



HOUSE OF LORDS

Revised transcript of evidence taken before
The Select Committee on the European Union
Energy and Environment Sub-Committee
Inquiry on

RESPONDING TO PRICE VOLATILITY: CREATING A MORE RESILIENT AGRICULTURAL SECTOR

Evidence Session No. 2

Heard in Public

Questions 12 - 28

WEDNESDAY 16 DECEMBER 2015

10.50 am

Witnesses: Philip Bicknell, Ross Murray and Paul Wilson

Lynsey Martin and George Dunn

Members present

Lord Bowness (Chairman)
 Lord Cunningham of Felling
 Lord Curry of Kirkharle
 Viscount Hanworth
 Lord Krebs
 Lord Rooker
 Lord Selkirk of Douglas
 Viscount Ullswater
 Baroness Sheehan

Examination of Witnesses

Philip Bicknell, Head of Food and Farming, National Farmers' Union, **Ross Murray**, President, Country Land and Business Association, and **Paul Wilson**, Professor of Agricultural Economics, University of Nottingham

Q12 The Chairman: Good morning, gentlemen. On behalf of the Committee, I apologise for the fact that the Chairman, Baroness Scott, is unable to be here. Unfortunately, she is not well, but nevertheless we welcome you and thank you very much for agreeing to give evidence. Can I point out to you, as you will be well aware, that this is a formal evidence-taking session of the Committee? A transcript will be produced and put on the public record in printed form and on the parliamentary website. You will be sent a copy of the transcript so that if there are any minor errors you can revise it, but that is after it will have gone on the website initially. The session is on the record. It is being webcast and that webcast will also be on the parliamentary website in due course. You have been told of the interests that members of the Committee may have. If any members have any relevant interests, I would be grateful if they would declare those when they first speak or ask a question.

You know the questions that we have asked. We are concerned about price volatility and creating a more resilient agricultural sector. Before we move to the questions, can I ask whether anybody wishes to make a short opening statement, or do you want to go straight to the questions?

Ross Murray: If I may, Lord Chairman. We very much welcome your inquiry. It is extremely timely that it has come now because we are at the nexus of an extremely poor farming year across all sectors. It is probably unique this year that it has affected virtually every agricultural sector. From my own perspective, my organisation insists on taking a long view on matters—we are mostly intergenerational, family-owned businesses—but we are familiar

with volatility. It is a business reality and we live in a world of world markets. The danger is in the extremes of volatility.

UK farming can be characterised, in general, as small and very isolated business units. We have no control over the weather; we have little control over input prices, which are greatly influenced by oil; we have little control over commodity prices; and we are affected by currency. Those four factors influence the profitability and volatility of farming as an industry. We are really price-takers.

The question that your inquiry is asking—whether we are resilient—is a difficult one to answer now in December. We will see the answer to that in the next two years. My sense is that the majority of British farmers will still be farming, but it is what the fallout will be, because I am quite clear in my own mind that the storm clouds are gathering either way.

Philip Bicknell: I echo what Ross says. From my perspective, volatility is a huge challenge for our industry. It is a challenge that is only going to grow as the market management mechanisms that we have seen of the Common Agricultural Policy are unwound. My primary concern is around investment. Uncertainty over volatility means uncertainty over prices and profitability. That uncertainty is what kills investment. Farming, as Ross suggested, is an industry that takes a long-term view. If we are unsure of where the industry is going to be in two, three, four or five years' time, let alone looking at a decade-plus, that starts to create some big challenges in the large-scale infrastructure investment that we need to face in those productivity challenges of the future.

The Chairman: Mr Wilson, do you have any remarks?

Paul Wilson: I am happy to go straight to questions.

Q13 The Chairman: Thank you very much. You touched on this in your opening statements, but can I open by asking what effect has volatility, as opposed to low prices, had on farmers of the country? Has that effect been across the board or are some farm sizes or types, their tenure or particular sectors, been more exposed or affected by price volatility? Has the recent period of price volatility posed a particular challenge to farmers as opposed to the previous periods of volatility? Who would like to start?

Paul Wilson: Perhaps I could start. Drawing on the data that we collect as part of the Farm Business Survey that Defra funds, within England, trying to take some of those particular aspects, I do not think that farm size is a key factor in determining ability to cope with volatility. There are inevitably differences with respect to farm sizes. However, it is not the major determining factor. Farm type has a large influence with respect to farmers' ability to cope. For example, cereal prices have come down from a relatively high price point after

being at a very low price point in the early 2000s. Cereal prices have gone up and now come back down, not to the levels of pre-2007 and 2008. The other side of that coin is that when it comes to cereal prices, if you start to think about pig and poultry producers, and dairy producers to some extent, some of those sectors rely heavily on cereals as an input. Typically, you observe that, when those cereal prices come down, those other sectors tend to perform better.

There is definitely an influence of how the volatility affects different farm types; as to farm sizes, less so. There are sometimes impacts on farm tenure with respect to those farms that have entirely owned land, which are not relying on paying mortgages. They can withstand greater price volatility to some extent because they are not incurring those rental costs. Tenants, inevitably, are a little more constrained in that respect because they are incurring rental costs, and the volatility particularly can impact on the tenured sector because, when those prices come up, there is a drive for those rents to go up following that price rise. On the downward path of those prices, some of those tenants will be incurring relatively higher rents than they were historically. Sometimes the volatility impacts very much relate to the dynamic aspects of when those price and cost changes come forward.

I will hand over to the others in a moment, but, trying to put the recent period of price volatility in context, the early 2000s represented quite a low period of agricultural prices—I would say, historically, very low. The price spikes of 2007-08 sent prices generally higher and they have come back down. The outlook for agricultural prices is that they will not get back to the price spikes of 2007-08 in the near future, but nor does the evidence suggest that those prices are going to go down to the lows that we observed in the 2000s either.

The Chairman: Thank you. Does anyone wish to add to that?

Ross Murray: I would echo the point about no particular sector being any more vulnerable than the others. They are all vulnerable to volatility at the moment. The interesting thing is trying to work out, within sectors, farm types and tenure types, those that have good management and those that have less good management. It is control on costs and therefore some prediction of profitability that is the critical thing.

Philip Bicknell: We see differences across sectors and some of that relates to the tools that different farm types have to manage. In pigs and poultry, because we have seen volatility in feed costs, because they are quite integrated businesses within the supply chain, we see things like feed price ratchets so that, when the cost of feed goes up, then the price paid to the producer will go up. Similarly, when the price of feed goes down, that will be reflected in the price ratchet. In cereals we have futures prices, which give an indication of where the price is

going to be in a couple of years' time. That gives farmers options and choices. The fact that you could have sold the crop before you have decided whether to put it in the ground starts to give flexibility and choice.

When we look at dairy and red meat, we perhaps do not have those options. Yes, in dairy, we have cost-of-production contracts for some of our liquid milk; Tesco, Sainsbury's, Waitrose and the Co-op all have those sorts of mechanisms in place. However, that only applies to liquid milk, and I am conscious that a big proportion of what we produce goes into manufactured dairy products, whether that is milk powders, butter or cheese. From a red meat perspective, it is very much a price-taker. From talking to NFU members, they would certainly like to see something that gives a better indication of where the beef or sheep price is going to be at some point in the future. A solution that I would like to see explored much further is long-term contracts, which start to give some degree of security and indication of where price may be.

Lord Curry of Kirkharle: On the milk price contracts, you mentioned Waitrose, M&S, Sainsbury's and Tesco, but I think I am right in saying that it is only about 10% or 15% of the total milk market that is subject to a price contract.

Philip Bicknell: That is correct, yes. I cannot remember whether it is 13% of producers and 17% of milk production—I forget the numbers—but it is certainly the wrong side of 20 from my perspective.

Paul Wilson: Certainly from our research, those dairy farmers who have dedicated supply contracts are the most satisfied with their milk contract, albeit they are a small proportion of the milk-delivery sector.

Q14 Lord Cunningham of Felling: Is it true that price volatility is occurring more frequently now than it used to do in the past? In the last few years, have we seen more price volatility than we did in earlier years, or is that not true?

Paul Wilson: I think that is true. As I mentioned earlier, the early 2000s were a period of low prices; they were relatively stable but low, whereas from the 2007-08 price spike there has been a period of volatility. Future volatility is likely to be a feature of farming, given climate change impacts and major production swings across the globe. For the vast majority of the commodities that farmers produce, they are operating in a global market. Therefore, when something happens in the States, Australia or Russia, it has an impact on the world price of those commodities and the price that farmers face. Even though the volumes traded on the global market might be relatively modest, it is that trade that makes the price.

Lord Cunningham of Felling: Every farming sector is going to have to get used to frequent price spikes or drops, or whatever it might be. Price volatility is something you are going to have to live with.

Paul Wilson: I would argue it is something that farmers will have to pay a lot more attention to, yes.

Lord Cunningham of Felling: Is anyone looking at this—in the last two or three years—and trying to identify what the overall consequences are for farmers? There is a tendency to assume—I am not saying we do or the Committee does—that price volatility is always a bad thing. Is that so or not?

