



HOUSE OF LORDS

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The Select Committee on the European Union

Energy and Environment Sub-Committee

Inquiry on

**RESPONDING TO PRICE VOLATILITY: CREATING A MORE
RESILIENT AGRICULTURAL SECTOR**

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11 am

Witnesses: Sir Peter Kendall, Eirwen Williams and David Gardner

Members present

Lord Trees (Chairman)
 Lord Curry of Kirkharle
 Viscount Hanworth
 Lord Selkirk of Douglas
 Baroness Sheehan
 Viscount Ullswater
 Baroness Wilcox

Examination of Witnesses

Sir Peter Kendall, Chairman, Agriculture and Horticulture Development Board, **Eirwen Williams**, Director, Menter a Busnes, and **David Gardner**, Chief Executive, Royal Agricultural Society of England

Q29 The Chairman: Welcome, lady and gentlemen. Thank you very much for coming and giving us your time and expertise. As I was saying to you, David, this session is very gentle. We are just trying to inform ourselves about price volatility and agricultural resilience, which is a matter of considerable contemporary interest. To remind you, this is a formal evidence-taking session of the Committee and a full note will be taken. It will be put on the public record in printed form and on the parliamentary website. You will be sent a copy of the transcript and if you wish you may revise any minor errors. The session is on the record. It is being webcast live and will ultimately be accessible on the parliamentary website. You have been provided with copies of members' interests, but if members of the Committee have other interests to declare, can they do so when they begin? You have had copies of the questions which we have divvied up between us. I invite you to introduce yourselves and to say a word or two about your background, as that would be helpful.

Sir Peter Kendall: Thank you very much indeed. I am Peter Kendall. First and foremost, I always like to state that I am a practising farmer. I was on the farm this morning for a few hours before I was able to travel down to London. I grow cereals in Bedfordshire, 40 miles north of London, and I do quite a bit of contract farming for other people, which demonstrates some of the consolidation that has gone on in the sector, where farms have had to get bigger to be more robust and resilient, which we shall touch on in due course. I was president of the NFU for eight years. I stood down in 2014 and became chairman of the AHDB in April 2014.

Eirwen Williams: Good morning. I am Eirwen Williams, director of Menter a Busnes. We deliver a knowledge transfer programme for farmers in Wales called Farming Connect. We

have been delivering elements of the programme since the beginning in 2001. Since 2011 it has been amalgamated into one programme in Wales, which includes knowledge transfer, innovation and advisory services. We deliver that in Wales on behalf of the Welsh Government. I am also a partner in a farming business at home, although I must confess that I probably do not do as much as Peter does. My husband and my son farm at home.

The Chairman: Thank you.

David Gardner: My name is David Gardner. I am chief executive of the Royal Agricultural Society of England. I also run a charity called Innovation for Agriculture, which is a consortium of 15 English agricultural societies using their network for knowledge transfer to farmers. That is where my interest lies. Our current work streams are around soil organic matter and precision livestock farming. My background is in farm management with the Co-operative farms group over many years, where I managed a variety of enterprises, including such as cereals and dairy, and fruit businesses more recently. I am still a non-executive of a farming business in East Anglia that farms root crops, wheat and rape. I did a Nuffield scholarship in 2009 on new technologies, looking at what was going on around the world. The other thing that I think is relevant to today is that during the last crisis, in the early noughties, I ran a Defra programme called Risk Aware, which addressed a lot of issues to do with low prices and how farmers might deal with them.

Q30 The Chairman: So I am sure you will help us a lot. That is very appropriate. I have taken the Chairman's prerogative to kick off with the first question, which is about the role of resilience in responding to risk, and I will keep it very simple. The question to all three of you is: how can agricultural resilience be improved? Sir Peter, you are conducting a volatility forum this month to find sustainable management mechanisms for volatility. Perhaps in your answer you could tell us a little about the sort of solutions that you would expect to emerge from that. Could you each answer in turn, but by all means chip in? Members of the Committee are free to ask supplementary questions.

Sir Peter Kendall: First of all, Chairman, it is an enormous subject to try to deal with when three of us are answering the question. It is worth starting with a bit of scene-setting. We have moved on significantly from the days when, a long time ago, the UK set farming prices—the president of the NFU would go in and negotiate prices. We then went to the common agricultural policy, which was very much a market support mechanism as well, with intervention and headage payments. That has now all been unravelled at a time when, globally, agricultural markets have reduced support. We have seen mind-blowing volatility—the sort of peaks and troughs that I do not think anybody would have appreciated.

I will talk about cereals, which is the sector I know very well indeed. In 2008, I sold soft wheat for making biscuits for £240 a tonne; this week, we are loading out the same product for £105 a tonne. There are the same extremes in the dairy sector, where two years ago, farmers might have been receiving 34p per litre, whereas today some farmers are receiving 16p per litre. That sort of volatility is completely new, as we have unravelled market intervention, and farmers are having to come to terms with it. Our role at the AHDB is very clear: we should help farmers to be more competitive and resilient and help them to have the tools to grow their businesses in a sustainable and competitive way. We think it is absolutely vital that we take a lead role in that because we have a regular dialogue with the bulk of levy payers; it varies according to which country, which devolved region of the UK and which sector we operate in. We think that we have unrivalled access to levy payers, but there is also a market failure to provide instruments and education around those instruments to help farmers to live with the new world that I have talked about.

