

Environment, Food and Rural Affairs Committee

Oral evidence: Farmgate prices: follow-up, HC 955 Wednesday 11 May 2016

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Written evidence from witnesses:

- [George Eustice MP, Minister of State for Farming, Food and the Marine Environment, Department for Environment, Food and Rural Affairs](#)
- [Supplementary written evidence](#)

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Members present: Neil Parish (Chair); Chris Davies; Simon Hart; Dr Paul Monaghan; Rebecca Pow; Ms Margaret Ritchie; David Simpson

Questions 1-125

Witnesses: **George Eustice MP**, Minister of State, **Tim Mordan**, Head of Farming and Livestock, and **Brendon Lancaster**, Head of Dairy, Department for Environment, Food and Rural Affairs, gave evidence.

Q1 Chair: Good afternoon Minister. Good afternoon, Mr Lancaster and Mr Mordan. George, we roughly know what you do. What about Brendon and Tim? Would you like to say what your particular roles are please?

George Eustice: I have Tim Mordan, who is our head of farming and livestock in the Department, and Brendon Lancaster, who specialises in dairy issues.

Q2 Chair: We very much appreciate you coming now, because at one stage we were not sure whether Parliament was going to be prorogued or not, so it is great to have you here. The first question I want to ask you really is about farmgate prices. There has been a 29% decrease in profitability and a £1.5 billion loss for the UK economy over 2015. Naturally you, as Minister of Agriculture, cannot be held entirely responsible for this, but what do we do about it?

George Eustice: You are right. It has been very bleak for pretty much every sector. The key drivers are a combination of increased production around the world and difficulties in certain markets, notably China and Russia, which means we are seeing in some sectors more products from New Zealand, for instance, coming to the European market than would otherwise be the case.

Domestically as well there are problems with the eurozone. There has been the decline of the euro over the last couple of years. We know that exchange rates have a big impact on farmgate prices, so for British farmers that has exacerbated things. The strength of sterling against the euro over the last 18 months has certainly contributed to the decline in farmgate prices. It has made our market more attractive to exporters, such as Irish beef producers, for instance, and it has made it harder for us to export some of our products, such as lamb into France. It has made it more expensive.

Q3 Chair: If I can go through some of the commodities, please, in particular, first on dairy, the problem we seem to have with dairy is that we were hoping by this time this year we would start to be moving prices in an upward trajectory. It rather appears they are on a downward trajectory. I know Government are working hard with the retailers and others to get a reasonable price, but what is the future for dairy farming when we are seeing quite a lot of not only small herds but large herds going out of business? The farming sector is really suffering on dairy.

George Eustice: Yes, it is definitely a difficult time. The depressed prices that we have seen for many dairy farmers have now been going on for two years, so this is clearly difficult. The issue driving dairy prices is that production remains quite high. We are now starting to see production go down in New Zealand, and quite a lot of dairy producers in New Zealand are leaving the industry because their prices there are even lower than we are getting here in Europe and in the UK.

It is an extraordinary thing that, even in that very difficult year last year, we saw dairy production in the UK go up by around 9%. Now it is starting to bite. We are starting to anecdotally get quite a lot of reports of some dairy farmers leaving the industry. It is down by just short of 3% in terms of the total number of dairy farmers over the last year or so. We are starting to see some exit the industry.

I was talking to some farmers from Northern Ireland yesterday. What we have not seen, which slightly surprised me, given that the prices are now so low that farmers are literally losing quite a bit of money on every litre of milk they produce, is more of a move to dampen their production.

In 2012 when we had this problem, clearly some of the input costs were higher. Feed costs were higher. The cost of straw was higher. All of those things were true. It meant that farmers reacted to the market signal more quickly and cut production and then we saw a recovery and quite a bounce-back. This time round we are seeing something slightly different, which is when the price goes down farmers think they have to produce even more milk in order to bring in the cheques.

Q4 Chair: The individual farmer is better off if she or he can produce a bit more milk. The milk cheque is higher. What it does do is contribute to over-production. Is there anything that Government can do about that?

George Eustice: I do not think there is, because the scale of it is so big. Short of reintroducing quotas, which we do not want to do because long-term that would be the wrong thing to do, there is not a great deal we can do. We did support, at the March council of the European Agriculture Council, the introduction of what they call the article 222 of the treaties, which effectively gave some licence to the dairy processors to collude and to try to reduce voluntarily production, and to give them the ability to do that without breaching state aid rules. That is to try to at least give them the opportunity to voluntarily try to work down some of the production so that we can get supply and demand back into equilibrium.

Q5 Chair: Before I bring Simon and Margaret in, just one more question on dairy is that certainly there is a move in the market now that the Chinese may well be looking for particular baby milk powder. One of the problems is we only seem to have one producer of it in the country. Are we geared up through processing? Are we getting the European investment money or whatever money into the processing sector to take advantage? They are going to have more than one child now, so there is going to be an uptake in baby milk China. Are we ready for that?

George Eustice: Yes. I know that Dairy Crest, who have a plant in Cornwall just up the road from me at Davidstow, have been doing some work to make use of the whey by-product that they get from making the cheese and to develop infant formula milk specifically for export to China. I am going to China for G20 in a couple of weeks' time, and around that we will be doing some bilaterals and promoting trade opportunities, again, for the UK and dairy.

Q6 Chair: We are going to talk about exports in a minute. It is just really on making sure that—it would be a terrible shame if there is a real big uptake in baby milk powder in China and we have not got enough production in this country to be able to export. Are we looking at that particularly?

George Eustice: We are. I might ask Tim or Brendon to just—we have been doing some work with the European Investment Bank with the potential for using RDP funds from the Rural Development Programme to support increased processing capacity. We have been looking specifically really around the Cumbria region, where there have been some specific problems, in the north-west of the country, partly due to their over-reliance on First Milk, which has had its difficulties, but partly as well because they tend to be more exposed to commodity prices because more of the milk goes into skimmed milk powder, for instance. We are looking at whether we can develop processing capacity there to try to add value to help farmers in that part of the country.

Tim Mordan: Just more specifically on the European Investment Bank, the Secretary of State is chairing a meeting the week after next with high street banks, the Commission is coming over, EIB itself is coming over. We really want to try to get a better understanding of how we can access some of this money, which seems a bit elusive to us

at the moment. The NFU will be there and we will be trying to encourage a dialogue about exactly what would help, so that is going to be a really good opportunity to try to take forward some of the things that the Minister just mentioned.

On China specifically, we do now have a food and farming ambassador out there, which has proved enormously helpful in just oiling the wheels of bureaucracy to try to facilitate imports into China. We are well-placed. When China do start buying up skimmed milk powder or indeed any other products hopefully, we will be well-placed on that. It is not too bad.

We do have a good dialogue with China. Last month there was a group of about 10 or 20 Chinese businessmen from the dairy sector—really senior people—who came over. We matched them up via Dairy UK with a number of processors. We do not know yet whether that is going to result in inward investment, but they were certainly the kind of discussions that have taken place. That is promising.

Q7 Simon Hart: It is a question that is not directly related but it is relevant. I submitted a written parliamentary question to George a couple of days ago about whether the Department had made any assessment of the effect of the dairy crisis on jobs, local economy, supply chains and environment. The slightly frustrating thing for those of us who read the response was it was four paragraphs that essentially said, “No, we have not.”

Take any one of our individual communities as an example. There are significant downstream effects covered by your brief, an assessment for which does not seem to be made, and yet a few miles down the road from me we have a steel crisis and the Government have made every assessment of what the downstream and supply chain consequences are. Why has the Department not apparently looked at what these impacts might be and advised us on what the measures could be that the Department is undertaking to mitigate them?

George Eustice: To be honest, we have been trying to put our efforts into identifying ways we can help farmers in the future. We have been putting quite a bit of emphasis on developing a futures market, for instance. I do not know what sort of analysis you could do, but we could spend tens of thousands of pounds on economic models to show that if farming is in a bad way, then agricultural suppliers also do not have a happy time, but I am not sure that tells us anything that we do not already know, frankly.

Q8 Chair: Minister, most farmers would say they only have a future if they get through this particular period. You will find there is a lot of real heartache out there now. Should not the Department be doing a bit more?

George Eustice: The point I would make is we recognise that this is a crucially important industry and we do want a dairy industry. The problem here is oversupply. Ultimately we want farmers around Europe and around the world to read the market signals and temper supplies so that we can get it back into equilibrium.

Q9 Simon Hart: This is about the rural economy. It is not just about dairy production. There are plenty of people within the supply chain who are looking to Government for even a

recognition that there is a problem that has significant downstream impact. If this never happened within Government, I would take your point, but it clearly does happen within Government and you only have to look at Port Talbot steel to make that comparison.

There are plenty of people within agriculture thinking that the dairy industry crisis is probably having as significant an impact on jobs as almost any crisis within the job market in the UK at the moment. To get an almost zero response from the Department, as if that is not something that has at least been considered, seems to me to be quite odd and out of kilter with other Departments. That is what I am trying to get to the bottom of.

George Eustice: I do not really agree with you. If you want me to say for the record whether I accept that when farming is going through a hard time that has knock-on consequences for agriculture suppliers and other parts of the rural economy, yes, I accept that. Do we care about that? Yes we do. Do we need to spend hundreds of thousands of pounds on economic analysis to tell us what we already know? I would say no.

We should spend our money on things that will help support rural communities, like the Rural Development Programme and through the LEADER projects that we have. We are doing our best to try to support agricultural through this time with the tools that we have, limited though they are because this is a global problem of global oversupply. I do not accept your suggestion that we should spend all our time trying to measure—and there will always be an element of theoretical assumption in such measurements—impacts. We know it has an impact.

Q10 Simon Hart: Nobody is suggesting it should be all of the time, but perhaps some of your time could be devoted to assessing, leaving aside the supply chain, what the impact is of the current dairy crisis on jobs within the milk production industry as it is; that would be something. These are legitimate questions. The news narrative is: we want to know how serious this problem is, and if the Department responsible is not able to tell us how serious it is and therefore whether a particular recovery policy would work or not, how are we to base our judgement?

George Eustice: If it would help you, we could look at the sales of tractors and things like that. I am happy to make that available to the Committee if that sort of data is something that would be of use.

Chair: Simon's point is very much about whether the Department is taking seriously enough the knock-on effect across the processing industry and the jobs that are associated with agriculture, be it the dairy sector, the lamb, the beef sector or wherever it is.

Q11 Simon Hart: If the UK public knew, for example, that the impact of this crisis was a loss of jobs in agriculture of 5,000, 10,000, 15,000, 20,000 or 40,000 people, then its buying habits, in terms of buying British and supporting the industry, might alter. Therefore, it is relevant.

