

Select Committee on the European Union

Energy and Environment Sub-Committee

Corrected oral evidence: Brexit: agriculture

Wednesday 25 January 2017

11 am

Watch the meeting

Members present: Lord Teverson (Chairman); Lord Boswell of Aynho, Lord Cunningham of Felling; Lord Curry of Kirkharle; Viscount Hanworth; Duke of Montrose; Lord Rooker; Lord Selkirk of Douglas; Baroness Sheehan; Viscount Ullswater; Baroness Wilcox.

Evidence Session No. 1

Heard in Public

Questions 1 – 10

Witnesses

[I](#): Professor Wyn Grant, University of Warwick; Professor Alan Swinbank, University of Reading; Allan Wilkinson, Head of Food and Agriculture, HSBC Bank plc.

Examination of witnesses

Professor Wyn Grant, Professor Alan Swinbank and Allan Wilkinson.

Q1 **The Chairman:** May I welcome you very much to the first evidence session that we have in our new inquiry on Brexit and agriculture? May I go through one or two key issues? Perhaps I could remind members to declare any interests they have when they first ask questions. This is a public official evidence session that we are holding. There will be a full shorthand note taken. That will be put on the public record but you will have an opportunity, if there are any errors in transcription, to put those right. The session is also being recorded live on the webcast and we very much look forward to your evidence. Thank you very much for appearing before us. Perhaps I could ask you, first of all and briefly, not just for members here but for those listening in, and the public, to introduce yourselves. Mr Wilkinson, can I ask you to start off for us?

Allan Wilkinson: Thank you very much, my Lord Chairman. My name is Allan Wilkinson. I am a dairy farmer's son but I am also the Head of

Agrifoods in HSBC Bank plc. I have been with the bank for 28 years, most of which has been in the farming and food industries.

Professor Alan Swinbank: I am Alan Swinbank. I am a retired academic. I used to be professor of agricultural economics at the University of Reading.

Professor Wyn Grant: I am Wyn Grant; I am emeritus professor of politics at the University of Warwick and have worked on the CAP for over 40 years.

The Chairman: Thank you. We also have Lord Boswell with us, who is Chairman of the full EU Select Committee of the House. This Committee, this session and the report is looking at both the opportunities and the challenges of Brexit, very much with those areas in mind. Perhaps I could start off by asking you what you see as the key opportunities and challenges for the United Kingdom in agriculture arising out of the decision in June to withdraw from the European Union. What are the challenges for the food sector? Are there any differences there, not in just the broader Brexit but in the CAP? I do not know who would like to start on that broader area. Professor Swinbank, could you start us off?

Professor Alan Swinbank: It is a very broad question and I am not sure there is a simple answer to it. In part, it depends upon the outcome, and we do not know what the outcome is going to be, and in part it depends upon one's perception of what are challenges and what are opportunities in any particular outcome. There are lots of different economic interests involved in this. Farmers may see various opportunities in one outcome whereas food consumers might see disadvantages. As far as the outcome is concerned, we seem to be still between the two extremes. The other day, the Prime Minister was saying although she did not want to remain in the Single Market and the Customs Union she wanted some sort of very close relationship, and the Brexit Secretary repeated that. That is, in a sense, almost remaining within the Single Market and the Customs Union without using that terminology. That would bind us very much into the Common Agricultural Policy and the trade regime for some time into the future.

The other extreme, of course, is what I would still call the hard Brexit, where we leave without any trade agreement, and then the opportunities are quite different in terms of lower food prices and greater trade opportunities around the world, but the challenges that poses for the farm sector are quite substantial. That is probably enough to start off with.

Professor Wyn Grant: My Lord Chairman, the opportunity here is to devise an agricultural policy that is particularly suited to the needs of England. Clearly, of course, the devolved Administrations are also involved here, and that is a complicating factor, and what sort of relationship there will be between them and the Government here in Westminster in the future is an interesting question. The Common Agricultural Policy has clearly had its dysfunctional aspects, and we could

have a policy that will better meet the needs of the farming industry in this country.