The volatility forum, to come to the crux of your question, is an attempt to try to pull together the academic world—everybody in farming is talking about the volatility that I have just outlined—where they are scratching their heads about the options available to us, the commercial world, which has already developed different instruments, and the third tranche, the farming community, who are not taking them up readily enough. It is a change of mindset. I will give you a slightly light-hearted example. I engaged in establishing and registering our family business to trade options, to be able to buy futures contracts and options for cereals. My mother, who is 87, is a partner in the family business, and by the time I had taken her passport and one of her utility bills she was convinced that she was going to be sitting at the entrance of the farm on a suitcase as I gambled away the farm. From a fairly simple commercial arable background, having to register and be involved in all those financial instruments to manage risk is a big change of mindset.

The volatility forum will try to pull together practising farmers, the commercial world and the academic world to make sure—this is really important for us to stress—that we do not just do this when times are bad, because we all talk about volatility when things are on the floor. With £240 a tonne for soft wheat, barring going down the pub and celebrating, you do not think much about volatility. We need to make sure that it is a long-term piece of work, accepting that commodity cycles go up and down. We will come out of this, but we must not forget about those instruments of planning. David talked about his work at the start of the 2000s. How do we embed that? There are a number of areas that we are really keen to look at, whether it is forward contracts, forward pricing, the use of derivatives, co-operation and

integration, people creating more strategic balanced businesses or how government policy might be involved to help us manage some of that volatility.

Eirwen Williams: With Farming Connect we have different types of activities, and hopefully they all address the question about looking at the risks, how we can manage volatility in agriculture and making the farming business more sustainable for the future. First, we have discussion groups that benchmark against each other, which is crucial; farmers need to know where they are compared with their fellow producers. Getting farmers to engage in benchmarking is not at all an easy thing to do, but once they are engaged they see the benefits. Since October 2015, when we started the new contract for Farming Connect, we have established 36 discussion groups across Wales: 10 of them are dairy and the rest are red meat. They all participate in a benchmarking scheme. We have developed a new scheme called Measure to Manage, which is a first step to see where they are and whether there is any way they can improve the management of their business.

We are also looking at new ways of bringing more income into farms. You have to be innovative. I was reading a report from the Oxford Farming Conference last week about innovation and its importance to farmers. We are trying, through a scheme we have called Agrisgop, to bring people together to look at new ideas, to work with people. We are actually trying to develop people so that they in turn develop their businesses. At the moment, prices are bad, the weather has not been good and half the producers in Wales have not yet received their payment from the basic payment scheme, so people are not very confident about the future. We need to work with people. You cannot be innovative unless you have confidence, so we have to work with people and develop individuals so that they can develop their businesses. We have examples through the Agrisgop programme of groups of people who have managed to secure contracts. For example, there is a Welsh black beef producers group that sells directly to Waitrose, and they are getting a premium for their produce. So we need to work more with groups like this.

We also need to encourage the uptake of new research and development. We are establishing a knowledge exchange hub with IBERS, looking at the latest research in agriculture and translating it to the agricultural community. A lot of research was done in the past, but perhaps it is sitting on shelves gathering dust. We need to be able to communicate it to the industry so that people know what the latest innovation and research is, and how they can use it to benefit their businesses. The knowledge exchange hub that we are launching at the end of this month, together with EIP Wales—the European Innovation Partnership—and things like this will, we hope, encourage farmers to look at innovative ideas in agriculture.

We try to communicate the latest information, for example, on animal health and welfare, because it poses a big risk for farmers if there is a new disease. We hope to get hold of that information and communicate with farmers so that they have knowledge. It is so important to have knowledge. Somebody once said that in a period of change the amount of knowledge you need must exceed the rate of change. So it is all about giving people the tools to arm themselves against the risks.

The Chairman: That is very helpful. You mentioned knowledge sharing and innovation, and we are going to come to those in more detail in a minute.

David Gardner: My first point picks up on Peter's point; volatility is normal and it is here to stay. In many ways, the question we ought to be addressing today is how we help farmers to get through the bottom of the trough, bearing in mind that, when we are in a trough, we do not know how long it is going to last—which is where we are right now. I see, broadly, two types of farming business developing: commodity producers and niche producers. Niche production should be encouraged. It adds value overall at the farm gate, and niche producers tend to be insulated from commodity movement; they are much closer to the marketplace. Having said that, there is a limit to how big the niche market can be. The reality is that the vast majority of what farmers produce will be traded as commodities, bearing no more provenance than the red tractor, and will be subject to the vagaries of the global market that Peter has already talked about.

The focus for farmers who are commodity producers has to be on the cost of production, understanding their costs of production and driving them down. Both previous speakers mentioned benchmarking, which is fundamental to that. Peter mentioned business structures and the adoption of new technology to drive down the costs of production. You said you would come back to technologies and so on, but knowledge transfer, certainly in England, is completely dysfunctional.

Of course, if you can drive down your costs of production, you make your business more profitable during the good times, which strengthens your business and gives you the opportunity to get through the tough times, which is key. We should be aiming to develop world-class businesses that do not haemorrhage cash during the bottom of the trough, which is slightly different from not making a profit. They do not haemorrhage cash, so they can tread water. I know of businesses in several sectors that are doing that right now; they are not making money but they are not losing cash. It makes them very resilient.