Paul Wilson: I do not think price volatility should always be seen as a bad thing. The price volatility that farmers experienced in 2007-08 was a good thing for cereal farmers. It allowed them to reinvest because they had been living on, effectively, depreciating assets, particularly machinery, so it allowed a period of reinvestment. On the upswing of those prices, farmers are able to make profit. It is on the downswing of those prices that things tend to get very sticky for farmers. Volatility in itself is not necessarily a bad thing. It is how farmers manage it and how those prices are determined within that cycle of price volatility.

Lord Cunningham of Felling: What about the practitioners?

Philip Bicknell: From my perspective, volatility makes planning difficult. In a previous role when I was working with farmers acting in a farm advisory capacity, you would do sensitivity analysis that looked at prices or yields changing by 10% or 15%. Of course we have seen the dairy price fall by over a third. If you look back to where the wheat prices come from, over about 18 months they have fallen by a third. That whole planning exercise and regime is much more difficult to do, hence the question mark over businesses and making some of the longer-term investments. As Paul said, when we saw higher prices, we saw investment in plant and machinery, perhaps stuff that has a shorter lifespan. We perhaps have not seen the level of investment in some of the farm buildings and storage that, ideally, we would like to see to make sure that we are having that consistent level of investment.

Lord Cunningham of Felling: This is my final question, if I may, Chairman. If what you are forecasting becomes fact, what are the medium and long-term implications of the failure to invest?

Philip Bicknell: The implications are about our ability to produce in future. It is something that I feel personally the supply chain has been a bit slow to wake up to. Against this, we are also seeing a change in the Common Agricultural Policy. We do not have a policy that is or was designed to maintain production, to try to manage production and output. We are

responding much more to the market signals. If we do not make money in one year or the year after, that starts to question our viability for future years.

As to your question about what actions are being taken, Defra is predominantly focused on some of the dairy sector initiatives, looking at how futures can start to help and how better information can be provided. It is something that is getting interest at a European level on futures, particularly from an inputs perspective, and we know that the levy boards, increasingly, are looking at how we can give farmers the right business support to help them adapt to the volatility.

Ross Murray: I would say no to your question about volatility and whether it is necessarily a bad thing. Business people must respond to market swings and always look at them as an opportunity. The danger lies in the range of volatility, as I said earlier. The consequence of this emerging theme of greater volatility inevitably is going to hasten restructuring within certain sectors of agriculture. That is inevitable and that is the public policy interest area as to how agriculture in Britain is going to adapt in the next two or three years.

Lord Cunningham of Felling: You are saying those who cannot cope with it would leave.

Ross Murray: I think they have to—they will be forced to—and the banks will have a major role in that.

Viscount Hanworth: Are you talking about levels of consolidation?

Ross Murray: I would have thought there would be a high degree of consolidation, yes.

Philip Bicknell: The average farm size has been trending upwards over a period of time and I expect that to continue. In some sectors you will start to see maybe larger suppliers working with smaller suppliers, trying to integrate the supply chain a little more. That is what we are looking at probably five or 10 years down the line.

Ross Murray: It would be a mistake to say there is not a role for small farms. The critical thing is not the size of the farm but its profitability and ability to manage itself accordingly.

Viscount Hanworth: Are statistics on farm sizes readily accessible to us?

Philip Bicknell: Yes.

Viscount Hanworth: I will ask you later to give me the sources.

Philip Bicknell: Paul probably can do that as to the farm size data. It is something that would be tracked by—

Paul Wilson: Yes.

Viscount Hanworth: Also, I would like to be able to access the price volatility data and look at it to substantiate the claims of increasing volatility.

Paul Wilson: There is quite a lot of data that is published on things like farm sizes, farm structures and farm price volatility.

Viscount Hanworth: You will be able to give us an overview on that.

Paul Wilson: I cannot do it instantly, but I will be able to dig it out.

Viscount Hanworth: No, but take it back and then forward to us the sources, yes.

Paul Wilson: Absolutely.

Q15 Viscount Ullswater: Could you help us with this? Is price volatility the same across the UK or does it differ between farmers in the devolved areas? Are some devolved areas of the UK mitigating the effects of price volatility on farmers better than others, and what are they doing, if they do?

Paul Wilson: The regional differences with respect to the devolved areas come down to the farm types that are typically operating in those areas. Within Wales, for example, there are predominantly beef and sheep farms, whereas in England there is quite a mixture of different farm types. In Scotland, there are quite a lot of beef and sheep farms, upland farming, as well as a mix of some dairying and arable. It is not the devolved regions with respect to their farms per se because of the regions; it is because of the farm types in those regions.

Coming to the point about what those devolved regions are doing and if they are different, that is where things get slightly interesting because of the implementation of the Common Agricultural Policy, which I would probably argue is now as uncommon an agricultural policy as we have ever observed in its history, because within England farmers receive a flat-rate payment for the area that they farm. Within Scotland, some of the subsidies that they receive are still linked to production, particularly with respect to beef and sheep. Also, in Wales, there are still some aspects of activity that are linked to what those farms are doing with respect to their farming. There is a difference in how things are operating across the devolved regions from a Common Agricultural Policy perspective.

Viscount Ullswater: Is that what you see as being helpful to farmers?

Paul Wilson: Certainly within those devolved regions of Scotland and Wales, it provides some help for those specific sectors; the more suckler cows you have in Scotland, the more subsidies you will receive, whereas in England it is very different. There is an uneven playing field even within the UK and the devolved areas.

Lord Krebs: To extend the discussion of the devolved regions, you did not mention Northern Ireland at all.

Paul Wilson: I did not, I am afraid. I am not as familiar with Northern Ireland as I am with the other regions. I do not know whether other colleagues on the panel are. One of the

interesting things about Northern Ireland that I may comment on is that, when you look at the milk price volatility recently, Northern Ireland milk prices have come down considerably more—in the order of about 4p per litre more. To put that in perspective, farmers were relatively recently receiving about 30p and they are probably now down in the low 20s of pence per litre. Within Northern Ireland, that fall has been even greater lately.

Philip Bicknell: That would be reflected in the structure, so a big proportion of that milk will be going into milk powder processing. Skimmed milk powders are one of the areas on the global commodity markets where prices have fallen pretty significantly.

Lord Krebs: Could I extend the question one step further? In relation to all the things that we have discussed so far, are there lessons to be learnt for the UK farming industry from what is happening in other European countries? Presumably, the effects of price volatility are not a UK problem—they are a farming problem—and many farms in other parts of northern Europe must be quite similar to those in the UK. Are they doing things the same way as us or are there things we can learn from them?

Ross Murray: There is some very impressive co-operative working on the continent and, traditionally, co-operatives have not fared well in the United Kingdom. The more we can encourage UK farming to cluster together and deal with issues of cost, smart marketing and finance, the better, because we are little islands within our farming sector.

Lord Krebs: That is something we have been talking about for decades.

Ross Murray: It is, yes.

Lord Krebs: It is the same old story: why has nothing happened?

Ross Murray: I am afraid it is a cultural problem.

Philip Bicknell: In the dairy sector we have had Dairy Crest Direct become the first producer organisation, a formal recognition of that co-operation and collaboration. I am aware that in Scotland a group of dairy farmers supplies into a cheese site that is on the road to gaining producer organisation status. There is quite a bit of opportunity, but now is the time to try to make sure that we have that collaboration and we take a more joined-up approach.

In answer to your question about Europe and what we can learn from there, I was aware, certainly when the framework of the current CAP was being discussed three or four years ago, that there is ability within the CAP package to offer mechanisms that facilitate income support. In looking at some of those across Europe, you will see that there are no stand-out examples of things that have helped. They have either been insufficient to deal with the problem when we have had very low prices or they have not been utilised. The challenge, I suppose, in looking within the CAP, would be that there is ability to use funds to offer that

sort of model where you can help in times of crisis, for want of a better word, to use that income, but that would be funded by lowering direct payments. You might be helping one sector or group of farmers, but you are reducing the level of payment that will be available to all.

As to the other aspect around rural development programme funding, which is the second pillar of CAP, I am conscious that in some parts of Europe and other parts of the UK some of that funding is used to help productivity, knowledge transfer, training and innovation, all of which can help farmers adapt to the new challenges. In England, we spend the best part of 90% of our rural development programme on agri-environment schemes, and the productivity and growth strands are both areas that have been hit by the reduction in Defra spend as part of the comprehensive spending review. In others, there is probably more funding that is allocated to addressing some of the challenges that we might have in how we apply that Common Agricultural Policy element.

Lord Cunningham of Felling: This might be what people would call a curve ball, but, in view of all these problems and difficulties, would British agriculture be better off outside the European Union rather than in it?

Paul Wilson: Perhaps I can start with that one. I guess there are advantages and disadvantages.

Lord Cunningham of Felling: Pros and cons for and pros and cons against, you mean.