George Eustice: I am not sure I agree. We are doing a lot of work to try to encourage more supermarkets to buy more dairy products from the UK. We are consistently arguing for country-of-origin labelling so that we can get British products as such, so that we do not get Irish milk used to make British cheese. We are arguing all of these points. I am

more of the view that I would rather focus on solutions rather than keep measuring a problem that we know exists, so I have a slightly different view from you.

Q12 Chair: What are we doing? We have had the AHDB in here, who say it is no good to remote product. We are not being positive enough here, Minister, are we, or what?

George Eustice: I am being very positive about the industry and that is why, despite the fact that it is undoubtedly a really difficult time, all our effort is in trying to help farming get back on its feet, and we are putting a lot of effort into the Rural Development Programme. We have refocused that on economic growth in rural communities. We do recognise all of these things.

Q13 Simon Hart: We do not know how big the problem is.

George Eustice: We do know how big the problem is.

Simon Hart: We do not.

George Eustice: We have data on farm business income that is published. That is published every year and we know that it is a very bad situation.

Q14 Simon Hart: We do not know what the impact on the supply chain is. We do not how big the problem is.

George Eustice: I do not know that we do. I am not sure how much that tells you because if we know that farm incomes are declining by a certain amount, and I have seen figures saying that around £1 billion has been taken off farm incomes, that is going to have a knock-on effect to a roughly equivalent size. I am just more sceptical of the value of measuring individual things when we know there is a product trade-off.

Q15 Chair: Would Defra have any figures on the state of the processing industry and all those allied industries to agriculture?

George Eustice: Yes, of course. The accounts of the dairy processors are a matter of public record. The reality is that most of them still manage to keep a margin. It is the farmers that are supplying them that are suffering difficulties at the moment. I am sure that the Agricultural Industries Confederation will have survey data of its members, and I can certainly ask officials to talk to the AIC and see what data they have. I suspect it will confirm a pretty good presumption, which is when farming is in difficult times they also suffer difficult times.

Q16 Chair: You see if you have those figures you can then perhaps target some support towards those parts of the processing industry that we may need to stimulate. That goes back to my first question. We have probably made our point, and we look forward to this written evidence that you will give.

George Eustice: We will talk to the AIC and see what data they have.

Ms Ritchie: You indicated in your submission there, Minister, that you met some farmers from Northern Ireland yesterday. I note the Government's response to our farmgate price report in relation to regional price differentials across the UK, where the Government has accepted that price pressures can vary at a regional level, and the fact that Northern Ireland farmers that were in the dairy sector did receive quite high payments from Commissioner Hogan, which was organised by the Rural Payments Agency. The fact remains there are still quite severe regional pay differentials in respect of sheep, lamb and beef. What can be done to assist that group of farmers? It is an issue that has been raised by the Ulster Farmers Union and they feel that Northern Ireland beef producers and sheep producers are in to "the ha'penny place".

George Eustice: Sorry, I missed that?

Ms Ritchie: They are, shall we say, at a lower level of monetary value than their colleagues here in Britain.

George Eustice: It is a very difficult situation. You are right that in dairy in particular, for Northern Ireland, mainly because most of their milk is used in processing and mainly because a lot of it is exported as well to the Irish Republic, and because of the exchange rate problems it has exacerbated the difficulties in Northern Ireland. Their average price in March was just over 18p per litre compared to an average for the UK as a whole of around 23p, so they definitely have been almost since the beginning of these difficulties at a lower price.

As you say, we recognised that in dairy with a higher payment when we did the support payments last November. We specifically argued for additional sums for Northern Ireland for that reason. On other sectors, I am not sure if I have any evidence of specific differentials on beef and lamb.

Ms Ritchie: We did quote some stuff in our document.

Q17 Chair: The difference per kilo is several pence, even for the lamb and beef that lands in the British mainland market that has come from Northern Ireland. That is what the farmers do not accept. They can accept that perhaps some of it going into the Republic may have its problems because of exchange rates, but why is it that Northern Irish beef or lamb that comes and is sold in this country gets less than the mainland?

George Eustice: I am not sure. "Why do they accept less?" would be the answer, if the market is what it is.

Ms Ritchie: They are not accepting it. They find it totally unacceptable, Minister. In fact, for the same beast at the same kilo weight Northern Ireland farmers who sell their beef here receive a lower price than for the same beast of the same weight that was brought up and reared here.

Q18 Dr Monaghan: Those differentials apply in Scotland as well. It is not a level playing field across the UK, unfortunately.

George Eustice: I cannot understand why that would be.

Q19 Chair: There is a real difference between the price of milk, the price of beef and the price of lamb in Northern Ireland and parts of Scotland.

George Eustice: I can understand in Northern Ireland you have a specific issue with the land border with the Irish Republic, because they are more exposed to Irish beef and lamb, with potentially Irish lamb coming into the market. If they are exporting, say, to the UK I cannot understand why that would be. The argument could be that there is a difference in the specification. You are saying that because it is branded Northern Ireland, they are devaluing it for that reason. Is that the argument?

Q20 Ms Ritchie: There is part of that but also they maintain that when they sell their beef over here, for the same kilo and the same weight and the same type of beast they receive a lower value than for an equivalent beast of the same weight here.

George Eustice: My advice to them would be to say to whoever they are selling to, “We are not going to sell at that price. We expect a higher price.” Ultimately in these things it is a commercial transaction. There does need to be a negotiation. They should just not accept lower if they believe theirs is of a similar specification. That would be my advice. Tim, do you want to add anything?

Tim Mordan: I was just going to add that the Minister earlier mentioned some of the package of rescue and emergency measures that Commissioner Hogan introduced, which included private storage aid and intervention and things like that. From the evidence we have gleaned we know that Northern Ireland probably make more use of that than their English equivalents for example.

Q21 Chair: In our very helpful farmgate prices report, on page 11 you will find a table where it talks about the price of steers. The steers across the piece in Scotland are selling well at £3.66 per kilo, the north of England £3.46, south of England £3.31, midlands £3.32 and Northern Ireland it is £3.14. It is quite clear that you have there 20-odd pence difference between south of England Northern Ireland and that makes a lot of difference on a 400kg animal.

George Eustice: That is obviously a regional difference between the markets.

Q22 Chair: Why, when much of that beef probably still lands up on Tesco or Sainsbury’s shelf, not identified as Northern Irish beef but as British beef, should the Northern Irish farmers receive less for it?

George Eustice: I understand the point you are making. I am just not sure it is an area the Government can legislate for. There is a market. Presumably we have cattle markets here. Farmers are choosing to sell their cattle into those markets. I suspect part of the dislocation in the figures, particularly when it comes to the south, is there will be issues such as TB and issues with transporting cattle out of the high-risk area, which may also drive people’s decisions about which markets they send their cattle to.

Q23 Chair: You do have various codes. We have detailed questions on what is happening in the beef sector in particular on grading in a minute, so I do not want to stray into that. There are various codes and agreements with both the processors and the retailers. Surely it is not right for these vast regional differences. Surely it is part of your job to at least raise that with the retail sector, is it not?

George Eustice: The meat processor code that we put in place is there to ensure transparency and notice before there are any changes in spec. They have to give 12 weeks' notice and there has to be absolute transparency around charges. The issue of price is a commercial issue. If a farmer chooses to accept £3.40 in a kilo rather than say, "I want £3.67," it is the difficulty we have in doing that. I am not sure there is a role for Government to—

Q24 Chair: If the processors in Northern Ireland will not offer the Northern Irish farmer any more, what is he or she to do? They cannot sit there on their cattle or on their sheep and keep them forever while they wait for the price to go up, can they? Is there a problem within Northern Ireland: that the meat processors are in collusion with one another in order to pay the farmers less, or is there something you can do as a Minister with this transparency, which is obviously there, about it?

George Eustice: There is not a role for Government in legislating on prices.

Q25 Chair: I did not say that, did I? I asked if there was a role for Government to at least raise it with what is happening in Northern Ireland.

George Eustice: In December last year, I wrote to Dunbia and Dawn Meats, which are the two significant producers that have so far refused to sign up to the code, to put pressure on them to do so because there are still some beef producers that are not in the code. I want the code to be a success. I have put pressure on people to try to abide by the code and sign up to it.

As for these regional differences, there is a role for individual businesses here to negotiate properly. There are limits to what a farming Minister can do to prevent a farmer from entering into a contract. Freedom of contract is a central feature of a free market economy.

Q26 Chair: The farmers would perhaps expect you to go in and bat on their behalf when you have a very powerful processing industry in the meat sector in Northern Ireland in very few hands. That could be some of the trouble, Minister, but I do not know whether you want to comment on that.

George Eustice: I am happy to look in and see if we could get some ideas on why there might be some regional variance beyond the obvious, which is there will be parts of the country where you will have a higher supply and where you will have more cattle going into markets. There will be parts where things are more remote where there are fewer

livestock around and therefore prices are higher. It was ever thus. I was in farming 20 years ago.

Q27 Chair: I accept farmers also have to negotiate a price, but if it is stacked against them it is difficult. I would ask perhaps for you and your officials to look at it if you would not mind, please.

George Eustice: Yes, we will look at it. There is one final thing I would say, particularly on sectors like sheep. This is the central argument and the concern that farmers raise around the six-day rule—the six-day standstill—because there is an issue there; it is quite difficult to send animals to market and then refuse to sell them at the price and bring them back because it can disrupt other workings on the farm. This is the main argument raised in some areas, particularly in Cumbria, against the six-day standstill. The difficulty is that the six-day standstill rule is an absolutely central plank of our efforts to deal with foot-and-mouth disease, should we ever get an outbreak again, so it is a very difficult, tricky area.

Q28 Rebecca Pow: I thought Simon Hart made such a good point about the wider agricultural industry and all the supporting industries. I was looking back at how helpful the Government were after the floods in Somerset with the money they have contributed to Somerset, which was not just to solve the problem of the flooding. It was to help the businesses. I have today just been to the launch of the new Somerset e-book for tourism, putting Somerset absolutely on the map for this business and industry. I am just wondering whether the Government should not be thinking much more widely about supporting the industry, because it is not just the farmers; it is all the ancillary industries, and it is a disaster. If you look at a 29% decrease in profitability for the industry, it is enormous. There is a £1.5 billion loss to the UK economy. It really is huge. Are we really supporting this industry enough?

Chair: Are we working enough with BIS and other Departments of Government?

Rebecca Pow: We ought to go out and champion it. Are just teetering around the edges?

George Eustice: It is £150 million through the LEADER projects, which are supporting lots of small, rural businesses and helping support job creation. We have the countryside productivity grants, which are supporting farmers to help them invest for the future. There is £3 billion a year of CAP money that goes into agricultural nationally. We are supporting farming financially. We put in place very quickly the flood recovery fund for farmers as well, and we have had many applications for that—up to £11 million.