I would like to draw a distinction between resilient farm businesses and resilient rural businesses. Diversification is key, particularly for the smaller family business, where they can

broaden their income base. There is passive diversification, by which I mean things like solar panels, wind turbines, barn conversions for offices or industrial lets and so on, using the natural capital of the farm to develop other income streams. There is also what I would call active diversification, which is another business that is run on a day-to-day trading basis. It could be closely aligned to the farm—food production and so on—or it might be something completely divorced. It might be one member of the family business working as an architect in a converted office on the farm, bringing in another income stream, which gives them resilience to move through the low points of the trough.

I made a note about price management tools, and I suspect we will come back to that. I have made the inevitable note about receiving payments from the basic payment scheme on time. The other point that I would like to pick up is that we are particularly weak on dealing with endemic animal disease, and probably weaker in England than in the devolved parts of the UK. I do not just mean TB. It is wider than that. That weakens our resilience and affects our production costs. It impacts on all of that. That is a factor that could help if we had a much more proactive approach to it.

The Chairman: As a veterinary surgeon, I am pleased to hear it. In general terms—I do not know if it is helpful—I am trying to think of solutions to the problem on two levels: the micro level, which is what the individual farmer can do, such as improving their competitiveness, diversification and so on; and the macro things at institutional and national level, such as insurance systems, futures markets, encouragement and so on. There seem to be two levels of addressing this. Could we move to knowledge sharing and information?

Q31 Baroness Sheehan: In the next set of questions we are going try to explore in a bit more detail what the knowledge requirements are and how any knowledge gaps can be filled. The first issue, before we move on to that, is to have a conversation about whether farmers are genuinely interested in participating in information and knowledge-sharing activities. Eirwen mentioned some of the barriers to communication, and maybe we can explore those a little more. For the benefit of the Committee, I will take question (d) next. Where do you see the biggest knowledge gaps in farmers' understanding of risk and how can those be filled?

Sir Peter Kendall: When you say “the biggest knowledge gaps in farmers' understanding of risk”, I go back to my point about our being in a new place, probably for the first time with so little support. If I touch on dairying, I have to go back to the fact that we used to have dairy quotas, and they have now been abolished as well, so this really has been a new beginning for farmers to understand. I am quite encouraged by some of the attendance we are now getting with the levy boards. I talk to beef and lamb producers in England—beef and lamb is just

England; Scotland is separate and Wales is separate—and we reckon there are 55,000 beef and lamb producers, 29,000 of whom are engaged in our knowledge exchange work to some degree or other. We have had some really good feedback on our better returns programme, which is funded by the rural development programme, with really high scores about people getting benefits from it. The challenge at this moment in time is that although farmers are excited—I know from my own farming experience that we love new technology; we love the idea of doing things in a different way—I do not think we have enough focus yet on price volatility, and on the extremes I talked about right at the start. The comments that Eirwen made about getting farmers to understand how they can eradicate disease, be more efficient and more productive is almost in our DNA as farmers, but we have to understand risk and volatility, almost accepting the commodity cycle. When we saw milk at 34p a litre, it would not have been rocket science to predict that, around the world, everyone was going to put their foot on the throttle. We saw new cows being put to the bull. We saw expansion in New Zealand and massive production increase around the world. So part of the answer to the question is trying to establish that the commodity price cycle exists and that it is going to have more impact on our business. That is a new dimension for us to talk about, rather than the functional, practical work of how we can be more efficient.

The other point I want to pick up on, if I may slightly sidetrack, is what is important about the competitiveness that has been talked about by both of the other speakers. The better we can be in our businesses at being efficient, the later we will be into loss-making and the sooner we will be back into profit-making. David talked about being cash neutral; you might still be making a loss as regards your depreciation and other costs, but you are not haemorrhaging money. We need to be focused on being globally competitive. Benchmarking is a word that, unfortunately, turns a lot of farmers off. I keep asking the guys at AHDB, “Can we find a word other than benchmarking, because it is seen to be almost like a schoolmaster lecturing farmers?” How do we find another way of saying, “Let’s just see how good we are. Let’s see what our competitors are doing in northern Europe and around the world”? Then we can see where we have to be when the peaks and troughs hit. That is the challenge. I do not think that we have given enough focus, hence our volatility forum, to start farmers thinking about the commodity cycle.

Q32 Viscount Hanworth: May I ask you to reaffirm the assertion you made, which is that there is a perverse response globally to the lowering of prices, namely, that farmers increase production in order to maintain income? I think they were your words—farmers will keep

producing at any price phenomenon. Is that your phraseology? I would like a further assertion and reaffirmation of what you implied.

Sir Peter Kendall: I am not sure I go along with that. If you look at New Zealand today, there is a really big shakeout going on. Cows are being culled in the dairy sector to reduce the exposure to loss. We need to react. I am an arable farmer, so fields that do not yield as well—they cost me too much in weedkiller, for example—need to be taken out and parked. We need to break the response that I just go out and plant more or produce more. I need to be really focused on how I can manage the costs to make sure, as David said, that I remain as cash neutral as possible in the downturns. It does happen, and there is an example at the moment, that some dairy farmers have increased feed to their animals to try to milk them more—

Viscount Hanworth: To maintain their milk yields.

Sir Peter Kendall: But I do not think that it is a long-term response.

David Gardner: Peter and I were at a conference in November where a wonderful quote was made by a guy from the States, who said: “The best cure for high prices is high prices, and the best cure for low prices is low prices”. If you think about that, when prices are high people push up production and the price drops back, and vice versa. Although I agree with Peter that individual farmers will try to push production forward, if you look globally, if you take the cereal markets, for example, there are areas in Australia, the States and so on where they just do not bother to drill when prices are low, and it chokes back global production. So an element of what you suggest goes on with individual farming businesses, but, around the world, production responds to price; when prices are high the foot goes on the throttle, but when prices are low it is choked back.

