA farms is £25,849. The Hill Farming Allowance, which is the LFA measure, contributed £3,607 to that net farm income; the environment schemes contributed £5,500 to that. The single payment scheme therefore contributes about £16,700. That is the context of the net farm income for the farms of £5,000. In effect, and this is something which we show on figure 1 of our evidence, grants and subsidies to LFA farms in England far outweigh the net farm income, and have done for the last ten years.

Q55 Chairman: Do you have similar figures for the other areas?

Mr Fenwick: The figures that I have, which I understand are the latest figures, which have shown a considerable improvement on previous figures due to the change in the exchange rate, are that LFA payments contribute 13 per cent to the latest 2007/08 financial year figures.

Q56 Chairman: Is that 13 per cent of total incomes?

Mr Fenwick: As I understand it, that refers to total incomes. I do not have the reference with me.

Mr Davies: As far as payments to the average Welsh farm, and 80 per cent of those farms would be in LFA, the Single Farm Payment totalled £24,500; the actual net farm income was £23,500. Therefore, the Single Farm Payment was £1,000 more than the net farm income.

Mr Hall: Could I add from a Scottish point of view that the average figures are roughly the same but in Scotland we find an extreme variation around that average. Of course, we can all be fooled by averages and that is always a concern to us in the sense that in the most disadvantaged LFA areas of Scotland we see that the Single Farm Payment component of net farm income, or crofting income, whatever it might be, is often much smaller than the LFA component. Therefore, the LFA policy as an instrument actually takes on a greater significance in many senses, simply because the historical nature of our Single Farm Payment as opposed to an area-based Single Farm Payment goes back to production levels for 2000/02; and we are looking at very low productivity and often it was based purely on the SAPS (Sheep Annual Premium Scheme) in many senses. There is a pattern or a correlation between LFA payments and Single Farm Payment parish by parish, county by county, in Scotland but we do see their relative significance rising significantly as you move further north and west, putting it in general terms.

Q57 Baroness Sharp of Guildford: Carrying on on the same theme, what do you see as being the FLA's relationship to other national and EU policy instruments, such as the Single Farm Payment we have been talking about, and the agri-environment schemes and the land use planning regulations, and so forth? Could you give us some indication of relativities here?

Mr Clark: What we would regard the LFA scheme, and once again this is in an English context, as a very important contribution towards farm incomes and a tacit recognition that farming is being undertaken in areas which are of great importance to public tourism and environmental interests as well as food production. They are not of themselves, certainly at the levels I have been talking about, enough to go and save the business from going out of business but the LFA designation itself I think demarcates very clearly an area of need, an area of great environmental and economic importance in a rural community, and also great cultural importance as well. Something that we have not yet mentioned is that these landscapes are farmed by people who have a great deal of historic cultural interest and skills, the sorts of thing on which you cannot really put a price tag: how to manage fells, how to manage stone walls and that type of thing and understanding that in the environment. They provide an important contribution but not the end of the piece at all.

Mr Davies: That is an interesting question. You talk about the Single Farm Payment. In LFA areas the Single Farm Payment is usually dramatically lower than what you find in lowland farms because naturally the stocking rate historically was much lower. If you are interested in a comparison between Wales and England, 80 per cent of Wales is in the LFA and 80 per cent of England is in the lowland. If you compare the Single Farm Payments, the English Single Farm Payment is at twice the level it is in Wales, so therefore LFA payment is very important.

Mr Hall: Again I would have to agree with Dai's comments and repeat what I said earlier in the sense that where it sits in the quality spectrum it plays an absolutely vital role, in our view, in linking the direct support payments of Pillar 1, the Single Farm Payment, that underpins the business, which then allows those farms and crofts to deliver a rural development benefit through targeting measures. It performs more of a Pillar 1 function in many senses than it does a Pillar 2 function. That is just where it happens to sit. Obviously, we all understand and appreciate that the European Commission would like to see greater environmental

conditionality attached to LFA payments and so on. It does sit as access in Pillar 2, but we would continually argue, with a lot of evidence behind that, that it is there to underpin the very nature of those businesses so that they are in a position to do these other things and deliver the environmental biodiversity, landscaping and social benefits. The way in which LFA payments have always been made is very different from agri-environment. It is not about income foregone as such or setting aside land and doing something in a non-productive sense. It does not work in that same respect. It is actually compensating for permanent physical specific disadvantage which we really cannot do anything about.

Mr Furey: Unlike other EU policy instruments, the LFA scheme is the only one which recognises, supports and requires as a minimum the continuation of active farming. In other words, you can now receive Single Farm Payments; you can go into the agri-environment scheme without having any livestock.

Q58 Chairman: It sticks out a bit now, does it not?

Mr Furey: Yes. We have a minimum stocking density so that you are required to have livestock to receive that payment and that is keeping active farmers on the hills. Therefore, you maintain your environmental benefits because you have people looking after the environment and the system. We see that as crucial to keep the people in the area.

Mr Fenwick: I would add that there are schemes now in place due to the economic pressures there have been on sheep and cattle farming over the years. In certain areas, particularly where there is shared grazing, they have suffered from under-grazing and there are now schemes in place to bring stock into areas in order to graze those areas. Had it not been for the LFA payments, that would be a far more widespread problem. If you look in the uplands of Wales in places like the Cambrian Mountains, you will see larger areas of abandoned farms, chapels and schools where the economic pressures of the early part of the twentieth century caused complete depopulation of those areas. Had it not been for the introduction of

the hill farming scheme in the Forties and the subsequent schemes after that, I think that that rural depopulation would have been exacerbated significantly.

Q59 Chairman: Is there rural depopulation in Wales?

Mr Fenwick: There is a significant outward moment of young people, and those people are generally being replaced, as I am sure Dai would agree, with retired people coming in, good lifers and so on. We have a real crisis in terms of the brain drain, as they call it, intelligent young people moving away because of the lack of income. That would be exacerbated were it not for the LFA scheme.

Q60 Viscount Brookeborough: On rural depopulation, is it not right that it is not so much rural depopulation but depopulation of what happened to be less favoured areas, coming down to the lowland? From a Northern Ireland point of view, which is where I live, I think that this is very much the case; it is people coming off the hills from the little farms on the hills and actually moving out of those areas, which then leave those areas susceptible to turning to other things or nothing.

Mr Furey: We are already seeing that in Northern Ireland. People are now moving down lower and lower. They may not be leaving their rural area but they are coming further off the hills and the upland. That is because of the fact that they have little or no alternative other than beef or sheep farming on those hills. That is one of the real designations of LFA ground; they do not have alternatives like lowland farmers have of switching from cattle to cereals.

Q61 Viscount Brookeborough: And the statistics are distorted or made up depending on where you believe rural ends and urban begins and how big a village has to be to become eligible.

Q62 Lord Brooke of Alverthorpe: But is it abandonment?

Mr Davies: That is an interesting question and I think it is quite right to ask it. There is probably not rural depopulation but there is an exchange of people. These holdings or houses are taken over by holiday makers, weekenders, whatever, so the house is occupied at certain times of the year but the farming and the social structure changes and the skills that were there to maintain stone walls and hedges disappear. The quality of the grazing and so forth deteriorates, and of course the economic activity of the area diminishes as well because of that.

Q63 Baroness Sharp of Guildford: Is there not a generational problem then? There is not depopulation as such because you have people moving into the area, but equally you have a new generation of people who are not necessarily going to be maintaining the agri-environment that you have maintained under the Hill Farming Allowance and now the LFA scheme.