Paul Wilson: Indeed. I am sure we will hear lots of that over the coming years. At the moment, to deal with the Common Agricultural Policy specifically, it is providing a large proportion of farmers' income. In the most recent financial year, 2014-15, ending March 2015, the statistics that we produced from the Farm Business Survey show that over half of farmers' net profit on average comes from that basic single payment that farmers have received. It is providing a cushion with respect to this price volatility that farmers are currently experiencing. When you speak to agricultural bank managers, they are, shall we say, sympathetic towards farmers' cash-flow concerns because they know that the single farm payment will arrive within the coming weeks or months, and so they are willing to extend overdrafts. If that cushion was not there, we would be witnessing a different scenario at the moment in the short term. In the longer term, as to that policy that exists, if we were outside the EU and those farmers were not receiving that Common Agricultural Policy support, farming would readjust. We would go through a period of structural change where those farmers who were less efficient and less profitable would exit the industry. There would be a greater growth of consolidation in the sector. As to other activities that those farmers would

be looking to do, they would probably extend their diversification to try to counteract some of those things. The big challenge that I see from an exit from the EU is that we would be potentially excluding ourselves from market opportunities. That is the bigger challenge that I see moving forward rather than the support from the CAP.

Ross Murray: When you do the maths on current data, the idea that there would not be that CAP support for UK farming would be devastating for the industry. The question for a future British Government is which way they are prepared to support rural economies, particularly agriculture. That is what we are going to have to ask as we get towards the Brexit discussion in the next two years.

Viscount Ullswater: I need to go back a step to co-operatives because a lot of Welsh farmers got together and produced Welsh lamb, and marketed it as Welsh lamb. Did it stabilise the price for lambs in Wales when they did it? I do not know whether it still continues and whether that was helpful in attacking this price volatility.

Ross Murray: I am a Welsh sheep farmer so I am probably best placed to answer that. It has helped but we are terribly reliant on our export market for Welsh lamb. Currency fluctuations hit us and we have had this huge currency fluctuation in the last year with the strengthening of the pound. However good the marketing is and however co-operatively worked, there are always external factors that will influence things.

Lord Curry of Kirkharle: For a period, there was a Welsh lamb co-operative. It lasted for a while, was reasonably successful for a short period and then it imploded.

Q16 Lord Rooker: I want to ask some questions about opportunities, but, sticking on the issue we are on at the moment, one of you said something about the devolveds that I want to be clear on in my own mind; the memory goes as you get older. In 2006, England went in—that was when I went into Defra, in very unfortunate circumstances; we had forgotten to pay the farmers—with a flat-rate payment. The other three nations took the opportunity, which they were entitled to do, to go towards phasing in a flat-rate payment. While at the moment there are still some subsidies or allowances based on production, surely they are being phased out, because everyone is heading towards a flat-rate payment. Is that not correct?

Ross Murray: Yes, it is. There is an adjustment in Wales from the historic basis of payment through to a flat-rate payment, but it is being phased in over a period of years. It is happening.

Lord Rooker: Is that not the same with all of them? In other words, it cannot last for ever with the devolveds because they will head to the flat-rate payment. I cannot remember whether it was a 10-year period or not, but it cannot be far from the end of the period, given that the system started in 2006. We got them to 10 years.

Ross Murray: You will be surprised how long they have strung it out.

Paul Wilson: Yes, I think that is the answer.

Lord Rooker: Okay. That move is still going on.

Lord Curry of Kirkharle: They have so much left that member states—Scotland and Wales—are still allowed to retain an element of coupled payment even though they have gone through the transition for beef and lamb.

Lord Rooker: Okay.

Lord Curry of Kirkharle: For beef and lamb.

Ross Murray: And they do in Scotland, yes.

Lord Rooker: I was unaware of that; I am a bit out of it now. I want to make a point and ask a question as to this doomsday scenario you have painted about leaving the EU, which I personally am not in favour of, but that is not the issue. New Zealand seemed to manage okay when it abolished all its subsidies overnight, reorganised the industry and made it more efficient. Why could other countries not do that?

Paul Wilson: Perhaps I could address that. First, I certainly hope I did not give the impression that I was in favour of an EU exit, because I am personally not in favour of an EU exit. In New Zealand, in the 1980s, they reformed their agricultural policies, and their subsidies were drastically cut. The consequence was that there was a major restructuring in their industry. We would experience a similar restructuring if the subsidies were taken away tomorrow, for example. Agriculture would carry on; farming would carry on; most of the land would continue to be farmed, but it would be farmed in a different structure and there would be quite a lot of business bankruptcies in the short term while that period of structural adjustment occurred.

The Chairman: I am almost getting tempted myself about Brexit, but—

Philip Bicknell: I will not comment on that. My understanding of New Zealand and the impact there was that that was also accompanied by a devaluing of the currency, which helped them compete on export markets. I do not think that is going to happen with us. The NFU has not taken a position but has produced a report on the implications. Both Ross and Paul have mentioned the trade angle and the agricultural policy angle. I would throw in a third: what would regulation look like? If we wanted to trade within Europe—and three-quarters of our food and drink exports go to other European countries—I suspect we would still face the same sort of regulatory hurdles as we do now. We have mapped out in that document some of our key questions. I will share that with the Committee if that is okay. We also have some more

work coming in the spring trying to look a bit more specifically at the numbers and what the impact would be of Brexit.

The Chairman: I am sure we would be glad to receive it. Whether or not we can include it in this report is another matter. If it is in favour of one way or another, I am sure some of us, depending on our views, will be delighted to receive it.

Q17 Lord Rooker: I have a couple of questions on opportunities. Given that the farms are businesses, although I am not sure all the farmers I have ever met accept that, and that volatility might look like a cloud—I use the analogy that there is always a silver lining—are there opportunities for businesses in volatility that are there within the framework of the changes? How are we placed in taking up those opportunities and taking advantage of opportunities in relation to what the farm businesses do, or is it just the fact they cannot control it and struggle on? There must be some businesses that positively organise themselves to take advantage of opportunities. What sort of opportunities are there for them?

Ross Murray: They have this amazing asset, which is this land. There are many farmers across the country who are diversifying into the tourism and energy sector, and finding alternative forms of income. It allows them to stay on the farm, to live where their home is and carry on farming. It is striking that UK farming is supported by a whole range of different other sectors and people have been very imaginative. Farmers are businessmen and have to be. They have to be entrepreneurial and they cannot rely, in a volatile world, on straight income from farming or, indeed, from very generous support from the public.

Lord Rooker: In the main, do they get support from planners in taking advantage of those opportunities?

Ross Murray: There is a cultural issue there, and the CLA is for ever banging the drum on a more responsive planning system. There are indications that the current Government are getting it, but there is resistance along the line. For instance, National Parks is very small “c” conservative in its attitudes towards change. We have to keep on pressing the idea that you can do alternative things on farmland and carry on farming.

Paul Wilson: The most recent data we have on some of those aspects that Ross mentioned as to diversification is that over half of farms, typically, have some form of diversification, and that is excluding agricultural contracting, which in the national account counts as agriculture. So it is highly likely to be much more than that. The growth in diversification of late has been in renewable energy. The incentives have now reduced for farmers to get into that, but we estimate, from our work on the Farm Business Survey, that approximately 18% of the farmers in England have some renewable energy production going on, on those farms. It is not

specifically taking opportunities of the volatility that has arisen, but more, potentially, that they are looking at continuing to diversify their business incomes. Those particular things, such as renewable energy, offer a real stability of income stream that counteracts the price volatility, which, as I mentioned earlier, is determined by trade on the international markets and the fact that with production levels, particularly in sectors where we rely on the outside world, as in the climate—cereals, beef, sheep and dairying—there is a climate impact on your yield. You have two variable factors, and it is not the case that we are such a large country that, if we suffer a major yield reduction, we would have a price rise to compensate for that. We are effectively a relatively small production country in terms of agricultural output.

Philip Bicknell: The one opportunity that has not yet been fully realised or grasped is trying to take the food supply chain approach. The reality is that, if prices are low for a sustained period, for some of our biggest retailers and food processors they are risking their domestic supply base. Similar to what we have seen in dairy, with longer-term contracts that take account of costs of production, there is quite a bit of opportunity to look at how the supply chain can take an integrated approach to look at deals that last a number of years. I am conscious that Warburtons, for instance, has recently announced it has a five-year deal with sourcing its bread. I know that some of our big brewers in the past have had two-year deals on malting barley. Looking at stuff that starts to have more of a long-term indication about what income flows might be is a big positive. As I say, those examples are probably few and far between. You start to take a big step forward if you see that in the red meat supply chain. Tesco has recently started talking about contracts for its lamb supply. As a sheep producer, I am sure that having an indication of what the lamb price might be in 12 months' time would be invaluable towards planning businesses.

Viscount Hanworth: Can you say a little more about the globalisation of farm prices? Is that something that is proceeding and is it the same in all sectors? Presumably milk prices are local, but other prices are utterly globalised.

Paul Wilson: I do not think we could characterise milk prices as local. While we have a liquid milk supply that is a perishable product, there is not very far that you can move it before it is unfit for human consumption. The actual milk price is determined on a global market. There are not that many sectors that I could think of where I would say, "Actually, this is a very local market". The local market opportunities for farmers come from when they start to add value on their farm or to link in with a branded product. Picking up on the points that Philip mentioned, in developing those collaborative arrangements with retailers, a lot of those will have to come forward. The fact they have happened in milk is not because supermarkets

wanted to have them; it is because they realised there was a crisis in the dairy sector and they needed this perishable product on their shelves to get customers in. That is where those came about. For the UK farming sector to benefit from those vertically-integrated supply chains—and I am in favour of looking at how we could develop more of those—they need to be given some brand recognition. If they are still just producing a commodity, they are open to the vagaries of a world market within some of those production contracts that exist.