Q29 Simon Hart: How does CAP money support the ancillary businesses and supply chain if the initial farming businesses are not able to make a profit themselves? How much of that is filtering down the supply chain and rescuing businesses in difficulty there? That is not direct assistance, is it?

George Eustice: It is very direct assistance in—

Simon Hart: It has to go through the agricultural holders, has it not?

George Eustice: Exactly. It is a direct payment to the farmers, but it helps to support their income. It is an income support measure ultimately—the single farm payment—in times like this.

Chair: What about working across Government with BIS and everything, to make sure that we have the stimulation for farming? You have to stimulate farming. You cannot just leave it there to suffer.

Rebecca Pow: The e-book that we have just seen is all about the beauty of Somerset and why you should take your holiday there, which is going to help the businesses. You could do a similar thing for our produce.

Chair: Yes, make sure they eat our meat and vegetables.

Q30 Rebecca Pow: Inspire people to buy it rather than just hope they come across it in the supermarket.

George Eustice: We are doing a huge amount of new exports. We are promoting British food. We are doing all these things. There is tax leveraging that we introduced as well to help farmers offset good years against bad years. I do not accept that we are doing nothing; there are things that we are doing. I come back to the point I made at the very beginning: the magnitude of this problem is ultimately driven by severely depressed global commodity prices. It does mean that there is a limit to what even Government can do.

Q31 Chair: I am conscious that we are only on question number 1 and we have been here for half an hour. I have one more question on farmgate prices before I bring Chris in. As far as the situation with individual farmers is concerned, what are you doing to talk to the banks to actually see farmers through this incredibly bad time?

George Eustice: I meet the main banks' agricultural directors roughly once per quarter. I met them earlier this year and will be due to meet them again. I meet them on a regular basis.

Q32 Chair: What is their attitude?

George Eustice: Their attitude is good. Obviously, you would not expect it to be much else when they are meeting you and trying to put their best foot forward and impress you. I am completely conscious, having dealt with banks in a different guise, that some farmers may feel that what banks are saying is not quite how it feels on the ground. Certainly all the banks are telling me that they are showing forbearance. There are many cases where they have allowed farmers to go on interest holidays to take pressure off cash flow. In a lot of other cases they have accepted suspensions of loan repayments. There is evidence that they are extending increased overdrafts to help farmers through these difficult times. We worked quite closely with the banks to let them know how things were going with the BPS payments, to give them advanced notice of the types of farms that may or may not get their payment last December so that they could prepare for that. It is one of the reasons

we gave the letter to the farmers who were not going to get a payment, so that they could go to their banks with confidence to get an extension of cash flow.

The banks will tell me that, as always, it will depend on individual cases. They say that there will be some farmers who ask for an extension of their overdraft but quite often do not have very basic management information around their cost of production, for instance, and their future. There are others who are in a much stronger position because they have a clear handle on their costs of production and they have a clear route through. Obviously, individual businesses will have individual circumstances that the banks will take into account but certainly at the Government level we are doing all that we can to work closely with the banks and to ensure, as far as we can, that they are generally taking a sympathetic approach to farmers.

Q33 Chris Davies: I would like to go back to Simon Hart's original question. I can understand your answer by saying you have not gone out and you have not done a feasibility study or a recording study, et cetera, and spent millions of pounds on that. I also accept your understanding that, with market prices, it is a free market and therefore Government cannot legislate, et cetera, and it was not the Government's fault. However, clearly with the Rural Payments Agency, one could say that—

Chair: We are going to get on to that.

Chris Davies: I know we are but it ties in, Chairman, if I may.

Chair: Get to the point please.

Chris Davies: One could say that was the Government's fault. Do you have a record of all the subsidiary businesses that are struggling due to the fact that late payments have come along? One would surely tie into the other and it would give us an idea of how many rural businesses are struggling and how many rural businesses and jobs may be lost.

George Eustice: On the payments last year, we have now—

Chair: No, we are going to deal with that in a minute. It is just the link with the effect to other businesses.

Chris Davies: You saw my point, Chairman.

Chair: I did, just.

George Eustice: Of course we know exactly which businesses received their cheque and when they received it. Of the 4,000 farmers with common land, for instance, where they have had delays there would have been a disproportionate number of farmers who were paid slightly late. But if you look at the map that has been given as evidence previously by the RPA, it was a fairly even distribution in terms of when the farmers were being paid because the single largest reason for the delays was actually because there was an inspection.

Q34 Chair: You are still not answering the question, Minister. Do you have any figures on how it is affecting those allied businesses to farming because of the late payment? We will discuss who got payment when, where and how in a minute. Do you know the effect that the late payments are having on those businesses allied to farming because farmers are unable to pay those businesses very often?

George Eustice: The late payment issue is not a profitability issue per se in that the farmers that are entitled to that money will get it. It is a cash flow issue for the farmers. Will that in some cases have had a knock-on effect to the allied industries? Of course. If you have a business suffering cash flow issues, they will delay payments to some of their suppliers and that will have a knock-on effect. We cannot tell on individual cases without knowing whether an individual business managed to persuade the bank to extend their overdraft or not. We do not have access to that data; that is confidential. However, it is right to assume that if they have a cash flow issue resulting from the fact that some of them are getting payment slightly later than they would normally expect, that that will obviously have a cash flow impact.

Q35 Chair: So you lick your finger, put it in the air and guess as to what that might be? You do not appear to have any direct figures on it.

George Eustice: It is very difficult to ascertain because different businesses will have approached it differently. Again, we are going to approach the Agriculture Industries Confederation to ask them what impact this might have had. We can ask what their view is of the impact of delayed RPA payments on cash flow.

Chair: We have made our point quite strongly and I think that has come over.

Q36 David Simpson: Just on the last point from the Minister about meeting with the banks, the banks are an important element to this, but fertilizer companies and meal companies are the companies that could put the farmers over the edge. That is the major problem.

Anyhow, we will move on to a gentler discussion—a little bit, not much—in relation to the recommendation that the Committee made for the food and farming plan to be published by 1 April. We are now sometime in May. Could you give us the crystal-ball prediction of when it will be published?

George Eustice: Some time after the referendum. I will be very honest with the Committee. We have had two sets of elections in quick succession: we had local elections and we had an issue with purdah there and we are now about to go into a purdah period as well for the referendum campaign. That has undoubtedly compromised the Government's ability to publish things in the way that they would normally like to. The reality now of the food and farming plan, although we had hoped and we made clear that we hoped to publish it in spring, is that the pressure of Government business combined with the two purdahs in succession means that it will now be after 23 June.

Q37 David Simpson: There is also a report coming in on the environment and a separate report on exports. Can you give us an update on the plan for the exports?

George Eustice: There is no separate plan on exports. There is a food and farming plan and part of that will deal with export markets. That will be one of the features of it. We also have an export forum and we have had an export action plan that was first published in 2013 and was updated in 2014, and is a plan that we are working to. We have an export forum of leading businesses, together with APHA and the people who do export certification, who meet with me twice a year to review our progress on that plan. There is an export action plan that we are working to and implementing. Do we have a plan to update that again? It is a plan we are working to; put it that way.

Tim Mordan: It is not my particular area of expertise but I am not aware of a plan. Your point was about the environment framework.

Q38 David Simpson: Are we hedging our bets until we get over the referendum to see what the plan for agriculture will be? Is it just basically down to the detailing of the elections and all the rest of it?

George Eustice: It is just down to the elections. It is as simple as that. The plan is looking longer-term. It is undoubtedly very difficult at the moment—I completely get that—with commodity prices where they are but there are lots of long-term opportunities.

Q39 David Simpson: Minister, it is important when you are talking about export strategies that all of it links, because we need to see an end goal and an end game of the 25-year plan. That is what farmers are saying to me and, I am sure, other members of the Committee: what we need to see is a 20 to 25-year plan on the strategy for farming for the next generation. That all needs to link in to it and we need to know where we are going, or at least a suggestion from Defra of where they think we are going. Obviously global markets will affect that but we need to get to the end game. What I am basically asking is: can you guarantee us that that all will link and that we are coming out with a strategy that we can set our goals for?

George Eustice: Yes, we are doing a lot of work on this plan and, yes, we will set out a plan and we are engaging with the industry on it, from the NFU to the Food and Drink Federation and other organisations as well. They will be fully engaged in putting that together.

Q40 Chair: I take it that the work on the plan can go on even if you cannot publish it. Is that true? You are not all putting down your pens and not doing anything, are you?

George Eustice: No.

Tim Mordan: I would not want to spoil the surprise too much but there are some rather obvious themes in the plan that we have been drawing up and working with the industry on, particularly around exports, productivity, consumer confidence, innovation and all the things that you would expect to have in a plan. We are certainly pressing on and trying to work with industry to implement those now. That is particularly true on exports where there is a lot of activity going on to build on what is already quite a good story to tell on exports. We are not waiting for the plan before we start work on this.

Q41 David Simpson: You cannot tell us the good story?

Tim Mordan: That is a good story.

Chair: We wait with bated breath for this great new policy when it comes forward.

Q42 Dr Monaghan: We have discussed the 25-year plan several times with yourself, Minister, and with some other officers. I have said in the past that much of the 25-year plan does not relate to Scotland, for example, and that it is probably not a plan for the UK but rather a plan for England. You are talking about engagement, which is crucial. My understanding is that the UK Government have had no engagement whatsoever with the Scottish Government in relation to the 25-year plan, and I just wonder how you would explain that and what you are going to do to remedy it and make sure that, if Defra produces a plan, it relates specifically to England and does not muddy the waters in relation to what is happening in Scotland and some of the other devolved nations.

George Eustice: First, it is not true to say that we have not engaged with the devolved Administrations. Last July, representatives from all the devolved Administrations attended the event that we had where we worked through some of the things.

Q43 Dr Monaghan: The plan was launched on 16 July by Liz Truss. We discussed it later in the year and I have correspondence from the Scottish Government to say that there was no engagement up until November. It was launched in July and by November there was still no engagement whatsoever. We were told that there were regular meetings between the UK Government and the Scottish Government. That is fine but that is a completely different thing to engagement on Defra's plans.

George Eustice: That is not true. If the Scottish Government have told you that then I am afraid they are wrong, because we definitely invited the devolved Administrations. I sat in the working groups and breakout sessions and discussed issues with them. I specifically remember Welsh colleagues there from the Welsh Assembly.

Q44 Dr Monaghan: We are talking about the Scottish Government.

George Eustice: Yes, but the Scottish Government would have been invited. I can check who attended from the Scottish Government but they would have been invited to that event.