Mr Clark: I absolutely agree with Baroness Sharp. The point is that we have a camouflage of statistics here where at a statistical level the economy of rural areas is very often performing as well as urban areas; employment levels can be lower in some areas and there are more business start-ups. Statistically it looks good but I go back to the point I made earlier to a question you asked about skills and the knowledge to be able to manage these landscapes. It is the skills and knowledge and the people who undertake landscape management that where we see depopulation and the loss of capacity. That is why LFA designation is so important and the measures that go with it.

Q64 Lord Cameron of Dillington: I was going to save my question until the end but I will put it now. Playing Devil's Advocate: I want you to bang on the head for me the whole question of whether it matters, Andrew, that those skills are going because there are new skills required, skills to do with the internet because you have broadband infrastructure

coming in? You mentioned the figures, for instance, of the total payment from the Government of £25,845, net farm income £5,000. Would it not be better environmentally to pay the farmer say a salary of £15,000, make him an environmental warden if the environment is a matter he can deal with (he can do tourism, he can add to his income in lots of different ways) and then put £10,000 into the infrastructure so you can get people who are fulfilling travel arrangements, anything to do with broadband, stockbrokers or anything you like, and it becomes more of a sustainable economy? The people are still there. The whole business about the brain drain that Mr Fenwick was talking about, actually happens throughout rural England. I live in Somerset; the school leavers go away and start to come back in their fifties or even earlier because they want quality of life and they bring their brains back again. I wonder whether farming is really important in all of this. Maybe we ought to look at a whole new situation whereby you pay someone to be there to do the environmental work in lots of different ways but actually you run a completely different economy and a more sustainable economy through different means. It was only because farming is the only possible industry 40 years ago that we developed this system, but the situation has changed now. Ought we to be changing as well?

Mr Davies: As farmers quite often we are asked: what are you delivering for the public? You should not be asking that question to us as an industry. Ask the question to the general public out there and I am sure you will receive a clear answer. They want to see their stone walls maintained; they want the environment in the countryside to be protected. I think the vast majority of them would be prepared to make sure that there is sustainable farming on those hills. I am sure if you asked them the question, “Would you subsidise setting up broadband or the internet for some of the yuppies from the town to move out on a permanent basis so they could run their business”, the answer would be very, very different; they would not perceive that as delivering public good.

Mr Hall: The key thing for us in Scotland, and in Scotland it is somewhat different, is that we are talking about much more dislocated areas in many senses, much more remote, not least because we have hundred of islands quite literally and hundreds are inhabited. The key role that active livestock farming in the hills plays, other than pure environmental management which would be a possible policy alternative, in a sense is pivotal to all sorts of ancillary industries which pure active environmental management does not. Managing species-rich grassland on a holding for whatever outcome will improve biodiversity but it does not support the input suppliers and it does not support the downstream processing sector and the haulage industries in what are fragile rural economies. These multiplier effects that we get by channelling monies through LFA support into these areas are far more cost-effective in delivering a wider range of rural development benefits where there are limited alternatives than it is to say that we will deliver it all simply through agri-environmental management, as it were. There are limited opportunities. Having said that, I think we all fall into the trap of saying we have farming, forestry and tourism in Scotland, but those are all effectively land-based when you scratch the surface; they are all dependent upon the backdrop of heather-clad hills and the like. It is integrated land use when you scratch that surface. I think it is vital to retain the activity and the drive to generate an income. It is therefore about LFA payments and Single Farm Payments underpinning those who are active and actively managing. That is the key point about where LFA sits as opposed to just being about taking all the LFA money and putting it into agri-environment schemes. At the end of the day, many of them are competitive. With regard to their contribution to costs, you would still see a draw-down on the reserves of the business and there would be no continuous future investment in the holding. We would see a gradual drain out in many senses.

Q65 Lord Cameron of Dillington: You do not think the money transferred for instance into the HIE for instance would be more beneficial in terms of jobs than the LFA?

Mr Hall: What HIE does has been very useful in trying to diversify a rural economy where there are very limited opportunities, but it is focused not particularly on primary sector interests of farming and forestry; it is focused on issues to try to develop the tourism sector and ways and means whereby businesses can operate, despite the fact they are dislocated, through broadband connection and the other things. The spin-offs and the pay-offs from that are yet to bear fruit. We still rely in many places in Scotland on primary industries, which then underpin a tourism industry. We do not have any middle sector; we have a tertiary service sector and a very basic primary sector. We have nothing in the middle. We do not actually make things in rural Scotland and we do not command any control over the supply chain. That is a fundamental flaw in many parts of rural Scotland. You just have to go to Orkney or Shetland and you will realise that there is a huge oil industry in one respect, which is bringing money in, but it is sitting cheek by jowl with a very traditional, thousand year old culture of managing livestock in a very disadvantaged area.

Mr Clark: At a simplistic level, no amount of internet connection is going to manage the countryside. We can do an awful lot more than simply manage the environment. This is not just gardening on a grand scale. We can manage the landscape, we can also produce food and we can also produce fantastic landscape for tourism. We can do all of those things all at the same time. This is truly sustainable development, whereas focusing your investment strategy in what might seem to the Treasury an economically rational approach into the market towns and villages with internet connection will not create the landscape; it will create a few very attractive villages and a lot of rather ordinary countryside with very little biodiversity and wildlife in it. In terms of value, and I was going to mention this later on, in the latest proposal from Defra to promote an upland entry level scheme in England they value the benefit of the transition from a Hill Farming Allowance to the Upland Entry Level Scheme as producing a public environmental benefit between £108 million and £114 million a year. That is in return

for an investment to farmers of £25 million a year. So it is a 1:4 benefit to the public. That does not take into account the attraction of the countryside that brings in tourists, that effectively farming in LFAs makes the Lake District look like the Lake District. That is why people visit it.

Mr Furey: All these things are interrelated. As soon as you take the farmers off the hills and decide to put park keepers up there, or whatever else, it will cost a fortune to do it that way, to grow grass up there for sheep or cattle grazing the grass and having species-rich grasslands. I think proportionately it would be interesting to do an exercise as to how much it would take to do it by manpower rather than animal power, if you like.

Q66 Viscount Ullswater: On designation criteria, I am moving away from money to the physical side or the biophysical side of LFAs. Assuming that the Commission cannot be persuaded to prolong the *status quo* and the continued use of our domestic land classification criteria, how would you propose to amend or add to the common biophysical criteria that are currently under discussion? Perhaps I should add: might a second tier of country-specific biophysical criteria be desirable?

Mr Davies: I am a pretty simple minded LFA farmer from Carmarthenshire and I do not profess to see how they operate in the Commission. My concern is that LFA farms are not produced in a laboratory. If they are not produced in a laboratory, they will be a huge variation, not only within the UK but there will be a huge variation of climatic conditions, physical conditions and so forth across Europe. I cannot see, unless something is produced in a standard fashion, how you can categorise them and put them in the same box, as it were. Therefore, I feel quite strongly that it has to come back to Member States or regions with Member States to present their evidence to the Commission and the Commission to peer review it or put a quality mark on it and, as they do in other schemes, either accept the classification or reject it and send it back to be reviewed.

Mr Fenwick: To add to what Dai has said, my understanding is that the most southerly point of the European Union is in Cyprus and the most northerly point is in Lapland. To apply a common set of criteria to such a diverse range of environments seems completely unacceptable. The lowest land in Europe is 25 feet below sea level; the highest land is around 16,000 feet. Clearly, if we are forced to have a common set of criteria, then a lower tier nationally is certainly desirable to recognise the particular problems that we face.

