



HOUSE OF LORDS

Revised transcript of evidence taken before

The Select Committee on the European Union

Energy and Environment

Inquiry on

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

Evidence Session No. 6

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Questions 64 - 73

WEDNESDAY 3 FEBRUARY 2016

10.55 am

Witnesses: Oliver McEntyre, Allan Wilkinson, Lindsay Sinclair and Dr Harald Jahn

Members present

Baroness Scott of Needham Market (Chairman)
 Lord Bowness
 Lord Cunningham of Felling
 Lord Curry of Kirkharle
 Viscount Hanworth
 Lord Krebs
 Lord Rooker
 Lord Selkirk of Douglas
 Baroness Sheehan
 Lord Trees
 Viscount Ullswater
 Baroness Wilcox

Examination of Witnesses

Oliver McEntyre, National Agriculture Strategy Director, Barclays Agriculture, **Allan Wilkinson**, Head of Agriculture and Food, HSBC, **Lindsay Sinclair**, Group Chief Executive, NFU Mutual, and **Dr Harald Jahn**, Head of Division, Natural Resources and Agro-Industry, European Investment Bank, examined

Q64 The Chairman: Good morning. Thank you all very much indeed for submitting written evidence, and particularly for giving up your time this morning. I know that you are all very busy so the Committee really appreciates your input. As you know, we are carrying out an extensive piece of work looking at price volatility in agriculture and the impact on farmers individually and on the sector. Clearly your input is important to us as we begin to think about financial instruments.

To deal with the housekeeping, this is a formal evidence-taking session of the Committee. A note will be taken and put on the public record in printed form and on the parliamentary website. We will send you a copy of the transcript, which you can review in case there are any minor errors. The session is on the record. It is being webcast live and will be accessible on the parliamentary website in due course. You have all had a copy of the interests of various members of the Committee. I remind my colleagues that if they have interests that are specifically relevant to this inquiry they should declare them the first time they speak.

My colleagues and I have a number of questions that we hope will lead to a useful discussion for all of us. Some of the questions will be aimed more at one of you than others, but if you feel you have a contribution to make to any question, please feel free to contribute. I want to start with a general introductory question. I will ask each of you to say a quick word or two

about your organisation for the record. Would you also begin with an overview of your thoughts about whether volatility is becoming worse and whether the impact on farmers is becoming worse, because they are not quite the same thing? It will be interesting to hear what you feel about the situation overall.

Allan Wilkinson: My name is Allan Wilkinson. I am head of food and agriculture for HSBC. I am the sixth head of agriculture in the more than 50 years that we have had a team. We have a dedicated team that deals specifically with farmers, and we have done so for at least the 28 years that I have been in the business. I am a tenant dairy farmer's son, and I think we focus quite closely on the fortunes of the sector, both positive and less positive, over recent times. To answer your question specifically, there is certainly increasing volatility. At the moment most commodities are in the lower part of the cycle, but we must remember that commodities have also been high in recent times and therefore we need to take a view of the cycle rather than necessarily just a point at the moment. I will save other comments for later, if that is okay.

Oliver McEntyre: I am Oliver McEntyre, national agricultural strategy director for Barclays. I have a similar story to that of Allan. We have banked agriculture for over 250 years. We are very committed to the sector and we have a team of nearly 200 staff dedicated purely to the agricultural department at Barclays. To me, volatility in agriculture is nothing new. I grew up on a pig farm in Lancashire so I know all about volatility and fluctuating markets. We now no longer have a pig farm in Lancashire, so I know more about it than some perhaps. We are seeing two ends of the spectrum. We have seen record milk prices and record lamb and beef prices. For me, volatility has slumped; we are in a lull at the moment. It is like a tightening screw on the industry. The longer it stays down, the harder and tighter the finances become.

Lindsay Sinclair: My name is Lindsay Sinclair. I am the group chief executive of NFU Mutual. To add to the profile you have already received, NFU Mutual is the UK's leading rural insurer, with about 1 million policyholders, and more than half of those are in farming. I am also a trustee of the NFU Mutual Charitable Trust, which provides financial assistance to address hardship in the farming community, to improve the public's knowledge of farming and to support young farmers. We are a separate organisation from the National Farmers Union, but we work closely together in a very strong partnership.

On the question about volatility, from all the signs, we certainly see volatility continuing in the short term. As a mutual insurer insuring the majority of UK farmers, that concerns us. We see the risk as one of reducing confidence in the sector, potentially reducing investment in the

sector, hampering investment decisions and affecting the financial viability of some farms. That does not affect only agriculture; it obviously has an effect on the rural economy more broadly.

Dr Harald Jahn: My name is Harald Jahn from the European Investment Bank. I head the natural resources and agro-industry division. We are the bank of the European Union located in Luxembourg. The division operates globally so we are not only in Europe. We are in agro-food and biomass in general, financing for more than 40 years. Our annual lending to the sector, including forestry and afforestation for climate action, is between €4 billion and €5 billion in long-term lending, of which a third is helping mainly member states to implement rural development programmes with their co-financing needs—their own shares—so that they can access rural development support from the EU. One third is direct lending to private sector companies for research, development and expansion of production, and one third is to supply promotional banks or commercial banks with long-term liquidity, in addition to the short-term liquidity they usually have, to invest in sectors according to the bank's policy objectives.

We are an independent body within the EU. Our governors are the Ministers of Finance. We do not have our own statistics on agriculture and food, but we operate globally; for example, in China we have helped to finance 400,000 hectares of afforestation in the last three or four years for global climate trends. Looking to global trends, we have had price volatility over hundreds of years because it is weather-related, but we have—this is my observation—one difference. We have further specialisation in agriculture due to scaling up, which makes the individual more exposed to single-sector market changes. Secondly, the old owner-operator model is changing, specifically because the number of farmers on the land-related production side is growing quickly because of technology innovations. That is mainly on rented land, so they are tenants. The system that you have much experience of in the UK is extremely important, for example, in eastern Europe, in Ukraine, there is no land sale-purchase market. The question for such operators who have no collateral is how to invest and get collateral. Commodity markets have become more volatile, but in my experience of horticulture there has never been support or volatility for radishes or salad. It is the same for a big commodity in Europe—potatoes. We are mainly talking about very few commodities.

The second question is: how can we somehow get agricultural cash flows understood by banks; what form of risk should a farmer or the food production value chain internalise, normally between three or four partners, and what should be externalised; and how can that work? What can be outsourced at what price to make the tenant farmer or tenant-related

farming less vulnerable and more sustainable in the investment in and production of good and healthy food for the population?

