



HOUSE OF LORDS

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ENERGY AND ENVIRONMENT SUB-COMMITTEE

Inquiry on

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

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Witness: Mr Tassos Haniotis

Members present

Baroness Scott of Needham Market (Chairman)
 Lord Bowness
 Viscount Hanworth
 Lord Rooker
 Lord Selkirk of Douglas
 Lord Trees
 Viscount Ullswater
 Baroness Wilcox

Examination of Witness

Mr Tassos Haniotis, Director, Economic Analysis, Perspectives and Evaluations; Communication, DG AGRI, European Commission

Q38 The Chairman: Good morning, Mr Haniotis. It is very nice to see you again. Thank you very much indeed for coming over to talk to us to help us with our inquiry into agricultural price volatility. Just a few housekeeping announcements, if I may: this is a formal evidence-taking session of our Committee, and a full shorthand note will be taken. We put this on the public record in printed form and also on the parliamentary website. We will send you a copy of the transcript in case there are any minor errors, although I do not think there ever are. This is on the record. We are being webcast live and it will be accessible via the parliamentary website in due course. You have been provided with copies of members' interests. I will remind members that if they have any relevant interests, they should declare them the first time they speak in today's proceedings. Perhaps you could say a word or two about yourself and your role in DG AGRI for the record and the Committee's information?

Mr Tassos Haniotis: Thank you very much. Thank you for the opportunity to provide evidence on this issue. I am Tassos Haniotis. I am director of economic analysis, perspectives and evaluations in the directorate-general for agriculture. My directorate deals with issues related to the preparation of CAP reforms, market analysis and statistical information, and the monitoring and evaluation of the common agricultural

policy, and for the last year and a half we have also had the communication unit included.

One of the main areas we have covered in the last four or five years has been the analysis of the causes and impact of price volatility and the turmoil in certain markets and what impact this could have on policy design.

The Chairman: Thank you very much indeed, that is very helpful. I wonder if I could start from there and ask you to outline for us how you see the trends in recent years on agricultural volatility, whether they are getting more extreme, and so on, and whether or not you think the situation is worsening and becoming more difficult to manage?

Mr Tassos Haniotis: One thing that is clearly taking place is that the situation is changing. What we have seen in the last eight years is really exceptional. We have had two major spikes of commodity prices and two major troughs. In fact, we do not know where the recent one is going to settle. This has never happened since the Second World War. In fact, it has probably not happened in the whole of the 20th century, but we do not have accurate data throughout this period.

What characterises this period is not only the issue of volatility. From the start we have to be clear about one fact: volatility is not unknown in agricultural markets. From the moment that you have continuous food demand on a daily basis and a discontinuity in supply, because naturally we have an annual cycle of crop commodities, price volatility is something that we have been accustomed to. What has been exceptional is we have seen periods of extreme volatility, but also periods that are characterised by two other parallel phenomena. One is what we technically like to call co-movement, which is the parallel movement of all commodity prices, up and down, regardless of the fundamentals. Energy prices play a major role, and it is not only crude oil; natural gas has played a very important role in recent years, and also commodities and raw materials from iron ore, for example, that were used in the very rapid growth in China. We have seen another development, which is that the level of prices of all commodities, and especially agricultural commodities, has stayed

way above what one would call its historical average. Today, as we speak, after four years of continuous decline in agricultural prices, they are still higher than one would have expected 10 or 15 years ago. It is these three parallel developments that make this situation pretty complicated.

Since last year we have started analysing the causes of what is happening. To summarise a pretty long story—and we have already put copies of analysis we have done in the mail for you, and it is publicly available—what characterised recent developments was not demand driven in agriculture. Clearly, the world population is growing, world income is growing, and food demand will also grow, but it does not grow in such impressive ways as people would have expected or as is published on the front pages of newspapers. What is more interesting is that food demand changes take time to alter dietary patterns, and that allows people to foresee it. What happened was we had a very long period of underinvestment in agriculture, which resulted in problems in supply, and then markets overreacted. They did not only overreact in agriculture; it seems they have overreacted in a series of other commodities.

We might be entering a period now where the slowdown in the world economy, especially of emerging economies, of the oversupply of energy and the transformation of the Chinese economy into an economy that will not be driven so much by investment but by domestic consumption, might introduce a period where prices will stay lower than we expected only a few years ago. That generates uncertainty and the possibility of volatile periods. This mixture makes the design of future policy options more difficult than in the past, because we have many areas of uncertainty on the horizon.

Q39 The Chairman: I would just focus on China for a second. From your point of view, how easy is it to collect robust data from China, which is notoriously closed? Do you feel able to comment on that?

Mr Tassos Haniotis: In the context of the G20 we have introduced this Agricultural Market Information System and have an annual meeting of the Rapid Response Forum that discusses these types of issues.