Mr Hall: Could I add support to what has just been said entirely? A common approach by 27 Member States, 90 something regions, just does not fit. One size does not fit all in this particular set of circumstances. The key as to why it does not fit is because of the way the EU is setting out the eight biophysical criteria. They are taking them as individual criteria; they are not looking at them in a combination, and yet LFA, particularly in Scotland but I would still argue for the UK, Ireland and probably most of Scandinavia, is about combinations of these physical criteria. The reason why Scotland has such limited options in terms of agricultural production is that it is wet, but it is not extremely wet, despite what we think; it is cold, but it is not extremely cold; we have poor soils; we have slopes; and we have mountains. Above all, the one thing they have missed out, which we will move on to later, is that we are very physically dislocated from markets and dispersed by geography. What makes an LFA farm in Scotland is that combination of things. You can have an LFA farm in Ayrshire or Dumfries and Galloway where it is more wet and boggy with peat rich and carbon rich soils as opposed to the east side of the Cairngorms in Aberdeenshire where there is a much longer, colder winter and where the snow has been on the ground since November and it probably will not go until about March, or April at best, as the Chairman, frankly, knows. The point is that it is the combination of things that defines an LFA, not single criterion. Unfortunately, the EU has gone down the route of the single criterion and in Scotland only two of the criteria apply at all: slope and drainage.

Q67 Viscount Ullswater: I would like to ask you if you are saying that there should be no European-wide criteria, there should only be national criteria, or are you suggesting that there could be some broad categories which have been agreed at the European level but underneath that it is very important or even very, very important to have the national envelope type of look at it?

Mr Furey: With regard to the biophysical criteria that the Commission is describing, yes, we can use that. The one that we would like added on to that would be a wetness criterion in the new framework where it is mostly in relation to dry and drought. Unfortunately, we do have excess wetness and that can be based on field capacity days; something like that could be a criterion that could be introduced. If you go to a second tier designation, it would be within your own region or within your devolved region or your own national efforts to designate the area and have other criteria, which could relate to remoteness or some other such factors. Certainly biophysical could be used if they do decide to use it, but we would certainly require a rainfall wetness one to be in there as well.

Mr Clark: I would like to associate myself with all the comments that have already been made. There is plenty of precedent within EU regulations already for, in a sense, a guiding hand that provides a standardised approach or a methodology. For example the Cross-Compliance Rules, which we all use in the UK and in EU. It sets a framework; it is interpreted by Member States and is then submitted to the Commission to ensure that it does fit with what the Commission is intending. This is, in a sense, subsidiarity, but with a check point. Both Nitrates Directive and Habitats Directive have situations where proposals are submitted to a peer group of other Member States or a management committee comprising other Member States; that would be to check the Member State's approach or the region's approach in that particular area. With a bit of imagination, we could decide how it could be married together in a much better approach than is currently proposed.

Mr Davies: All we are asking for is flexibility for a Member State or region to include any permanent natural handicap. That natural handicap may be unique to that particular state. They must have the flexibility to include a permanent natural handicap in the classification.

Mr Fenwick: There is a feeling as well that we are being caught in the crossfire of the specific problems that were identified in certain regions of Europe. Those problems were not necessarily present here. I think they were in places like Luxembourg where the vast majority of land was categorised as LFA. Certainly that needs addressing, but to pull us all down with Luxembourg is completely unacceptable. We are effectively being caught in the crossfire. You certainly cannot apply these simplistic criteria across to get rid of one problem in a certain area of Europe.

Q68 Lord Livsey of Talgarth: I declare an interest in having in the past farmed in both Wales and Scotland in LFA areas. What do you see as the role of socio-economic indicators (e.g. remoteness, population density) of disadvantage? Perhaps we could add to that GDP. I note that you have ten references to socio-economic indicators in your written submissions. Should they be used alongside biophysical criteria to identify intermediate LFAs, or should they be factored into payment levels when additional costs incurred are calculated?

Mr Hall: That is a particularly sensitive issue in Scotland. NFU Scotland certainly believes that we ought to retain socio-economic factors within any designation of LFA. If we based it purely on physical criteria, we would find ourselves – and the mapping exercises have been done by the Scottish Government through the Macauley Institute to look at this – with areas currently designated as LFA that would fall out of less favoured areas in places like Caithness and the west of mainland Orkney. Not for a moment would be think that they are not less favoured. The reason why they are less favoured is that the real costs of the permanent physical disadvantage that they have is the distance involved from markets, not only to get products to the point of sale but also to getting inputs in. You just have to look at ferry costs

to the Isle of Mull, which is no distance from Oban at all, and then getting lambs off the Isle of Mull; it puts a completely different face on the economics of farming in what is a relatively productive agricultural island. Likewise with somewhere like Orkney, which is famed for its beef; it is a very productive location in many senses, but it does have to overcome these barriers of physical dislocation. You could say the same for places down in Kintyre and Campbeltown and around that area; it might be further south than Glasgow but it is 150 something miles by road up to the top and round again, and it is an awful road! You will know that if you have ever driven it. There is only one way in and one way out. We would argue that if the LFA measure is to be a supporting measure to underpin those businesses so that they can continue to operate and deliver a wide range of rules about benefits, the fact has to be recognised that the cost structures that they have to overcome are as much about physical dislocation as about the actual productivity of the land.

Mr Fenwick: In terms of socio-economic factors, which we would certainly argue should be maintained, it should also be appreciated that when there is not a lot of money in an area, the options open to farmers are extremely limited. If you take a prosperous area of England, for instance, you can have farm shops, and we have seen huge numbers of farm shops being opened in the last ten or 15 years, and yet a farm shop in the area where I live in the LFA simply would not be viable. There is not the regional income to support a farm shop in the same sense that some of the more expensive supermarkets would never consider opening branches in some of the towns in our region because it would not be economically viable for them to do so. It is only the lower grade supermarkets that would come to our area. Your options are very much more limited, not just in terms of market access and proximity to your market, but also in terms of what you can do on your own doorstep.

Mr Davies: We support what Nick has said. These socio-economic factors are permanent factors. There is no way of changing them – the distance from the marketplace and the roads

and quality of the roads. Usually these are areas of very low population and therefore the economics does not balance up to improve the roads or whatever. You therefore have a lack of services. Of course, if there is a lack of services, you drive out the younger population because they need these people with young families and so forth.

Mr Fenwick: I do not want to jump back to the previous questions too much but, in terms of the perception that brains move away and then brains move back and bring something with them, what they generally bring back with them in the more remote areas in particular is their pensions and they bring back a burden on the regional health care system, et cetera. They do not necessarily bring back much more than that. These people are retiring back to Wales; they are not coming back to open a prosperous new business.

Lord Livsey of Talgarth: If I could add to that, Chairman, the closing of rural schools is quite a problem as result of what has just been described.

Chairman: Part of my PhD was on rural school closures!

Q69 Earl of Caithness: This point is mainly addressed to Mr Hall. I raised this point in the margins last week with the Commission and they said: It is very simple because you have Articles 18 and 20, so you will have a standard procedure and if you fall out of that in Scotland, you will go for islands or mountains, and it is very easy for a farmer. My question therefore is: what is the bureaucracy of filling in these forms? Is it going to be easy for a farmer on the western lands of Scotland to fill in three categories – island, mountain and less favoured? What is the bureaucracy involved? What is that going to affect?