As far as the food processing industry is concerned, the key fact here is that this is a very heterogeneous industry. At one end of the scale you have farmers who have businesses on their farms making speciality cheeses or high-value ice creams; at the other end you have big, multinational companies which are getting their inputs, in many cases, from outside the United Kingdom. This is an industry with very many different needs and demands which have to be taken into account in the formulation of policy, but it is a very important industry in this country.

Allan Wilkinson: If you do not mind me adding to what has been said, my Lord Chairman, I am going to speak from the point of view of some of the customers we deal with. As has already been said, this is an absolutely enormous subject, so the opportunities we have must be predicated on the excellent standards of welfare and crop husbandry that we have already. We have to maintain those. We have to bring opportunities that harness those standards, as we have heard, in the food chain, which is an important industry. As others have said, it is the largest manufacturing industry in this country, and the reputation of British food globally is, in my opinion, probably the best in the world. We have to try to make sure that we help this industry, which the three of us believe is important, through the change and make sure that we harness the opportunities which are obviously there. I understand and hear from customers how concerning this change could be, let alone whether the outcomes are positive or otherwise. There is considerable concern about how this change is going to take place, and in what timeframe it will be undertaken. It is probably too early to define exactly what those stepping stones need to be.

The Chairman: That is a very good introduction to the subject, and perhaps now we can start to drill down in some of those areas. Viscount Ullswater, you might like to ask about labour markets.

Q2 **Viscount Ullswater:** One of the most important sides to it is the access to labour. I wonder if you could tell us what your feelings are about the access to both full-time and seasonal labour from the EU after Brexit. Is there a way that you can quantify it?

Allan Wilkinson: If you do not mind me starting off first, certainly from the information that I can gather and some of the information I hear from customers, it would appear that, broadly, one-fifth of the labour that is employed throughout the food chain is accessed from across Europe on a full-time or part-time basis. Clearly, that is a crucial resource that the food chain in this country has become dependent on. How we move forward and how we maintain that is probably not for me to comment on, but I can say it is really important. If the industry is going to adapt to a smaller supply of that labour, for whatever reason, we must ask ourselves—again, this comes from customers—about the confidence they need to make the investment to bring in new mechanisation or streamlining of systems that will allow dairy cows to be milked or food to

be processed. It is a big topic. You have asked the question. Also, there is a range of impacts on different food systems in the UK and different parts of the processing. If you go into a typical food manufacturing factory, as you walk through the door you are probably faced with five, 10, 15 even 20 different languages on the notice board. It is a quite important and key resource, and one which the industry values. It is something we have to resolve, but we have to find the opportunity and make sure we can build the business—build the opportunity and the industry.

Professor Wyn Grant: My Lord Chairman, the horticultural sector and the field vegetable sector, where I have done quite a lot of research, could not function without the seasonal labour that comes to it. When I talk to producers in that sector they say to me it is no good going into the local unemployment pool because the labour from there is not reliable, it does not turn up and does not work very efficiently; nor is there any immediate hope of mechanisation of these processes. In the longer run there may be but not in the short run.

In the past we had the Seasonal Agricultural Workers Scheme and I think we are going to need some version of that in the future; some mechanism of temporary work permits for workers to come from elsewhere in the European Union and, possibly, from outside the European Union. As far as permanent labour is concerned, the dairy sector, in particular, has quite a substantial reliance on Filipino labour. That is quite important there.

Viscount Ullswater: I should have started by declaring an interest in that I am a trustee of a land estate in Cumbria which receives government payments. Do you feel this problem is going to be complicated by the devolution settlements?

Professor Wyn Grant: My Lord Chairman, yes, devolution is always a complication in these matters. It is already a complication in the sense that in Scotland the way in which the living wage applies means there is not the same kind of reduction for workers under 25 as there is in England. That has already had an effect on Scottish producers. All these things are very much complicated by the determination of the Scottish Government, in particular, to pursue its own distinctive agricultural policy, to continue the payment of subsidies, and so on.

Viscount Hanworth: How are hops harvested these days? If it is mechanised, that suggests there is more scope for mechanisation than implied by Professor Grant. If it is not, presumably we would have migratory labour, which used to come from the East End of London. Perhaps that sort of labour could be encouraged again in a post-Brexit regime.