Regarding transparency in the areas where we have focused, which is mainly wheat, maize, rice and soya beans, it is clear that the information has improved in recent years. Where it is not as good as we would have liked is in the area of the level of public stocks. We are not sure that this is as a result of an unwillingness to provide information, although it is clear that different parts of the world consider stocks much more strategically. It is also partly a problem that exists on the ground in getting accurate information. We are trying to cross-check this type of information with other data, for example, on demand patterns. We know that demand for meat is growing in China. We know that imports of feed for animals is also growing. If you put these things together and have seen consistencies, implicitly you can improve the data you have. We are better than we were when we started this discussion six or seven years ago, but still there is plenty of room to go. What we have proposed in this AMIS group is to expand information and to cover the livestock sector, because this is crucial in allowing us to understand what is happening in other areas.

The Chairman: Thank you. The final introductory question from me is to go on to another specific issue, which is the impact of political decisions, such as sanctions. We heard quite a lot from the dairy industry about the impact that sanctions on Russia have had. I wonder what you would say about the extent to which you are able to plan for the impact of some of these decisions that are made for other reasons, and always will be.

Mr Tassos Haniotis: It is true that you can never plan for events that are driven by other factors. What you can do is assess the impact of these events. In our annual exercises, we assume that sanctions, for example, will go on for another year and then gradually move out, but we do scenarios of what happens if sanctions continue for a longer period of time. What is interesting in the particular case of sanctions in Russia is what actually happened in EU agricultural exports. That does not only show the

problems and challenges we face, but also the opportunities. What was surprising to us was the fact that overall EU agricultural exports increased in other markets in other parts of the world. One should not expect that this is going to happen year after year after year. Although quantities increased, the impact on prices and the value of exports was negative, and especially in certain member states that were closer to Russia and more dependent on the Russian market the impact was more severe. The only thing you can do is look at what type of emergency measures you have available, which is what we introduced, and adapt and adjust the longer-term planning assuming different scenarios. That is the only thing that one can do realistically.

Q40 Viscount Hanworth: It does seem that the revisions of the common agricultural policy have increased the exposure of farmers to such volatility as may transpire. Perhaps you will comment on that in due course. The Second Pillar of the CAP offers new risk management measures. Can you describe what the main features of these measures are, and what they include and exclude? Can you give us some idea of what kind of uptake there has been among the member states of these new facilities?

Mr Tassos Haniotis: These types of measures include risk management that addresses natural risks—for example, crop or animal diseases, extreme weather events, whether in the form of crop insurance or mutual funds. That was there in the past and is there today. These are the types of measures that were available to member states and we have always considered that it is better that member states have the responsibility to deal with them because they are driven more by national and sometimes very regional challenges and priorities.

The novelty in the rural development measures was the attempt to introduce an income stabilisation scheme. The income stabilisation scheme is meant to compensate farmers once they face severe cuts in their incomes. We have designed this scheme in a manner that is compatible with the so-called green box of the WTO agreement, which means you have to have severe cuts in your income to be able to receive compensation, and also such a scheme should not be sector-specific.

Coming to the second part of your question, this might explain why the participation of farmers in this scheme has probably not been as important as we would have liked or expected. In the analysis we are going to do in the evaluation of the future of the common agricultural policy, we would like to see what explains the low uptake. Overall, we have 12 member states that have introduced schemes on crop insurance or management of risk through the Second Pillar of the CAP. They cover a little over 650,000 farmers with €2.7 billion allocated in these particular programmes. One has seen a significant difference in the uptake and use of risk management in Europe in comparison with the US, because of the numbers that have circulated, recently especially. We do have a risk management scheme in the European Union that is extremely important, which is called direct payments. It is a very significant part of the budget. The whole idea of this scheme is to provide a fixed part of the income of farmers year after year whereby the parts of uncertainty and volatility that are driven by markets are mitigated and minimised. That might also explain to a very significant extent why farmers might prefer this type of management of their income risks to others.

Viscount Hanworth: Does the stabilisation scheme address cuts in income from any source, or does it specify the particular sources? The reason I am asking this question is that we have the impression that certain causes of volatility are simply not addressed in this scheme. Is that correct, or have I misunderstood?

Mr Tassos Haniotis: It addresses a drop in income regardless of what has caused it. A drop in income could come from natural causes—a natural disaster that reduces production—from drops in prices, or a combination of effects, and it is neutral to that. It takes the overall income of farmers and considers what happens if this drops by more than 30%. What is very interesting in this particular scheme is that in the United States, where they use risk management schemes much more heavily, they have a whole farm income scheme, which also has very low acceptance by farmers. Most of the risk management schemes that the Americans are using, and the farmers seem to like a lot, are crop-specific types of schemes and not a whole farm income

approach. We have to analyse on both sides of the Atlantic what it is that makes farmers hesitate using those types of schemes.

Viscount Hanworth: Could you address my initial proposition, which was the recent revisions of CAP have increased the exposure of farmers to whatever volatility may transpire. Is that true, or would you contest that?