The Chairman: Thank you very much. One question that emerges from that, as the structure of agriculture is very different in every country, is to what extent the banking sectors in other European countries are able to represent that. Clearly the NFU is operating in the UK, but the two banks are international banks. What are your reflections on how the finance sector works in other countries?

Allan Wilkinson: At HSBC, in the team I work in, we are especially focused on the UK. We do not have that type of franchise in other European countries, so I am sorry that I cannot answer the question specifically. Certainly here, we have a very deep working relationship with our farming customers and indeed the farming industry. Some points have been made about funding tenants, for instance, when they receive the same commodity prices as the other parts of the industry; some of those farmers are the best farmers we have, and they have been highly successful. I realise that they have limitations, but as regards viability and the ability to progress, some of those businesses are beacons for the whole industry.

Oliver McEntyre: We have a very similar answer. We are a solely UK-focused team. That is the focus of my role and job in Barclays. As far as I am aware, we do not have dedicated agriculture teams dotted elsewhere around Europe. I agree with Allan that, although the tenanted sector presents a challenge because of the nature of the security behind it, some of the tenanted sector are among the best farmers the UK has.

The Chairman: Before I bring in my colleagues, could you say a few words about data? Clearly this is a very data-rich area. Is there a culture of sharing data about what is happening in agriculture around the world and what is happening to farms, or does commercial confidentiality mean that there is a culture of holding the data to yourselves?

Allan Wilkinson: It is a fascinating question. We spend a lot of time understanding our individual businesses. I cannot emphasise too much the variation between individual businesses, even when they might appear quite similar from the roadside. Obviously data is especially sensitive. Although we try to understand our individual customers, and we might make internal assessments of how the portfolio or the sector is doing, I am not aware of any initiative to share that data on a broader basis, principally because of its confidential nature. The industry has an element of data, certainly in the UK. Could that data be better? That is an interesting question, but there is plenty of information to start to understand some of the range in variation, and the ability and capability of what might be possible.

You are right to say—I am not just agreeing with you—that we are now in a global marketplace. An understanding of that global marketplace and what “best” looks like in different countries, and understanding the nature of individual farm businesses and industries in, say, New Zealand or Australia, is really important. We need to do more as a whole sector to try to understand that. That is certainly one thing that I have been trying to do in our business.

The Chairman: Would that be about sharing data, or does it need to be generated from new?

Allan Wilkinson: It might be sharing data, but it might also be understanding best practice and compiling data on the back of that—understanding how people cope with volatility. As has already been said this morning, we have had volatility in the sector for a very long time, partly because of weather, so it will be important going forward to understand how other, probably more extreme, agricultures manage their fortunes, aspirations and levels of confidence, which are all key parts of what we are talking about.

Oliver McEntyre: There are two batches of data. Obviously we have our internal data, and competition law would prevent us sharing that among the banking institutions. There is an awful lot of data out there in the agricultural sector; pricing mechanisms and livestock options are very public. Farm-gate prices are common knowledge, no matter what variances there are between different contracts. We have a lot to learn, not just from around the world but actually from the better end of our farmers in the UK—our top quartile of farmers—to push data through the industry. We try, as I know Allan does, to get involved in events such as business-to-business shows and writing in the farming press, just trying to get people to look at the benchmarking data and how they can improve their business. It can be quite a solitary way of life. If you do not leave the farm, or only leave it once a week, it is very hard to catch up with people and get that interface and information transfer. It is not for want of trying at times.

Lindsay Sinclair: As an insurer, we collect a lot of data from our farming customers relevant to the risks that we are insuring. We insure between 65% and 75% of the farming market so we bring together a lot of data. We do not share data on a personal level.

The Chairman: No, of course not.

Lindsay Sinclair: We aggregate data for the ABI or for the Health and Safety Executive. A lot of the data we receive is accessed through our partner organisation, the NFU, to understand the pressures on different sectors of farming and at a high level the impacts of what is happening in other parts of the world.

Q65 Lord Krebs: I would like to ask a few questions to do with EU finance and financial instruments, probably directed primarily at Dr Jahn. Commissioner Hogan has repeatedly emphasised the role that financial instruments can play in supporting farmers. Could you describe for us, Dr Jahn, what the financial instruments are and if I were a farmer how I would access them?

Dr Harald Jahn: Thank you for the question. The whole thing is very easy. There is nothing new, but we have to give more possibilities for mixed grants with credits. That is the entire idea of financial instruments. Financial instruments are suitable only for financially viable projects. There is a mix between grant and investment for financially viable projects. The idea from the Commission and DG AGRI is to reduce grant financing in the long term and for the payback from the financial instruments to be re-employed in the same sector, for funding needs in the sector. The advantage of that approach for the farmer or rural business is that, for example, with a financial instrument they can get funding upfront without having to pre-finance first and get the project grant finance afterwards. The time axis is one component.

Compared with commercial bank finance, the loan from financial instruments can be provided on preferential terms and conditions, inter alia the lower interest rates that the EIB can generate on the international capital markets. There are longer repayment periods—I can come to that later—and perhaps less collateral required for tenant farmers. We are working on guarantee instruments, which can also be used to leverage further investment funding from the private banking sector. The advantage for the public purse, and indeed to the wider overall economy, is that the money is used more efficiently. It is paid back and then can be used over and over again in the same region for other investments, giving benefits to more farmers and businesses. I can give you some examples later if you want, but succession financing, specifically for the young, with modernisation and innovation, as we heard, is a question of collateral. The financial sector—the banks—can be hesitant at times when markets are a little bit down, so DG AGRI asked us to think about what instruments are possible in the market and to come up with some guarantee formulae backed by DG AGRI, involving commercial banks, helping them to keep or grow their lending portfolio in the rural sector and for farmers.

Lord Krebs: What about the other part of my question? If I were a farmer, how would I access those instruments?

Dr Harald Jahn: First, some of the instruments already exist; they were introduced under the COSME project for SMEs. The other point is that we would like to bank on our experience in SME financing for farmers. Direct access would be only if the investment was of a certain size or a specific dimension. The main point is to have access to the programmes being

implemented by national Governments, because in some countries budgets are so tight that co-financing is not available and the money cannot come from Brussels for needed investments in the agricultural and rural economy. The other way would be to talk to partner banks, their local banks, to see if they are aware of guarantee mechanisms or risk-sharing facilities where farmers can participate.

Q66 Lord Krebs: You referred to the joint initiative with DG AGRI. Commissioner Hogan, in an exchange with James Nicholson MEP, said that the EIB was making “slow progress” in providing financial products for agriculture. What is your comment on that?

Dr Harald Jahn: Slow is always relative. The main difference has to be spelt out more clearly. I was part of the negotiation committee for the MoU with DG AGRI when we tried to bring first principles and the first clear ideas of what the need would be; the EIB has experience with DG REGIO and DG RTD that can also be used for investments in agriculture and agro-food.