Allan Wilkinson: My Lord, I am fairly aware there is still a fair amount of labour used to pick the hops annually in this country, and it is not out of the East End of London, it is out of the east end of Europe. It is crucial to that sector. I am trying to make light of it but it is a really serious factor for that sector of UK agriculture. To take the point I was making

earlier about the confidence to invest, first, I am not absolutely sure that there is a mechanical harvesting system that would be as effective and, secondly, it would be quite expensive. That comes back to the returns for and the confidence of the individuals who would be looking to do it. I think that is a sector that would continue to rely on seasonal labour from somewhere. That is a great example of the challenge that we face.

Lord Rooker: On this issue of seasonal labour, basically, I want to put words into your mouth. The seasonal agricultural workers scheme, which was abolished some years ago, covered some 80 or 90 nations. It was abandoned when the European Union extended to the east with Romania and Bulgaria—the eight countries that joined then. Was it not the case that the former seasonal agricultural workers scheme was not a route to immigration and that, by and large, they all went back home at the end of the season, compared to European Union citizens, of course, who have the right to work and remain here? It was a completely different concept. It was looking for people who were out of university in their different countries; they had other jobs to go back to. It was not just an add-on, it was a completely different system—and it worked, I understand, incredibly well over the years it operated. Is that a fair summation of your understanding of it?

Professor Wyn Grant: Yes, I would agree with that. It was a scheme that worked very well. You had students coming over. The better producers arranged with local universities, and so on, to provide English language courses for them so they could improve their English, so they were getting all sorts of benefits from having a period of time in the United Kingdom, and then they would go back to their countries and resume their studies. Clearly, if we design a scheme in the future we will need to think about it differently and think about the extent to which we want to bring in labour on temporary work permits from outside the European Union.

The Chairman: Perhaps I could pursue a couple of points you mentioned, Mr Wilkinson. One is the number of people employed overall in the supply chain. Did you say 20% were non-UK nationals? I would be interested in where in the food chain those mainly are. Also—this comes back to the points Professor Grant was making as well—is there real productivity in the alternative between, if you like, cheap, flexible labour and machinery? Professor Grant, you said that, on the whole, there is no machinery or capital expenditure alternative. I wonder whether you agree with that, Mr Wilkinson, or has the fact that we have access to a very flexible, not very expensive but highly qualified human resource meant that we have underinvested in the industry and, effectively, are less productive than we could have been if we had gone down a different route? Maybe that is an opportunity for the future.

Allan Wilkinson: I apologise if my knowledge of the numbers involved may appear slightly vague; I think it is quite hard to track this. As far as I understand, and we have heard already, there is very heavy dependence on seasonal labour to harvest key sensitive high-value crops such as hops

and soft fruit and certain fruit and vegetables—intensive vegetables—and in the livestock systems in UK agriculture, for instance in dairy husbandry and other livestock operations such as intensive pig and poultry operations. When you start to look through the food chain, as I have already mentioned, some food processors are using and are very dependent on that labour supply, which they really value. I cannot overemphasise that; it is a crucial part of their whole function. I am thinking of some of the sites that would make things such as ready meals for us and process milk and meat. It is varied through the chain. As far as I can tell, it is around 100,000. It might be slightly more than that, but that is my closest figure. Do either of you gentlemen have a more accurate figure than that?

Professor Wyn Grant: My Lord Chairman, if I could quickly clarify what I said. There is mechanisation. If you go to a field vegetable plant you will see these giant machines going along the ground, but they have humans on them because the supermarkets do not want any damage to the lettuces arriving in their shops. I was thinking particularly about robotics, which people are experimenting with, but I think it is a long way in the future before we will see that in operation. Of course, it would be quite expensive.

Allan Wilkinson: If you do not mind, my Lord, can I go back to the second part of your question, which was about the substitution of the type of mechanisation we have heard of or keeping that very tailored labour supply? I must say that one of the things that gives the UK food industry its standing, not just with our own consumers here but globally, is the fact that it is tailored and very high quality. We certainly set very high standards. I hear many players in the sector argue that it is the quality of the labour supply that gives that added quality, whether it is the picking of vegetables, or whatever. When we come to look at the substitution of one resource for another, as we have heard, some technology is available, mainly robots and the like, but it is about making sure the industry or the enterprise concerned feels confident enough to make the investment, which might take two or three years—in some cases 10 years—to repay. That is a crucial factor in their thoughts. Indeed, I have already had some discussions with customers who are looking to upgrade, renovate, improve or renew existing sites. This is proving to be a really key discussion point at the moment in how they plan their operations, where they plan them and what systems will be in place to execute this high-quality food I have referred to.