Mr Tassos Haniotis: No, I do not contest that. The whole purpose of having the CAP market-oriented was to open farmers to market signals, but not that alone. One has to see the complementarity of various measures. In the past, farmers did not have any sense of what a world market price was, because the level of tariffs was very high, the level of support prices was very high, and if something went wrong we even used extra subsidies. The world markets were feeling all the risk that was coming from our policies and not the EU farmers. The whole philosophy of the reform is that market signals play an important role that tells farmers where they can move and where they should stay out. This was done with a significant part of the income coming in the form of direct payments, which provided this cushion that mitigated the negative effects. Yes, they are more open to market signals and what is happening in the world markets, but they have responded to that. I do not think it was by accident but as a result of this policy reform that in this period the European Union became a net exporter of agricultural products, because most of what we export is value-added. We still continue to import a lot. On balance, we are by far the largest importer in the world of agricultural products, but on the export side it is more and more value-added. That is as a result of much more market orientation. Obviously this has not happened without costs, but it also brought some benefits.

Viscount Hanworth: I think others will pursue this theme, so I should give way.

Q41 Viscount Ullswater: For clarification, when you talked about what farmers prefer, which is this cushion, this direct payment, are you talking about Pillar 1, the basic farm payment, and should that continue, or are you talking about part of Pillar 2?

Mr Tassos Haniotis: I am talking about the basic farm payment. In the past, especially in the reform of 2003, the logic was to have income support covering the bulk of the payments in the First Pillar and having agri-environmental measures in the Second Pillar. We discovered that agri-environmental measures covered a little over 20% of land. What we saw in the aftermath of the first commodity crisis in 2007-08 was that the agricultural prices increased significantly. Normally one would consider this a blessing for farmers, but costs of production increased even faster, whether it was fertiliser or energy. The result was that this put the farmers into a peculiar situation, a real cost squeeze. From a short-term point of view, to maximise their profits or minimise their losses, the farmers would not have any incentive to pay for the environment, and the markets do not pay for the environment. In the longer term, this was considered to be potentially disastrous.

What we tried to do and still try to do in the design was bring together these two elements in a complementary manner. Farmers produce public goods, but they also produce private goods. Instead of pitting one against the other, we want to bring those together in a complementary way. In this design, even for the future, they need to have some cushion in the overall income of farmers that would compensate them for what the market does not compensate. That remains important. One would have to examine whether the manner in which we distribute payments in the reference we have, which is land, is the most accurate one. In my view, that is where the discussion in the future will have to focus.

Q42 The Chairman: The toolkit to help manage volatility is focused on Pillar 2, and, therefore, focused on a certain sort of cause of volatility, and it is not really a toolkit that is fit for purpose for the sorts of volatility you described at the outset, which is much bigger market-orientated volatility. Is part of your thinking that at some point there needs to be a Pillar 1-type solution and if you wanted to move to insurance models to cover the volatility that you have described you would have to think about that in Pillar 1, because, frankly, Pillar 2 is not big enough anyway?

Mr Tassos Haniotis: I think we should realise that the old distinction between Pillar 1 and Pillar 2 is becoming less and less relevant. This distinction was driven by the fact that in Pillar 2 we had—and still have—multiannual budgeting based on programming, and on Pillar 1 it is annual budgeting and there is no programming; it is all financed by the EU. Now we have elements of programming and co-financing in the First Pillar, but the most important thing that brings these two together is land management.

If you look at the manner by which the CAP has evolved over the last 20 years, we moved away from product support towards producer support, and now we are moving more and more towards land management. The overall objective of the policy is the one that, in my view, is going to determine in the future how we design what we design. We have to agree among ourselves the type of priority we have regarding supporting it. Do we want to support products? Most of the design in US farm policies is still around product support, commodity support, and basically three commodities: wheat, soya and maize. We moved away from that and we had support for more products than those in the crop sector; we had it in the animal sector, and will continue to have it. We moved towards support for producers. After a period of transition, we now know that land management is becoming extremely important. The climate change challenge is the one that will determine to a large extent the additional types of risks that we have to manage and the types of instruments that we need to put together.

It is important to start realising that for the same piece of land—one hectare of land, for example—you can see differently from a market point of view the quantities you produce and what impact it has on prices; from a direct payments point of view whether the CAP will support it and how much; from an agri-environmental point of view what type of additional measures you have; from a control point of view how you guarantee this is accurately accounted for; but it is still one hectare of land. The crucial question is what type of land, what are the soil characteristics, what do they imply regarding future environmental challenges, be it climate, soil erosion, water

use, or what have you, and how all the measures that we have—and they are and should continue to be more than one—would act in a complementary manner. This is where research, innovation and the transfer of knowledge through the advice systems plays an extremely crucial role.

The Chairman: I think you have begun to touch on the area that Lord Rooker would like to explore. Thank you for that.