It should be clear that the EIB is the bank of the EU and has to comply with sound banking principles, and it differs from an insurance company. Insurance companies themselves have to comply with sound principles, but the different know-how profiles and the risk-assessment mechanisms for a bank and an insurance company have to be expressed more clearly in the MoU to manage expectations at all political levels and to talk mutually together, not mixing experience and profiles, in order to have volatility-related products in the short, medium and long term.

Lord Krebs: Are you refuting the assertion that progress is slow?

Dr Harald Jahn: I am not disputing. I am just saying that we work from the knowledge and experience of a bank.

Lord Krebs: I have one more question. If you are prepared to comment, what is your view of the United Kingdom’s record? Do you think that the Department for Environment, Food and Rural Affairs is taking up those opportunities to encourage our farmers to take advantage of financial instruments?

Dr Harald Jahn: The UK, according to my knowledge, has four different managing authorities for the Rural Development Programme. The four are asked to come up with operational programmes, to identify certain things for implementation and send them to DG AGRI for discussion and approval. That is not the job of the EIB. The different managing authorities and the Agriculture Minister can in parallel discuss with the EIB co-financing possibilities and the other mechanism, which is the guarantee. Everybody is welcome to bring examples. We have tried to work with commercial banks in agriculture, because we do not

have the data ourselves to see risk profiles, absorption capacity or volumes, for example, for young farmers' finance or succession financing.

The EIB has been approached by your relevant ministry for support and information on the different instruments. Discussion is ongoing, so I will leave it to the negotiators to disclose the progress.

Lord Cunningham of Felling: Dr Jahn, is the British Government's approach and success, or otherwise, in these developments better or worse than other comparable member states of the European Union?

Dr Harald Jahn: It is not up to me to judge from the banking perspective. We can only offer products and services to all our member states on equal terms. Some countries were very interested—because they needed to be due to budgetary constraints in the last couple of years—in talking to us to get co-financing. We had to look at what was possible under the EIB's policy objectives. At the time we had only two policy objectives: financing SMEs and climate action, so we concentrated first on afforestation and erosion controls in some of the central European member states. They are things that are in compliance with climate action and funding SMEs on environmental issues. In the last four or five years, commercial banks have requested longer-term funding credit lines for the agricultural and food sectors, including forestry. We should not forget that forestry is part of rural development in a lot of countries where the paper industry is strong. It grew from €2 billion to €5 billion, so we have doubled lending to the sector in the last five years.

Lord Cunningham of Felling: How much of it goes to the UK?

Dr Harald Jahn: In that specific sector, a couple of hundred million.

The Chairman: That is very helpful; thank you very much.

Q67 Lord Trees: My questions on private finance relate particularly to the bankers and NFU Mutual. You all offer a variety of financial products to farmers. It has been suggested that data may be a limitation on making those products available. Can you outline for us the products you offer? What is the take-up? What are the barriers to take-up, particularly the data one? Finally, on an issue that has been touched on already, are tenant farmers and contract farmers at a disadvantage in accessing those products?

Allan Wilkinson: Over the time that I have been in the business—28 years, as I said—most of our customers have a current account and have access to an overdraft facility and term lending, if needed. They have internet banking in order to conduct their transactions. Where necessary we are able to hedge things like the single farm payment. When we sit down with a customer or a prospective customer, we do not differentiate farming types or farming classes,

be they landowners, tenants or share farmers. When we sit down and look at the business, we are trying to make sure that the business is viable.

In the case of a tenant—and I can think of several examples where this has happened throughout my career—we have sat down and worked out whether it was feasible beforehand, looking at budgets and using our forward planning booklet, which we have published for over 40 years. If need be, and we have done this on several occasions, we have involved people like the landlord to help assist the establishment of the particular enterprise. Over my time and in my experience, certainly by trying to understand what the customer wants, there have been very few instances where we have been unable to support what you would describe as a plausible enterprise in the first instance. There is a whole range of situations. I am thinking of one particular tenant where the landlords helped with some of the capital projects such as buildings, drainage and the like, and we have advanced money to the tenant using an agricultural charge that came out in the agricultural credit SAP 1928 as a piece of security to help that tenant, first, to establish himself and, secondly, to move forward. We use that piece of security fairly well now and it really has its purpose.

Could I make one point on the previous comments that we have heard about longer-term funding? In my time in the business, we had an organisation called the Agricultural Credit Corporation, which assisted sometimes smaller but certainly tenant farmers become established where there was a guarantee in place. From memory, I think that organisation was wound down in the early 1990s; I am sorry that I cannot be more specific. Certainly that proved effective at that point. Now, with probably more volatility and more challenge around, I do not think it has been any more difficult to help the well laid-out business plan that is plausible and able to move forward.

Oliver McEntyre: I will try not to repeat what Allan has said. Banking to the agricultural sector tends to be quite simple by nature. It is loan, overdraft, asset finance and current account, basically. Of the Barclays agricultural book, slightly over half borrow; the remainder have no borrowing requirement or do not at the minute. Some of the challenges in agricultural banking and why it is tricky are because of the very high capital cost compared with the quite thin margins, especially at the moment with possibly no margins. Even in the tenanted sector, you are probably talking about a quarter of a million pounds to set up a 100-cow dairy farm, and that is an awful lot of cash to find.

When we are looking at young people and new entrants, and trying to revitalise the industry, a real challenge for us at times—I am sure it is the same for Allan—is when we are looking at term debt. If we have only a five-year tenancy or an eight-year tenancy, that is all we can look

to lend money over. We will lend money into agriculture for 25 years, and even up to 30 in some instances, but if we have only an eight-year tenancy it is not very responsible to lend someone money over 15 years because, after eight years, that business could cease to exist.

Allan Wilkinson: That is where you go to the landlord and say, “Let us have a really plausible project”.

Oliver McEntyre: You are right there, Allan. To finish the answer, the level and depth of information we get with the lending request never ceases to surprise me. Because some of our smaller tenant farmers have maybe had to go through a tenancy application process, they will have a great business plan that is realistic, based on their current track record or their past experience, and yet, occasionally, with some of our larger farmers, we get a telephone call saying, “I need £X million to buy next door”, and then the conversation ends, I am afraid.

Viscount Hanworth: What worries most of us about modern banking is that, increasingly, the friendly and knowledgeable bank manager has been replaced by somebody with a checklist and that decisions to grant financial support are made increasingly on an algorithmic and statistical basis. You have depicted yourselves as the former—the friendly bank managers. Do you feel pressure—it is not the right expression—to update your procedures and become more algorithmic to the detriment of your knowledge base and your engagement with individual farmers?