Mr Hall: In many ways certainly the bureaucracy attached to the Less Favoured Area Support Scheme in Scotland that we currently have is very straightforward indeed. There are no difficulties. It is all part of the single application form that has to be returned on 15 May, as long as individuals meet the eligibility criteria and so on, obviously subject to the usual inspection regime of 5 per cent and so on. Under the current regime, obviously all of

Scotland's LFAs are currently designated, as you say, under Article 19 and they are intermediate LFAs, and that is the target of this LFA review by the Commission. Obviously we have been in discussion with Scottish Government and with the Commission about this ourselves. We are very aware of the fact that if need be, if push came to shove, and we were absolutely going to lose the socio-economic dimension of what we currently have, because we do split it into standard, fragile and very fragile areas and we adjust the payment rates accordingly, we would be able to use Article 18 to designate mountainous areas, and we would use Article 20 to designate all the islands as areas with specific handicap. Having said that, there is no real spur for that within our membership in the sense that again it would be further drawing of lines on maps, and we have enough lines on maps as it is. We would find all sorts of situations where people would find themselves in and out. The islands can speak for themselves. You would have to develop criteria to define what the mountain areas are and so on. Potentially we would end up with three LFA areas, all doing slightly different things, arguably with slightly different schemes attached. In many ways from both Government and from our point of view, the simplicity of the current schemes is that we have a discrete LFA boundary which is ring-fenced, for want of a better expression, for 85 per cent of Scotland. It is only really down the east coast that the 15 per cent is not in. We do not have any perforations in that; we do not have any major differences in how the scheme operates within that at all. Everybody is operating under the same scheme with the same eligibility criteria and under the same rules because it is an intermediate LFA under one scheme. We think it would just start to cause complication and confusion and arguably start to distort agricultural restructuring going forward if you start to put further lines on maps. We have enough issues with split holdings, non-LFA and LFA as it is without finding ourselves with land on both sides of lines. We are cautious about that. We will go down that route if push comes to shove. I get the impression from the Scottish Government that they would be prepared to do

that. We have that up our sleeve but we would rather have the fight with the Commission first and lose it before we concede that.

Mr Fenwick: I think the same problems would face Wales. We have an ancient system in Wales of *hafod y hendre*, which is lowland and upland farms that are linked together and start being moved in the summer period. Within many of those farms it would be a logistical nightmare to assess even one farm, let alone the whole of Wales on a field-by-field basis. We could well see fields being split, which in terms of the burden for the taxpayer causes me great concern with regard to going out to assess. We know we have huge problems every year due to the need for cross-checks with cross-compliance, agri-environmental schemes, and they can cause significant delays to payments. Those are cross-checks that are carried out on something like 600 to 800 farms. They cause significant problems and it is quite a thought to undertake that on 18,000 farms for every single field. I sincerely hope that if that goes forward the Welsh Assembly Government are confident that they will be able to cope with that workload. I certainly have some major fears about it.

Mr Davies: Just to reinforce what Nick was saying, it is a simple system that everybody understands because there is transparency there. For instance, I wish to go down the agri-environmental route. We showed an interest about four years ago for our farm. I am now told that I will get a visit to assess the situation in 2010. As you can well imagine, the clock is ticking on and I have not got all that long to go. I am sure I will have retired from farming by the time they give me the go ahead. As far as regulations, costs and bureaucracy are concerned, many of those schemes are very heavy in that direction, whereas the LFA is fairly simple, so simple in fact that in the dark old days of foot-and-mouth when there was a need for an injection of money into these areas, the Welsh Assembly, along with the Scottish Parliament, decided that they would piggy-back their support on top of the LFA

payments. It was a quick way of getting money out to farmers who were in desperate need of it at that time.

Q70 Earl of Dundee: Let us begin perhaps with two particular categories: firstly, part-time farmers as a group; secondly, intensive farming as a practice. Do you think within the Commission's eligibility framework that both these categories should necessarily be excluded?

Mr Clark: As we expressed in our evidence, we have grave reservations with the proposal of the Commission that there should be, in addition to questions about whether an area should be designated as a less favoured area, a look also at what type of farming would be supported within that area, for many of the same reasons that we have argued that designation of LFAs should be about the cumulative impact of the various biophysical characteristics and relating that to Member State and regional scale definition. We have exactly the same type of concerns about identifying what type of farms should be supported within LFAs. As my colleague from Wales has already said, farming systems in less favoured areas will vary very widely in the UK and across the whole of Europe. Being able to draw a line and say, "This type of farming will receive support and this type of farming will not receive support" does not tie up with an understanding of what that type of farming does in that particular area. I suspect in some parts of less favoured areas in southern Europe growing grapes or olives might be considered to be quite suitable from a less favoured area point of view and important in sustaining that rural economy. Clearly, if we had grapes ---

Q71 Chairman: We are very much against that sort of thing!

Mr Clark: Certainly, it is a step forward in climate change which we have not got yet. Our view is very much that eligibility rules should be something which goes no further than saying, as it already says in the EAFRD (the rural development regulation that is currently in

place) that this is a matter for Member States to define on the basis that it should be supporting sustainable land management systems. I think that is part of the process we suggested where Member States submit their rural development programmes for the Commission to approve. Then, whether it is a whole-time farm, supposedly an intensive farm or an extensive farm, is really for the Member State to argue the case that this is contributing towards the sustainable development of that area. As for part-time and whole-time, if you look at some farms now, they would be considered in economic terms part-time, even though those farmers are actually working full-time on that farm. When you look at the incomes I have just been talking about and we have all talked about, I would argue whether farms can be full-time with those sorts of incomes.

Mr Hall: It is about definition. I entirely support what Andrew has just said. Eligibility issues are key to this. If the Commission pursued that avenue, it would be about defining some of those issues of what is intensive relative to extensive? There is a whole range of extensive to intensive in a Scottish context. Where would you make the cut-off point? The other thing that probably would be very important in the Scottish context is this definition of what might constitute a part-time farmer, given that crofters in particular are recipients of LFA support. The definition of crofting would have some overlaps with the definition of part-time farmer because by definition they are meant to be deriving income from other sources. Picking up Andrew's last point, the household income of a farm does rely increasingly on income from other sources, not just from the farming enterprise. The total income coming into a farm household would be from all sorts of avenues, whether it is driving a truck or teaching in a local school, and not just from the farming enterprise. I would have major reservations about where a cut-off might be drawn on that range between very extensive to the point where I would argue that if it is so extensive, is it actually farming at all in an active sense – that is another debate – right through to the intensive and where do you draw that line, where do you

make that cut-off between intensive and extensive? Remember that the intensive livestock sectors of Scotland in terms of the beef and sheep, the finishers, are the ones who provide market outlet for the store producers on the west coast, in particular beef calves and lambs. Those two things are linked. If you deprive one sector of resources, they might suffer financially but what impact would that then have on the more extensive producers on the west that you are supposedly trying to ensure get support?

Q72 Earl of Dundee: For the reasons which you have given and argued, I take it that within Commission's eligibility framework, you would not wish to see any exclusions at all?

Mr Davies: I have had a huge problem with this because I represent a broad church within the union, as it were. As far as young farmers are concerned, the gateway for a young farmer is to have a smallholding somewhere and do his best to farm, and of course have other income from outside and develop it and use it as the first step on to the ladder of farming if possible. I certainly would not want to bar him from having these payments to support him on his way. The other one that concerns me, and I am sure Nick will support me, is that in many parts of Wales we have more than one family working on a farm; sometimes a father perhaps and two sons. They work all the hours God gives to bring that farm forward. They pick the stones, they do the fencing and they become quite intensive but they need an intensive farm in order to support perhaps one, two or three families. They make a contribution as far as the economics of the area is concerned and village life; they bring young families into the area. I would not want to see that type of farmer barred either. This is a very difficult question.