Q43 Lord Rooker: Thank you for coming. The point you made earlier about the EU being a net exporter of food is very significant; that has not been the case before. On the direct payments, we have had mixed evidence. On the one hand, they will support the farmers, as you rightly say, but, on the other hand, they are a barrier to innovation and change. Do you have solid evidence? You talk about marrying the two together in a way that they have not been linked before, continuing direct payments, that we can still get improvements in productivity, and that we have to improve yields. We have had evidence that it is a barrier to farmers who want to innovate simply because there is a bedrock of payment that supports the inefficient farmer who does not want to make any productivity payments. What is the reaction to that argument? We have had mixed opinions in both directions.

Mr Tassos Haniotis: The mixed opinions are a reflection of a pretty complex situation on the ground, which has also been affected by the different structures among member states and the different manners in which previous reforms have been implemented. It is interesting that an evaluation that was done about the impact of decoupled support some years ago indicated—I will not mention the names of the countries—that, with the same policy tools, in one member state you had younger farmers becoming more innovative and market-oriented, and in another one you hardly saw any change.

From the country I come from, where I often make speeches, with the same types of measures you see very different situations. You see people who do not really care to do anything more, and you see others using this opportunity to innovate a lot. We have seen that, regardless of what types of schemes we have had, there is a constant

path of structural adjustment taking place that seems to be influenced very little by the types of policies we have; it is more influenced by the demographics. It is important to keep in mind what happens if we do not have any support. That is the starting point. We know that if we do not have any support, then clearly we are going to have a much faster structural adjustment and much more concentration in the most productive areas with more pressure on the environment. In a sense, smoothing out the path of adjustment is something that was desired from the beginning.

I would like to stress the need for complementarity of these measures. For example, we have seen criticism that the number of farmers has declined in the European Union. Of course it has declined, and will continue to decline, because that is a natural process. The important thing is what happens to the people who leave the farming sector, what types of additional opportunities are created in rural areas, whether these are linked to the food industry, which is clearly growing, whether these are linked to innovation projects that are there and spread knowledge, and whether there is a passage to a younger generation with fewer barriers. We do have some pretty interesting challenges here.

At the margins of the Expo Milano we organised a seminar with young farmers this past summer. We broke them into 10 different groups and asked them all the same question: to give us the three major challenges they face. In all 10 sub-groups the first two challenges were common: access to land and access to credit. This is partly as a result of the existence of the system, but only partly, because the biggest problem we have is there is no common land market policy in the European Union, which is natural because that is the responsibility of the member states, but the legislation is so different regarding taxation, inheritance, transfer rights, that it makes things pretty complex for younger farmers. Maybe that is where we need to focus much more than on the other types of areas where we face criticism.

Lord Rooker: That is very interesting. The way you explain it is there is a big picture, a long-term plan to get this massive structural change, but basically we do not want to tell anyone where we want to get to; we want to do it really slowly to take the

cultural change with us, to take the older farmers to keep them farming, while we bring about this massive structural change. I can quote New Zealand where they got rid of the payments and there was massive structural change. I do not think the country became a wilderness, but it did cause massive upheaval of people in jobs and communities. If everybody knew there was a plan we were working to, to get this structural change to make better use of our land, to encourage younger people to come into farming, to make it more modern, to get access to land—because it is very difficult, as you say, because they are the ones with a future who want to innovate—we would get more acquiescence from older farmers who do not want to innovate and are quite happy with the single payments. My final question is: if the market moved faster, would we be prepared to have the market dictate whether a farm should survive? The land will still be there; it is what we do with the land afterwards. We are more attuned to the market than we were before. Is there a factor that we ought to take into account when we look at our report on volatility of prices?

Mr Tassos Haniotis: You raise a very interesting point. I will start with what you said on New Zealand. It is more than 10 years ago that I was invited for a formal visit for one week by the Foreign Minister in New Zealand. We had all sorts of visits; the story about the New Zealand reform was constantly coming up. At a certain point I raised the issue—and at the time we had 15 member states in the European Union, and were soon to become larger—“You do not do those types of reforms overnight because land prices would collapse”. It was only then that I heard the story. Someone said, “Yes, this is why we subsidise the banks”. Even there, the reform, drastic as it was, did not happen without public intervention of a different type. That was in the context of a small country.

It is not so much designing a long-term plan of where we want to go, but observing trends that are out there on the ground that sometimes are irrelevant to the planning we have. It is clear that the ageing population is a fact in Europe. It is not only a fact in farming areas; it is a fact in Europe. This means that we are going to have fewer farmers in the future than we have now. This has happened in every part of the world,

regardless of policies. That is something we need to tell farmers. We also need to tell farmers that we need to design the types of policies that will make structural adjustment as smooth as possible. There is no overall plan for the European Union in that.

If you look at your country, or the Netherlands, or Denmark, for example, they have reached a certain point of population in the farming areas that resembles pretty much what the United States or Canada have. If you look at other parts of Europe, the parts of the population that are in rural areas are much greater. There you have to do things in a different way. This is why structural adjustment, regional funds and coherence in these programmes are extremely important. What is clear, and we saw it in the statistics, is that in the last 10 years we lost a very significant number of farms, but agricultural land remained stable in the European Union, and that is a positive thing in our capacity to have agricultural viability in the future.