Oliver McEntyre: Not at all, and I am sure Allan will agree in a minute. Everything is on a case-by-case basis. There is a double-checking system. We have our managers on the ground who do that initial appraisal of the lending application. At that stage they might push back and say, “We need another year’s cash flow”, or perhaps, “We actually need a cash flow or a business plan”. We might even refer them to some consultants or specialists within the industry to give them that little bit of help to hone their business knowledge and business skills. That will then go to a specialist agricultural credit team. We do not feel the need or the pressure to turn into some automated system. We are very proud of the fact that it is on a genuine case-by-case basis.

Viscount Hanworth: Nobody is encouraging you to change your methodology.

Oliver McEntyre: Not that I am aware.

Viscount Hanworth: That is great.

Allan Wilkinson: From HSBC’s point of view, absolutely far from it. We have grown the number of people that we have in the last five years dealing directly with farmers. Some of the points that Oliver has made are absolutely right: understanding the business; taking care of the customer; and making sure that we really do understand it and that our teams are well

briefed. We try to make sure that they are as knowledgeable as possible. This is a real cornerstone of our business in the rural economy. If that is happening in my business, nobody has told me yet.

Viscount Hanworth: Thank you; I am relieved to hear all that.

The Chairman: Lord Bowness and Lord Selkirk have questions.

Lord Bowness: I have a very quick question. You were talking about the problems of seven and eight-year tenancies. Does the Agricultural Holdings Act and the security not help?

Oliver McEntyre: It does, but, unfortunately, now we have farm business tenancies. So, where we have AHA succession tenancies, that gives us a generational security of tenure, if you will. Where we are on more modern tenancies—the farm business tenancies—some of those can be as short as two or three years. If you are looking to term-out debt on a business loan, it is just not doable. You cannot lend money for 10 years when you only have tenure for three.

Lord Selkirk of Douglas: Lord Chairman, I declare an interest in that I am the chairman of a company of directors with a very small farm, with one or two pockets of land. I have two questions. First, is the incidence of bankruptcies very rare overall, and, secondly, are more and more institutions buying up farm land and entering the farming market?

Allan Wilkinson: As far as I am aware, the number of bankruptcies in the industry is low. It is not a figure I have to hand but I understand it is very low. With regard to your second question on institutions, we might have seen slightly more interest in the last three, four or five years, let us say, but over the last 25 years, particularly when I first started in the business, we had all the pension fund investment in agriculture. I suspect it is probably no different from the long-term run rate—from what we saw in the late 1970s and early 1980s.

Lindsay Sinclair: If I can return to Lord Trees's question, as the UK's leading insurer, and having 65% to 75% of the farming and growers' insurance market, day in and day out we are dealing with the risks that we underwrite from small hobby farms and medium-sized and large-sized farms across the full range of sectors in terms of livestock, arable and so on. So we do have a lot of data relevant to the risks that we are underwriting. In terms of those risks, clearly there is motor, business, commercial and personal, as well as, with NFU Mutual, we offer protection policies, pensions and investments.

In response to the question about the friendly local manager, we operate as a mutual owned by our members through, I think, a unique service for the UK of about 320 officers around the countryside. We do effectively have a local manager who is in very close contact with the farming community, which supplements the data on a very personal basis locally. Those are

relationships that extend back often for many generations and have built up a lot of knowledge about the particular circumstances in that area.

Just to complete the answer, we do not make any distinction between owned, tenanted or managed farms in the way that we look at our business.

Dr Harald Jahn: May I make one observation from my work on the algorithms and debt situation? I will talk about natural capital in general. Agriculture is composed of financing and operating living and dead items. Living is plants and animals; dead is buildings and machinery. Agriculture as such is only slightly different from other SME lending. If you come to natural capital—forests—from what we have observed, I was surprised because these algorithms were baptised by their respective auditing companies and they cannot appreciate. So it was difficult to find the right model for afforestation. In education also, there are difficulties if you have long-term assets that are growing, living material. Some of the methods we were confronted with were also a surprise for me. There is perhaps a literacy need or a discussion need specifically if you want to have long-term natural resources financed with credit, using the same risk models, since these things have to be appreciated and not depreciated.

The Chairman: Thank you. Before we move away from this section, Lord Rooker and Lord Curry have questions.

Lord Rooker: Does price volatility extend to agricultural land prices?

Oliver McEntyre: Not that we have seen so far. The land price graph tends to climb steadily; many expect it to plateau this year or in the next two or three years.

Allan Wilkinson: I would concur with that.

Lord Curry of Kirkharle: I have two brief supplementaries but perhaps I had better declare my interests. I farm in Northumberland, and Allan and I work together. We are both trustees of the Prince's Countryside Fund. I am also on the board of Farming Futures. As far as the NFU Mutual is concerned, I was on the board for 12 years and chair for almost eight years. I am also a trustee of the NFU Mutual Charitable Trust, which Lindsay mentioned.

I have two brief questions, largely to Allan and Oliver. I think I know the answer from Allan on this because he and I took part in a seminar here on the subject. Oliver, you mentioned FBTs. Would you prefer to see longer FBTs? Would it create a greater resilience for individual farm businesses if FBTs were longer?

Oliver McEntyre: It would certainly make our life a lot easier to see longer FBTs, and you do see them. Some of the estates will offer longer term and some are very keen to push—

The Chairman: Is the length of farm business tenancies set in law or is it a matter of practice?

Oliver McEntyre: It can be anything from 12 months to 25 to 30 years.

Lord Curry of Kirkharle: For many landowners short FBTs have been chosen because they want to retain some flexibility in decisions, but from the resilience point of view it is difficult for individual farmers.

Oliver McEntyre: It is challenging at times.

Allan Wilkinson: For the record, yes, I agree with what Lord Curry has said, and I also suggest that the industry would be a lot better placed as well as ourselves, and certainly in the interests of customers, to make sure that there was a longer term in tenancies.

Going back to the issue of FBTs, we have seen an increasingly short term to the average of FBTs. On the point about AHAs, which came in with the 1986 Act and were succeeded by the 1995 Act and farm business tenancies, by the very nature of the timescale concerned there are fewer of those around than there used to be, and that will be a declining number.

The Chairman: Thank you. I am sorry; I missed Lord Bowness earlier on. Then we will move on.

Lord Bowness: I am sorry; I did not pursue my question further because I thought I must just be totally out of date. Perhaps you could help because the point about security is quite important. There was a time when agricultural holdings were renewable; there was a right of security, surely, and you could only avoid that by giving a tenancy of less than a year—364 days.

Allan Wilkinson: Yes; *Gladstone v Bower*.