Some people are starting to think about the key milestones that will help them make that decision so that they have clarity around, for instance, labour, or the other things we will probably come on to talk about in the questions that you ask.

The Chairman: Are you saying there is increased uncertainty now, or there is more certainty, so that investment might or might not take place?

Allan Wilkinson: I sense, my Lord, that there is more discussion. I cannot necessarily say it is complete uncertainty, but it has probably made the normal decision-making process slightly longer at the moment.

The Chairman: Thank you.

Q3 **Lord Curry of Kirkharle:** I declare my interests: I am a partner in a farming business in Northumberland and I am also a trustee of Clinton Devon Estate, both of which receive the Basic Payment Scheme. Good morning, gentlemen. I am interested in the area of regulation. At the 2017 Oxford Farming Conference, the Secretary of State said she would be scrapping the rules that are holding us back. I am interested in whether you think that is realistic and whether they are holding us back, or will do. What decisions will need to be taken in advance of leaving the European Union, as far as the whole regulatory regime that surrounds agriculture is concerned? I am interested in your views on that.

Professor Alan Swinbank: I will kick off but I am not sure I have any particular expertise there. As far as the latest CAP reform is concerned, the greening measures, I am sure there is room for improvement there, and I am sure there is room to examine all the regulatory provisions during the period while we are waiting to leave the European Union. I do not think we can repeal any of them until we have actually left. My gut reaction would be that, on the whole, those regulatory provisions are there for a good reason, so I would have to see a good reason for doing away with them. It is also partly to do with the trading environment we are in in the future. If we end up with a free trade agreement with the Americans, for example, they may well be pushing us to relax some of the regulatory provisions relating, for example, to genetically modified crops, beef hormones and chlorine washing of chickens. The whole thing is still largely up in the air, I think.

Professor Wyn Grant: My Lord Chairman, what would concern me is sometimes, regulations have been devised that are quite onerous in the burdens they impose on farm businesses in terms of paperwork and other forms of compliance, yet they are not very effective in achieving their objectives. The Secretary of State, in her Oxford speech, cited the three-crop rule, which I think partly originated through concerns which had nothing to do with the United Kingdom, but it seems to me a rather blunt instrument for achieving the policy objective. One would want to see regulations like that disappear as soon as they possibly could, or at least be substantially modified.

The Chairman: Do you have other examples, Professor Grant?

Professor Wyn Grant: Certainly if you talk to farmers they are concerned about the way in which the nitrates Directive operates in practice. They say they can see the need for that kind of provision but the implementation of it does cause them some concern, I think.

Lord Curry of Kirkharle: In response to the earlier question, I think it was you, Professor Swinbank, who said that there could be an

assumption we might still be able to access a tariff-free European market. Is it realistic to assume we can scrap regulations and still access that market?

Professor Alan Swinbank: We could, perhaps, scrap the environmental regulations and still access that market, but, clearly, as far as product specification is concerned, any product that goes into an overseas market has to meet the product specification of that market. If that relates to pesticide residues or some other such matter which relates to the product as such, then farmers and processors would still have to abide by those regulations.

Professor Wyn Grant: My Lord Chairman, I have done quite a lot of work on plant protection and pesticide regulation. I think the European Union would not be happy about farmers in the UK using any active substances or products that were prohibited in the European Union. They would not be willing to accept those exports into the European Union if they had been produced in that way. We would still be constrained by those Regulations.

Lord Curry of Kirkharle: Just trying to press you a little more on this, is there more we should be doing in advance of the Great Repeal Bill coming into effect at the end, one assumes, of the two-year period, in preparation for this? Do we just sit back, wait, have the Repeal Bill and then decide what actions we might take?

Professor Alan Swinbank: No, we should not wait; we should be putting in place reviews of the important issues now so that we are in a position to make changes, if thought necessary, as and when we leave the EU.