Mr Furey: That is interesting. From the point of view of Northern Ireland, it is slightly different in that there are some farms excluded from receiving LFA payments at present, other than the grant loan payment. If you are arable, the ground does not get it, nor do intensive dairy farms. Dairy farms do not get it at present. We believe that the payment should be made to active farmers. This comes back to active farmers. If it is going to be withheld from

anybody, it would be somebody who is not involved in active farming. That is open to people who are breeding cattle, sheep, deer and goats at the present, so it not arable. We also believe that if the scheme was brought in for everybody in Northern Ireland, the budget would have to be increased, rather than taking off the people who are getting funding and people who are not getting it at present, but that is the scheme and it was devised first in Northern Ireland; it could not go to dairy farmers and it does not go to arable farmers.

Q73 Lord Brooke of Alverthorpe: Still on the same theme, gentlemen, we had the Commission here last week and they were pointing out to us that at present there are over 150 different eligibility criteria currently in existence and within those eligibility criteria as they look from country to country they sometimes see that they are in contradiction with each other in some places – they are admitted in some countries and excluded in others. They have the 2003 Court of Auditors’ report to deal with though, which was severely critical in a number of areas on the way that the money was being distributed and they have to address that. We have to look at the issue too and I am sure you will accept your part of the responsibility in dealing with issues. Can we come back to the eligibility criteria and see whether you feel that there is a case for some changes there to try to resolve some of the problems that were around in 2003 and, if so, what would your ideas be there?

Mr Furey: My Lord Chairman, we have subtle eligibility criteria and they are the most active farmers; that includes part-time farmers, maybe in relation to the last question, so again it may be the definition of what is an active farmer. We would feel that they have to keep livestock and things like that, they cannot just be a landlord under the countryside management scheme or an absentee person who is not there. Those would be our main eligibility criteria and there may be others built around it but I am sure the other unions have a list that may well include some of those 154.

Q74 Chairman: What would you do with the dairy sector?

Mr Furey: The dairy sector could be brought in. That has been looked at and if there were extra funds we would bring the dairy sector and other people in, but if there was going to be the same funding with the redistribution that could create, we would probably not agree with that so in other words we would stay in the status quo.

Mr Clark: From the English point of view the dairy sector is excluded currently from the LFA reward structure but under the Upland Entry Level Scheme it would be included because we are going to get more money to get into that scheme. But this is a Member State-defined approach – in our case Defra-defined – because we feel that these farming systems are appropriate to the particular LFAs. The Court of Auditors' report is as much about criticism of Commission oversight as it is of Member State implementation, and as my colleague from Wales already said it is about criticising what the situation was in 2003 – I do not know whether things have changed in the six years since. I do not see why it should end up with a situation of dictating what type of farm systems should be rewarded in the UK because of problems elsewhere in the EU.

Q75 Lord Brooke of Alverthorpe: You do not have a view to express then on what should be applied elsewhere. We pay for all this, do we not? We all pay.

Mr Clark: We all pay, yes. We have expressed a view in the sense that we say there is already set out in the legislation that it is about active management, it is about delivering sustainable land management, and we have argued that that is subject to a Commission process of approval through rural development programmes, so there should be sufficient safeguards to ensure that there is something which works at a regional level and a Member State level and has oversight from the Commission, so it ought to be audit-proof, it ought to be transparent and clear who gets the money and for what and what the benefit is.

Q76 Chairman: One of the drivers for change is the claim that the status quo is simply not WTO-compatible.

Mr Davies: You should never go down the route of change for change's sake. As far as Wales is concerned we have a transparent, robust system in place at the moment which includes biophysical elements as well as socioeconomic elements and those socioeconomic elements are quite transparent.

Q77 Chairman: The point I am making is that if there is a problem about WTO compatibility you have got to look hard and long in arguing for the status quo because you might finish up with nothing at all.

Mr Clark: We do understand that the scheme has to be broadly compliant with the WTO and has to retain the credibility of not just our taxpayers but also our trade partners. Certainly, I know that in the past WTO partners in Australia, the Cairns Group, have been extremely sceptical of agri-environment schemes practised in the EU and have said this is just another subsidy for farming in your areas.

Q78 Chairman: The arguments that you are putting forward do in fact have the very strong flavour of seeing less favoured area payments as a farming subsidy.

Mr Clark: It is a subsidy for farming in the sense that that farming activity provides very significant environmental, public and cultural benefits, as well as having food production as part of it, and we make it very clear that in terms of the amount of money that goes into those areas, from the LFA measure particularly, that is actually quite a minor component of the total economy.

Mr Hall: In many senses LFA support payments are entirely decoupled now in Scotland, there are no minimum/maximum stocking densities, there is no relationship to what stock should be carried, therefore there is no link to production at all. As Andrew quite rightly says

we are actually buying as public goods the co-products of grazing livestock systems and that is entirely WTO-compatible, it sits very much in that green box along with lots of other things. It goes back to what we were discussing earlier about where it sits in the policy framework. It does sit within Axis Two of Pillar Two, therefore it is about land management and countryside management, but the way in which it is paid it is going into farm businesses to enable them to deliver a range of outcomes, which is what the Commission and everyone wants from rural development policy, rather than simply driving money to underpin production. I do not see the difficulty with that at all.

Dr Fenwick: Similarly in Wales where the only thing that could be linked to production is a minimum stocking density which is totally unrelated to production. It is there for environmental reasons and to prevent under-grazing.

Mr Hall: If we go back to the real concern of the Court of Auditors, it was about issues of over-compensation in some places in Europe where monies were paid under LFA schemes when they were not necessarily disadvantaged at all, so it was to prevent or reduce or absolutely minimise that all together that we have got this review of the way things are set down under the standardised approach. Therefore, we can draw it back to activity, but we do not necessarily base it on activity because we cannot base activity on headed payments or stocking densities or anything like that, but more in terms of what is done in the way of active management through grazing livestock, then it ticks all those boxes in the right way.

Mr Davies: The problem we have is that of course the marketplace will not provide an economical and viable return for these farmers to be able to deliver other things apart from food production such as looking after the environment and making sure that there is economic activity in the area.

Q79 Viscount Brookeborough: For those who argue that it is a subsidy, surely the old farm subsidies were actually related to increasing the intensiveness and increasing the production

of food whereas this is to keep farming in existence and to main land management through agricultural practices. That is slightly different.

Mr Hall: If there is any food production related point it is about underpinning the means of production, not about underpinning production. We are already aware of not exactly food shortages yet but there are issues of food security in a volatile world, with volatile market prices, and then without payments like LFASS or LFA support payments – I am referring to the Scottish scheme – you would rapidly undermine the ability to produce food rather than LFAs in supporting the production of food. When we want to turn the tap back on at some point in the future that we do not know of then those units, that labour, those skills and the livestock just will not be there.

Mr Davies: We tend to forget really about the amount of food that is produced in these hill areas. As far as Wales is concerned there are 57,000 people working directly on the land and 80 per cent of that land is in LFA. There has always been the dependency of lowland farmers for the stock that comes off the hills, not only in Wales but of course in the English Midlands and so forth for taking on. The economical activity that goes on in the hills, therefore, the lowlands are also dependent on that activity.

Q80 Chairman: It is not part of the LFA philosophy though for it to be a means per se of maintaining agricultural employment, is it?