Lord Bowness: I do not remember that. Are you saying that the right of renewal has now gone with the business tenancies?

Allan Wilkinson: No; I do not think it has gone. If the landlord and tenant have a strong professional working relationship and it is working for both sides, then, effectively, like a commercial lease, the arrangements for the tenancy on that farm can be renewed. On the point you are making about succession as a right under previous Acts, that aspect of it has gone. But, even so, in those particular cases—and I was subject to one of those—the succeeding next generation would have to prove their worth in terms of the ability to run the farm and other aspects that would satisfy the legislation in place.

Lord Bowness: I have to say I was not really thinking about succession. I was actually thinking about the statutory right of renewal and not whether you negotiate an agreement and the landlord and tenant get on all right.

Allan Wilkinson: As we have seen in recent times, my Lord, it has been an increasingly testing part of the whole agricultural landscape. For those tenants who cannot secure, because it is not a right—it is not set in statute—it is down to the ability of that negotiation, how they get on with the people and all the other things that I pointed out.

Viscount Ullswater: Can I ask one very quick question?

The Chairman: All right; very quickly. Then we must move on.

Viscount Ullswater: What is the difference between farm business tenancies and AHA tenancies with regard to inheritance tax?

Allan Wilkinson: That is a really good question and it is an area of expertise that is probably not my strongest. From the point of view of the tenant, there is probably very little difference in that sense. In terms of the land ownership, there is probably significantly more difference, but I think we focus more on the viable farm and the farming tenant than necessarily the landowner in this case.

The Chairman: Thank you. Baroness Sheehan?

Q68 Baroness Sheehan: Good morning. I would like to explore the role of insurance. While I accept that there may be some on the panel who may have more views to exchange and share with us, I would nevertheless like to hear views from everybody on the panel. In certain other countries such as Canada and more recently the US, there has been a clear shift to insurance mechanisms supporting agriculture, in the place of direct support. What is your assessment of the success of insurance as a risk management tool? Do you offer such a product, and, if not, why not?

Lindsay Sinclair: I will begin, if I may. NFU Mutual is a UK-only insurer, which means that, while we have some knowledge of a number of arrangements that exist in respect of multi-peril crop insurance in the US, North America and Europe, this knowledge is fairly limited. We do understand, though, that they are typically public/private partnerships, with the Government either directly subsidising or being in some instances involved as a reinsurer. Having explored these arrangements at a very high level and spoken to farming bodies and farmers directly, we have not seen the demand from UK farming for similar crop covers, the issue cited usually being premium cost, and it is also worth noting that the UK does not see such high variation in yields as other countries. NFU Mutual offers some specific cover for high-value crops against hail, and similarly we understand this type of cover is provided privately overseas rather than via public/private partnerships, although again there are relatively few buyers of this coverage. Our annual premium income in this respect is about £1 million out of a total premium income of £1.3 billion.

We have also developed a similar freeze cover for the UK sugar beet crop, where the sector as a whole has decided to buy some limited catastrophe coverage to deal with extreme freezing events such as we saw in 2010, but again the premium values are modest. They are less than £1 million against our total book of £1.3 billion. If there is a government appetite to explore a public/private solution in the UK, we have a specific knowledge that we could bring to the table and we would be happy to be part of the discussion, but at this point in time our knowledge is at a very high level.

Allan Wilkinson: From HSBC's point of view, I would concur with what Lindsay said in the fact that we do not offer specific products at the moment, partly because we are based solely in the UK as a team, and we have not seen the demand for such yet. I am acutely conscious of the schemes that you talk about in other countries, and, indeed, in September, I spent some time in the US to try to understand how their system is in operation through the latest Farm Bill. I think it is too early to judge how that is working, but with the interest in the topic not just from today but as volatility continues, we will be very interested to see how matters develop in the US and other places.

Dr Harald Jahn: From our experience, we were approached and looked into a similar product about 15 years ago together with our colleagues from the World Bank. It was the so-called weather index insurance fund for sub-Saharan Africa, where countries are exposed—60% to 80% of their export earnings on one crop: cotton, for example. The European Investment Bank considered at the time that our knowledge should concentrate on banking, but our colleagues from the World Bank, for your information, in sub-Saharan Africa have continued. The first examples of weather index insurance funds are also in central America and Africa, which is a different animal from the American and Canadian examples, which are much in compliance with WTO rules. There are two different drivers behind it. **Baroness Sheehan:** Could you outline the pros and cons of the use of publicly funded insurance schemes in the EU context? I think Spain is one, for example.

Dr Harald Jahn: I have some half private knowledge but I do not have an overview, so we can revert to you if I talk to my colleagues. This is not our normal sector of activity. We might come back to you with some ideas that might not be founded on data because it is only on newspaper articles. I would rather ask you if I could come back to this question; thank you.

Lindsay Sinclair: I am happy to say that we had a look at the question and therefore considered the pros and cons. I think the pros could potentially provide a safety net in the event of major disruptive occurrences. They could potentially provide support in a world where climate change is adding to agricultural instability and could focus support where it is

needed most. On the cons side, it could distort commodity prices, is open to political influence and may encourage use of unsuitable farming practices and production. That would be our balanced take.

Lord Trees: With regard to banking, we have heard of a scheme—I cannot remember the name; colleagues will remind me—where farmers in a good year can deposit money with a fund, receive interest on it and then recover that to support income in a bad year. It sounds as if it is something that a private banking industry could provide. Do you provide anything like that?

Allan Wilkinson: At the moment, no. It is something that we have discussed from time to time. We have not experienced any need for that yet; we would have to make sure that there was an understanding of when the money was drawn and that it was fair and equitable with everybody if it was in a pooled situation. But, no, we have not taken it any further than some fairly detailed discussions from time to time.

Oliver McEntyre: There is no specific product for that, but I come from a very traditional farming background. A lot of the farmers who borrow tend to borrow on overdraft. When the farm-gate prices were very high, I wrote a couple of articles saying, “Perhaps that mechanism needs to be paying your overdraft back down and not fully utilising it”. It is an exceedingly powerful message to a lender if you borrow money when times are hard, make it back and pay it back. When you come knocking on the door again, we will have that faith that you can deliver on your management promises.

Lord Trees: It is an inverse overdraft in a way.

The Chairman: The issue was also about the tax treatment of it.

Lord Rooker: Then you do not have the five-year tax arrangement as well; the money was not taxed as it was put in and taken out.

The Chairman: That is right. Your question is next, Lord Curry.

Lord Curry of Kirkharle: I would like to ask a quick question on data before I move on to risk management. Some of you will be aware that under the agri-tech strategy a new agrimetrics data centre is being established. While your data clearly are confidential and sensitive, I presume you would be willing to make that data available anonymously to a national data centre if that would be helpful.