Viscount Hanworth: It was either you or Philip Bicknell who said that these long-term contracts have been favourable, but can we trust that they always will be favourable, or might they not redound to the huge disadvantage of breeders at some stage?

Paul Wilson: By their very nature, they remove volatility with respect to input and output price variation. As Philip mentioned, when the input prices come down farmers will receive a lower output price, but when those input prices rise those farmers will be receiving a higher price for their output. It removes some of the volatility in the dynamic input/output systems that we observe in normal practice. In the longer term, they do introduce the potential for some moral hazard, as it might be termed, with respect to monitoring the costs of production on a set of farmers who supply a particular retailer, because it may not then enhance innovation, for example. The farmers might think, “I have this price. If we are all working together and we are all doing things in a similar way, we can track our prices”. There is a potential for innovation to be lowered because of those vertically-integrated factors. That will not necessarily happen in reality because it is still a competitive market with the different retailers competing against each other, so they will still be looking for their farmers to continue to innovate and continue to drive down costs.

Viscount Hanworth: But there is a potential for farmers to be squeezed, or, to use a cruder word, screwed by—

Paul Wilson: There is always a potential for those producers in a perfectly competitive market, which farmers are. There are a lot of small businesses operating within a market, and at either end of them they have a small number of purchasers for their products, a small number of suppliers of their inputs, and they are effectively small businesses within this quite compressed chain; you are right.

The Chairman: We will take Lord Rooker next, because we must move on to Lord Selkirk’s question in a moment.

Q18 Lord Rooker: We heard last week that the UK is unique in Europe in that 40% of food is sold on promotion. If this is the case, the consequences of selling your soul for five years to the supermarkets—which are then doing the promotions in a way that nobody else in Europe

has done—is that they end up deciding everything that happens on the farm, including the price. There is a big risk there. Do you have a view as to why we are unique in the rest of Europe in that 40% of our food is sold on promotion, or is that something that is further up the chain than you would have knowledge of?

Philip Bicknell: It is fair to say when you look in some parts of Europe that you have perhaps the discounters that are grabbing the headlines here and making inroads into the UK market. Between them, Aldi and Lidl now have over 10% of the market share. In other European countries they have already had a relative lead market share, so you already have some relatively everyday low pricing strategies that they employ; it is less about promotion and more part of their business strategy, and has been. The argument that we were talking about, from the weakness or relative strength, is in itself an argument for why we need co-operation. It is part of the reason we need the Groceries Code Adjudicator, who I think has started to have an impact. The remit of the GCA is not about prices but about contracts and how they are honoured and how suppliers are treated. Trying to make farmers and direct suppliers pay for promotions is something that the code looks at.

The one aspect that might start to make a difference, and I know it has traction again from a European perspective, is asking whether something like we have with the Groceries Supply Code of Practice in the UK might make a difference at a European level as to how retailers treat their suppliers.

For me, the challenge is about trying to iron out those peaks and troughs. I do not want us to be an industry that goes from boom to bust on a fairly regular basis because I do not think that is healthy. Long-term contracts will not be for everyone. There will be some who want to ride that rollercoaster and some who want to look at the market and take different strategies, but we need to have increased options, because at the moment, in a number of sectors, we have no choice but to ride that rollercoaster.

Ross Murray: I very much agree with what Philip has said about the supermarkets. They are so powerful and sophisticated in both their selling out to the general public of the food product and their purchasing of commodity from the farmers; but the alternative to long-term contracts is for me to fill my trailer every Wednesday and go to Abergavenny market and take a price. Increasingly, that is looking old-fashioned.

Q19 Lord Selkirk of Douglas: Chairman, my question splits into three parts. In very large measure you have already answered the first, but, for the sake of clarity, I would like to try to clarify the role of public policy, including the CAP, in mitigating the effects of price volatility. Do you feel that public policy provides sufficient risk management tools and

opportunities for farmers within the United Kingdom, and does EU and UK public policy improve or exacerbate the negative effects of price volatility on farmers? As I have said, in large measure you have answered this because you have made it very clear that farmers respond to market swings, but can you add any points you wish to make?

Ross Murray: The principal hedge against volatility through public policy is the Pillar 1 payment. We as farmers should be very grateful for that. What it is used for should be demonstrated. We would certainly look at the system of the Common Agricultural Policy in a very positive way. It has smoothed out some of these huge swings in price and profitability. I take a positive view towards it. I do not resile from the fact that it cannot adapt and has to change. and it has to be justified, but, for the most part, the Pillar 1 payment is incredibly important.

Paul Wilson: Here, in 2015, we are talking about the Common Agricultural Policy, but we need to go back to the 1930s to understand the context of why we have an agricultural policy that came, in part, because of the great depression, the Agricultural Marketing Acts that came in in the 1930s, and the consequent recognition that farming faced these volatile prices. The underlying factors still remain. We have variable production because of the climate; we have variable prices, partly because of global markets but also because of the price-inelastic nature of food products. Consumers need to eat on a weekly basis, and, while retailers compete for individual consumers, when it comes to the price-responsiveness of those consumers to individual prices, combining that with the relatively volatile nature of production means that volatility in agricultural prices is inherently a factor of farming. The policy of those marketing boards that came in in the 1930s, and then subsequent variations of agricultural policy, is how we have got to where we are today. There was that recognition that, without some form of policy intervention, we would see farmers going bankrupt and there was land abandonment, as in the 1930s, for example. That historical context is possibly useful to recall because that is why we have a Common Agricultural Policy today.

Q20 Lord Selkirk of Douglas: Thank you. May I go on to the second part of my question, which again you have very largely answered, about devolved Administrations and how the policies differ? If I may take an example, when the Chernobyl disaster happened and protective measures had to be put in place, they were similar, I imagine, throughout the United Kingdom. Now, with devolved Administrations, is there sufficient liaison between them when action and contact is needed, discussions should be followed up and put in place, or do you feel there are still improvements to be made in that area?

Ross Murray: I have no reason to think that there is not very good liaison between the devolved nations. There are clearly differences of opinion.

Philip Bicknell: Some of the frustrations come from the points that we mentioned before about the different levels of payments and the fact that, from an England perspective, we have gone further and faster to that flat-rate payment than not just other parts of the UK but other parts of Europe. That general approach of implementing rules and regulations further and faster—earlier than other parts of Europe—can be damaging. The best example of that is the UK pig industry in the 1990s and the stall and tether ban, where we implemented that 12 or 13 years ahead of other European countries. That regulatory framework started to have an impact. The net result was that we lost a big proportion of our breeding sows and our pig industry, coupled with the fact that, I think, Danish producers had access to five-year tax averaging at that time, which started to have an impact on their views of being able to manage volatility. I am pleased that the Chancellor has recognised that five-year tax averaging is something that needs to be extended to farmers here in the UK.

Lord Selkirk of Douglas: If policies between devolved Administrations vary somewhat, this is not a particular problem that you are concerned about. Is that roughly your position?

Philip Bicknell: When you start thinking about some of the coupled support payments that offer additional funds on a per-head basis to livestock farmers in other parts of the country, that puts them at an advantage compared with us, but that is something that is taken by those devolved Administrations.

Q21 Lord Selkirk of Douglas: May I ask the last part of my question, which is what is the role of financial instruments? Are they being used sufficiently, and should the European Investment Bank play a larger role in supporting on-farm risk management efforts?

Paul Wilson: It depends how we define financial instruments. As to farmers having the ability to sell their products forward, as Philip mentioned, before they even sow them, in terms of forward contracts and options—and those exist—some farmers use those. Typically, those are larger farmers—those who are more informed about the market and those who are less able to take risks, be it because they are tenanted or they are a manager operating a farm for a company, for example. But even the use of some of those financial instruments around sectors where forward contracts and market opportunities exist bring risks. For example, in 2012, when we had a very wet summer and low production levels in cereals, some farmers had committed a certain percentage of their crop on a forward contract and failed to meet the tonnage that they had agreed to sell within those contracts simply because of the variable nature of production. When you are using those financial instruments that exist, you need to

be aware of the scope you can use them for, because if you use them to a fuller extent you may be exposing yourself to a greater degree of risk in your business. Some of those things are important to understand, as well as the fact that some of those financial instruments are restricted to a subset of sectors.

If I may carry on, with respect to aspects of the European Investment Bank, typically, farming is well supported by the UK banks because farmers have a good track record of repaying loans on investment. Inevitably, there is a small proportion of farmers who do not repay their loans, but, generally speaking, the UK financial sector has been willing to support agriculture, largely, as Ross mentioned, because a lot of those businesses are sitting on a large asset—that is, their land.

The Chairman: While you are dealing with this, could you touch on the risk management measures that are available under Pillar 2, which the UK has not taken up?