The issue, though, is that with a lot of the areas that it is covering, because agriculture and the environment are devolved issues, a lot of it is something that we would do across England only. A few years ago Scotland launched its own plan for its food and farming industry. I do not recall it being particularly close in consulting us on that, because it was very much a Scottish plan. We have invited the devolved Administrations to the discussions we have had. There are areas where we obviously will work with them on exports, so parts of the plan will be very much UK-wide because exports are very much a UK exercise. There will be other elements, if we had a specific idea of how we wanted to spend rural development funds, for instance, where the scope of it would be limited to

England, because individual Administrations have their own priorities and their own approach and we are not intending to use this plan to try to prescribe what they should do.

It will depend on the issues. There will be issues such as technology, which would be UK-wide. A lot of the work that the AHDB do on research and development is done on a UK basis but some of the work they do on promotions, for instance, is much more national, i.e. not UK-wide but rather with England doing their thing, Wales doing their thing and Scotland doing their thing. Parts of it will be more devolved and parts of it will be more UK-wide, but we have definitely engaged the Scottish Government and, if you want, I can check—

Chair: I think we perhaps ought to have some details on that.

Q45 Dr Monaghan: That would be helpful. Do we have your assurance then that, when these plans are produced, they will be qualified and that they will recognise explicitly which responsibilities are devolved and which responsibilities are not covered in terms of Defra's plans for the future?

George Eustice: Yes. As I said, there are elements where the devolution settlement is what it is. We all know what it will be. Parts of it have a more UK-wide focus, particularly on exports and research and development, and parts of it will clearly be the case where individual administrations have their own discretion.

Q46 Chris Davies: The question that came from David quite early on was not, in my eyes, sufficiently answered. You said that this food and farming report is not going to be released until after the referendum and I understand why, but you said “afterwards”. Is that a month after, a year after or three years after? We love having your company here in this Select Committee and I am sure when you tell us this line in the sand, we will be questioning you in the future on it if it has not arrived. Could we have a more definitive answer, please?

George Eustice: If I am honest, it will depend to some extent on the outcome of the referendum campaign. If there was a vote to remain in, then a lot of what we have in the plan is as relevant on 24 June as it is now. Certainly we do not want to be talking about this for much longer. If there were to be a fundamental change in our relationship with the European Union and negotiations to leave, there would be other considerations, like what kind of British agricultural policy we put in place to replace the CAP, which might take a little longer to put in place.

Chris Davies: That is still not an answer.

Q47 Chair: Summer, autumn or winter?

George Eustice: Do I have cross-Government agreement to have a specific publication date some time in July? No. Can I say that we do not want to be talking about this at the end of the year if things have not changed that much? Yes.

Q48 Chair: So somewhere between July and December? Is that what we reckon?

George Eustice: That is a fairly good estimate, yes, though I appreciate quite broad as well.

Chair: I do understand some of your local difficulties.

Q49 Rebecca Pow: I have a question about the environment plan and the farming plan. I know you have assured us that they are going to link up but, interestingly, we are doing the flooding inquiry on this Committee. The Environmental Audit Committee has done a soil inquiry and they are also doing a flooding inquiry. There are pollinator concerns and pesticide concerns. I think there is going to be a general consensus that we will end up having to be much more sustainable with our land use so I do ask you: can you give us absolute assurances that the food and farming drive to up our productivity will not conflict with what ought to be in the environment plan?

George Eustice: Yes, I can absolutely assure you of that. I know that some of the NGOs have managed to talk themselves into being overly concerned about this fact that we have two plans. The reality is that, yes, when we look at things like science and technology and its role through the food and farming plan, we are looking at things like how we can improve soil quality and how we can reduce the use of water, hence a lot of it is around sustainability. In the food area we will be looking at how you can reduce waste and how you can reduce the amount of plastics that you need in the packaging that is used in food. There are lots of areas there where the technology, improving your productivity and reducing your costs go hand in hand with sustainable outcomes.

The reason we decided to do two plans is simply this: I wanted to have a positive vision for food and farming that actually talked about food and farming through the contribution it can make to the growth agenda and which was not just focused on the fact that farming has all these environmental impacts so that we should be doing less of it.

Q50 Rebecca Pow: You should be more positive about the land use and the benefits. It should not be regarded as negative. It needs to be worked into the productivity plan.

George Eustice: It will be. We have always been clear that there is an overlap but I do think it makes sense to do a separate plan on the environment and one on food and farming, albeit that there is a lot of overlap between them.

Q51 Chair: But they will be interconnected?

George Eustice: Yes, of course. I have been making this point from the beginning: the fact that there are two plans does not mean that they do not overlap.

Q52 Chair: We will have to have you in to discuss how they are interconnected in the future, Minister. That will be interesting.

George Eustice: Of course. Rory Stewart, my colleague, will be happy to show you how joined-up we are.

Q53 Ms Ritchie: Minister, what role do you think the Groceries Code Adjudicator has to play in ensuring that farmers are paid sustainable prices for milk by processors and supermarkets?

George Eustice: We have had representations, including from this Committee, that we should look at the remit of the Groceries Code Adjudicator. I possibly talked about some of the challenges when I last attended here: that, if you were to have the GCA looking right the way up the supply chain, you have suddenly got thousands and thousands of relationships that very much change the nature of that organisation and its workload. I equally said that we are certainly open to looking at this. It is a BIS lead when it comes to the GCA but I have made them aware of the points raised by the Committee and discussed with them as well, as part of the review that is imminent—it will take place this year, in 2016—whether we could look at some sort of call for evidence to consider these issues and whether we could look at making sure that the processors themselves at least hold supermarkets to the code, because sometimes the problem is that processors find it easier to pass risks on to the farmer than to actually ensure that the supermarkets they are supplying also abide by the code. It is a two-way street.

Q54 Chair: A call for evidence would be a very good idea but you will have to get on with it, because surely the decision will be made soon.

George Eustice: Tim might be able to update you but I presume that this is something that has also been affected by the purdah periods. It is imminent. BIS intends quite soon to have a review of this and I understand that they are giving some consideration to the idea of a call for evidence.

Q55 Ms Ritchie: How do you plan to input into that review that should take place later this year?

George Eustice: A call for evidence is quite an open process, so it will be open to the Committee, individual farmers and the NFU to feed into that.

Q56 Chair: And you as a Department as well?

George Eustice: Of course, but we are all part of Government so we have already had lots of discussions about this and we have had discussions about what the nature of the evidence would be.

Q57 Ms Ritchie: Are you not going to make a further submission as part of that review?

George Eustice: We make submissions all the time and any conclusions that would come out of any BIS review would be subject to Government write-round in the normal way. The Government takes a collective position on these things, but of course we have regular discussions about these things all the time.

Q58 Ms Ritchie: Notwithstanding the fact that BIS has responsibility for the GCA, will Defra suggest extending the powers of the GCA to protect indirect suppliers to retailers?

George Eustice: In Government you have collective responsibility, so when we have received evidence and when BIS have concluded that review, obviously we will discuss the findings with BIS as you would expect us to, and then there will be a joined-up Government position at the end of that process.

Q59 Ms Ritchie: Will Defra have a response, Minister?

George Eustice: Defra believes in collective Government.

Q60 Chair: It is not only about increasing the responsibility of the Groceries Code Adjudicator. Is she actually using the powers that she has got enough? I have a lot of time for her; do not get me wrong. However, I think we could look further than we are at the moment through the chain. Defra, in particular, has to push for that. We will approach BIS, and I am not saying they will be unsympathetic, but they are not going to be as sympathetic to the agricultural farming situation as Defra should be.

George Eustice: To be fair to Christine Tacon—and I do meet her to discuss these issues—one of the arguments that she has made to me is that we need the processors and the suppliers and the co-operatives, who are marketing products quite often on behalf of farmers, to hold the supermarkets to the code with a bit more courage than some of them do. Some of the processors have actually trained their negotiators—the people who handle sales to the supermarkets—and basically taught them how to subtly put the code on the table and remind supermarkets what the code says. Where that has been done, it has actually been quite effective because the truth is that the supermarket buyers do know the code, but at times they may well try to cut corners around it if they think they have a particularly weak opposite number negotiating on behalf of farmers. It is important to make sure that the processors and the co-operatives who are representing farmers actually stand their ground and hold people to the code.

Q61 Chair: Surely those processors and those suppliers need a certain amount of protection because you have to be a very brave or foolhardy man or woman, if you are a small processor, to stand up against Tesco or whoever who will then say, “We will just get that product somewhere else,” and they are aware of that. They know that, as soon as they break cover, they will work out exactly who they are. There is still fear there and that is where the Groceries Code Adjudicator could do a lot more.

George Eustice: I was on the Bill Committee that discussed the Groceries Code Adjudicator and a lot of these issues were raised at the time. The final Bill was tweaked and amended to make it much easier for people to anonymously make complaints and to give the Groceries Code Adjudicator the opportunity to carry out an investigation if they thought they had cause to, which could be nothing more than an anonymous complaint. A lot was done to help this at the time, but there is a stage in the process where you do need people supplying supermarkets to have just enough courage to be able to point out where there are problems and to hold their supermarket buyers to account against the code.

There is a way of doing this that does not have to trash their relationship with supermarkets. For the code to really work you need the power to investigate and the power to find, which is all there now, and you also need people to use it. It ought to be used as a negotiating tool. It is a code that the supermarkets have signed up to and there is nothing wrong with any supplier telling a supermarket, "I am afraid I need to ask you to abide by the code to which you are a signature."

Q62 Chair: But they do need the protection of the Groceries Code Adjudicator and they do need a certain amount of protection from the Government, dare I say, if they are going to put their heads above the parapet, because these big retailers are still very powerful and we know they are very powerful. The Groceries Code Adjudicator has done some good but we feel that she could do more good if she widened her remit. Even under the remit that she has now, do you think there is scope to go wider?

George Eustice: Last year she did the investigation on Tesco and some of their practices, which she made clear were breaches of the code. They were named and shamed. In fact, it is possible that they might have been fined had that particular order commenced. To be fair to her, in the first year she was trying to raise awareness of the code and to quietly get supermarkets to abide by it. She has now shown her teeth a bit by being willing to carry out an investigation and to publically name and shame a supermarket that has been in breach of the code. Were that to happen again, she now has in her back pocket the ability to levy significant fines against them. The powers are there and, as with all organisations, this is an evolving one, and I think she is finding her feet and is actually starting to have an impact.

Tim Mordan: When this first came up at the initial hearing, the Minister asked us to take this seriously and we started having discussions with BIS about the scope for broadening or deepening the GCA's role. Part of the problem we have had is just not having the real hard evidence. We have lots of anecdotal evidence, some of which you have told us and some we have picked up from elsewhere, so BIS are very keen on working with us on this call for evidence, and hopefully that will give us some decent basis on which to make some decisions. Even if the solution does not lie within the GCA, it is still useful going through this process of accumulating evidence.