Viscount Hanworth: A consequence of bankruptcy, I am sure. Can I proceed?

The Chairman: I am just watching the clock. It is early days yet, so could we move to Viscount Ullswater? Perhaps some of the points will be picked up anyway.

Viscount Hanworth: Surely.

Viscount Ullswater: You identified a change in CAP policy during the recent past, and that has altered the climate now. Do you feel that young farmers need different skill sets to cope with what is a new challenge? What training and skill requirements arise from this new policy focus? Sir Peter, you put in your evidence that public policy should support the professional development of skills to help farmers cope with change. Are young farmers being pointed in the right direction and what skill sets will they need?

Eirwen Williams: Young farmers have an advantage in one way, because they will be more able and up to speed with new technology, although perhaps I am stereotyping. They will be

keen and enthusiastic, but of course they do not have reserves in the bank when the price goes down. In Wales we recently launched the venture programme, which is a joint opportunities platform, where we try to match people who are thinking of exiting the industry with people who want to come in. It is a matching programme. It was launched recently at the Welsh Winter Fair. We have a roadshow of events coming up at the end of January and the beginning of February. Young people will be able to access a mentoring service where they can have the expertise of an older or experienced person to help them. They will be able to access 100% funding towards establishing a plan for themselves and the person who is thinking of renting the farm to them, in either a contract-farming or a shared-farming business.

Lord Curry of Kirkharle: How is that funded?

Eirwen Williams: It is funded through the rural development plan and the Farming Connect project, which are funded by the Welsh Government and the European Union.

The Chairman: Does any other member of the panel wish to make a comment?

Sir Peter Kendall: If we are looking at the issue in a really analytical way, young farmers have less resilience because they may not have land ownership or reserves in the bank, but I am always blown away by the enthusiasm and ability of young farmers to adapt. They drive a tractor for somebody else on a night shift or they work for someone else. They are tremendously driven. One of the great things that has come out of the last 10 years of farming is a new range of youngsters coming into the farming industry. Some of them are having a really tough time because of the volatility that we have just talked about. Why are they resilient? As Eirwen said, they have new skills, which is really valuable to someone like myself, an older farmer. Young people help us to adapt to some of the technology that is available. They really are a vital part of the future. The training that is now being given in agricultural colleges is equipping them to understand the markets as well as the technology that will play a fundamental part in our being competitive in the future.

The Chairman: Do you want to say anything, David?

David Gardner: Lack of business skills is an issue across the sector as a whole, although clearly not in all farming businesses. There is a fair bit of evidence floating around that we do not compare well with some other industrialised nations as regards the skill set of our farmers. There is no chartered status for farmers, and that is an opportunity that could be addressed. The other speakers commented on the ability of young farmers to adopt new technologies; they are more comfortable with all these iPhones et cetera than those of us who are a bit older. We need to ensure that the next generation has the skill set that the sector needs right across

the board. I agree with Peter that some very good work is being done in the colleges, but there is also an opportunity to work more closely with young farmers' clubs and make them a vehicle that can help to upskill people coming into the industry.

Baroness Sheehan: It is very encouraging to hear that there seems to be a lot of enthusiasm among young farmers in spite of the downturn that we are experiencing. Have you seen any drop in the numbers of new entrants?

Eirwen Williams: No, we have not. Our experience of working with young farmers is that more people are interested in coming into the industry. Our challenge now is to make sure that they have the opportunity to get their foot on the ladder. Numbers in the agricultural colleges—I am speaking for Wales—are up, so there is definitely an interest in becoming part of the industry.

Baroness Sheehan: Before I move on to the other sections, I want to ask you about young farmers and their use of new media. I appreciate that they cannot all access new media, but have you any idea of the range of issues that they experience in accessing rural broadband?

Eirwen Williams: It is a problem. I do not have statistics on how many people have experienced problems, but it is a problem. It is not fast enough to download videos. On our website we have videos and little podcasts of different things that farmers are able to download, but because the internet connection is not fast enough they cannot download them, so it is definitely an issue in rural Wales.

Sir Peter Kendall: It is a massive challenge to get this right for the farming industry as it moves into the future. As I said at the start, we farm 40 miles north of London. My brother's speed is half a megabyte per second, and that is at 40 miles. We are 15 miles away from Cambridge, yet in that part of the world broadband coverage is appalling. We had a problem on the farm a few weeks ago trying to change a bearing on a drill; my young guys go to where they can get a decent signal on the phone and they watch a video for about 30 seconds on how to change the bearing. That is the way we shall be exchanging knowledge going forward. The chief executive at the AHDB is Jane King, who used to be editor of *Farmers Weekly*. The last figure I heard was that for all their electronic downloads, over half the articles are now read on phones. That tells you how things are changing. If we want farming in the UK to be cutting edge, we have to sort out our mobile phone coverage, which even in my part of the world, 40 miles from London and 15 miles from Cambridge, is diabolical. Broadband is unbelievably variable. I hate to think what it is like in Lord Curry's part of the world.

David Gardner: Let me point out that, when you hear that 93%, 94% or 95% of the UK has such and such broadband coverage, guess who the 5% are who do not have it.