Q44 Lord Trees: Innovation has been mentioned, which comes to my area of questions about research and innovation. The individual farmer cannot do much about the price they are offered—volatility is a product of global events really—but they can improve their resilience and responsiveness by improving their efficiency and input costs, lowering their costs of production basically, and that has to be done by research and innovation. My question is twofold. What is the Commission doing to support research and innovation to improve the competitiveness of European farmers? Research and innovation needs to be transferred and transmitted down via knowledge exchange to the farmers, so what is the role of the EU and the CAP in helping to support farm advisory services?

Mr Tassos Haniotis: Regarding production of new knowledge, which is research, we have doubled the funds to agricultural research in the current financial period—the common agricultural policy—and a significant part of these funds are being coordinated by DG AGRI. We have included all the priorities that we have seen are extremely important, from animal and plant diseases that are spreading faster because of climate change to issues related to food security and land management.

Then comes the point of what you do with existing knowledge that reflects best practice. Here we have the European Innovation Partnership in agriculture that spreads this knowledge with our operational groups, which have this role. Then comes the point of this transfer of knowledge through the Farm Advisory System. The Farm Advisory System is a legal obligation of member states and, on paper at least, it is everywhere. It does not exist regarding performance in the same way that it existed in the past. This is not an EU-wide problem; it is a world problem. There are emerging economies that are spending much more money on research and innovation and advice. In the developed world, underinvestment and cuts in the public sector have resulted in less quality and quantity of advice on what is necessary in the current context.

In the recent reform of the CAP, these three were brought together. In my view, this was one of the most important elements of the recent reform, and probably one that we do not advertise and publicise that much. We tried to bring these together in the same way. On the ground, I would have liked to see much more transfer of knowledge among member states and farmers with similar characteristics. Linguistic differences among member states do not necessarily always help, but the fact we have taken a major step with respect to what we had in the past is already pretty positive. The monitoring and evaluation of our policies will allow us to see where there are policy gaps in areas that we can improve further in the future.

Q45 Lord Selkirk of Douglas: I have an interest that is stated, a small farm and small pockets of land with a possible interest in a turbine, or turbines. The National Farmers' Union gave us very helpful evidence. They suggested that "the promotion of business management and entrepreneurial skills is crucial to achieving a professional and more productive, profitable and competitive farming sector". May I split my question into two? The first is: how is the Commission working to encourage the farmers to participate in information and knowledge-sharing activities? Do you see young farmers, or tenant farmers, having different skills requirements to protect

themselves from price volatility and to cope with technological and commercial challenges of modern agriculture? Do they have that more than other farmers?

Mr Tassos Haniotis: Again, this is an area where the Second Pillar—the rural development programmes—plays an important role. All member states have put both information exchange and training into these programmes. Generally, we have seen the younger farmers tend to be more apt, especially to new technologies, but we have also seen that many of them, from the statistics, do not have the practical experience that is necessary. There is plenty of room for improvement. What is very important is to see what other means we have available and how we improve these means regarding spreading this knowledge. This is an area where, in the world in which we are living—we keep talking about precision farming, for example, and the impact that precision farming could have in mitigating the effects of volatility, improving productivity, and the rest—precision farming for small farmers, for younger farmers that are starting their operations, requires broadband in rural areas. You can get this information via satellite if you have the money to spend. If you do not have broadband in rural areas, the capacity to use what is much more advanced right now is not available to everybody in the same way. This is where it is not only the type of information that is available that matters, and the audience to which we need to pass this information, it is also the means we have available to do that. This is where improving the current situation in coverage of the internet in rural areas becomes extremely important, because otherwise you might have people with all the necessary skills and desire to use these new technologies, but the means necessary for them to do so will not be available.

Lord Selkirk of Douglas: Can I ask two more questions? The first is about the role of new technologies and social media in informing farmers of the latest research findings and innovative farming techniques. Is that satisfactory, or should it be developed? We have been told that public policy should support the professional development of skills to help farmers cope with a move to free up markets and help

them keep pace with an evolving common agricultural policy. Do you agree? What should the framework of that policy be?

Mr Tassos Haniotis: Let me start with the second question. I fully agree, and it seems also that the member states agree because they have put significant amounts of money into the rural development programmes to do exactly this. This is happening. Regarding the role of the social media, those who are actively using social media do it all the time, and it is expanding. We have seen, especially in the innovation part and research projects and in all the other networks that operate, that these are used more and more. What we also see is that there is a part of the farming community, which might be even bigger in the farming community than the rest of the population because of the age characteristics, which is not using social media. That creates the risk that the knowledge gap will increase. We should not focus on only one way of spreading this type of information; we should also continue using the more traditional—old-style if you want—means of transferring this information, otherwise we risk having people completely left out from new developments.

Lord Selkirk of Douglas: Do you feel that the Commission is giving sufficient guidance to farmers to adopt the best possible methods?