Mr Davies: No, but as I have already said it is pretty complex, is it not, because we are trying to achieve a lot of things. We are trying to keep people in the hills, we are trying to keep villages in the hills, we are trying to keep schools open in certain areas. Therefore it is quite complex and we cannot take anything in isolation but they all mesh together at the end of the day.

Mr Hall: There are elements of the Rural Development Regulations, particularly in Axis Three, which are about wider rural development issues, and they are about employment and

social aspects. Whilst LFA support sits within Axis Two and is about land management, the way in which schemes operate means they do cut across all the axes of the Rural Development Regulations and the fact is that there is an economic component supporting businesses, there is an environmental/land management component about supporting grazing systems and there is definitely a social dimension to all this because you are retaining family units, crofts, and employment in remoter areas which otherwise have a very fragile economy, where there are very few alternatives in terms of year-round employment. There is a tourism opportunity in many of these places, but how seasonal can that be and how transient can it be?

Q81 Earl of Arran: On this tricky subject of the new payment formula, based on a rather clumsy phrase “additional costs and income foregone related to the handicap”, in your view is it practical, is it workable and hitherto how has it worked with the other agri-environment schemes? What are your views on this?

Mr Clark: If I could just start on this, it probably has great attraction to the economist in you but in terms of practitioners it might be not quite so attractive. Certainly on the agri-environment side it presents something of a conundrum or perverse incentive; you are effectively costing out the environment on the basis of not producing food, or not producing food as intensively – that is the income foregone, the income is in comparison to more intensive production. I said earlier on in my evidence that clearly the environmental and public benefits of land management are very significant indeed and yet we are tying them into a system which is inevitably going to be fluctuating greatly and is related to food prices rather than to public benefit prices, and is therefore extremely unstable at a time when we are told that the public is increasingly concerned about the environmental value of land, environmental products and public benefits. In that sense, certainly when you are trying to buy environmental goods, there are legitimate questions about whether the agri-environment formula – which is central to the Rural Development Regulations and implicit in the LFA

aspects of Axis Two, Pillar Two – actually makes logical sense at all. We could have a situation, perversely, where some of my LFA farmers are arguing “I am making so little money that I am not foregoing income, I almost need to have to pay to enter the scheme rather than be paid to participate in the scheme”. We really do, therefore, have to find a basis which does more than simply look at putting the farmer back into the position they would have been in if they were not participating in the scheme, because currently agri-environment schemes talk about income foregone and the costs of management, so if you do not do this because you participate in the scheme that is the income you have foregone and the costs of doing it are X. That adds up to £100, you are missing out £100 income, we will pay you £100. That does not seem to me a very logical basis on which to reward people for what is considered to be very important public good. Perhaps when you look at the LFA you can argue that there are economic costs of farming in remote regions and you might be able to cost those out on a clearer basis but as we have been arguing it is very, very difficult to divide public benefit and biodiversity benefit from land management and food production. There needs to be a rather cleverer formula than currently is proposed.

Mr Furey: It is interesting that with regard to the additional costs, two years ago there was a red meat study done over the whole of the red meat sector in Northern Ireland, which obviously included a lot of the beef and sheep that are coming off the hills. That report highlighted that production costs for hill lamb were 35 per cent higher than the cost of producing upland/lowland lamb so that is an additional cost, 35 per cent above what it would be. You need to factor that into the payment, and it is interesting then that a third of the income into hill farms is through the hill farm and the LFA payments – it roughly relates to that 35 per cent additional cost. With regard to the income foregone, it is very difficult how you relate that to the environmental things that you are doing as against the food production, as Andrew has already said.

Q82 Earl of Arran: I can understand the complications and complexity of it. Andrew Clark was saying that there needs to perhaps be a revised or better formula. Can you think of a better formula, a fairer way of doing this?

Mr Clark: We have raised this issue repeatedly with the European Commission over the last ten or 15 years, saying that in the context of fluctuating incomes it does seem perverse to attach your agri-environment schemes to that fluctuating income. There used to be an opportunity within the Rural Development Regulations for 2005 where there was income foregone, additional costs and an incentive. It has now been turned into a term “transaction cost” and indeed the incentive could be up to 20 per cent of the other two so you could get above 100 per cent, up to 120 per cent sort of levels. There surely has to be some opportunity for farmers to innovate, to experiment, develop new ways of producing a public benefit and get rewarded for that, payment for product, in the same way that they do if they produce a really good quality product in terms of their lamb, beef or wheat they get a better price; if they produce a really good environmental product perhaps they should get a better price. This is the sort of argument that we have been having with the Commission. They would say WTO will not allow it, but there is, however, much more sympathy for this type of approach amongst the environmental NGOs and to an extent amongst Natural England and the statutory conservation agencies. I know they have commissioned some work under the Land Use Policy Group to start to explore some of these areas of payment for product, so I would like to see something enshrined within EU legislation that actually allows and incentivises farmers to be able to do this. It is not always possible: if you are looking at producing lapwings you cannot guarantee the lapwings are going to be in the field when the auditors come round with their clipboard to count them, but that is the principle. They always find reasons why you cannot do it and I am sure Lord Cameron picked this up in his days with the Countryside Agency.

Mr Hall: I would entirely support what Andrew has just said there, more because of the fact that we are being told constantly as an industry in terms of rural development, particularly in terms of land management rather than the production of commodities, that we are judged on outcomes. We are to deliver outcomes and the schemes are designed to achieve outcomes, yet the payments are totally dissociated from outcomes. It would make much more sense and be much more logical to the participants, whether they are going into agri-environment schemes, whether they are planting up farm woodlands, whether they are going into renewable energy projects in the name of climate change or whatever it might be, if the outcome that they were endeavouring to achieve related to the return or the reward for going down that particular management route. That would then allow individual farm businesses to make their own choices about which direction they wanted to go.

Q83 Lord Brooke of Alverthorpe: On your evidence, Mr Clark, I was mystified by your statement in paragraph 22 and maybe you can just clarify my mind on it. It is the sentence right at the end: “It also appears at odds with wildlife theory that LFA payments should be degressive given that island biogeography indicates that increasing scale relates positively with biodiversity security counteracting concerns about fragmented habitats and species survival.” I thought that had been written by Ed Balls for the Prime Minister.

Mr Clark: It probably, on reflection, is lacking a little bit of punctuation and clarity. The point I was trying to make is that LFA payments are intended in the regulations to be degressive so the larger the area payments per unit area decline. From an environmental perspective that is perverse because for every hectare you produce in actual fact the environmental benefit increases and so we have argued successfully within our agri-environment schemes that there are no thresholds or capping, the more you enter into the scheme the more you get paid. That makes sense from an island biogeography point of view because islands are fragmented and there is only so much security you can get for the wildlife

within that. If you get a larger area of habitat the ecology and the wildlife are much more secure than the wildlife in a very small area. That is the point I was trying to make.

Lord Brooke of Alverthorpe: Thank you.

Q84 Earl of Caithness: I also have a point on your evidence. Regardless of the payment formula I was concerned in your paragraph 20 when you indicated that the payments were not getting through to those who were doing the farming. Is this a growing trend, does this affect other parts of the UK and should the Commission tighten their regulation up? My second question, which I do not want you to spend a lot of time on, just a very quick answer will do, is do you think we are handicapped in the UK by being a maritime climate when the Commission is influenced heavily by the Member States that have a continental climate?