Q33 The Chairman: Before we leave knowledge sharing and information, could I just ask a question provoked by written evidence we received from the NFU? We will perhaps go back to that, but you are all involved in knowledge exchange; you have said how important benchmarking is and so on. Let me quote the NFU, which says: “Currently the main area of concern for our members is around data protection, ownership and enabling farmers to get value from any data they collect”. Can you comment on that? I was intrigued by that. Do farmers resent giving their information away?

Sir Peter Kendall: This is part of the discussion about big data, the internet of things. It is certainly something that is going on in the United States at the moment where the John Deeres and Cargills of this world want to Hoover up everything we do as farmers. The debate that is going on, which is still to be resolved here, is who owns the information and to whose benefit. If it is to the benefit of big business, I would like to think that we could have a grown-up discussion where everybody benefits collectively, because if people know what I am using, my machinery and the state of my crops, the just-in-time production of agrochemicals or fertilisers can be linked together. We all become collectively more efficient. The danger, and the concern that I assume is being expressed by the NFU, is that it is used not to help but to maximise returns to those big businesses.

Eirwen Williams: The question you asked earlier about actually engaging with people and getting new people in is always difficult. We found that, when we were recruiting new members to our groups, one of the main worries was that they wanted their information to be confidential. We were told by the chairman of one of our groups, Euryon Jones from HSBC, that their initial reaction is that they are worried about sharing their information with fellow farmers, but once they get over that stage they feel confident. The problem is that the data goes out from that room to other people and it should not; it should be confidential within the group. Also, it is one thing measuring, but you have to act on what you have measured. You mentioned how many people have turned up to meetings with AHDB. That is just one thing. We tried to measure the outcomes of those meetings. From a recent study that we made, nearly 60% of farmers who have attended knowledge transfer events have actually made a change. That is the important bit—that they go ahead and do something different.

Viscount Hanworth: There is some indication or evidence that there are problems with price discovery. I am not quite sure whether that is a question of the obtuseness of some farmers or the inaccessibility of decent evidence on what current prices are. Can you comment briefly on that? How could price discovery be enhanced?

Sir Peter Kendall: My educational background was agricultural economics, many, many moons ago, so I have always taken an interest in how markets work. Mandatory price reporting is something we talk about in our written evidence to the Committee. Why? Because the more information that is available, the better the decisions that can be taken. We do not have mandatory price reporting in a way that we think would be beneficial. Obviously, it could be done in a confidential way, but some of the big grain companies would rather that there was not complete transparency. For farmers to plan and to understand how markets are moving, mandatory price reporting would be an advantage, particularly given the volatility that we have had in recent times.

Viscount Hanworth: Do you have some legislative proposals that you could forward to us?

Sir Peter Kendall: I work as chairman, reporting to the farm Minister, George Eustice. I do not make recommendations about policy, but one of the things we said in our evidence is that one area that could be considered would be mandatory reporting, and the pressure groups, the representative bodies, might want to act on that and challenge the Government about making some proposals in that area.

Viscount Hanworth: Thanks.

The Chairman: Let us move to innovation.

Q34 Baroness Wilcox: You have answered a lot of the questions that we might ask. I come from the fishing industry, which is very different from farming, yet it is not. As I listened to you, it brought back all sorts of things to me; for example, how proud people are of the skills they have. One boat and one fisherman is completely different from another, as is one farm and one farmer. We must not assume that they are all the same people all doing the same thing, because they are not. That is the uniqueness of the wonderful soil we have; it is the same in the wonderful amount of fish we have around our country. We are very blessed with that. I feel very sorry as I listen, because I know exactly what happened to the fishing industry as it had to go through what was an attack of technology. People saw that they could rape the sea. In came the technology to do it so they did it, but not knowing quite what was happening and taking out years and years of fish breeding by doing it. I have a lot of sympathy for what you said. I am encouraged by the amount of innovation that seems to be coming from all three of you that I had no idea about. The general public have no idea what a farmer is any more. I am quite sure that farmers now have to think of themselves as growers, traders and marketers, so when we ask about innovation, it is not just innovation from technology. Is it innovation in the way they think? Is it the fact that groups of people who have never farmed before will become the people who are successful farmers?

David Gardner: People who come in from outside the farming community bring a different perspective. They do not have baggage, if you like. I have always felt that in any business, in any community, you need a mix of people for it to be healthy. You need people who have been there a long time, who have long memories and understand the whole situation, but you also need people who come in and challenge the status quo. You make a very valuable point. It is quite difficult for young farmers to come in and establish themselves in the sector. Having said that, it is probably easier today than it was when I was young. The various land arrangements are much more flexible than they were 40 years ago when we had three-generation tenancies and nobody would let land. There are opportunities. The industry needs a mix of new entrants. Of course, farm managers represent new entrants coming into the industry. I come from a non-farming background and I made my career in farm management. I represent somebody coming from outside the industry, potentially without some of the baggage that you inevitably get when you have been in the industry for a long time. My view is that you need a mix.

Eirwen Williams: There is a gap between the way we communicate with people who are not in the countryside or in rural settings. As farmers, we may need to do more to communicate with other people. It should be easier today with technology and social media. We have some work to do in that respect as well.

The Chairman: Innovation usually comes as a result of research, which brings us to Viscount Hanworth's question.

Q35 Viscount Hanworth: Can we expect any significant advances in agriscience in the near future and, if so, what might be their potential impacts, particularly as regards enhancing the resilience of farmers in the face of volatility?