Mr Tassos Haniotis: The Commission cannot give direct guidance to farmers. First, we do not have the resources to do that. Secondly, it is the responsibility of the member states to do that. I think we give sufficient guidance to member states and have the necessary networks with member states that allow this to happen. In rural development there is experience and best practice that has been going on for quite some time now, and that is improving all the time. There is always more to do, but this is one of the areas where I think we can be proud of what is happening on the ground.

Q46 The Chairman: You might not want to answer, but I wonder whether there is any one member state that is doing this very effectively that we could take a look at, or is it good and bad across the European Union?

Mr Tassos Haniotis: I would not like to mention a member state here. What I would like to say is there are a few member states that are doing this well, but are doing it in different ways. For example, there are member states that are doing it through networks based on universities and research institutions; others that are doing it with their ministries; others that are doing it with farm organisations or an agricultural council. There are different ways of doing it. Yes, there are member states that are doing it pretty well. What I can say here is that a personal frustration that I have is that we do not see those that have the good practices sharing these with others; not necessarily because they do not want to, but because somewhere down the road we do not manage to spread the best knowledge.

The Chairman: That is interesting. Lord Trees, did you have another question?

Lord Trees: Could I follow up on spreading best practice? Farmers are notoriously secretive sometimes; they do not like to tell you how many animals they have, and so on. When we had the NFU here, we heard that one of the difficulties was perhaps farmers being reluctant to give information and data. You have an EU perspective. Is that a problem EU-wide? Are member states able to gather information about the cost of production from individual farmers and collate it so that best practice can be spread both within member states and between member states?

Mr Tassos Haniotis: Where we have a serious problem of collecting information from small farmers is because it is very expensive to gather. We have information on costs of commercial farmers, which represents more than 90% of production. The Farm Accountancy Data Network, although not perfect, is very good at doing that and it is improving continuously. The important thing is not only the type of information we get. It is clear that farmers do not like to share this information with us—if you like, with bureaucrats—but I am pretty sure that they want to share this information among themselves. Sometimes their own networks tell them what works best, and the only thing we need to do is observe these types of changes, and that is enough for us.

Q47 Viscount Ullswater: The Committee has received quite a lot of written information about insurance and the role that it could play in supporting agriculture. I believe particularly Canada and America have those sorts of schemes, and I know that you have some experience of that. I would be very pleased to hear your personal experience of what you have seen in America. That is one side. Could you elaborate a little on what might be happening in any EU country, because certainly Britain does not have this insurance available? I do not think the insurance industry would be able to support it at the moment. What might be happening in the EU? Is there a concept whereby the Commission could use part of Pillar 2 to support or underwrite insurance for countries within the EU on that basis?

Mr Tassos Haniotis: I spent seven years as a graduate student and four years in the delegation in Washington, so 11 years of my life in the United States. The United States has many good things from which we can learn. Personally, I am not sure that crop insurance schemes is one of them, and I will explain why. I think it is rather simplistic, and sometimes deceiving, to try to compare US agriculture with European agriculture. US agriculture is a new world agriculture based on abandoned land. More than that, there are very significant institutional differences that are often forgotten. It is not only who has the legislative initiative in the US and the EU, and the fact that one of the two Houses in the US, the Senate, has a disproportionate weighting of farm interests to the population, which is reflected in farm policy; it is also the fact that people tend to ignore that in the United States there is no budgetary constraint on agricultural policies. There is an estimate of what the cost of the next farm bill is going to be but, if the estimate turns out to be incorrect, there is no budgetary discipline, as we have in the European Union; the Government will give all the money that is necessary.

More important than that are the very significant structural differences between the United States and the European Union. You have probably seen one of the figures circulating in the last couple of days about the Americans having 1% in direct payments and 60% in crop insurance, and Europe exactly the opposite. This is totally

erroneous as a comparison, because the 1% is something they have now, whereas they used to have more, and you never know how much they are going to have on an annual basis because the whole structure of their system is countercyclical. What is more important is that the bulk of support in the United States goes, essentially, to three commodities. It used to be rice and cotton, which have become much smaller; now it is mainly wheat, maize and soya beans. In Europe, we spread agricultural support in a much broader way. Around 40% of US agricultural exports are still bulk commodities and in Europe it is less than 8%; it is value-added. We have to ask ourselves: what is the fundamental difference? The United States has its own capacity of understanding their priorities, and it has the right to do that, and we should do the same. We should ask ourselves: "Do we want to focus on products, on commodities?"—that is what the US policy is—and if so then we should learn from them and try to imitate. Do we want to focus on producers and their income? Do we want to focus on land management? Other types of schemes might be more necessary. This is the most important aspect we need to keep in mind.

I will give an example in a practical way. When I fly, I like to sit by the window. If you fly over the Midwest in the US and see agricultural land, and if you fly over any part of Europe and see agricultural land, these are two completely different landscapes. The starting point should be: what is the landscape we have in Europe, what is the tradition we have in Europe, what are the characteristics of our food industry, with all the linkages it has? Then we ask ourselves: what are the challenges we face and what types of policy instruments do we have to address them? There, the complementarity of our policy instruments becomes very important. If we want to learn something from the United States, then we should look at its research system, extension system and innovation system. This is an area where Europe has a lot to learn and apply.