Q63 Ms Ritchie: What is the potential financial value for farmers of the work that has been done to open up futures markets in farm produce?

George Eustice: It is not going to have any immediate impact. We are talking about getting in place something that will help for the next downturn. The value will be enormous for farming, particularly dairy farmers, because one of the difficulties in a sector like dairy is there is always a time lag from the moment you take your investment decision to increase capacity and long-term investments that have to be made; you quite often have quite a volatile price, and reacting to that can take time and it can be quite slow to reduce and turn down your production. In such a situation, it is of great value to have a futures market that enables you to effectively use market speculators to help you provide a consistent income stream to farmers by hedging against that risk.

Q64 Ms Ritchie: What timescale would you envisage for the adoption of a more widespread futures market for dairy?

George Eustice: I hope that we can do something within the next 12 months. We are doing all we can to push this agenda forwards, so that it stops being something that people talk about and starts—

Q65 Chair: When you say “we”, who do you mean? Who is going to put the futures market forward? Is it going to be the Government? Who is it going to be? Who is the “we”? Is it the Queen? Is it the royal “we”?

George Eustice: In the United States there is an organisation called CME Group based out of Chicago that have an operation that is running. They also have an operation in London, and I think they are giving some consideration to the idea of a futures market in dairy. The London Stock Exchange are also giving some consideration to this idea. There is a third one.

Tim Mordan: EEX.

George Eustice: EEX is the third one. So there are three commercial players.

Q66 Chair: Is there a role for Defra and Government in this?

George Eustice: Yes, there is a role for Defra because basically, to make this work, we need one of those companies with expertise in this area to form a market. Our view at the moment is that it will be a cash settled market so, rather than being against physical delivery, it has to be against some kind of reliable index of dairy prices that people can invest in.

The second thing it needs is some of the dairy processors to be willing to offer a particular type of contract and to play in these markets once they are established so that they can use them.

The third thing that we need to make sure of is that we are making available, whether that be through us or AHDB, the most useful market data so that there is credibility, integrity and confidence in the futures market being offered. There is a role for everyone and there is a role for Government in making sure that we have got information published in the right format that can enable someone like CME or LSE to be able to establish a market that has got integrity and that people are willing to engage in.

Q67 David Simpson: In relation to the future markets, can you guarantee that the licensing process will be sped up accordingly for those companies who want to go into those markets and that there will be no hold up there? There seems to have been a problem around licensing for some of the future markets or any other markets from processors.

George Eustice: That is not an issue that I have come across. The obstacle tends to be that these are big players with expertise in running commodities markets and futures markets in a range of areas. The nervousness on their part tends to be, first of all, whether they can

get enough people engaged in playing in that market for it to be viable; and, secondly, whether they have sufficient access to market data that is transparent enough and reliable enough such that they can build a market with integrity. If you have a market that is cash settled and linked to an index that then does not maintain credibility or that people lose confidence in, the market will very quickly burn out. Those tend to be the two. I was not aware of a licensing problem but we can certainly take that back to the team that is working on this.

Tim Mordan: We do not have the expertise within Defra on these matters but we did bring in an expert just before Christmas who knows their way around the City and who has been incredibly helpful in doing some feasibility studies about what is possible and what is not possible. It has highlighted that there is an appetite out there from some financial institutions. It has also highlighted the problems that the Minister has just alluded to, not least that milk is a perishable product so you cannot trade it physically. Also, in the UK it is unusual because about 50% of our milk is consumed in liquid form, unlike the rest of Europe. There are questions about why EEX, which operates in Europe, has not really taken off. There are all these kinds of questions but we are at the stage now where we have done quite a lot of work with stakeholders. We have a good idea of where to go with it and now it is just about trying to encourage the private sector to pick it up and run with it. Our role is to give them that encouragement.

Q68 Chair: Is it BIS or the Treasury that would license somebody?

Tim Mordan: The licence is not an issue that I have come across actually, and it has really been Defra that has been leading the charge on this.

Q69 Rebecca Pow: If this is going to work, because of the nature of liquid milk and fresh milk, are you, or whoever is working on it, having to look at many more markets for cheese and butter and turning milk into other things? It is not going to work otherwise, is it? It is a massive task to get those industries to think about buying more liquid milk in advance.

George Eustice: You have a futures market that is a forward market, which is based on a forward contract on a physical product, which is typically butter. In the US where they have done this, and in Europe where it has been trialled, they have been looking at physically settled markets and you would either have butter or skimmed milk powder and that is what they base it on, because obviously liquid milk is perishable. Famously, it is impossible to get a physically delivered futures market in perishable goods. That is why the route that we are looking at is what they call a cash settled market, which is effectively the equivalent of a spread-betting operation. It is like a derivative of a physical market. You have an index that is reliable and that people have faith in, which is the prevailing market value of milk—which could be liquid milk or it could be skimmed milk powder or it could be cheese, whichever works best—and then, once you have an index that people have faith in, that is what the market is built around.

Rebecca Pow: We have to expand our export markets or our consumption at home to make it work, have we not? It cannot just sit in a mountain somewhere.

Chair: The forward market is about somebody being prepared to pay a price forward and you have to gamble then as an individual producer as to whether it suits you to lock in to a forward price.

Q70 Rebecca Pow: But you still have to have the market developed, have you not, to take it?

George Eustice: I do not think so particularly. A cash settled market is like a hedging mechanism. It is a financial instrument that enables you to manage risk.

Q71 Chair: It is like an insurance policy, is it not?

George Eustice: It is a bit like an insurance policy. In effect, what you are saying to speculators is: “Why don’t you have an opportunity to make money?” and half the time they will burn their fingers and lose money, and some of the time they will make money. For the producer, who is actually putting their money on the line to produce something, they kind of know what they are getting. They have a guaranteed price on a forward basis, so they know what they are doing.

Rebecca Pow: I understand all that. I still think that, at the end of the day, someone has to eat more cheese—

Chair: I do not think it is going to take off hugely but it is a tool in the box.

Q72 Ms Ritchie: Volatility in markets, Minister, has become the norm for farmers, and we do welcome the fact that Defra is doing the work on tax averaging on futures markets but we want to know what other innovative initiatives the Government is exploring to help farmers through this particularly difficult and turbulent time. Do you expect that those measures will be sufficient to assist farmers over this difficult period?

George Eustice: As I said at the beginning, the scale of the downturn in agricultural commodities at the moment means that there are limits on what we can do to mitigate that, but where we are able to, we are. Where we have been able to get short-term support payments, for dairy in particular, we have got that. We have recently supported an increase in the ceiling for the volumes that are able to go into intervention on dairy. Where it has been appropriate we have supported intervention and private storage aid for the pig industry as well.

We have supported a lot of these short-term interventions, which go so far and do help in terms of taking immediate pressure off people, but they are not ultimately completely mitigating the downturn that people are experiencing. Longer term, there are other things that we are giving some early consideration to. When it comes to the next round of CAP reform, for instance, previously there has been some investigation of the role of insurance schemes. Canada and the US have gone down this route. One of the things we may explore as we consider CAP post-2020—so very long-term—is whether those sorts of insurance schemes such as they have in Canada is something worth considering.

Q73 Ms Ritchie: How would Government judge the success of the measures that are being pursued? Do you have specific targets, internally or externally regarding the success of the farming sector? What benchmarks will you use for that?

George Eustice: The benchmark that is published is the farm incomes and we do a farm business survey every year. We publish all of that data and we clearly want to see a recovery of farm incomes because it is in a very bad situation at the moment. The honest answer is that a recovery in farming incomes will come when we see a rebalancing of the pound against the euro and when we see a better equilibrium around the world between supply and demand.

Q74 David Simpson: Minister, how many meetings has Defra held in the last year between key players in the dairy sector to ensure that farmers are paid a fair and sustainable price for milk? We have talked about the price of milk but how many meetings have there been with the key players to see if more can be done? There was a programme recently on TV called “Rip Off Britain”. I happened to watch it and saw that Morrisons milk was at 24p or 25p. We were told this would get more money to the British farmer in the dairy sector but it turns out that that money is going to farmers in the European Union as well, so it is not designated solely for the British farmer. What discussions have you had with a number of the key players?

George Eustice: I hold a regular quarterly meeting at the moment with what we have call the “dairy quad”. It is a group of key players including the National Farmers’ Union, Dairy UK representing the processors, AHDB and Defra. It is designed to be a relatively small cast list so that we can discuss some of these issues and challenges in detail. In recent meetings we have covered everything from the practicalities of making future markets work, as we have discussed, to specific issues around aligned contracts through to investment in processing capacity. In addition to that, I have meetings with individual dairy companies including, in the last couple of months, meetings with Arla, Dairy Crest and Meadow Foods. So I have had regular meetings with individual dairy companies but I cannot put a precise figure on it.

Q75 David Simpson: I appreciate that and respect that, and it is good to hear that, but for those companies and processors it is about making a profit and making money for the shareholders, whatever the case may be. If they are farmers, the farmers get it back. But do you see a genuine effort by the processors to look at this problem, or could it be the case that they are paying lip service to this and that they are waiting until the thing settles before they come in again? Some of the processors in Northern Ireland—and my colleague, Margaret Ritchie will know this—are spending tens of millions of pounds on their processing plants for further cheese processing, so they see some form of future in this. The problem is at what price, and the farmers are hanging on by their fingernails. Do you think it is a genuine effort from the processors or are they just biding their time?

George Eustice: My sense is that, yes, there is a genuine understanding of the mutual dependency of the dairy farming industry and dairy processors. They fundamentally recognise that if they do not have dairy farmers, they are toast as well. There have been occasions where some of the processors have been more reluctant than I would have liked to have seen in terms of engaging more fully in things like futures markets. You get this

in particular with some of the co-operative ones where they have quite a co-operative mind-set. In their own mind and in their way of thinking, the co-operative is the mechanism for smoothing out these problems. I am not sure that is actually right. I still think that, even if you are a co-operative and you have a co-operative culture and a co-operative mind-set, you still ought to be willing to embrace market solutions such as futures if they could help your farmers.

Q76 Chair: This is probably a difficult question to answer but, for dairy farmers watching this today, what is the future price for milk? We all want to see a little bit of light at the end of the tunnel. Do you see any light, Minister, or do you only see darkness at the end of the tunnel?

George Eustice: I am slightly reluctant to make predictions. I think at this very Committee a year ago I pointed out some projections that thought that there might be a firming of prices last autumn, and that obviously did not happen. The latest suggestions that I have seen is that we are not going to see a recovery this year and that it may be well into next year before we see a firming of prices. Obviously, with any such projections, the further out you go the less certain it is.