David Gardner: I said earlier that I did a Nuffield in 2009 looking at technologies around the world. I concluded that the real transformational stuff over the coming years will be in two areas. One is in our understanding of the whole genome—I do not necessarily think that means GM—and our ability to drive resistance both in plants and animals, and other traits that are desirable. The other area that I think will be transformative is the whole sensor technology and robotics area, which we could broadly package up as precision but which is probably broader than that. It goes into the whole robotics area as well. Personally, I think that we ain't seen nothing yet in terms of what sensors are going to be able to do for the industry as we go forward. Robotics tends to come in huge leaps. You suddenly get a robot appearing that will do something for farmers. The technology certainly moves. Whether its adoption moves in huge leaps is another matter. It may take time to be adopted throughout the industry. I

suppose it depends on how cost-effective it is. Those are the two areas that I believe will be truly transformational over the next 20 years.

Viscount Hanworth: When I think of robotics, I think of milking cows with robots.

David Gardner: Yes.

Viscount Hanworth: You also said that we are pretty bad at coping with endemic disease. In what way? Can you expand on that?

David Gardner: The mismanagement of TB over the last 40 years is absolutely unbelievable. We are slow on the uptake in pursuing high herd health status right across the UK herd and flock, particularly in England, and we ought to be flushing diseases like BVD and so on out of the system. A developed country like ourselves, one of the most developed countries in the world, ought to have the highest herd health status of anywhere. The reality is that we do not.

Viscount Hanworth: How can farmers take advantage of the latest research findings? We heard one piece of testimony that the research sits on shelves and gathers dust. From you, we heard that knowledge transfer is completely dysfunctional. What one asks for is an invidious comparison with other nations that manage these things better so we can see exactly where our deficiencies are. Can any of you elaborate on that?

David Gardner: When I did my Nuffield, I visited the States, New Zealand, Australia and Japan—all countries that thought they did not have KT or KE well nailed down. The message I got right across the board was, “We used to do this better and we do not do it as well now”. My great criticism of the whole world of knowledge transfer and knowledge exchange is that our research facility in this country has become completely fragmented. It is scattered across a number of institutions. Some of those institutions have very strong themes in what they do. Some of them have quite a variety in their activities. The same is true of universities. Some of the universities have quite a strong theme in relation to their vet schools and so on. In others, the research programmes seem to be driven by whether they have a professor who is particularly good at pulling down grants or whatever. My great criticism is that nobody pulls all that together and puts it into best practice for the farming community. If a really great piece of research is done in an institute somewhere, it might come up with one bullet point that is really useful for the farming industry and that could be applicable to every farming business in the country—but how does it get embedded in best practice? At the moment there is no formalised process to ensure that that happens. That is the role that, historically, the ADAS technical specialists used to fill when I started farming. In my view, we have never replaced that role. There is still a gap, and it is a big gap.

Viscount Hanworth: In the 1930s, we were way ahead of the curve with the work that was happening in Rothamsted or wherever. Are you implying that all of that has now gone into abeyance or that it is no longer quite so relevant?

David Gardner: I think that we are behind the curve. The data suggests that other industrialised countries have moved forward faster than we have during the last 20 or 30 years, and our research effort is unbalanced. There is too much emphasis on basic research and very little on applied research—but, in fairness, the agritech strategy is starting to address that. I see no formalised structure to make knowledge transfer/knowledge exchange happen in an organised way. That might be starting to change in terms of what the AHDB has aspirations to do, but it is still going through a period of change. The key role that we have lost is the technical specialist who pulls it all together, and who has the experience and judgment to work out what has value and how it gets embedded into best practice. I just do not think that that works effectively.

Viscount Hanworth: You are saying that that occurred in the '80s and '90s. Is that when we went into retreat?

The Chairman: Can we give Eirwen a chance to contribute?

Eirwen Williams: I think the position in Wales is slightly different, because through the Farming Connect programme we have that ability. The remit of the knowledge exchange hub that we are establishing with IBERS will not just be to look at the research of IBERS but to look more widely, across the world, for research, and to translate it. It is a new concept—we are launching it on 28 January—but ask me in a year's time if it has been successful. We need to prove that we are able to translate information to farmers and make it practical for them.

Sir Peter Kendall: David touched on what AHDB is doing. For a while, to a large extent, we have been copying what is going on in Scotland with monitor farms. This is not just by sector but is starting to be cross-sector as well; experts come on farm to talk through exactly the issues that David was talking about. We are well aware that we are not going to recreate the ADAS of the 1970s and early '80s. The day of Government paying for extension services has gone. We have to look at doing it in a really smart way. The starting point is to get—I am using the word again—benchmarking. People need to understand that there is scope to improve. They can see that their competitors are doing better. Too often, I am in a room where people are telling me, “Don't tell me how to grow grass”, or, “Don't tell me I can do this better”. We need to be of a mindset such that we know that the Danes, the Dutch, the Germans or the French are doing something better than we are, and we want to be as good as them. That stimulates the inquiring mind to be part of a monitor farm. We have had a great

uptake. The good thing about monitor farms is that people are sharing all their costs, all their information, and then getting experts to address the problems that farmers want to talk about. To pick up again on what David said, the disconnect between the blue-sky academic research and what is making a difference on my farm is critical. It has to be relevant, and, as well as the monitor farms, one of the things the AHDB needs to deliver is making sure that the work that is being done is relevant to challenges on the farm and not something that looks good in an academic paper. It must address the needs of farmers today.

The Chairman: I am sure you would welcome the inclusion of impact assessments in the research excellence frameworks that are replacing RE. We must keep moving on. Lord Selkirk has to go soon, so perhaps we could give him the chance to ask about public policy. Then we will finish with Lord Curry.