Mr Clark: The latter answer is yes, for the reasons we have already said. We have already made the case that within the EU you have a very wide range of physical criteria and we are on the edge of Europe. We are in a sense of normal distribution on one edge of it in terms of handicap. On the first question, the LFA measure makes specific reference to farmers and farming and for the reasons we have already said we think that limitation is very important in England because we face a prospect that there will be no LFA measure implemented post-2010 in England. Instead the reward will be through agri-environment schemes delivered within less favoured areas; these measures refer to “land managers”, not to farmers. Land managers is a much wider definition to allow many of our conservation colleagues to get into those schemes who, you could argue, for charitable purposes should be doing the job anyway, so why do they need the extra incentive. We are arguing that farming is important and that is why we are concerned about payments going to farmers. In the context of the transition from an LFA payment to an agri-environment payment we also have a situation where people on short-term tenancies have to get their landlord’s permission to go into that scheme, the landlord thinks; “That looks like an attractive payment, I would like to have a little bit of that

as well”. Sometimes their estate agents do not say it in quite such a nice way. Either the payment comes away from the farmer or the farmer, the active grazier, becomes ancillary to the agreement which is between the landlord and the government state; that is where the payment is going and then there is very little going into the rural economy. It should be a big concern, not just in the LFA but across all of the agri-environment schemes. If you look at restructuring of businesses now, virtually every single farm business has let land and much of that is for less than five years. For any area of land with less than five years security you have to have a tripartite agreement between the State, the landlord and the tenant.

Mr Hall: We also have similar concerns about this particular issue of support going to farmers. We would like to see that regulation tightened up by the Commission to strengthen the words in terms of active farms. That then gives you the headache that we all know about with defining activity and so on and so forth, but there is concern in Scotland at the moment that of the £61 million that is paid out annually through LFA payments – and it is about a quarter of our Scottish Rural Development Programme funding – there would appear to be a reasonable proportion of that going to what might be deemed non-active or inactive recipients of LFA support and the fact is that they are no longer carrying out traditional, hefted, productive hill flock activities, shepherding and so on, in the same way and delivering all the same sort of benefits. We are very mindful of situations in various parts of Scotland where wether flocks are being used simply as part of a sporting estate enterprise and LFA payments are being claimed on that. That is not an agricultural activity, that is an input to a sporting enterprise. We have concerns about that and therefore we would like to see the eligibility in terms of activity issues and active farmers tightened up in many respects. Of course, we recognise that then gives you a headache because you cannot measure it simply by production in terms of lambs produced or cattle on the unit or anything like that; equally with decoupling – and this is the interesting one – a lot of LFA units in Scotland have actually reduced

numbers but become financially better off because less is better in that sense. Instead of having 2000 ewes they are down to 1200 ewes but the quality of the lambs that they are producing has improved significantly, and that is exactly what decoupling and CAP reform was all about, to become more market-responsive and so on and so forth. We would not want to see those guys penalised and have a reduction in their LFA payment because they have dropped from 2000 to 1200 ewes, but if somebody drops from 2000 to 200 ewes and gets rid of three or four shepherds, basically only meeting the cross-compliance conditions relating to LFAs, then we would say they should not be getting that payment, or they should have that payment significantly reduced because they are not delivering the same range of public benefits. It goes back to the discussion a few moments ago, as if we could say this is what I am actually delivering in terms of outcome, therefore my LFA payment should be made up of this. If there is incentive built into that you will actually do more – you will produce a forage crop for biodiversity benefits, which is also good for the farm business, you would perhaps try and increase your area of in-bye ground so you could produce hay and silage – again, there are lots of benefits in terms of biodiversity as well as trying to improve the performance of the farm business. At the moment there are none of those incentives because it is easier to be a non-active recipient or a less-active recipient than it is to be an active recipient.

Q85 Baroness Sharp of Guildford: Is this an increasing problem? We were talking earlier about the increasing number of people coming in for leisure purposes and buying some of the upland properties and that sort of thing. Can they then claim these payments or do they tend to let the land and the farmer then claims the payment? What happens in these cases?

Mr Hall: There is a combination of all sorts of things. Traditionally a lot of upland estates in Scotland have had a land owner who has effectively let out the farming interest but is managing the sporting interest, or sometimes has let out the sporting interest as well. It goes back to Andrew's point about the tripartite arrangements and where does the support actually

end up because if it simply manifests itself as increased rents because there is a single farm payment and an LFA payment coming into that tenant farm, who is the ultimate beneficiary. But that is not a new problem; we have had that problem in agricultural policy for decades and decades in the sense that it could distort the price of land and so on and so forth – any payments coming into agriculture. The key thing really on this is defining the activity thing and making it so that there is an incentive to be active, whether it is in environmental management or producing lamb in a beef sense or whatever it might be, but you should have the security and the reward of those payments because you are delivering to a range of outcomes that are specified by that particular policy. At the moment we do not have that link at all, so the temptation for many is to take their foot off the gas, get rid of the labour in particular because that is a big cost and to downscale to a point where it will be very difficult to actually put things back in place. We will see in the glens of Scotland very changing landscapes in a very short period of time as bracken encroachment increases and so on and so forth.

Mr Davies: Historically it has not been a major issue for us in Wales because we have less estates and more owner-occupied farms, but as we move forward things do evolve and, as you say Lady Sharp, these people are coming into the area but, in fairness, in the main they are very good landlords and in fact if you went back ten years ago when they bought the property they would not have realised there was land attached to it. We have had one or two examples where people have actually bought properties overnight, thinking that is a nice house to live in and not realising that they had 50 or 60 acres to go with it and a neighbouring farm has been quite lucky. They are quite co-operative landlords in the main and although obviously you will have one or two who are less co-operative it has not been a major problem for us.

Mr Maginn: In Northern Ireland we have a problem similar to that one. People would come in and buy a farm, buy the land, join a management scheme but did not want any stock

running on it so it would not deteriorate and then five or six years down the line the biodiversity and everything has gone and they say it is abandoned, but it is no good to the local farmers in that condition. That is a big problem in that area.

Mr Furey: There is the potential to put some criteria in ---

Lord Brooke of Alverthorpe: You are making the case for focusing are you not?

Q86 Chairman: I have a little bit of an economics problem here. If you have land that qualifies for LFA payments on a permanent basis then surely the value of that payment will actually transfer to the price of the fixed asset, the price of land? If the land is subsidy-generating it increases the value of the land and the payment coming in will be reflected in the value of the land itself.

Mr Clark: I absolutely understand your point that it should be capitalised into land values. We have looked at the single payment scheme – the single payment scheme in England is a much bigger component than the LFA payment – and we have not yet seen a difference in market value, at least not a very significant difference in market value in terms of land marketed with eligibility or without eligibility. Whether that is because of the scale of the market in those two components or not I am not sure; I do not know whether other colleagues have different experiences because I think they have got a situation where they have got no regional eligibility at all.

Mr Davies: Sadly, the value of land is not a reflection of profitability of agriculture and that element of profitability does not actually come into the value of the land, it is usually the attractiveness that that right has for somebody from an urban area to compete with a local farmer. That is what generates the value of a farm or a holding going forward.

Mr Furey: We have to concur exactly with what Dai is saying on that situation with the value of the land; it does not bear any relationship to what the subsidy is on that land at all, it depends on the demand.

Q87 Lord Cameron of Dillington: You have successfully answered my previous question about the need to preserve farming activity in these lands and I was wondering whether you could actually provide me with evidence of a direct link between LFA payments and the preservation of farming activity, bearing in mind that the area of land under agriculture in LFA areas has been kept broadly constant, in spite of the fact that the LFA support levels have fallen in England from £60 million ten years ago to £24 million now and also bearing in mind that many farmers in LFA areas do not receive payments at all and others receive only a small contribution to their farm income from LFA payments. To some extent, this question coming at the end, you have answered most of it all the way through, but is there a direct link between LFA payments and the preservation of farming activity, or can you provide me with evidence?