Allan Wilkinson: Certainly it would be something that we would consider. We have not considered it yet, but it would be something that we would consider and we would have to take that back.

Lindsay Sinclair: We would certainly be happy to contribute data at an aggregate level.

Q69 Lord Curry of Kirkharle: Under the common agricultural policy, as you know, there are two strands—two pillars—in the way that agriculture is supported: direct payments through Pillar 1, and Pillar 2 through rural development funding under a range of other measures and schemes. In Britain, we tend to use it for our environmental schemes, et cetera. But within Pillar 2 there is the facility to use those funds to mitigate risk management, and insurance could be one of those tools. I am particularly keen to hear from Dr Jahn on whether these tools are being extensively used across Europe. You touched on this earlier, but could I press you a bit more in terms of the other member states that are using some of these risk management tools? You said there were early discussions taking place here, but we want to be helpful if there is an opportunity to explore these tools. Would you perhaps give us a little more information about what could be possible?

Dr Harald Jahn: First, these are for the period 2014 to 2020, which is perhaps also a training period for after-2020 funding mechanisms of the common agricultural policy, but this is up to the politicians, the ministries and the different Governments to decide. Under Pillar 2 we have financial instruments, which is the subject in general. Together with DG Agriculture, we see that the ministries of finance and agriculture have not had a clear understanding of what this could be. Until now, there have been very few agriculture operational plans from the different member states or regions—because the regions are also responsible in some countries—that have ticked the box “We would like to work with financial instruments”. We have seen this together with our colleagues from DG AGRI. The current phase also involves awareness-raising and, with the first revision of their operational plans each regional member state makes, we try to say to the ministries of finance and agriculture that they should talk together to advance the ex ante assessment, which is a sort of gap analysis. Is a gap identified in the specific country or region that can justify the use of public money? This is for all EU funding now necessary for the financial instruments. We see now more interest in discussions. We had some questions from your country on what could be and what is needed. So it is a two-step approach, and in the context of the first revision of the operational plan for all countries one could anticipate the ex ante assessment of financial needs, which could include insurance mechanisms; it could include guarantee mechanisms. Therefore, it is said this is not dubious; it is very simple, but it was seen in some instances as too difficult for the specific administration having lived with 30 years with pure grant financing. After some years now of discussions in Brussels in the specific committees, I think it is clear that there is nothing mysterious about financial instruments. It is mixing co-financing—what commercial banks normally do—plus perhaps insurance in one or other form.

Summing up, there has been little interest so far. We are in infancy all over Europe in agriculture—different from others. The same might be true for RDI, which could be combined with money from others. The point is to have an overlap between agriculture and the agri-food industry, because these are clearly linked and sometimes there are artificial barriers that might be rethought, and we are working on this as well.

Nobody has anything up and running yet (in terms of financial instruments for the 2014-2020 programming period). We will try to get it in the next year or two, and it would be helpful if other institutions offered some working groups with the Commission or with us, because we are a bank and for the insurance instruments we might need some support from experts with risk assessment capacity.

Lord Curry of Kirkharle: So you would welcome some encouragement to continue to develop the thinking on this.

Dr Harald Jahn: As we have said in the memorandum of understanding, the EIB stands ready to help the EU to implement policies. One policy is to leverage grants in order to have a wider meaning—for example, we have some forest funds—and to engage common land or church land that is not in use in some regions in Europe, and we need the biomass and carbon capture. Why not use the timber land idea from North America also in Europe?

Lord Selkirk of Douglas: Can I ask a very quick question about research? We were told when we had evidence from the EU two sessions ago that the Commission gives guidance to Governments but not directly to farmers. Is there a role or an involvement that could be put in place for the British Government to engage in research and in dissemination of that research, or, if not, their own research in co-operation with somebody else's?

Dr Harald Jahn: I am only representing the bank. We know best how to mobilise finance, how to allocate it and how to return it to our investors. The Commission and DG AGRI, in the different sub-measures, also have possibilities to finance public/private research and extension services. But it is up to the Governments to include it in the operational plans of their countries and to get it accepted and discussed with their colleagues from DG AGRI. We are only observers.

The Chairman: Could we park the question, because I know you will all have something to say on the question of research, innovation and knowledge sharing? I want to explore that in a little more depth in a few moments. So can you hold on to your answers and we will come back to that. Lord Cunningham?

Q70 Lord Cunningham of Felling: Direct payments under Pillar 1 of the CAP provisions get mixed reviews. Some people think they are a good bulwark for farmers against volatility

and price falling. Others argue that they are a block to innovation, modernisation and making farms and farmers fit for purpose. What comments would you gentlemen have on direct payments?

Allan Wilkinson: It is certainly a really good question, my Lord. There is no doubt that the industry is facing some challenges at the moment, and obviously it is looking at itself to see how it moves forward. I am not completely sure about the claim that direct payments stall the industry moving forward all the time. I can think of many businesses that have used the support that they get in a really positive and direct way. There may be other businesses for really good reasons or for other reasons that are down to them where they see the direct payment as a means of being able to exist and survive, and move forward. Indeed, if we look at the information that comes through every year from the Total Income from Farming data that is collected, subsidy and certainly direct support is a high proportion of the net farm income that is declared. There are farms in less advantageous places where that direct income and support is essential not just to that farm business but to the wider community. So I am extremely careful to highlight that in some places it is needed. In the context of this inquiry, one of the things that a future CAP needs to look at is how it can manage the better times and then the less brilliant times. The point that direct payments are made whatever the season and whatever the price does not help the inquiry and the purpose for which we are sitting here today, because it is paid come what may.

Lord Cunningham of Felling: Regardless.

Allan Wilkinson: Yes; you are absolutely right, my Lord.

Lindsay Sinclair: We believe that the presence of direct payments influences our customers' views about the necessity of business interruption insurance, and there is a much lower take-up among farming customers of business interruption insurance than there is among non-farming commercial customers in the belief that they will have an income anyway. But the other side of the coin is that we see farmers, in terms of innovation, diversifying a great deal as well so that they are not entirely reliant upon one stream of income. We see innovation in a different way perhaps, certainly in terms of diversification.

Lord Cunningham of Felling: Do direct payments make you more or less likely to give financial support to farmers who may be in difficulty or who may be thinking, on the positive side, about innovation and modernisation? Do they play any part in your judgment?

Allan Wilkinson: As far as HSBC is concerned, the way that we look at the business is all the income streams that would be around that business. As I said earlier, each business is different even though they might look fairly similar from the farm gate. We take into account the

support or the other sources of income that would be available to that farm. We have heard earlier this morning that there are a number of farm businesses that do not get any support at all. That might be because the support is going somewhere else within the landlord or whatever, or it might be an enterprise that is not supported because it is intensive horticulture or even the pig and poultry sector.