One of the difficulties we have is that, because this has gone on for quite a long time, we are seeing quite a lot of milk going into private storage aid. One of the downsides of those schemes, which are there to help the short-term problem, is that they do slightly kick the problem down the road and it can mean that, when a recovery comes, it is a sluggish recovery, because there is so much in storage and it is coming out into the market. There is always a trade-off whereby, the more you put into intervention and the more you put into private storage with the support of these schemes, the more it can prolong things. It can prevent things from going as low as it might otherwise go but it can slow down the rebound. That is a challenge that a number of people have raised with me. Some of the people who analyse these markets are a little bit concerned that, if we have too much in storage, it could make the recovery more sluggish than we would like.

Chair: I understand. We will get detailed questions in a minute on the Rural Payments Agency but it does emphasise that this coming year, this December and January, we do need to try to get as many of those payments out to farmers as quickly as possible. We have had reassurances from Mark Grimshaw, hence the report that we printed on the Rural Payments Agency. I do not want the detailed questions now but it is important that we get that money out because that is something that Government can directly do.

Q77 Dr Monaghan: Minister, what consultation has taken place between Defra and beef producers around fair pricing for automatically graded produce?

George Eustice: Is this the VIA 15-point system?

Chair: Yes.

George Eustice: My understanding is that there have always been these two systems, and I might ask Tim to come in. There is the SEUROP grade of scaling that has got six confirmation grades and then five fat-covering grades. There is also a more detailed

system called VIA—visual imaging analysis—which has 15 different grades. In some ways you could argue that it is more transparent in that it breaks it down into more grades, but I am aware from some of the other evidence you have had as a Committee that this is controversial. In terms of whatever consultation might have been done, it has been around for some time, as I understand it, and there has always been an option to choose either of those.

Q78 Dr Monaghan: As I understand it, it is moving from a 15-grid evaluation to a 225-grid evaluation with 56 points on the scale that the carcass can be evaluated against. As a result, some carcasses are not reaching their true value because they do not fit into this new, much more detailed grid. That is the issue that farmers are particularly concerned about. It is perhaps trying to enhance quality but it is having a detrimental effect because some carcasses are not able to fit into this new grid all that well.

George Eustice: There is a role for Defra here in that, while there is a choice between adopting SEUROP or VIA, it is a mandatory responsibility and RPA actually has to do the inspections to check the calibration of the equipment used. RPA therefore has a role in enforcing this to make sure that the meat processors are doing these things correctly and are not cheating the system. If there are specific issues around this, I am happy to raise it with them so that they can check, but it is quite hard to tell whether that is an issue with an individual plant that may not be doing the grading correctly, in which case there could be an inspection role there, or whether it is simply the case that for some farmers—particularly those that have got dairy crosses or purebred Holsteins—it is a known fact that the beef quality is not as high and the confirmation is not as good.

Q79 Dr Monaghan: The evidence suggests that it does not just relate to one plant but rather that it is more widespread than that. A number of beef producers are asking for consultation and a bit of action from Defra so, if you are not consulting with the beef producers at the moment, will you, to try to offer a bit of help from Defra?

George Eustice: The one that I am aware of that has gone down this route is ABP. They introduced this new VIA system into Perth two years ago and they are considering rolling it out elsewhere. They are signatories to the beef processor code, and my understanding is that they did give the required 12 weeks' notice to their farmers that they were moving to this new system of grading. My understanding, from what we have been able to find out, is that they did abide by the processor code and gave the adequate notice that they were making this change, but if there are specific concerns around the calibration of the VIA machines, I am happy to flag that up and to draw it to the attention of the RPA.

Q80 Dr Monaghan: So you will consult with the beef producers? That is the point of the question. That is what this Committee is interested in. Will Defra consult with the beef producers?

George Eustice: On whether we would stop this approach?

Dr Monaghan: What we are looking for is an assurance that Defra will consult with the beef producers to make sure that this new system is working properly and that all farmers realise

the true value of their carcass when it has been automatically graded and that some quality carcasses are not used for other purposes, like mince, for example.

George Eustice: It is a good point and I am more than happy to talk to the NFU and the BMPA, who look after the beef processor code between them, and ABP just to make sure whether there is anything further that should be added to this, and indeed to talk to the NFU about how widespread this particular problem is. I know it has been raised to the Committee but this is the first time that I have had this problem raised. We are more than happy to investigate it.

Q81 Chair: I want to ask you a few detailed questions on this—and we did notify you of this—because what seems to be the problem is that this new VIA system of grading seems to have been used as an excuse to downgrade cattle; if you had cattle that was coming in with the U grade before under the old system, a lot of these Holstein crosses have suddenly lost £150 or £200 per head to the farmer. Now, I am far from convinced that the retailers are getting that beef and that mince cheaper from those cattle, so somebody is absorbing this money and it is not going to the farmer. Therefore, we do need to do something about this. I do not necessarily think that it is the grading system, but rather that some of the big retailers have said, “We now do not want so much lean cattle,” and of course you have some retailers who say, “You must keep your dairy bull calves” and then the same retailers are turning round and saying, “We will not take the Holstein cross meat in the same way.” It seems to be a combination of the retailers and the processors getting together and then the farmer losing out. That is why we really have to do something about this. Qualified valuers, graders and auctioneers who have done this for years will look at the cattle and say, “If you take that into the slaughterhouse it will be worth X, it will be grade U and you will get a certain price,” and then overnight they bring in this new system with lots more grades and your cattle are worth £150 to £200 a head less. There is something fundamentally wrong, Minister, and surely you must be aware of it.

George Eustice: I am aware of it because you have raised it and, as I said, I am more than happy to talk to the NFU to see just how widespread this problem is.

Q82 Chair: It is not just the NFU; it is the beef processors; it is the ABPs of this world, the 2 Sisters and St Mary’s Meat. How many of these processors do we have in the country? Not very many. About four or five. I suggest that perhaps they are too powerful and have too much of a cartel and a monopoly. That is the issue. Are the farmers getting a fair price? I do not think they are.

George Eustice: The difference between the old SEUROP system of grading and the new one is that there is a 15-point scale on the VIA, as you identified. The purpose of that is to create more differentiation between different qualities of beef. You could argue that, if you are at the more premium end, you may be benefiting from that.

Chair: What they seem to have done is to give a very little bit to the premium grades and to have knocked a huge amount off to those that are on the margin. If you miss the grade by just a little bit, this is where they are knocking off the massive amounts. Those cattle are not any different when they go into the retail trade, and I do not think those processors have lost a penny on those carcasses, and yet they have knocked £150 or £200 off to the farmer.

Q83 Dr Monaghan: Just to be clear, it is a 15-box grid. Previously there were 56 points on the scale that carcasses would be valued against but there are now 225 points on the scale. The point that the Chairman is making is that the average carcass price has been pushed towards the bottom end of this 225-point scale whereas before that opportunity did not exist because there were only 56 points on the scale, and this is impacting upon beef producers.

George Eustice: There are two points. The other thing is that the VIA system is done by visual image analysis, and so the new thing about this is that the RPA are responsible for checking the calibration of those machines to make sure that they are giving accurate grades. Previously, on the old system, there would have been an MLC grader, so it would have been a different system and a different approach to checking that. If there are specific abattoirs that farmers have raised with you, if you provide me with that information, I am more than happy to look at it.

Q84 Chair: We will do. It is probably difficult for you to see, Minister, but you can see there with this new grading that that is the cattle that they are paying a reasonable price for. Then, if you go into that yellow area, which is slightly less fat, these are the cattle that they are suddenly downgrading under this new system and paying much less money for. We have a public that actually likes leaner meat and yet they are paying less for these cattle. If you talk to the industry, the trade and the retailers actually quite like Holstein beef because it is quite lean. So all of a sudden we have these cattle being knocked back. You cannot have people like Tesco who say in their dairy contracts that the dairy bull calves must not be shot. I agree with that: they must have a life. So when you give them a life and you have Holstein bull beef, you take it to the slaughterhouse and the slaughterhouse decides to downgrade your animal and you cannot make money out of it. The same retailers are being completely hypocritical. I think there is a role for Defra and Government to say to retailers, "Can't you be consistent?" You can then say to the processor, "Can you be consistent in the way you pay the farmer?" I am not opposing the new grading system because the grading system will happen. I do not think it is anything to do with the grading system; I think it is to do with the processor using the grading system to knock off the value of the carcass, and I think that that is something that you, ministerially, should take up.

George Eustice: As I have said, I certainly will. The big processor code, which is obviously BMTA and NFU, was set up specifically to deal with these issues, and, two years ago, when there were concerns around the grading of carcasses, that was what prompted us to set up that code. So, if there is a new issue here, it is squarely one that we need to look at and it is precisely one for this code. We will also talk to the AHDB who do a lot of the work for us on grading and confirmation.

Chair: There is what was left of the Meat and Livestock Commission as well and they are particularly looking at it. Could I make the plea that you get everybody together because there is a real issue here where I feel the farmers are just being treated unfairly, and I think we have to get the retailers together so that in the future the farmers can actually start to breed different types of cattle and have single-sex semen so that you can actually get the dairy farmers to produce a different calf. What you cannot do is change the grading system overnight, downgrade all these cattle that previously were worth £200 more and expect the

farmer to be able to deal with it. One can perhaps deal with it over 18 months but you cannot deal with it in five minutes.

Rebecca Pow: We also have the whole issue of farm prices and decreasing profitability. It is just another nail in the coffin. I would urge the Minister to look at it because it has been raised by many people.

Q85 Chair: We will make sure you get all this detail.

George Eustice: Can you give us the specific detail of individual abattoirs?

Chair: Yes.

George Eustice: There are two things: first of all, discussing it in the context of the code and whether the code needs to reflect something in this area, which is the job for the AHDB, NFU and BMPA; secondly, if there is a specific abattoir where they may be a problem with the equipment, either deliberate or accidental, then there is an issue for the RPA to check the calibration.

Q86 Chair: Will you look into that?

George Eustice: I am happy to do that.

Q87 Chair: I have one final question, which you may not want to answer. Do you actually feel that there are too few players and too big a domination by particular big players in the processing/slaughterhouse industry so that we do not have enough competition for the farmers when they sell their cattle or sheep?

George Eustice: A good functioning market and an efficient market needs lots of buyers and lots of sellers so that everybody has options and alternatives. Clearly, the more potential buyers you have, the more efficient—

Q88 Chair: There are about four big processors now, are there not?

George Eustice: Yes, there are a smaller number of processes. That is true.

Q89 Chair: Are you worried about that? I understand that one is trying to buy another out as we speak, and then there will be fewer rather than more, Minister. Are you concerned about that?

George Eustice: There is legislation that covers these issues. There is competition legislation and there are competition authorities whose job it is to look at these issues.