Allan Wilkinson: If you do not mind me saying, my Lord, I would add, on the back of what has been said, that some of the standards we have in place have opened up new markets for us. We need time to consider what is seen as a positive, and not only in the protection of the most important market, which is the one here: the 64 million people who need our food. We need to understand that. Also, if we are to open up new markets elsewhere, we need to consider which of the existing measures contribute to assisting that and maintaining standards, and which of those hinder that process. Personally, I think we need to go through that process of taking time to consider and think about what is involved at the moment, and then keep, adopt or otherwise.

Lord Selkirk of Douglas: Could I ask very quickly if it is desirable to have more proactivity on the part of the Government? Do you think that is something they could do quite readily?

Professor Wyn Grant: My Lord Chairman, one of the issues here might be the extent to which the resources available to Defra have diminished over time. There has been a substantial reduction in staffing in that department. One would want to see, as Professor Swinbank has suggested, preparatory work taking place in which we review the various

regulations and see those we might want to replace very quickly, but one needs the staff resources to do that.

Q4 Lord Rooker: I am a bit redundant, in a way, because Lord Curry of Kirkharle has dealt with most of the issues in my question. I will concentrate on a couple of aspects. Lord Curry started off quoting the Secretary of State at the Oxford Farming Conference, who wanted to scrap the rules that hold us back. She did not give a single example, except the three-crop rule—not one. She said she wanted to maintain animal welfare and animal health, and talked about not having the countryside littered with six-foot EU billboards. That is hardly an economic problem, as far as I can see. On the issue of, let us say, animal welfare, though, the complaint has always been that we have gold-plating issues in this country and we have gone beyond what we need to do and should do. Has that added economic advantage for our producers that now could be capitalised on outside the EU?

Professor Alan Swinbank: Animal welfare is a complex area and, to a large extent, concern has been driven by British concerns. Europe has caught up with what we wanted it to do. Regarding access to markets, it may well be that there is a niche market—to be able to say that these animals are kept in a particular way. Certainly in Britain there is a niche market. You end up with complications, as far as trade rules are concerned. Within the framework of a free trade area, you may have an agreement that certain animal welfare standards are kept and only products that meet those can circulate within that free trade area. As far as the World Trade Organization is concerned—if we are simply talking about World Trade Organization rules—then it is not really in Britain’s power to impose higher animal welfare standards on imports into the United Kingdom. We can regulate how we produce animals ourselves but we cannot, within the WTO rules, tell other people how they should rear their animals if they are to sell into our market.

Lord Rooker: You made reference earlier to American beef. If American beef had access to the UK market, would it not completely and utterly decimate the UK beef industry?

Professor Alan Swinbank: If you are talking about beef from other origins, from South America in general—

Lord Rooker: I am on about the United States.

Professor Alan Swinbank: As far as I understand it, the United States would have a price-competitive position within the British market, yes, but I think the real threat to beef farmers in Britain is not so much the United States but Brazil, Australia and the like.

Duke of Montrose: I declare my interests as a farmer in Scotland receiving money under the areas of natural constraint scheme. Following on from Lord Rooker, part of the idea of an advantage to Brexit is that we will develop great overseas markets for our niche products. What evidence do we have that these questions of animal welfare or special

restrictions on the use of chemicals will attract an area of the international market? Are they not more concerned with bulk food-buying?

Professor Alan Swinbank: If we are talking about developing trade agreements around the world, on the whole British farmers are facing potential competition from beef, cereals and products of that sort. Yes, there is an advantage in having high-quality processed products which we can sell into those markets, and if we have free trade agreements with countries such as Japan or we manage to resurrect the free trade area agreement that the European Union has with Korea, then we can continue to sell into those high-price protected markets. However, if we are opening up our agricultural sector to free trade with other countries, free traders around the world, then, on the whole, British agriculture is going to be a smaller enterprise than it currently is, I would have thought.

Q5 **Baroness Sheehan:** We have covered food supplies a bit in quite specific sectors. Could you talk a little about the implications of Brexit for the supply of affordable and good-quality food in the UK in general, and then go on to talk about any particular implications that arise for standards, traceability or consumer preference? You talked a little bit about reputational risks in your introduction, so I wonder if you could address that also.