Philip Bicknell: As to the European Investment Bank, I understand that the Commission and the EIB are looking at volatility-proof loans for the dairy sector, in effect acting as an idea of guaranteeing loans. I am not sure how that would work in combination with banks and what their appetite for it would be, but the information that I have is that interest rates would be low and loans could last up to 15 years. You could take payment holidays at periods of low prices, which is something that the banks offer anyway; they tend to be fairly pragmatic as to cash-flow repayments. There is perhaps scope there. It is something that has been looked at with dairy and it could be extended to wider sectors.

As to futures, yes, the ability to give an indication of price, whether or not I use futures, is great. I would like to see that extended to other sectors, but I am conscious that for everyone who wants to sell on futures you also need a buyer. I am not so sure there is the amount of buyers out there for some of the products that we produce.

In terms of the second pillar and some of those income support measures, I am trying to rack my brains and think back, going back a little while to the early days of the current CAP deal. There is a mechanism whereby, if farm incomes fall by more than 30% year on year, you can make additional payments. However, from my understanding of that, first you need the data. How do you verify why income has fallen? Is it in relation to a crisis? Is it the supply side? Is it price-driven, or is it something that the farmer has done? How do you get the paperwork to do that? What would be the process? What would be the timeframe involved for doing that? Throughout those early discussions, it always felt to me that it is the kind of thing that would come long after the crisis. The idea of getting support here and now is great, but I do not want it in 18 months' time. The one thing that BPS, the basic payment under CAP, does—assuming

that payments are made on time, and I am conscious that that is a question mark right now, but a proportion of members have been paid—is to provide a revenue stream. Typically, farming businesses after 2006 have got used to that revenue stream hitting their bank accounts in, hopefully, December and January for the main part.

Ross Murray: As to your question about specific risk management tools, Pillar 2 allows insurance products. This is widely taken up by continental countries but has not been in this country. It is something that possibly we should look at, if this volatility remains the pattern—some form of insurance scheme. There is a very sophisticated model in America that has been long-standing. There will be a reluctance by the public to be seen to be subsidising the insurance industry. It is not without its difficulties, but insurance is possibly a way ahead in the future.

Q22 Viscount Hanworth: I am conscious that most of my assigned questions have already been asked, but perhaps there is no harm in reiterating them in case there is something more to be said. First, there was a set of questions about how farmers could protect themselves against volatility, either by diversifying production or production flexibility. We have already been told that many farmers are looking for other enterprises that they can use to tide themselves over. Maybe there is something more to be said about that. Essentially, are these recourses equally available to large and small farmers? That is one question that could be answered. That is the first set.

Ross Murray: Yes, I think they are. The tourist sector is a wonderfully developed thing; it is one of the glories of Britain and it happens countrywide. It is not restricted to any particular type or size of farm.

Paul Wilson: Some of those diversified options—for example, tourism—in certain parts of the country work well; in other parts of the country, where there is less tourism interest, where they typically are the more densely-populated areas where there might be more businesses, renting out of farm buildings for something that is non-agricultural can also work well. There is a range of diversified activities that farmers are taking part in.

In response to the question that was sent in advance about conventional methods, we have seen, particularly since the 1960s, an increased specialisation of farms where, typically, a mixed farm might have had a range of agricultural enterprises, and, over time, those have become fewer and fewer, and farms are now much more specialised. It has allowed them to produce at lower costs of production per unit of output, but with that specialisation has come the trade-off that they are effectively more exposed to the price volatility in any single market

and the options of diversifying help to counteract that. Certainly, specialisation is something that has not just occurred in the UK; it is a developed world agricultural scenario.

Philip Bicknell: Prices in a lot of areas are low at the moment, so, in effect, if you are a mixed farm, you are carrying the low prices of cereals and from a livestock perspective. When we did our most recent confidence survey, mixed farms tended to have among the lowest levels of confidence when looking at the next 12 months. As to diversification, the one thing in itself can have a degree of volatility and uncertainty. The seasonality that is inherent in tourism and some of the challenges that you could have around trying to add value to your farm produce or retailing it yourself can all prove a bit of a distraction from the day job. We talk a lot about prices, but another area that, as an industry, we can focus on, as well as focusing on that profitability, is to make sure that we are focusing on the cost side. There is also an argument for making sure that the farm business side is not losing out as a result of looking at other revenue streams.

Ross Murray: I would agree with that, yes. It requires a different set of business skills.

Viscount Hanworth: Am I correct in understanding that productive flexibility is now somewhat at a discount because of the nature of modern farming technology, which essentially drives one towards specialisation?

Paul Wilson: Could you repeat that?

Viscount Hanworth: I am sorry; that is a complicated set of words. Am I right in understanding that productive flexibility—in other words, switching from one crop to another or one output to another—is now somewhat at a discount because of the nature of modern technology that locks farmers into certain specialisations?

Paul Wilson: I would agree with that. With this increased specialisation has come an increased need for mechanisation, specific buildings, specific management practices or specific skills that are needed in any one sector, and that has grown over time. The ability to jump in and out of a sector, as used to occur quite frequently, has diminished quite considerably.

Philip Bicknell: You have seen changes in the crop rotation and the mix that people have on a farm, but then we have the crop diversification rule as part of CAP, which perhaps goes against us responding to some of the market signals by putting in place the fact that we have to grow three crops in a certain area.

Viscount Hanworth: What kind of financial measures are available to enable farmers to address this volatility? That has, in some sense, been answered, but I have two riders. First, are banks equally amenable to giving overdrafts to large and small farmers, or are small

farmers, who I presume are also preponderantly tenant farmers, disadvantaged by the banks? Do I understand that this rent ratchet, as one might call it, is working substantially to their disadvantage?

Philip Bicknell: If you speak to the banks, they will tell you that they will treat a business based on its profitability going forward. They will say that it is about the underlying profitability of the business, whether it is an owner-occupier or a tenanted farm business. What is certain is that banks have lent more money to farmers. The borrowing to agriculture is £17.5 billion, 10% up on where it was 12 months ago, and has followed something of a steep incline. My view is that that has been driven by cash-flow requirements. The tendency has been, from a farm perspective, to try and extend the overdraft to get over that cash-flow hurdle, but where you have probably seen a bit more interest from the banks is in trying to get people into longer-term loans or mortgages—the more structured side of things. That is where tenants can have a bit of a disadvantage in terms of having the asset base to borrow against.

Viscount Hanworth: We have the sense that the wise bank manager has been replaced by algorithmic decision-making. Are there complaints from farmers in that connection, that it is simply checklists that lie behind their credit rating assessment rather than a detailed and knowledgeable assessment?

Philip Bicknell: There has been a change, and something we have tried to get across to our members is that, if you are going to go and talk to the bank, make sure you have done your homework, do the business planning, look at sensitivity analysis and at how you are going to pay that borrowing back. The idea of phoning and asking for an extension of the overdraft is something that is in the past. Hopefully, as an industry, we should be getting more used to providing the information and making our case. I worry about the proportion of farmers who perhaps do not go and talk to their bank, who will batten down the hatches. I am particularly thinking about some of our smaller livestock sectors, who will perhaps make changes to their business without going to the bank because they have a view that they might not get the level of support they need.

Viscount Hanworth: Can I pursue another tack, or are we running out of time?

The Chairman: We are almost running out of time, but do put it. Could I ask our witnesses to be fairly brief, please?

Viscount Hanworth: As a child, I was aware of slogans like “Go to work on an egg”, “Drink a pinta milka day”, and so on. Those slogans spoke of the marketing boards. What has happened to them? Is there any possibility of reviving those sorts of arrangements that I think

somebody said dated from the 1930s? Would there be an advantage in re-establishing them and pursuing some of their functions?

Paul Wilson: My understanding of the marketing boards is that the European rules do not allow us to have them and that is why they were disbanded. I may be wrong in that assumption, but that was my understanding. As a quick follow-up, part of the question related to advertising. There is quite strong evidence that, in a country where you suck in imports, generic advertising is a waste of money. If you are going to advertise, you need to advertise on a brand, and advertising generically is a waste of farmers' money.

Philip Bicknell: We have the levy boards. Collectively, they gather revenue from all farmers. I think they have a budget of over £60 million, and a proportion of that will go into market development activity. Some of that is targeted promotion, but it has to be about more than consumer promotion. It has to pick up international trade development; it has to be perhaps a bit wider than just consumer promotion. From my perspective, we started to see it in sectors like potatoes where we have branded products on a shelf that we did not have 10 years ago. We have seen some of our biggest dairies, including Arla, the largest farming co-operative in the UK, I think I am right in saying, ploughing quite a bit of money into TV advertising and getting farmers out on the streets to engage with consumers this side of Christmas as well. There are some initiatives, but I want to see others in the supply chain taking them, not just farmers.

Lord Curry of Kirkharle: In the interests of time—we have pretty well covered the futures market, private sector partnerships and supply-chain integration—I will make one comment following Professor Wilson's comment that fixed prices within supply chains may stifle or discourage innovation. The assumption is that low prices are going to encourage innovation, although I think that is a matter for debate.

Paul Wilson: I agree.