Q90 Chair: Is Defra mindful of this?

George Eustice: As I said, this is more of an issue for the competition authorities.

Q91 Chair: But surely Defra would alert the competition authorities if you thought that there was a problem.

George Eustice: Yes. I know you think that there is a problem, but I am not sure that there is.

Q92 Chair: You are not convinced.

George Eustice: I am not sure that there is sufficient evidence that there is. You have several big players. If you think there is a competition law issue around this, I feel another inquiry coming on.

Chair: Yes, there could well be.

Q93 Chris Davies: The Chairman was pursuing the downgrading there and it seemed to come as a reasonable surprise. I was just wondering if the farming unions have approached you on that matter.

George Eustice: No, I have not had any approaches from farmers or farming unions.

Tim Mordan: It only really came to our attention in the last couple of days.

Q94 Chair: I am amazed by this because all my information has come from my regional NFU and regional NFU members and farmers who have been directly affected by it. There are a lot of Holstein Friesian crosses being produced in the South-West, so perhaps it is a particular South-West issue but I am absolutely amazed. Like I said, I will make sure you get that information. But I would have thought too, for the NFU actually hearing this from the top brass, they ought to have done more as well, to be perfectly blunt.

George Eustice: I think Committees like this have got an important role in flagging these issues where you have evidence of things.

Chair: We will get the detailed information to you but I really would ask you to drill down on this one to find out what is happening and to give farmers more time to adapt and, in the meantime, get a fair price for these grades. I am not rubbishing the new grading system; I am just saying that they are abusing the grid they are using. We will leave it there; I think we have given it a pretty good airing. Thank you for that. How much more time do you have, Minister?

George Eustice: I am okay for another half an hour.

Q95 Ms Ritchie: We have had representations, Minister, that the Chinese market for pork is still suffering delays in issuing permits and licences despite rigorous inspection of UK facilities. What are you doing, Minister, to open up and support new markets for British produce? We have also heard about similar issues to do with Taiwan and we understand that

there is a period of time between the actual approval from the parent country, so to speak, and then the issuing of the licence.

George Eustice: I may ask Tim if he has the details because this has been a long-running issue, particularly for Northern Ireland getting access.

Q96 Ms Ritchie: It is frustrating because we rely so much on the export.

George Eustice: Exactly. This is one of those issues where, almost as long as I have been Minister, we have been trying to make progress on, particularly for pork trotters into China. It is quite difficult because you have a questionnaire process where they ask questions and we provide all the technical information they need. There was then quite a long period of time when we were trying to get inward inspections. My understanding is that there had been inward inspections recently and therefore we hope that things can move from here. I completely understand the frustration and, if it is any consolation, I feel it as well having pushed and been involved with this for some two years. But these things, particularly when you are dealing with countries like China that are often quite cautious and have lots of questions, can take time. Tim do you want to update us on the latest?

Tim Mordan: That is right, really. If it is helpful, we can send you a letter just explaining some of the to-ing and fro-ing with China but the Minister has really summarised it very accurately in that it is a long-running issue. The good news is that we have already got exports of fifth-quarter pig meat to China going. There is another big prize in trying to get pig trotters exported to China. The Secretary of State was out there just before Christmas and that went well.

Q97 Chair: What about chicken feet as well?

Tim Mordan: Yes, and barley as well. There are the inward inspections that need to take place. They are invariably very detailed with lots of questions and questionnaires to fill in, and we are at that point where we are trying to understand exactly what the Chinese are asking us, so there is some to-ing and fro-ing. Again, having a new food and farming ambassador in China is certainly helping things along. That is where we are at the moment. We are moving as quickly as we can and hopefully we will get some results soon, but it is impossible to say where we are just because China is, I am afraid, notoriously slow at these things.

Q98 Ms Ritchie: Could I push you a little further? What action is Defra taking to ensure that authorising bodies in foreign markets have all the information they require on the presence of diseases? I know there are major public health issues that they have an interest in. With the presence of diseases like avian or swine flu, have they got all that information and are they perfectly content?

Tim Mordan: They will have all that information. Whether they are perfectly content or not, I do not think we know yet.

George Eustice: My understanding is that this is not so much about the broader issues such as swine fever about which you would reassure them much earlier on in the process. We are at the stage now where it is about individual plants and questions about approaches on individual plants. It is at a very granular and technical level now. I can say that this will be on the agenda when I go to China in a couple of weeks' time. I will be having bilaterals there and trying to give this another nudge will certainly be one of the things on the agenda.

Q99 Ms Ritchie: Has the Department's particular drive, which I do not personally disagree with, for increasing exports to China had a detrimental impact on pushing exports in smaller foreign markets?

George Eustice: I would not accept that it has, because obviously the big prizes are countries like China in dairy, and countries like Brazil as well, and the United States is an opportunity for beef. We have been opening roughly 100 markets a year over the last three years; if you look at the list, it is all sorts of countries from Honduras to a number of African states. We have a pretty comprehensive approach to doing this and working with companies to see where they see export potential and we are doing all that we can to open those markets.

Tim Mordan: As part of that dialogue, I would add working with the industries and the individual companies who help us prioritise as well.

Q100 David Simpson: We sometimes put too much emphasis on the Chinese market because I think they will drop you like a stone. That has been my experience over the past 20 years. BSE is another issue. If we could alleviate those problems, Minister, we would start to see the industry moving forward and more money coming back in to the farmer rather than giving the processors an excuse not to do it. You mentioned the Great British Food Unit earlier. Could you give us a bit of background to it and how it fosters resilience within the farming community?

George Eustice: It was a manifesto commitment to put this together and the idea was really quite simple: to try to pull together strands from different Departments. For example, the UKTI officials who previously sat within BIS have now moved to Defra and are co-located with our team working on exports in Defra. So we have tried to pull together people who are working on exports from other Departments into a single team. We are also trying to link that up with some of the people doing food promotion, both domestically and internationally as well, so that everybody is there to try to be cheerleaders for British food, getting them all in one place and working as a single team, whether they are promoting food domestically and trying to change people's attitudes and culture to food or whether it is on protected food names and trying to better branding, or opening new export markets. We are trying to get this whole team together.

In terms of your final point about the impact on farming, there are real opportunities for agriculture if we can add value to the fifth quarter, so things like chicken feet, pig trotters and offal. There is a much stronger market for this in places like China and other Asian markets, and that is why the financial benefit to farming is predominantly around adding value to the fifth quarter as well, crucially, as creating alternative markets when you have

difficult times. A few weeks ago the Secretary of State was in the US trying to have the final push to open the market for British beef in the US where we have had difficulties with BSE, and we are in exactly the same position in Japan where there are final exchanges of information going on but where we are hopeful and confident that we will finally be able to open the Japanese market.

Q101 David Simpson: In terms of the unit itself and those running the unit, I assume there will be engagement with other regions of the United Kingdom in order to help promote this.

George Eustice: Indeed. Once we get them open to the principle of opening the market, you will then be into inspection of plants and we will definitely work as we do with the devolved regions on that.

Q102 Chair: Just on America, it is interesting that here we are, 20 years after BSE, and we still cannot get beef into America. Here we are negotiating a TTIP-type arrangement with America. You do actually wonder whether they are the great free traders of the world. Do we not need to be a bit worried about all this? Why have we not been able to get beef back into America? Is there any sign that it is actually going back into America? What date do you put on the first shipment of British beef going into the United States, Minister? It is not a difficult question.

George Eustice: You are always very keen to get me to set dates.

Q103 Chair: You are very keen on other markets other than the EU. When is it going to happen, Minister?

George Eustice: The truth is that BSE cast a long shadow. It is amazing that even 20 years on—

Q104 Chair: But it did not cast a long shadow across Europe, did it, because we got that back in, albeit with difficulty, in 1999? We are now 20 years on and we still cannot get it into America.

George Eustice: There are remaining countries where it has been particularly difficult to get access for beef, notably Japan and the US. They are the last two big markets really, which have held out. You asked a general point about the US and its approach to free trade. I think most commentators would probably concede that both the Democrats and the Republicans have been moving away from a free trade ethos to a slightly more contained one.

Q105 Chair: You would urge caution, would you, Minister?

George Eustice: No. The UK is a world-leading country for free trade. We were the ones who were still cheerleaders for the WTO and trying to reinvigorate that organisation. We

are a free-trading nation and we believe in the benefits of free trade. We are always there at the front in terms of arguing for its benefits.

Q106 Rebecca Pow: I cannot resist asking, Minister, when it has taken us 12 years to get chicken feet into China and another X years to get pig trotters in—and we do seem to be putting lots of eggs in those baskets if we leave the EU—is it realistic that our farmers will actually be able to get their produce out if we did leave the EU?

Chair: 5% into China at the moment and some 80% or 90% of lamb into Europe.

Rebecca Pow: It is not looking terribly positive if they cannot put it into futures markets for 12 years.

George Eustice: I probably ought to mark for the record that obviously the Government's position is that we should stay in the European Union for the reasons you have set. My personal view, since you have asked me, is that, having seen the dynamics of negotiations of TTIP on the EU and Japan, the reason some of these take quite a long time to put together and the reason agriculture is often a sticking point in those trade negotiations is that you are talking about real barriers. The US still use hormones in beef. They use chlorine washes on poultry, which we do not allow in Europe. They have lower standards of animal welfare, which causes concern, and producers rightly say, "Why can you expose us to competition from countries that have lower animal welfare standards?" Working through those very real differences takes time, as does trying to recognise equivalence and putting in place the right safeguards and the requirements that anybody exporting to Europe would abide by in terms of rules that are roughly equivalent to Europe. Getting agreement on that kind of stuff does take time.

In the case of the UK seeking a free trade agreement to replace our membership of the single market, hypothetically looking to the future, the starting point is that we have been in the single market for a very long time. We have a similar approach to animal welfare.

Q107 Rebecca Pow: I was asking about China and America. We are setting much store about China and America, but we have not had a terribly good record so far and I am just concerned, if you went down that road, that realistically the produce is not going to go there tomorrow or even next year.

George Eustice: The point I am making is that the European market would be unaffected because we would have a free trade agreement put in place. It would be relatively easy to do because there is a high degree of legal compatibility in our approaches on issues such as animal welfare, labelling and food safety, so it is much easier to get an agreement in place.

Chair: We had better leave it there because we are straying, so I apologise for that. I started it so I have to apologise to you for that.

Q108 Chris Davies: We have not actually touched on the TTIP argument and how much damage that could do to our agricultural industry if we did stay in Europe. That is for another day. How many more protected food names are there in the pipeline for 2016? You already

made great gains with 73 to 79 protected food names already. What are we looking at for the rest of this year? How much progress are we looking to make?