Lord Cunningham of Felling: Pigs, potatoes and poultry.

Allan Wilkinson: That is a fascinating combination and perhaps for another discussion. Coming back to the question, we would look at the whole. We would not make any particular reference or put any particular policy in place because they either get it or they do not.

Oliver McEntyre: I have nothing particularly to add. We look at the whole view, whether that income is from beef, sheep, milk, cereals, camping, campsites or holiday cottages. We tend to look at the whole picture.

The Chairman: Let us ignore some of these contradictions. Lord Cunningham has just talked about one. We have two very different views about direct payments. Two other opposing views we get are about diversification versus specialisation. Some people are arguing that farmers need to specialise more; they need to be bigger; in that way you can have the innovation and so on. Then others say no; the way to deal with volatility is to diversify. We have heard evidence for both. From your financial perspectives, what are your observations about those two views?

Allan Wilkinson: I am probably going to be quite controversial and say that all that you have said is correct in the fact that there are parts of the country where the enterprises are quite small; they have diversified; they are incredibly resilient; they are very dependent on the support that is paid. There are other parts of the country and in different systems and enterprises where they have specialised, and some of their cohort probably need to specialise a little more in order to compete. The UK agricultural industry is extremely diverse, and we try our very best to understand our customers in each of those places that I have tried to describe. I suppose we end up looking at how good the management ability of those individual businesses is to undertake the activities that they have started upon.

Oliver McEntyre: For us, one important factor when looking at diversification is the strength of the underlying business. It does not matter what the markets are doing. There are farmers who make money even in a flat market, whether it is beef, sheep, cereals or milk. It is developing that management, character and ability of the person who is going to drive that business forward as to whether that will be cash-positive or potentially cash-draining if it does not take off. The area of specialism is quite an interesting one. Prior to joining the bank, I was

a self-employed business consultant. In my SWOT analysis I used to put: “Strength: concentrating on dairy”, because then you can pull in those skills; you can afford a decent cowman or get that input from a specialist vet. In the next section under “Weaknesses”, it is a weakness because it is all you are producing. It is eggs in one basket, is it not?

The Chairman: Thank you.

Lord Rooker: I have a couple of follow-up questions. Would I be unfair in summing up what you have just said in answer to some of the questions from Lord Cunningham that, in respect of pigs, poultry, horticulture and the wider manufacturing industry, you are capitalists, but when it comes to the farmers, who are feather-bedded by subsidy payments paid irrespective of how efficient they are, you are quite content to operate a non-capitalist programme, as it were? In other words, you keep them in business; they do not innovate; they still get the subsidy; you get your interest payments. Is that a very unfair way of putting it?

Allan Wilkinson: My Lord Chairman, I think that might be slightly unfair. I have to answer your question, though. When we look at those enterprises, clearly we are dealing with people. Fundamentally, we are dealing with people. In understanding those ambitions, aspirations, opportunities, challenges, the circumstances of the family and the other people involved in the business, all those things might be true, because, if they meet their aspirations and we have maintained a very professional banking relationship with that enterprise and that family, then we have met their criteria and we have met our criteria. Some people are incredibly ambitious and they want to achieve things that are really top of the tree in expectations, efficiency and the like, and we meet those in each sector. We have some extremely ambitious farmers, certainly younger farmers, in some of those enterprises that might be seen as less progressive than horticulture or poultry. We have to take into account the individual circumstances.

Q71 Lord Rooker: I was being unfair there, but my colleagues will appreciate I was paraphrasing, basically, from one of our witnesses of a couple of weeks ago, although some of my own views are there from my own experience.

I have a question on the issue of the business approach of farms, their acumen, entrepreneurial drive and skills. I declare an interest in that there was a time when Lord Curry brought a couple of dozen young farmers to Defra when I was there one afternoon to discuss this; it was in David Miliband’s time. I was absolutely in awe, because the language they used in discussing what they wanted to do and what they were doing was completely and utterly different from anything I had heard from traditional farmers. The mindset was completely different. I want to ask you about the barriers they face.

Diversification is important. In regard to barriers to widening the business approach, do you detect that as a lack of business skills in things that could be done? Are there barriers involving something that no one here has mentioned this morning—planning laws? Do they figure as a barrier to farmers wanting to do other things to innovate in farming or non-farming and making use of the land in a different way? Are those areas that you come across as bankers when you are discussing their plans with them?

Allan Wilkinson: I really do understand the question and I think there are several instances where we see an inbuilt frustration because we need to work with the planning system if they are looking to diversify or, indeed, more generally, garner new opportunities. Finding new opportunities to expand the business might be by taking on a few additional acres on a farm business tenancy or even trying to expand by taking on an additional dairy herd or whatever. Finding those opportunities is probably the hardest part. Exploring them, understanding them and then executing them is still challenging, but it is much easier once you have identified the opportunity. I have just helped a young farmer under the age of 30 find a new opportunity. We have been looking for over 18 months. They are a family friend and they are somebody who, through their own circumstances, will not be able to succeed on their own farm, but there is an excellent young dairy farmer. Finding where those opportunities are, without being able to easily identify the barriers, is really difficult.

Lord Curry of Kirkharle: How concerned are you about the age profile of farming following Lord Rooker's question? For a long time, I have jokingly said I was the average age of a farmer, but medical science has not helped me, with my longevity, to maintain that position. The debate rolls about whether farmers are 57, 58 or 60, or whatever, but the average age is around that.

Allan Wilkinson: I think the average age has been 58 for probably two decades, so your point is well made. Making sure that the industry harnesses its young talent is paramount. This is only anecdotal, but with an increasing number of farm businesses we find that the strategic decisions, particularly in exploring the opportunities referred to in the previous question, are increasingly taken by the next generation. Helping the older generation continue to live in the farmhouse, probably maintain pension and other sources of income from within the business, is probably where the challenge lies, but in decision-making we are probably sensing that those are being taken by some of the next generation.

Lord Curry of Kirkharle: But are we attracting enough new talent in to fill these gaps?

Allan Wilkinson: Are we attracting in enough people from outside the farming community and outside the rural community? Probably not.

Oliver McEntyre: They are two excellent questions. Last week I spoke to around 50 young farmers at the Entrepreneurs in Dairying group, which is run by AHDB and RABDF. I have already spoken to two or three of the groups this year on business planning, how you access finance and what you can do if you are starting with nothing. Last week I was asked to talk about succession planning within family farming businesses, and the title of that presentation was “How to talk about the elephant in the room”. The average age of a farmer in the UK is 58/59; it seems to go up a year every year, does it not? I would agree with Allan. There is a whole generation of farmers in that under-40 bracket who are making those key decisions. It is not talking about succession planning. It is talking about that strategic plan, looking at one to three years, four to 10, 10 to 20/25 years, and sticking that plan in place so that there is the knowledge of succession to bring people, as Allan has pointed out, who are already involved in the industry to maintain and keep them in the industry.