My personal experience—I am a product of the generosity of Americans when it comes to research assistantships; that is how I managed to study—is that this is an area we have to learn. Frankly, I am not sure that crop insurance schemes, which have a lot of administrative costs—there is plenty of literature about their weaknesses—is

the best way forward. At least, it is not a way where you can say, "This is what they do. I take it and I apply it here".

My last point is that we are not the only ones that are implementing a new reform; the United States is also. We need to wait and see how many farmers have entered one or other of the schemes. They had two options. One of the two options implied they had to do a sort of forecast on their own about what the future price level is going to be. It is only when we see that implemented on the ground that we will see what the results are.

I have one last point that I think is important. We have not finalised the results, but you will see them soon. If you look at the last 10 years of the evolution of agricultural income in the US and in the European Union, agricultural income in the European Union has fluctuated. It has declined recently, but overall it is higher today than it was 10 years ago and less volatile. The US agricultural income is at the same level and has been more volatile. If you look at the impacts and results, this tells us something about what different policy instruments are doing.

Q48 The Chairman: That is really interesting and offers quite a different perspective from the one we have picked up. Does anybody want to explore further? In a sense I am paraphrasing what you are saying, but I am interested that one of the issues around an insurance model is that it is designed around the crop and not these broader issues of environmental and other management of the land. Is it not possible to design a scheme that has some elements of both, or do you always have to think about one or the other?

Mr Tassos Haniotis: It is possible to design it; the thing is, who is going to finance it? It is not by accident that US insurance schemes are based on commodities, where there is a very long tradition of financial markets and of data on the ground of farmers going back to the 1930s. Nobody in the private sector dares to enter areas on plant or animal diseases. These are where a lot of risks are in agri-environmental measures where you do not have the markets providing any compensation. This is where we have to weigh very carefully what we need to do.

Let us be clear, we have already started analysing what the new price level is going to be in the future and what it implies regarding insurance schemes. We have done an analysis twice. We have seen what an EU-wide risk management scheme in the European Union would cost, which would imply cuts in other parts, and would have significant transfers among commodities and among member states towards the ones that are much more volatile price-wise, but not necessarily with lower income. This was public information in the two previous reforms and it will be public information when we do this analysis in the future. Clearly, we are going to do that and will try to see whether, and why, existing schemes have not been as popular. Again, it is not one or the other measure that will magically solve the problems. It is trying to combine different measures and having a very clear definition of what the problem we have to solve is. I insist that, among ourselves, we have to decide whether we want to solve the problems of commodities, of producers or of land management. That would imply different ideas.

The Chairman: Thank you, that is very interesting.

Q49 Lord Bowness: Commissioner, you have already referred to the difficulties of young farmers and finance. Can I widen that? We have received a lot of evidence on the difficulties encountered by farmers accessing finance for longer-term investments. Your colleague, Commissioner Hogan, emphasises the role of financial instruments, and some of our witnesses have spoken to us about the European Investment Bank joint initiative with your directorate, allowing farmers access to cheap loans. Can I ask you: what are these financial instruments and have they been widely adopted? Secondly, what is the role of the European Investment Bank in this area regarding access to cheaper loans?

Mr Tassos Haniotis: My boss, Commissioner Hogan, has put this as one of his big priorities—trying to find ways we can leverage the money that exists to generate easier conditions of funding for farmers. We work with the European Investment Bank in trying to identify these areas. My colleagues in rural development are working on that. During this year we should have more concrete ideas. We already have a

memorandum of understanding with the European Investment Bank. I do not have much more to say on the technical details, except that it has been partially introduced in rural development measures by member states. There are some member states that have included it fully into their programmes, and others that are looking at doing that. The idea is to try to provide, in the form of easier loans or guarantees from the money that is available in rural development, the possibility for farmers to get loans with better conditions. The practical implementation, and what additionally needs to be done, will have to wait for later. Once we have more information, I would be glad to provide that in a written form to your Committee. These are ongoing discussions about what exactly will happen, so I do not have more concrete data to give you, other than that member states that have introduced it. We know that in the United Kingdom there has been interest expressed by Defra and also in Scotland. Both England and Scotland are looking at ways of doing that, but it has not been finalised yet.

Lord Bowness: So nothing has been taken up as yet?

Mr Tassos Haniotis: Yes.

Lord Bowness: I am sorry, I misaddressed you. The way you had given your evidence led me to think you must be—I am sorry.

Mr Tassos Haniotis: No, please.

Q50 Baroness Wilcox: I am the last one to ask you questions, so this is the time for you to relax and answer this one just how you feel like. May I say how wonderfully you have been answering the questions so far? Your mastery of my language is wonderful. You must speak about three languages, do you not, French, Italian, English—American!

Mr Tassos Haniotis: There is a fourth one in the background, Italian.