Lord Curry of Kirkharle: In the supply chain with which I am most familiar, which is the Waitrose milk supply chain, in fact the reverse is true, because the deal is that, if we pay you that price, you will then adopt innovative measures and share those measures across the supply chain, and that is incumbent on those participants.

The area I want to explore a bit more is this whole issue of productivity, which you mentioned, Phil, and the role that innovation and the adoption of new technology and knowledge transfer, et cetera, can help in improving our position against this background of volatility. I am keen to hear a bit more about that.

Paul Wilson: The aspect of continual innovation is going to be necessary to drive down costs to compete globally and for farmers to compete against each other; so anything bringing innovative practices forward is a good idea. Farmers are up for taking up new technologies and new innovations where they see those having a particular driver that reduces costs—particularly labour-saving activities, for example. Things like precision agriculture have become more and more common in the arable sector, partly because there was that price spike that allowed people to reinvest but also because they see that as a way of driving down costs and driving up productivity. The innovation is in two main forms for me. One is the productive aspects of innovation, but the other side of the innovation is better management on farms. A key determining factor of farm performance is the management ability of those individual farm businesses. Anything that allows farmers to access greater information—for example, benchmarking, which we do within the Farm Business Survey—or allows them to look at their costs and revenue moving forward, which again we do with our work on our Projection Calculator tool, or which allows people to go in and test different price scenarios for their production: all those things need to marry together with the innovative practices at production level to achieve a successful business.

Ross Murray: We should remind ourselves that we have some world-class research facilities in Britain. Just picking two, Rothamsted in Cambridgeshire and IBERS in Ceredigion are world-class facilities, and they need to be funded and supported, and the results of their research promulgated into British agriculture.

Philip Bicknell: The point I would make is about trying to join it up exactly. Some of the research that might have happened over the last 20 years has taken place in an academic environment and we perhaps have not shared the lessons learnt and had that knowledge transfer into industry. As much as I agree with Paul about the rapid uptake of precision agriculture, which has surprised me over the last 10 years, if I am honest, one factor behind that has been about annual investment allowance. To what extent have the incentives from a taxation perspective helped encourage some of that uptake in plant and machinery? In terms of innovation, it is also thinking about what makes us more resilient. On the back of the flooding in Cumbria—which I am conscious is the latest in a number of extreme weather events that we have had in the UK, whether that was the drought we saw in 2011 and early 2012, followed by an awful lot of rain that made 2012 in England the wettest year on record—do we have the right kinds of crops and plants that are water-resistant or drought-resistant? Do we have the right sort of investment happening in drainage to make sure that we have the right productive capacity? That whole area of innovation is something that, as an

industry, everybody is increasingly focused on. We also need the right sorts of information, but, critically, that needs to get down to farmers and needs to inform decisions that they take on the farm.

Lord Curry of Kirkharle: Despite having these world-class centres—and you are absolutely right that we have—the fact is that we have lost ground in productivity, so we are not connecting well enough somewhere between the research that is being funded and its application on the farm. In the EU reform package deal, member states are able to introduce a farm advisory service. Defra's definition of that is to advise on the implication of the CAP reform package, when, in fact, should it not be linked to this whole issue of innovation and productivity?

Paul Wilson: It would be great to see an agricultural advisory service. I just do not see the current Administration—

Lord Curry of Kirkharle: I am not suggesting we should try and reinvent ADAS, but—

Paul Wilson: To be fair, from a university perspective, I am well aware that the drive now is around the impact of research. It is a great thing, from my point of view, that we do research and have to translate that to the sector where it is needed. From our perspective, getting those agricultural innovations that we do in a research-led university like Nottingham through to farming is a good thing. It incentivises us to do that and we are all up for it.

Philip Bicknell: There is a role for the public sector in it but I am conscious of some of the positives that have come out of those integrated supply chains, whether that is Tesco working closely on the dairy side with Liverpool vet school or whether it is facilitating benchmarking in some of those supply groups. That partnership or joined-up approach also starts to have benefits other than price.

The Chairman: I am sorry to have to bring this to a close now, but Baroness Sheehan can ask one question.

Q23 Baroness Sheehan: In terms of risk mitigations and all the other information that you have to help farmers over price volatility, et cetera, what mechanisms do you have to disseminate this information to your farmers and members? I know you have emails, but do you use any other means—social media?

Philip Bicknell: From an NFU perspective, we are trying to get information on a whole host of issues that we are working on. In terms of how we communicate with our members, the website has been mentioned, but there are also Twitter and Facebook. The thing that still gets most read is our *British Farmer & Grower* magazine, which goes out 12 times a year. We have a range of different mechanisms, and of course we also have 36 county advisers across

the UK and branch meetings. That physical face-to-face meeting is still strong. As to our role, we need to be an advocate for some of these things, but with some of the detail it is about how we get the levy boards more involved in some of the innovation exchange. For me, a big enabler, particularly when we are talking about better information, still comes about via the internet and broadband access. We think of broadband access as being a rural issue and a big challenge from a farming perspective in remote rural areas, but I know plenty of members who are perhaps on the edge of a town, who, because they are at the end of the line, are well down the priority list for any sort of upgrade. Yes, it is a big rural issue, but it impacts those farmers in parts of the country that you perhaps would not expect. For me, it is a big enabler to getting the information, which then helps them approach business differently.

Ross Murray: But there is no substitute for putting the wellies on, getting on a farm and discussing it with fellow farmers. That is so often the best way of doing it.

The Chairman: We really must call this session to a conclusion, so be very quick, please, because we have to finish.

Viscount Hanworth: Regarding my request for a note on statistical sources—and I think it is addressed to Professor Paul Wilson—the recipient might be Mark Gladwell, who could then circulate us; otherwise shall I pass you an email address?

Paul Wilson: I will liaise with Patrick.

The Chairman: Thank you very much, gentlemen, for your evidence and time. It is clear that we could have carried on, but we do have another session. Thank you on behalf of the Committee for coming and, as I say, giving your time and answering all our questions. I also wish you a very happy Christmas and a good new year. Thank you.

Examination of Witnesses

Lynsey Martin, AGRI Steering Group Chairman, National Federation of Young Farmers' Clubs, and **George Dunn**, Chief Executive, Tenant Farmers Association

Q24 The Chairman: Good morning—well, not quite morning. It is in this building, actually, for reasons I will not go into, as there is not time.

Thank you very much for coming to give evidence to the Sub-Committee. Unfortunately, the Chairman, Baroness Scott, is not well and cannot be here today. As you know, we are doing a short inquiry into responding to price volatility and creating a more resilient agricultural sector. Can I say to you formally, for the record, that this is a formal evidence-taking session of the Committee? A full note is taken and is put on the public record, in printed form and on

the parliamentary website. You will receive a copy of it to make any minor corrections, although it will already have been put on the website. The session is on the record, is being webcast and, in due course, will be accessible from the parliamentary website. You have been advised of the interests of members of the Committee. If there are any relevant interests, they will declare them this morning when they first speak in this session. We have only half an hour, I am afraid. As you know, the purpose of the session is to understand the reality of the situation for two specific groups: young farmers and tenant farmers. I do not know whether either of you would like to say anything in opening or whether you are happy to go straight to the questions.

George Dunn: I am happy to go straight to questions, Lord Chairman.

Lynsey Martin: Yes.

The Chairman: All right. We will go straight to the questions. I will leave it to you to decide who answers the question. I do not want to stop you saying something, but if you agree totally with the answer that has been given or have nothing to add, that is fine. No doubt you will indicate that. Can I go to the first question? How does the impact of price volatility differ, if it does, for young and tenant farmers, compared with the situation for older farmers and owner-occupiers across the United Kingdom? In your view, are the effects of volatility—we are talking about volatility, not low prices—a significant factor in the UK today, or do you experience other, more significant issues? Who would like to start?

Lynsey Martin: After you, George.

George Dunn: Thank you very much, Lord Chairman. I would highlight four areas of specific difficulty to the tenanted sector from agricultural volatility. The first is the most obvious—the rent that the tenant farmer has to pay. It is fixed for a period. On an agricultural tenancy, the period the rent is fixed for is largely three years. Even when there is an option for a review, it tends to be a pretty sticky thing. It is very difficult to get it moved—sometimes up or down—when there is volatility in the marketplace. There are massive frictional costs involved in reviewing a rent. You might have a rent for a holding of £20,000, but if you ended up in dispute with your landlord, at arbitration, you could spend £40,000 or £50,000 just to argue the difference between you and the landlord on that rent. Despite the fact that we have had expert determination added by the Deregulation Act this year, as a means of resolving disputes, sadly, the way in which the Government has implemented it is not very effective for reviewing rents. Rent is a big area of concern when you are in a volatile market.

It is also more difficult when tenants are faced with the desire to combine other economic activities on the holding. Ross Murray said that the land was very important and that you

could do great things with it and diversify. Tenants do not always have that option, because they are required to be farmers by their tenancy agreements and often landlords are not very open-handed with consents to do other things on farms.

Thirdly, there is the issue of capital values, which was also raised in your previous session. The tenant farmer does not have access to the capital value of the land, so when he or she needs extra borrowing to sustain themselves through a volatile period, particularly a low volatile period, sometimes that is a bit of a stumbling block.