George Eustice: I am going to ask Tim if he has that. There are quite a lot but they are in the early stages. The process of starting with an expression of interest and having initial discussions with us through to actually getting it into place is usually at least three years and sometimes longer. I will have to check and write to you but, from memory, it is in the region of 30 people that are in active discussion with us about taking applications forward. I will double-check that figure because it will not be a round 30 but, from memory, it is of that order.

Q109 Chris Davies: Is that, looking into the future, an ongoing hope that it will be that sort of number year on year?

George Eustice: I am not sure that it is a number year on year. We have added roughly 10 or a dozen over the last 18 months or so. It is a three-year process and we are actively in discussion with around 30 now with some further along in the process than others. We are making steady, solid progress given the inherent length of time that the process entails.

Q110 Chris Davies: You say it is taking three years. Can you take us through the process? Why is it taking that length of time to get to a registered status?

George Eustice: It is just the nature of the process. There is a pre-application stage where they have to talk to us and establish whether or not their recipe is distinct and has some historic reference point. We need to do quite a lot of work and consultation to make sure that what they are asking us to designate can be designated. We then have to submit that dossier to the European Commission and they have to go through it, verify it and check that it does not step on someone's toes elsewhere in Europe. That is a long process as well. Sometimes there is a lot of to-ing and fro-ing and tweaking and changing before you finally get the designation. It is just quite a long process and it is much longer, for instance, than doing the traditional trademark regulation route that went before.

Chris Davies: Better off out, Chairman.

Chair: The only thing, though, is, Mr Davies, that most of the other parts of the world do not actually recognise these geographic indicators and want them removed, so at least within Europe you can actually have them. There are two sides to this particular argument.

Q111 Chris Davies: What more can Government do to promote and incentivise producer organisations?

George Eustice: From memory, we set aside around £5 million from the last Rural Development Programme specifically to foster their creation. We worked with the national dairy board—I cannot remember what the precise term is—and they did some projects to try to encourage the setting up of these. We put aside money there to help with viability studies and to help nurture the creation. The Dairy Crest Producer Organisation, which is operating in Cornwall, has been a great success. It does mean that you have collective bargaining power and they have proper negotiations on the price of milk. There

are opportunities as well in some instances for them to do joint working in terms of buying inputs and making sure that they get the best possible deal by working together in that way.

There is huge potential for producer organisations and I would like to see more go this route. In many ways, it is a stronger concept than the co-operative model in that the issue with co-operatives that I have sometimes is that it sounds a nice idea but you often find that, in practice, the relationship is still very much one where the farmers send in their produce and become price-takers and you still have a management hierarchy that is running the co-operative; whereas the great thing about a TPO is that businesses keep their individual identity and their entrepreneurship but they come together for a very specific purpose, which is collective negotiation. That is quite powerful.

Q112 Chris Davies: Do you think farmers know enough about it and how to come together and to come to Government to get support as a producer organisation?

George Eustice: I would hope so. We have raised it with them relentlessly; certainly the NFU are well aware of the process. Brendon, do you want to say anything more?

Brendon Lancaster: You are right, Minister. I would just add that the NFU has promoted the benefits of producer organisations, highlighting the benefits that you have already highlighted. I would just add to that that there is an additional benefit as well in that it does enable farmer members to negotiate sales of larger volumes of raw milk than normal competition rules would allow. That message has gone out to producer organisations. Dairy Crest Direct, for example, are now sharing this knowledge with other farmer cluster groups around the country and helping them consider the idea.

George Eustice: Dairy Crest Direct is now just over a year old and none of the farmers there regret doing it, as far as I am aware. They really value what the system has delivered for them. I just hope that others will learn from that experience and take it forward.

Q113 Chair: I have a quick question, Minister, on lamb carcass splitting because I know you worked quite hard on this. If we did not have to split the lamb carcass, it would add value to it and it would reduce costs. With the lamb price really under pressure, what is happening about that?

George Eustice: I have been working quite closely with the NFU on this issue. I think they make a moot point. We now know that there is not a problem with scrapie and it is not necessary anyway; the science is clear about that. I would like to take this forward. The latest proposal that we have worked up with the industry is that we should replace the so-called “two tooth” rule with a chronological cut-off that we have settled on as being the end of May, which would help the industry for those later finishing lambs. They are content with that, as I understand it. We are in the final discussions.

Q114 Chair: So any lamb that is born this year can live through to the end of next May before it would need to be split. Is that right?

George Eustice: Exactly, that is it. If you look at the numbers and the profile of this, we are predominantly talking about late summer or autumn-born lambs that then come in to the market early in the following summer. It is something that we support and we are in the final processes of agreeing a letter to go from either the FSA or the chief vet, which I hope will be going out in the next few weeks to the European Commission supporting this proposal and seeing if we can get their blessing for it.

Q115 Chair: We will have to watch with the lamb carcasses that we do not actually go down the same type of VIA system and that the processors do not use that as an excuse to start downgrading lamb. It is something we need to keep an eye on. We have no evidence of that as such but it is one of those risks.

George Eustice: That is absolutely right. The real issue with the carcass splitting is that it devalues the carcass. It is perceived to be sending a signal about the age or the type of lamb that people are getting. We had always been open to the idea of adopting a French and Spanish model where they effectively cut around the back of the tail and have a device that pulls the spinal cord out of the carcass. I know the meat processors themselves were reluctant to go down that route at the time.

Q116 Chair: Thank you for the work that you have done on that. We will move very quickly to the RPA, because we have had you in before on this. What key performance indicators have you set for the BPS for 2016? We had Mark Grimshaw here saying that he would deliver 90% by the end of December for the 2016 payment but I have not seen any of these coming via Defra or RPA. When are you going to publish the figures, or are you not?

George Eustice: I worked very closely with Mark Grimshaw and his team on making sure we try to get things right and get things back on track, and so we would hope that next year we would be back to a much more normal situation, paying far more payments much earlier in the window. I know that Mark Grimshaw suggested to your Committee that he would probably be able to do 90% during the month of December.

Q117 Chair: Do you have full confidence in Mark Grimshaw?

George Eustice: Yes, I do, because Mark Grimshaw and his team took on a very difficult situation when obviously we had the failure of the computer system. I have worked very closely with the RPA on this. I know it has been very frustrating for farmers but I also know that the team at the RPA dealing with this have worked incredibly hard to try to get things back on track. Actually, for this current year, we are in a reasonably good stage at this moment. We are in the final week before the application deadline, but the last time I checked, early last week, around 80% of applications had already been submitted, which is ahead of where we would normally be. We always have a last-minute rush of applications in the final weekend, which is just about to come up.

Q118 Chair: I hope you are right and I want you to be right, because I want those payments to go out; so I am not trying to catch you out. One of the problems that the farming industry sees in particular is that there is still quite a lot of reconciliation on the payment that was

made this year to farmers, so a lot of applications are going in for this year where the farmers do not necessarily agree with the amount they were paid or how they were paid last year. We have to be sure that the RPA is going to be flexible enough to be able to put this right because they have not shown much flexibility in the past.

George Eustice: We have been very clear on this that they will show flexibility. We have been very clear with farmers. If, when they receive their statement and their payment, they believe that an error has been made by the RPA on the mapping or fields have been excluded that should have been included, we are very clear that in those instances the farmers should phone the RPA and they will put those situations right.

Q119 Chair: Did you say phone the RPA? Or email? Or both?

George Eustice: Yes, phone them. There is a number that is available for them.

Q120 Chair: Will they answer the phone?

George Eustice: Yes, they will answer the phone.

Q121 Chair: How long will they take to answer the phone?

George Eustice: At the moment the average time to answer is around four minutes.

Q122 Chair: Is it? It was not at one stage but it is getting better.

George Eustice: There was one stage where it was probably 40 minutes at the peak of the difficulties that we had with payments, but it has certainly improved. We are looking to put that right but there is a bit of an issue here. The CAP is incredibly complicated and the degree of mapping that we have to do is extraordinary, in terms of mapping every single feature. The digitisers were taking the maps from farmers and where they saw that there had been an unintentional error made by a farmer—maybe they were declaring an area where there was hard standing or a bond that they should not be claiming—they had made those adjustments in effect to make sure that the record that the farmer had submitted reconciled with their mapping features. It was in the interests of farmers that that was done, because if we had just gone ahead and taken it at face value—

Q123 Chair: I do not disagree that it has been difficult but we have to be careful that we do not return to the situation that we had in 2004 where it took about seven to nine years to get it right. That is really what everybody worries about, but I am sure you will take that on board.

George Eustice: I can assure you that that worries all of us and we really do not want to be in that position. It is one of the reasons why we have decided not to extend the deadline this year, because—and the NFU supports this—the quicker we get applications in this year, the quicker we can do the inspections and process the applications so that we can get those payments out in December.

Dr Monaghan: Do you not think we have had the assurances?

Chair: This is just particularly about what happened in March.

Q124 Dr Monaghan: Okay. Minister, given that the RPA failed to meet its March target for payments and had to resort to part payments for BPS 2015, what assurances do you think that you can give this Committee that the new targets will be met?

George Eustice: I visited the RPA last week to use the new computer system and to just work out what it is. The truth is that the really difficult work was done in this first year because, for all of these applications, the farmers' information is online and if they have no changes to their application they can literally go online and pretty much click "submit" and it automatically submits this year's claim. If they have to change the cropping, they can do that relatively easily and click "submit" again. The online application this year has actually been quite straightforward. As I said, we are in quite a good position and better than we would normally be even in a normal year. For instance, we are ahead of where we were in 2013 and 2014. At the moment the indications are good that we are getting those applications in on time and, if we can get those in on time, we can complete all of the other processes that we have got to do. I am confident that we are in a far better position than last year, although it could not be much worse. I am also confident that a lot of the difficult work that has been done over the last year will pay dividends in this forthcoming year.

Q125 Chair: Just finally, 15 May is still the deadline for farmers to get their applications in for 2016-17. Is that right?

George Eustice: Yes.

Chair: We need to repeat this all the time so that farmers do not think they have more time to get those applications in.

George Eustice: We have been running an operation at every level—in the farming press we have been emailing farmers who made a submission last year and have not managed to this year. We will be doing everything we can to raise awareness of this. We do not think there is any reason to delay. We sent out the paper forms to those who traditionally applied on paper in very good time and those forms have been coming back. Although it has been frustrating for everyone, we are not picking up that there are serious problems with this year's application.

Chair: Thank you, Minister. You have been very generous with your time. We have the report on the Rural Payments Agency so that is printed and published now on Tuesday, so we should be able to quote that to you come December but I am sure it will be absolutely right and you will have made all those payments. I hope that will be the case and we look forward to that when it comes. Thank you very much for being so generous with your time.