Baroness Wilcox: This is public policy and the future of the common agricultural policy. It is simple question really. The agricultural sector in the EU is heavily regulated by the member state as well as the EU-level public policy, particularly the common agricultural policy, and it is always on the political agenda. I have three

questions here, if you would not mind answering them. What consideration was given to risk management measures when thinking about the CAP for the 2014-20 period? Shall I give you all three?

Mr Tassos Haniotis: No, I can answer this one—a lot. We took an income stabilisation scheme and applied it across the European Union. At the then price level the cost was found to be roughly €8 billion, which means in a fixed budget that €8 billion would have to come from somewhere, with a significant shift of funds in member states more heavily involved in fruit and vegetable production, which was much more volatile. The interesting feature we found then, which is not the case today, and that is why we are updating this analysis, is at that time the highest income volatility was in the sector with the highest income, which was fruit and vegetables, and the lowest income volatility was in the sector with the lowest income, which was the dairy sector. I am not sure that the dairy sector would come out as the lowest volatility right now, and that is part of the reason we do the update. We did this analysis, which is all publicly available. We did it also with the health check before the crisis back in 2006 and 2007, and we will do more again. It is on our radar screen; it is not something that we have not looked at.

Baroness Wilcox: Does the Commission support the view that risk management measures should gradually replace the direct payments in Pillar 1? If not, why not?

Mr Tassos Haniotis: We do not have a fixed view of what should happen. Based on what I have said so far, the first thing we have to do is identify the main challenge we have to solve. My personal view, and I think it is shared by many of my colleagues, is that in the new environment the biggest challenge we are going to face will be linked to land management issues related to climate change and also to the broader aspect by which public and private goods are brought together; what you need to do to make sure that one does not go against the other. That is where volatility and economic viability become important. Before everything else, agriculture is an economic sector, and if it is not economically viable it will not be viable from an environmental or social point of view. That is where the focus is going to be. The

focus, therefore, is not going to be in trying to see different measures in isolation as one substituting another, but how they could complement each other. For certain particular risks, risk management clearly has a major role to play. For example, certain animal and plant diseases are more prone to appear in certain regions of the Union than others. If you look at areas of, say, attacks of wolves or bears on animals, member states have different ways of addressing that. These are risks that are localised. You cannot address this risk from risk management at an EU level. There are challenges that are EU-wide and, when you have a common market organisation, market impacts take place across the EU, and climate change and environmental challenges do not recognise national or regional borders, so different types of instruments will have to be looked at, but all in their complementarity.

Baroness Wilcox: Finally, should risk management measures be proposed by member states to complement the CAP, or should the Commission be taking a lead?

Mr Tassos Haniotis: Both. The member states are more capable of dealing with the ones that are more national or regional. Maybe the funding could come from the Union, but rural development programmes address these issues. If we find out that there are some EU-wide types of risks that require an EU-wide approach, obviously this is what we should do, but first we have to ask ourselves what is the problem we have to solve, is it specific to a region and member state or across the European Union, and then come up with the best possible answer.

Q51 The Chairman: We have run slightly over the hour, but it has been excellent evidence. Thank you for that. This may be a question I could have asked at the beginning. I am very struck by your thinking that we have to be clear about what it is we are deciding to do—whether it is about supporting commodities or farmers. I wonder what your headline thinking is on food security. It seems to me that the question of where our food comes from and how much should be produced in the EU is fundamental to that thinking about what it is we should be supporting. We are used to the idea of energy security, and we have just done quite a lot of work on that,

but I do not think any of us are clear what an EU-wide view of food security would look like.

Mr Tassos Haniotis: My view is that this is not an issue about how much, even at a world level; it is an issue about where and how. The “where” has a lot to do with trade, especially with the parts of the world that really have a food security problem and there is a shift of population into the big cities. Different levels of prices and price volatility imply very different things in different parts of the world. When it comes to the European Union, and we have seen it in the last eight years or so with the ups and downs of agricultural prices, it is not our capacity to produce that has been put to the test—we still produce pretty much and pretty well—it is how we produce what we do that will become extremely important in the future. That is very much linked to land management and the types of answers we are going to give to the big challenge of climate change.

I would like to finish by giving you an example. I do not have it visually, but the graph is public. Last year, our colleagues in the Joint Research Centre in Seville produced two maps of the European Union. I think the year was 2030. One map was using existing practices and the middle scenario of climate change, and Europe was turning browner on the map. Then they said, “Okay, now we take the best practices and transfer them to soils with similar characteristics”, and Europe became much greener than before. It is exactly this type of transfer of best practices and knowledge that should be supported by the policy design we make and that gives us an indication of what the main challenge is going to be, but also the opportunities by which we have to address it.

The Chairman: Thank you very much indeed. On behalf of the Committee, could I thank you very much indeed, not just for being here today but for the quality of the answers you have given us, which were extremely clear, thought-provoking and of great help to the Committee. Thank you very much.

Mr Tassos Haniotis: Thank you for the opportunity.