Lastly, for people who are on farm business tenancies—we call them the new style of tenancies, but they have been around for 20 years, since 1995—a big issue in managing volatility is that they are incredibly short in length. The average length of term is just over three years. In a volatile market, that gives you no time at all to have the ability to manage the highs with the lows. Those are four specific areas of concern to the tenant sector.

Lynsey Martin: Access to finance is a major area of concern for young farmers. If you are going into it with limited capital or a limited credit record, it is very difficult, as George mentioned, if you do not have land or anything to borrow against. Without a secure form of contract for whatever you are producing, whether it is arable or livestock, young farmers find it very difficult to get some sort of finance. We work a lot with the European Council of Young Farmers—CEJA—which is currently undertaking measures to help to collect evidence on how young farmers are accessing finance. It is also looking into the possibility of somehow coming up with loans that would be backed by the European bank. If you are trying to borrow, it is about having a guarantee for your finance, which a lot of young farmers and new entrants do not have.

Young farmers are quite good at being opportunists. Where possible, they look at ways of using land when it is not in use by owner-occupiers or other tenant farmers, but support for collaborative businesses, share farming and more innovative ideas is always welcome. That is the way a lot of young farmers are now starting in the business; they are helping out with rotations on farms and things like that—just taking every opportunity that is available to them. Promoting and giving backing to those ideas, where they are successful—whether it is share farming or any other sort of innovation—would help, because everybody is always sceptical about taking up new things and ideas. If those were promoted, where they are working successfully, it would really help.

The Chairman: Thank you. Can I ask one question? You talked about the rents, the reviews and what have you. What is the general practice on who receives the single farm payment, under agreements?

George Dunn: Within a tenancy agreement, where it is a proper, bona fide tenancy agreement, it is for the tenant farmer who has the land at his or her disposal to make the claim for the basic payment. It does get slightly more complicated, because there are some newer arrangements where individuals are required, once they have claimed the payment, to pay it to the owner of the land as rent, plus something else on top of that. It can get quite complicated in actuality. However, it is the tenant farmer who makes the physical application.

The Chairman: How widespread is the provision to pay it over?

George Dunn: It is not that widespread, but if there is one case where that happens, it is one too many. There has to be a reasonable basis upon which an individual has access to land to run their business.

Lord Curry of Kirkharle: George, I chaired a seminar here for you on the whole issue of the length of FBTs and your campaign to draw attention to the fact that short-term FBTs are unhelpful. Do you think that you are making progress on addressing that issue?

George Dunn: We have done all the easy things. We have done all the awareness-raising, the campaigns, the conferences and the seminars, one of which you kindly hosted for us in this place back in the summer. We have gone a significant amount of distance on the moral arguments. Organisations such as the Duchy of Cornwall, the National Trust and the Duchy of Lancaster—large landlords who are concerned about the sustainability of the sector—are responding positively, in my view. More widely, sadly, the private landlord sector is still not responding at all. Indeed, your previous witness from the CLA does not seem to think that there is a problem in this respect, but clearly there is. We are discussing with the Government both the legislative framework and the fiscal environment—the taxation environment—within which landlords make decisions, to try to get a better framework for longer tenancies.

Viscount Ullswater: Perhaps I should declare an interest. I am a trustee of a landed estate in Cumbria, on which there are a lot of let farms.

George Dunn: We know you well.

Q25 Viscount Ullswater: That really has nothing to do with the question I am asking. You have answered a great deal on the main challenges and opportunities for both tenants and the young, but do you believe that you have the tools and the knowledge to utilise opportunities? I know that you have addressed some of the opportunities that young people have, but I would like you to continue with that. How can they engage successfully with the challenges and opportunities of price volatility?

George Dunn: There definitely are tools. The question that I would seek to ask is: are those tools sufficient, and do they work properly for those who need to use them? For example, we

have talked a lot about contracts and the ability for people to lock into a price for a contract. Typically, that has been something that the cereal and potato sectors have been very good at using, although we find that, where the farmer is involved in that contract process, often it does not work as well as it might in theory.

Let me give you an example. At a time when prices are quite low in the spot market but where the contract has locked in quite a high price, so that the farmer is getting much more than the spot market would offer them under that contract, we find that purchasers keep a stronger gimlet eye on issues of quality, timeliness of delivery and whether there is sufficient bushel weight. They use all the mechanisms that they possibly can to suggest that the load should be rejected from that contract, and quite often the farmer has loads back because of that. There are mechanisms out there, but we still very much think that the farmer is the weakest point in the chain in that respect.

Viscount Ullswater: Would you say that the contracts are really not fair contracts, or that they are too loaded and one-sided—too loaded to the purchaser, rather than the supplier?

George Dunn: My Lord, it is not a magic wand. It does not solve the issue completely. Yes, there are tools. Another example is producer organisations in the dairy sector, much talked about at the moment; they give people the ability to come together and negotiate terms and price. Although that tool is available, it is not very well used in the dairy sector. Perhaps there is something that retailers can do. If a retailer wants to trade with a major processor, perhaps the retailer could require that processor to operate through a producer organisation, which would give farmers a greater sense of their ability to negotiate.

Lynsey Martin: For young farmers, there are tools, to which George has alluded. Business planning and business training are things that can always be better utilised when it comes to negotiating contracts and knowing what all the clauses actually mean. It is about making sure that when they get on college courses in business training, those are fit for purpose and that, where possible, there is continued professional development. Obviously that has to come with an attitude that such training courses are an investment in the future of the business and not just time away from the business. That will be down to the individual. A lot of us know the agricultural side inside out, but business is a slight step away from what we are used to. To be effective managers and owners, whether as tenants or landowners, running a really efficient business, more business-focused training will always be useful.

George Dunn: Farmers are very skilled and intelligent individuals. Last week I was asked whether I farmed, as well as running the TFA. I said that I was not smart enough to be a farmer. We expect farmers to have a wide range of skills. We expect them to husband their

crops and animals and to deal with environmental management, biodiversity and water management. We expect them to be chemists and physicists, and now we are asking them to be speculators as well. The range of issues that we expect farmers to take on board is enormous.

Q26 Lord Curry of Kirkharle: I omitted to make my declarations in the earlier session. Just for the record, apart from having lots of interests, all of which are on the public record, I am a tenant farmer.

I am interested in the whole area of public policy and whether it is designed appropriately to address issues such as volatility and its negative impacts—whether there is more that we should be doing or whether it concerns our Government’s response to the ability within EU policy to adopt certain measures. It would be interesting to hear whether you think that we have done enough. Is there more that we should be considering as regards how public policy is designed and implemented?

George Dunn: The biggest piece of public policy that is attempting to smooth out volatility relates to the Pillar 1 payments under the Common Agricultural Policy. As you know, this year there is great concern right across the UK about the extent of early delivery of that money, particularly in a year that has been quite difficult across the piece for most farmers. That is by far the biggest chunk of money. It is a pretty blunt instrument, but we have to abide by the European rules. Sadly, the last reform was not much of a reform when we looked at it in detail.

We also have the Groceries Code Adjudicator, who is there to look at fairness within supply chains. Within the Tenant Farmers Association, we have been arguing for some time that her powers need to be extended. In relation to this Inquiry, there is one area where we think that it would be useful to have an extension of her powers. She should not be involved in setting price, but she should be involved in reporting on price and margins, so that she can provide information about the extent to which retailers, processors and farmers are gaining in the supply chain. It would provide an enormous amount of information in the negotiation of contracts and those things going forward if she had powers to report on the value of the price and who was getting that out of it.

If we look at wider public bodies, there is a big role for AHDB, which has a budget of £65 million a year. We have been challenging AHDB—the Agriculture and Horticulture Development Board—to do more in this area for the development of the sector. We are quite pleased to see that the body is in listening mode. What we worry about is the extent to which Defra wants to take an executive role in running the organisation. Of course, it is paraifiscal

money, so the Government has a role to ensure that it is not being wasted, but we would argue that Defra should take a more non-executive role in the body and allow AHDB to do what it needs to do to support the sector going forward.

Lynsey Martin: As young farmers, we think that public policy is there to help us, but it is also quite slow. That is just the nature of the beast. It is evidence-based, research-based and procurement-based—hopefully, everything that we want it to be. What we need are practical measures and for policy to be communicated in such a way that it is easily interpreted by everybody who is trying to use it and not in such a way that it could possibly be misconstrued in certain areas. I come back to business. BIS is just as useful to us as Defra, moving forward. It is about having access to all the tools that we can use to improve our business and make it more efficient.

Lord Curry of Kirkharle: Can I tease out a bit more? George, I remember very well that you were enthusiastic about the retirement scheme. If we accept that older or more inefficient farmers will be the victims of price volatility rather more than younger, well-equipped farmers, you will be quite keen, as I know you were, that that should be part of public policy. Here in Britain we have not adopted subsidised finance et cetera for young farmers to the extent that it has been adopted in other member states. Is that still an area you are interested in?

George Dunn: I am not sure that the retirement scheme is necessarily a good solution to help individuals to deal with price volatility. Yes, we have an issue of farmers being unable to retire because they do not have the economic wherewithal to do so, but some of the most efficient farmers I see day to day are those who are of an age when they should perhaps be handing over to young people, to give those young people the opportunity.