Q36 Lord Selkirk of Douglas: My interests are stated in the original document. I am chairman of a small family company that has a farm and small pieces of land in Scotland. Can I ask about public policy? We are aware of the very large amount of regulation that already takes place. What is the role of public policy in encompassing the CAP and in bolstering agricultural resilience? Has the increased reliance on direct payments as the main source of support had a big impact on the skills that farmers require? Has there been a substantial impact from that shift on agricultural resilience? That is the first half of my questions. Perhaps it is enough to start with.

Sir Peter Kendall: I must be careful because I consider myself as working for farmers, not representing farmers. Policy is an area where you need to involve the NFU in a strong advocacy role. The single farm payment is the bedrock of resilience for most farming businesses. Today, with prices where they are, that single farm payment is massively important for the ability to take your foot off the accelerator, and step back from flat markets. Is there scope in the future to use the single farm payment to stimulate interest, training or conditions around risk management? Phil Hogan has set up a new group, which I think meets today for the first time, looking at the role of agricultural markets, and it could consider whether a future CAP nudges us to take more risk management control ourselves. In the last round of CAP, the main conditionality around the single farm payment was greening. Could we move more in the direction of the United States, so that insurance schemes and risk management become part of that? I am absolutely sure that is part of the debate that will be going on in a meeting room in Brussels today as they plan their work programme. This Committee needs to discuss that with representative bodies such as the NFU to say how it might work. I am absolutely convinced, with the volatility that we have just seen, that, in

nudging and enthusing farmers to take more responsibility for market volatility, there is a role for public policy.

Lord Selkirk of Douglas: You have already answered part of the second half of the questions I wished to ask, but can I just put them to you very quickly from the point of view of achieving clarity? Do you see a co-ordinated EU approach as necessary to ensure viability and resilience, and should public policy be focused on improving resilience through both Pillar 1 and Pillar 2?

Sir Peter Kendall: Again, I am in really difficult territory here because I am old world—sad—but I am on record making a number of comments about the common agricultural policy, so I shall not be saying anything new if I allude to some of those. There is a strong need for a common agricultural policy. What that looks like is about the ground rules on which farmers compete equally across the European Union. Pillar 2 is often used to drive different levels of environmental enhancement or particular environmental protection, and to drive skills or particular developments in different sectors of agriculture. The commonality of Pillar 1, a uniformity that allows farmers to compete on that ghastly “level playing field”, is important, rather than having big distortions. Why? Because I am sure we are all going to get drawn into the Brexit debate during the next few months. That market of 550 million people is absolutely fundamental to British agriculture. That is where the bulk of our trade goes.

Viscount Ullswater: You sparked an interest in what you said about Pillar 1 and what the basic farm payment might be used for. In some of the evidence that we have received, the concept of having insurance in the American style probably would not be taken up by the insurance industry itself—or it would be difficult to get it taken up by the insurance industry. Do you see a use for CAP money either to fund that insurance scheme or at least to support it to get it going, for crop insurance, animal price insurance or whatever?

Sir Peter Kendall: I have had a number of conversations with the Commission, which thinks that the United States model is not perfect either compared with our current system. I do not think that the commercial market would be able to provide the sort of service we are looking at. That is exactly why Commissioner Hogan is going to have meetings through the course of this year, to look at how the divide between commercial insurance and crop insurance may be stimulated through the use of funds already available through the agricultural budget and whether it might drive farmers in that direction. It is too early for me to pass comment or judgment on that, but I know it is the sort of work that the Commission is trying to have undertaken so that we can learn what the options are—because, as I said right at the start, we are in a completely new world without quotas and market management. The stimulus that we

had from high prices showed what we can do. We have to think differently about how we manage risk as farmers.

The Chairman: It is very timely because we have the Commission coming next week to speak to us. Can we move finally to Lord Curry, please?

Q37 Lord Curry of Kirkharle: Peter, mainly I want to talk about levy-funded bodies, but clearly you have levy-funded bodies in Wales as well, so if you want to respond, Eirwen, that would be good. I was encouraged, Peter, by the number of people you say are now attending workshops and encouraging people to share information and data. What I find frustrating is that we have not moved fast enough by a long chalk. If we are to encourage resilience in farming businesses, understanding the costs of production and how you relate to and compare with your peers within the sector is a fundamental issue. When I chaired the Meat and Livestock Commission in the 1990s—from 1993 to 2001, as you know—I was talking then to farmers about benchmarking. It was perfectly clear then, and still is, that the variation between professional farms, those that take their business management seriously, and those that do not, is huge. The difference between the top quartile and the worst, in terms of costs of production and general efficiency, is still vast. It was then and still is. We may not like the term “benchmarking”, Peter, but we have to find an equivalent that encourages people to look seriously at the management of their businesses. As regards market mechanisms and contracts, about 10% of milk producers have a fixed-price contract. We regard these tools as essential to encourage farmers to be more professional in the way they manage their businesses and build resilience, but we are not moving fast enough. What is the role of the AHDB and the levy bodies in driving the essential new business techniques that we need?