In response to the question, “Are we attracting people from out of the industry?”, probably not at the minute, but I think people who are not involved in agriculture have a certain view of it, when it is one of the most highly technical industries there is. What used to take 10 men a week to do, now one person with a couple of spool valves and a couple of levers can get done in half a day. It is that sort of message that we need to get out there to people who are not involved in the industry, and not farmers’ sons, daughters, nephews and nieces, to get people into an industry about which, as you can probably tell, I am quite passionate.

Lindsay Sinclair: Can I draw a number of threads together here? As to the first question, we would see farming as a very diverse sector and there are some really strongly entrepreneurial people in that area as well as some, perhaps, who are more traditionalists, who need support. Therefore, certainly, excellent training and skills development is vital for farmers to successfully tackle the move to free-market and use of technology effectively. We see through the take-up at colleges greater interest from young people in coming into farming, and it has been a great focus of ours in engaging with colleges—and specifically in two areas. One area has been around farm safety, where the older generation would point to the younger generation and say, “We have bad habits already. So get them while they are young and form better habits”, because there is a clear cost both in lives and livelihoods around the poor record of farm safety that needs to improve.

The other area, as has already been touched on, is succession planning. It remains a very difficult topic in our experience for younger farmers to engage with their parents. We have recently established a farm succession service together with the University of Exeter and Duchy College specifically aimed at this, because I think it is very important to the long-term

viability of farm businesses. The story is told of somebody coming up and saying, “I am very interested in the service you are offering. I am 60 years old. I think it has been very difficult to have a discussion around the future of our farm”. We said, “Would you like us to come and talk to you and your son?” He said, “No. It is me and my father”. It is a problem that extends quite a way and there is a lot to do in terms of farm succession planning on which we have only just begun.

The Chairman: You would almost have to get into family mediation in some cases, I suspect.

Lindsay Sinclair: Indeed.

Q72 The Chairman: We have come to the end of the time. Very briefly, are you able to comment on how much of a problem access to broadband is in rural areas, because I suspect that it is not now just about filing your tax returns online but all the advice services and so on?

Lindsay Sinclair: I believe it is a very big problem and one that does need to be tackled, because farmers are engaging increasingly with technology. It is already a large part of farms, but it is becoming more so. You mentioned the greater engagement of farmers with technology. Areas like the single farm payment are now all based on having access to a good, computer-literate and well-supported broadband community.

Lord Trees: I know time is pressing. One of the key knowledge things, apart from the technical issues that farmers need to have, is business knowledge. In terms of competitiveness, costs of production are key. Can you give me a snap answer, because you guys have been looking at a lot of farm businesses individually? What proportion of farmers really know their costs of production?

Allan Wilkinson: By sector, it is very variable: from 100% in certain parts of the poultry, horticulture and pig sectors, probably down to approximately 10% in some of the upland livestock enterprises. That is a guess.

Viscount Hanworth: Can we have two guesses?

Lord Rooker: What about in dairy?

Allan Wilkinson: In dairy, it is somewhere between 10% and 30%.

Oliver McEntyre: This is an educated guess, but in the dairy sector now, after the last two years, I would pitch that slightly higher than that. But I would agree—I would, being a pig farmer’s son—that the pig and poultry industries, in that sort of recording system and business knowledge, are quite far ahead of some of the other sectors at times.

Q73 The Chairman: We have trespassed on your time rather more than the hour that we had hoped, but I want to take a few more minutes to ask each of you to say maybe three sentences

about one thing that you would like a reformed CAP to do. That is a very tough ask, but could you give us one thing in headline terms?

Allan Wilkinson: In three sentences, I would say a greater focus on the understanding of the market and the global circumstances of food supply, food demand, where, when and how. Within Europe, we have to think about how we link farm gate and customer and think of all the things, not just economics but a lot of other opportunities, including health, new products, new developments, even new crops and new technology. Then we should look at something that helps the industry to cope with volatility, because there is no doubt about it: volatility is not going away and it is probably going to be greater than before. It does not mean to say it is worse than it was before, but the industry has to be in a far more resilient place at the point in the cycle where it is low so that it can take advantage of the point in the cycle when it is high.

The Chairman: Who would like to go next?

Lindsay Sinclair: It is not clear that volatility is worsening but certainly it continues in the short term. That should certainly be a direction that is looked at.

The only other thing I would add to what Allan has said is that the other side of it is the concern about the effect on less efficient and more vulnerable agricultural organisations; you can see the failure of small farms and their amalgamation. So, on the one hand, there would be efficiency savings, but loss of farmers with a lot of specialist knowledge on the other hand. We would have to be aware of the consequences of our actions in the longer term. Perhaps the final piece in the shorter term is that direct payments are made more promptly. That has been a large cause for concern. Delays to expected cash flows of businesses have put them under particular pressure.

The Chairman: Thank you.

Dr Harald Jahn: I would like to go one level above the country or regional level. If we want to talk about policy in agriculture, there are two main aims: how to live in harmony with nature by using nature in an acceptable manner, with the purpose of feeding human beings to fill stomachs with healthy and safe food. My understanding—and I am also from a family which has been in this (farming) business for centuries—the second aim is to try to respect to survive, in good and bad times. The main factor of success was to have the value chain, which is a modern name, but all stakeholders in the chain who fill the stomachs of rural and urban dwellers have to respect each other and respect the risks and the links they have, and try to mutually share the risk if possible for long-term sustainable development. I mean all: from the landowner, the organisations responsible for water-based management, afforestation, to reuse wind and flood erosion, to politicians, to storage facilities, to innovation: and if we get new

technologies like IT, to increase information-sharing. But the main thing is that all shareholders should learn to respect each other in the food value chain. Thank you.

The Chairman: Thank you very much. Mr McEntyre, the last word to you.

Oliver McEntyre: I am not sure it is within my remit to decide what should come in the next form of CAP. Perhaps there is the payment mechanism itself. So many farmers rely on that payment coming in. I know it has put an awful lot of work on to the backs of our industry in putting facilities in place when that money has not come in in the first week of December, and there are still an awful lot of farming businesses still waiting to receive it now.

The Chairman: Thank you very much on behalf of the Committee and me. It has been a fascinating session, with more years of farming experience than I would care to think about. It has been quite inspiring in that sense, so thank you very much indeed for giving up your time this morning.