I failed to mention in my previous answer that one area where the Government could play a major role is in their own procurement of food within the marketplace. It is only just over a year since we had the Bonfield report, which challenged the Government about public procurement on a balanced scorecard basis. If we were allowed to move that demand curve to the right, we would be in a significantly more beneficial place in a volatile market, but I am not sure that the retirement scheme would necessarily be of benefit in this respect.

Lynsey Martin: As I said before, we are working with CEJA to look at how young farmers are getting finance. CEJA is looking into how that could work in each of the member states. We also see it as an opportunity to look more into share farming and joint ventures, but we need support to get that off the ground. We did a lot of work with Steve Webster, with some Defra funding, to look into a matching service, which would look at matching young people

to those opportunities. It is now with Fresh Start and Alison Rickett. We are still working with them to carry that forward. Matching keen young farmers with people who are looking to retire, to diversify their business or to hand over the reins, where they do not have an opportunity to hand over, would be a great opportunity for people. That could take as much support as we can get.

Lord Rooker: I have a couple of follow-ups to points that you raised, George. On the point that you made about the AHDB, I have always taken the view that the money is the farmers' money. It is the levy—it is not taxpayers' money. I realise that it is done by statute, which is an issue, but Defra or the Government have no place interfering in that. Is it not still the case, though, that the six sectors are a majority on the board? When it was set up, there were 10, I think. The agricultural industry sectors were six, so they were always in a majority.

George Dunn: What happened in the past was that individual bodies were responsible for their individual bits of the levy. They have now come together under one body. Bringing any disparate group of individuals and organisations together is always a challenge. One of the challenges that AHDB now has is to maintain the ethos of ensuring that, where levy is paid, it goes to the benefit of the sectors, while creating a better structure within which that is operating. There is a long way to go. The new chief executive and chairman are doing a good job, in my view, in trying to bring it forward. There is a lot of criticism within the industry about what it is doing and how fast it is moving. I think we have to give it one last chance so that it can get itself into a position to be more effective than it has been.

Lord Rooker: My other point relates to your answers to the questions about diversification issues. I do not want to start a new hare running, but at some point we will do a report. I realise that there are some huge tenant farmers—they are not all small places—and that there is massive diversity in your membership. I think you made the point that they are not in full control on diversification, simply because, if you have a contract to be a tenant farmer, it is farming that you are doing and you will not do anything else; that is the landlord. That goes against the whole point about using opportunities to improve business performance, irrespective of counteracting price volatility. Are there any recommendations that we could make that would be different for tenant farmers, as opposed to owner-occupiers, in respect of that? Is it something worth looking at? We are looking at price volatility. From the previous evidence, all of which you heard, it is quite clear that these issues are not necessarily to counteract that, but they are very useful for making better use of the land, so there is a more productive business and everybody gains. If there are barriers for tenant farmers that do not

apply to owner-occupiers and that Parliament and Government should look at, I am very keen that we hear about them.

George Dunn: Some time ago, we argued that there should be some form of appeal mechanism, so that the landlord could not simply say, “No”. We are not interested in allowing an unreasonable tenant to make an unreasonable case to a reasonable landlord. That is not what we are here for. In circumstances where the tenant is well-advised, has a good plan and is being reasonable and the landlord is the one who is being unreasonable and saying, “No”, there should be some expert determination or arbitration procedure that would allow the tenant to say, “Actually, I do want to carry out this activity on this ground. I think that it is a reasonable thing for me to do, so I want to find a way of resolving the dispute”. We got close to that in 2006, but there was never the political will to push it through. That is something we would certainly be interested in looking at.

Viscount Hanworth: Would you say that the appeals and arbitration procedures are underdeveloped? You mentioned that it was not worth going to arbitration or making an appeal against a rent rise, because it might incur—

George Dunn: I was making that reference specifically in relation to rent, because arbitration is a very expensive route to take if you want to try to review a rent. There are other mechanisms available, such as expert determination. That was one of the things that we tried to put in through the deregulation task force, in which I know Lord Curry has been involved, to try to find easier mechanisms to have those disputes resolved. Sadly, the Government implemented it in such a ham-fisted way that it is a completely unusable piece of the toolkit for a rent review.

Viscount Hanworth: Would you be interested in sending us a note to expound this and to suggest how the Government should have implemented it?

George Dunn: Absolutely. I would be very happy to do that.

Lord Curry of Kirkharle: I have two follow-up comments, George. The first is in response to Lord Rooker and the whole issue of tenant farmers being able to diversify. As you know, I had evidence on this back in 2002, when a tenant farmer on the outskirts of London, with a very small farm, was in dispute with the landlord because he wanted a farm shop and the landlord said that he could not have one. The sustainability of the whole business was absolutely at risk because of that. It would be useful, following Lord Rooker’s comment, to have some words from you about that issue.

George Dunn: I am happy to provide that, Lord Curry.

Lord Curry of Kirkharle: What we cannot have is tenant farmers building car parks and caravan sites across the whole place.

George Dunn: Absolutely not.

Lord Curry of Kirkharle: There is a balance to be struck.

George Dunn: Absolutely. It is about reasonable business plans.

Lord Curry of Kirkharle: Absolutely. My second comment relates to the point Viscount Hanworth followed up on. You commented that the changes to the legislation have not been helpful. I have just stood down from the Better Regulation Executive, where we were trying to be helpful in changing the wording, so it would be helpful to have your feedback on that issue, too.

George Dunn: Right now or in writing?

Lord Curry of Kirkharle: When you send something in.

George Dunn: By all means.

Q27 Lord Selkirk of Douglas: I have a question that is mainly about high technology. Do you feel sufficiently knowledgeable and confident about how to mitigate risks and take advantage of private sector partnerships, futures markets and so on? Should innovation and knowledge exchange play a large role in managing on-farm risks?

George Dunn: Absolutely. Information exchange and innovation need to be part of the solution and to be accessible to the farming community. Again, there is a role for AHDB in providing some of that assistance. I go back to what I said earlier. We are expecting farmers to be experts in many fields these days. Their ability to understand financial markets and measures may not be as great as it would be if they were operating from a City desk, for example. I question the extent to which we can necessarily expect farmers to be kings of their own kingdom in relation to managing future volatility. Innovation and benchmarking discussion groups are a key part of the solution.

The Chairman: Are there any other questions?

Q28 Lord Selkirk of Douglas: This may not be a question—it is primarily for you, George—but it could be relevant overall. It is about the extent to which land ownership has changed over the years. This may be a bigger issue in Scotland, where I come from, than in the rest of the United Kingdom. For example, we do not yet have a profile of what percentage of land in England and each part of the United Kingdom is owned by tenant farmers, what percentage is privately owned outright by small landowners, what percentage is owned by companies and institutions, and what percentage is publicly owned. In Scotland, that profile has changed very considerably over the years. It would be useful to have some sort of picture,

because, with volatility in farming—I will put it as a question—it seems that those most at risk of adverse circumstances might be the small tenant farmers or small landowners. I do not know.

George Dunn: Absolutely, my Lord. The Scottish situation is a volatile melting pot, as you well know, and has been for a long period of years. There is a certain sense that some of our English landlords look north of the border and worry about what might come south. I completely understand that. On your primary question, about a third of the land in England and Wales is farmed by tenants. There would be another 10 percentage points of individuals who are farming on something other than owner-occupation: for example, share farming, share partnership or grazing licences.

Lynsey Martin: Lord Chairman, can I go back to Lord Selkirk's previous point about technology? We as young farmers are keen to take up technology, whether it is in genetics, in livestock or in the arable sector. What we lack is a bit of security that goes with it. We will be approached by people to plant however many hectares of a new breed of arable crop. If that fails, we are taking the risk. For some people, that is a big stumbling block to taking up those opportunities, yet those farm-level trials are needed to make it an affordable option for everybody to use as soon as possible. Any measures to speed up the development to full market release, perhaps through some sort of insurance for farmers willing to trial those things, are always welcome.

Lord Selkirk of Douglas: Are there any particular measures that you would like put in place to ensure greater resiliency?

George Dunn: On the tenancy side, the biggest thing we are currently asking for is for the Government to look at the taxation environment within which landlords make decisions, to encourage landlords to let farms for longer lengths of term. We are seeking 10 years-plus. We need to look at how the taxation environment incentivises that.

Lynsey Martin: Any encouragement that helps people to make the decision to enter new, innovative ways of farming such as share farming or joint business ventures—whatever they may be—is welcome, to help young farmers to get a foot in the door. As young farmers, we are aware that, in this climate, land ownership is not a prospect that many of them can take up, so we are looking into share farming, renting, innovative new methods and joint business ventures as our primary ways of getting people into the industry. We need to make sure that we are shouting about the ones that are working, and developing those where we can.

The Chairman: Thank you very much for coming. I am sorry that we have to bring it to a close now, but we are grateful to you for giving evidence on behalf of two very important

elements of the farming community. I wish you, and, indeed, members of the Committee, as this is the end of our business, a very happy Christmas and a prosperous new year. I remind members that our next meeting is on 13 January, following the recess.