Eirwen Williams: Speaking on behalf of knowledge transfer activities in Wales, we have moved from “benchmarking” to what is called “Measure to Manage”. We are coming from the same point of view as you, that we need a different approach altogether. There have been other benchmarking schemes in the past, such as Milkbench and Prime Numbers with HCC, which did not work. We are starting afresh because it is all about getting engagement from farmers so that they realise what is happening. The reason why we managed to get the 36 groups that we have already is local knowledge. We have a team of development officers across Wales who work in a particular region. They know the farmers in that region and they are able, first of all, to persuade them to come. Obviously, we do not need to work with the top 25%, who are keen already and may already be doing benchmarking. We are trying to target and engage the middle band of people. Once we have engaged them, we will be able to work with them, but you are right in what you say; it is taking a long time.

Sir Peter Kendall: Lord Curry, with his experience of the MLC knows exactly what the challenges are around levy boards. The situation is difficult. Many farmers spend their time just managing the day to day. Faced with the appalling weather we have seen in recent months, as well as low prices and paying the bills, trying to get them to raise their gaze to planning the future, to thinking about where they sit vis-à-vis their competitors, is really difficult. If I am going to be challenging—to get to your point, Lord Curry, about what needs to happen—we need to change our mindset and our ambition as an industry. We have exciting opportunities in the UK. It might sound perverse of me to say that as we sit here talking about volatility, but the population of the UK is due to go from 63 million to 70 million towards the end of the next decade. Do we want that market for ourselves or are we going to let the Irish, the French or the Danes take that potential? Do we, as an industry, think that we want to be the best and we are determined to do that, or are we going to say that we want consumers to pay what is needed for us to make a profit? For the industry to move its thinking in that way is a big challenge. I know from visits to other countries in northern Europe that when you are a big exporter, your mindset is different from what it is when you have a big domestic market. If we are going to drive that change in the mindset and the role of levy boards, it is important that, as an industry, we do not think that we deserve a market but that we earn it and are ambitious to get the growing market as well. It is a difficult one. People point to me as a large arable farmer in East Anglia and say, “That’s easy for you. You don’t know what it’s like to be in a remote part of the country”. Using technology and the ability to have smart communications, how do we make sure we change that mindset? That is the biggest challenge. There is an accusation or inference, Don—sorry, Lord Curry—that we need to adapt. The AHDB needs to be more fleet of foot, more joined-up in our working. That is something we are determined to drive through.

Lord Curry of Kirkharle: I have one quick supplementary. Peter, you mentioned earlier that the single farm payment is probably the biggest single resilience factor at the moment in assisting farmers when commodity prices are low. Is it also potentially a deterrent to farmers becoming more professional in managing their businesses—in other words, a bit of a cushion? Is it deterring more innovative solutions?

Sir Peter Kendall: You would not want to see me saying that in *Farmers Weekly*. I can see that. I know at the moment how important it is to my business. I consider myself to be reasonably progressive. The single farm payment is absolutely fundamental when prices are as low as they are. I have always argued that, over time, we will see the single farm payment reduced, and it is becoming less and less significant as a percentage of returns, particularly

when we had prices at higher levels. It will, over time, drive people to innovation. What I do not know is when the switchover point occurs between having the single farm payment and becoming innovative and more resilient.

Eirwen Williams: I agree that the single farm payment is absolutely crucial. It does not matter how much knowledge transfer you do, I do not think you would be able to come up with the difference in the amount that the single farm payment contributes to farming families. It is very important to keep that. With knowledge transfer, with the AHDB or with us as Farming Connect, we, as organisations, need to be innovative as well. We cannot expect farmers to be innovative if we are not innovative. We need to come up with new ideas all the time, new ways of communicating with farmers, new ways of working with farmers, delivering new ideas so that we are capturing their imagination and working with them. You might not like what I am saying, but as an independent organisation—we do not take levy money from farmers—and a not-for-profit organisation, we honestly believe in the future of farming and are able to engage with farmers. Perhaps one of the challenges for the AHDB is that because levies are taken from farmers they do not engage so well in some activities. In Wales we see the AHDB and HCC, as far as red meat is concerned, as strategic partners who feed into us the key messages they want to get out to the industry.

David Gardner: Can I just make a comment about public policy? This is a little bee in my bonnet. It is not a comment directed specifically at the farming community; it relates to society as a whole. I believe that all of us have a personal responsibility to keep our skills relevant to change, and to adapt over a period of time. I see that as a weakness throughout society. It is not so much about the skills or knowledge; it is about attitude. We do not leave school at 16 and continue doing the same thing until we retire. The world around us changes so we have to change and adapt. We have to change our skills. I do not think that it is for someone else to do that for us. We have to take personal responsibility, and I do not see that widely throughout society. In public policy, Government are in a position to influence that without telling people that that is what they do. That process is quite subtle and it should go right back to schooling; society as a whole should develop a nation of people who are open to change, flexible, willing to retrain and reskill, and who constantly consider what skills they have to make themselves relevant to the modern world and the world that will exist tomorrow. Those issues, in my view, are as relevant to the farming community as they are to society as a whole, but I do not see anything being done to shape those attitudes.

The Chairman: The phrase is “lifelong learning”, is it not? I am very familiar with it, certainly from an educational background, but maybe it is not as widely understood as it could

be. That is an appropriate point to draw the session to a close, unless there is any pressing last question. We have run a bit over time, but I am very grateful for all your input. There may be one or two issues, particularly from our specialist advisers, which perhaps we could put to you by email. If you would be kind enough to respond, that would be very helpful. Thank you very much for your time.

David Gardner: Could I conclude by saying that, on 4 and 5 February, St. George's House at Windsor Castle is running a consultation on business skills and knowledge transfer in agriculture? If any of you were interested in attending, I am sure that I could facilitate an invitation.

The Chairman: Thank you very much.