Mr Hall: I would say there is definitely evidence. There are a number of reports to that effect – I am not sure whether I mentioned some of them in our written evidence – and there are clear links to the benefits of LFA support payments. The overriding question I always have in my mind about that – and I would put LFA support payments in Scotland together with the single farm payment – to which the answer is completely unknown, is what would the situation be without those two things? How rapid a decline in livestock numbers would we have seen? We are seeing a real freefall in livestock numbers, particularly sheep numbers, in particular parts of the West Coast and further up North – how more rapidly would that accelerate, given the very poor market returns and the rising input costs over the last 18 months to two years, let alone the previous ten or 12 years. In terms of LFA support and the single farm payment, how much of a dampening effect has that had? I would argue that if you could answer that question and really analyse what it has done, in many ways it has saved rural Scotland and does deliver the rural development benefits that we then want from a managed landscape. You cannot quantify that – I do not think anybody will really get to the

bottom of it – but we all know that without LFA support in Scotland the situation would have been much worse by now and, arguably, there would be many parishes without any stock on them whatsoever, very few holdings left operating either as farm or croft, and that would have then led to the depopulation issues and the social aspects of keeping families there all year round and so on and so forth. That is all I would really say about it.

Dr Fenwick: My Lord Chairman, I would agree entirely with that. We have already provided some figures that give you a rough idea of the contribution it makes to LFA incomes; those are averages and clearly there are extremes that make up those averages so for some farmers in some years the LFA contribution could be, perhaps, 50 per cent of their annual income during that year. It only takes a couple of years for somebody to say “That is it, I have had enough, I am leaving the industry.” Those percentages speak for themselves; every one percentage point makes a difference to whether somebody is going to stay in that area and continue farming in that area.

Mr Davies: We have demonstrated already really how important it is because it is an important percentage of the income. It compensates for lower stocking rates and it also compensates for lack of opportunity to diversify and so forth. It is very, very important.

Mr Clark: One point I would say is that it is about confidence; you cannot under-estimate how important it is to keep the confidence of the farming sector – particularly hill farmers – that what they are doing is valuable and that they are contributing. That is a very important part of the formula and I think if we had not had that type of support, and support for hill farming since the Second World War, we would have had a very different landscape to what we have now. We would have seen far more forestry land, the Forestry Commission would have expanded over large areas of moorland and upland, especially marginal upland, and as a consequence of that we would have seen a very different pattern of tourism.

Q88 Lord Brooke of Alverthorpe: Could I say, my Lord Chairman, on the same theme – it is a little bit separate from any of the questions you have had so far – the last inquiry we did was into the European Emissions Trading Scheme and we have been looking at the changes which are coming there, and of course there is a possibility that in due course agriculture will come into the sights as a possible industry to be subject to ETS. Do you believe in the long term that that is likely to happen, that it will come in, and if so what do you think the landscape and the management of the landscape might be like in ten or 15 years time? It does link ultimately also with the topic that we are dealing with today.

Mr Clark: It is perhaps a little bit outside what I was expecting but we are starting to talk within the farming industry about managing carbon. If you look at the hills, particularly the uplands of the UK, there is a massive store of carbon in our peat and this is another public value which certainly is not accounted for in terms of rewards for farm management. I am grappling at figures here and we will probably have to go and verify this, but somebody was telling me that about 18 months worth of the total UK production of CO₂ is locked up in our soils and if we increased the organic content of our soils by about half a per cent we could meet our target for carbon reduction by 2050. There are actually, therefore, quite significant public benefits that can be gained from sequestering carbon and holding the current carbon store within the soils of Britain, and the uplands have a disproportionate quantity of carbon locked into their soil.

Baroness Sharp of Guildford: But forestation also plays a part in it.

Q89 Chairman: Take the sheep off and put the trees in.

Mr Clark: There is a balance here.

Mr Hall: Scotland has got a few scars from just taking sheep off and putting trees in and it is not necessarily doing anything positive in terms of the carbon balance. I would just like to echo Andrew's point, especially in the Scottish context; we have very carbon-rich peat soils

over extensive areas and it is that extensive grazing management which overlays that which is another additional public benefit that is underpinned by LFA support payments. There is quite a debate kicking off right now about the wider land use debate, whether it should be farming or forestry, trees or sheep sort of thing, and it is not as straightforward as that, it is very naïve to think if we just plant the Forestry Commission target of 10,000 hectares per year for the next number of years it is going to lock up X number of tonnes of carbon. That is all very well and good in many senses but the whole climate change debate is a lot more complex than that and the real carbon balances need to be worked out with some care and some precision. Going back to your question, agriculture will be drawn into possible trading schemes and so on and so forth, but I do not think we should be afraid of that and again it is an area where, as an industry, we can demonstrate that we have got a role to play and a positive role at that. It might actually be a driving force for some elements of Scottish Agriculture.

Mr Davies: We are told there are 410 million tonnes of carbon in LFA land of Wales; as far as I am concerned long may it remain there.

Dr Fenwick: My Lord Chairman, we recently met with John Houghton, the Nobel Peace Prize winner who, as you know, is an expert in climate change and he acknowledged the fact that there is a clear balance to be struck between the carbon that is retained in the uplands and the contribution that food production makes to carbon reduction by avoiding the importation of food. Clearly, therefore, there is a danger of going too far down one path and saying we will take all the livestock off the hills and we will plant them up with trees; meanwhile we will cut down the Amazon rainforest in order to produce our food. The net carbon production in doing that is far worse – that was acknowledged by one of the world's leading if not the world's leading expert on this subject.

Mr Furey: My Lord Chairman, we have to work with an Environmental Minister who does not believe in climate change so I will leave our carbon there.

Q90 Chairman: I will not make any comment about that. Just one final thing: from your contacts with colleagues in Europe is there an emerging agreement amongst the farming unions in Europe on how to proceed with this issue or not?

Mr Hall: I do not think there is a consensus yet. Obviously we do work very closely as farming unions through our Brussels office and through Copa-Cogeca as well as the umbrella of the European farming unions in co-operative. I know that it is definitely high on the agenda of all our colleagues in Europe as to agriculture's role in climate change and mitigation and adaptation issues are to the fore of that.

Q91 Chairman: I am thinking just about the LFA issue.

Mr Hall: We have done work with the umbrella organisation Copa, and by and large as a position they are very much in agreement with the broad principles that we have about the fact that one size does not fit all and they have equal concerns, maybe for different reasons, about what the EU proposals might or might not mean for them. Is that fair comment, Andrew? You have been involved as well as I have.

Mr Clark: That is absolutely right. There is an intense nervousness amongst many of those Member States who have got large areas of LFA-designated land.

Q92 Chairman: Luxembourg is really worried.

Mr Furey: The potential impact on Europe as a whole if you did away with the LFA payments would be dramatic. I do not know whether a risk analysis or impact analysis has been done, but once you take it off the whole of Europe the livestock will move from those areas, and as well as producing the food it does produce the breeding animals for both the

sheep and the beef on the lowland farms as well. That is crucial, and the skills thing that we talked about earlier on will be critical. If you lose a generation now you can get the livestock back in five years but you cannot get the skills sector back for a generation, for 30 or 40 years.

Chairman: Thank you all very much indeed. In the end we did actually finish up with quite close to 54 different answers to the questions. Thank you a lot for your time and your trouble.