Professor Alan Swinbank: It depends on what sort of Brexit we have. One version of Brexit is we would not really change our trade regime with the European Union. Another version of Brexit is we could open up our markets and have much cheaper imports coming into Britain with, hopefully, some downward pressure upon food prices. The price element is part of the negotiations. As far as the quality element is concerned, I do not think Brexit has any real direct impact upon quality. Supermarkets and food manufacturers will be keen to obtain good-quality products, well provisioned, regardless of where they source their supplies.

Again, it is largely down to the supermarkets and government provisions to maintain the standards. There are always allegations about someone else producing with lower standards, but that is part of the regulatory framework trying to ensure that standards are maintained. I do not think Brexit affects the availability or the quality of food; it affects the price of food, depending on what sort of Brexit we have.

The Chairman: What about food crime? That is an area which is, perhaps, increasingly important with the differentiation of cost between different types of meats, or other foods. Without the Commission there with a worldwide presence—how effective it has been, we do not know—is this an area where we can expect more challenge post-Brexit?

Professor Alan Swinbank: I will try to answer. If by Brexit we mean, we are going to stop co-operating with the European food agencies around Europe then that could be problematic, yes. If we manage to maintain some sort of co-ordinated approach, not just with our European

neighbours but with our other trading partners, then, hopefully, the scenario you sketch will not arise.

The Chairman: Is it dependent on, Professor Swinbank, continuing a relationship?

Professor Alan Swinbank: Not necessarily. I am sure we would put in place provisions to ensure that quality standards were maintained. This food fraud issue is quite problematic, I guess, and in part it may be down to the length of the food chain. I do not think Brexit or no Brexit is going to change the length of the food chain, so I think that is probably going to remain, regardless.

The Chairman: That is a perfectly valid answer.

Professor Wyn Grant: I think the issue here is how one invests in specialised detection resources. These things are not easy to track down. It is partly a question of what priority you give to this type of crime compared to other types of crime.

The Chairman: Thank you; that is fine.

Lord Curry of Kirkharle: Just a supplementary on the supply of affordable, good-quality food. Do you think it has implications for the proportion of home-produced food? Could it impact on our own self-sufficiency figures?

The Chairman: A good question.

Professor Wyn Grant: Again, my Lord Chairman, I think this is very dependent, as Professor Swinbank has said, on the kind of Brexit you have and what sort of trade agreement one might have with the United States, where American agribusiness interests will be pressing for entry for their cheaper products into the UK market. It is all very contingent, I think, on what sort of agreements we reach. Clearly, there is an issue related to niche products. For those products that are protected by geographical indications, such as Orkney cheddar cheese, to give one example, there is a concern that they will continue to be protected, but I think that should be possible.

Allan Wilkinson: If I might add, my Lord, thinking about the self-sufficiency that we have at the moment, with all the things wrapped around the agricultural policy as part of the EU, it is very hard to imagine that we will have an agricultural policy and food policy which are an exact, identical mirror image of those in place now. With that, obviously, comes some change, and until we know the detail it is hard not to expect that it will have an impact on some sectors or, indeed, on overall self-sufficiency. There are some sectors where we are heavily dependent on supply from Europe; there are other sectors where we heavily supply that European market from here.

The Chairman: You have raised geographical issues, such as, from my part of the world, Cornish clotted cream and Cornish pasties. Are those

protections beyond our own borders sustainable post-Brexit?

Professor Wyn Grant: My Lord Chairman, my view is in principle they should be, but we need to be cautious about this. Professor Swinbank may have a view on that.

Professor Alan Swinbank: I will express a view but I am not sure I have the expertise. It seems to me that the European Union, in all of its recent trade negotiations, has been very insistent upon protecting geographical indications of origin. If we had a trade agreement with the EU then I am sure that would be one of their demands. There are also various WTO rules which are a lot weaker, but once you have signed up to geographical indications of origin I think it would be rather difficult to extricate ourselves from that, as far as international trade is concerned. We would still have to, I think, recognise Parma ham, and the like. It is not really a two-way street. As far as I am aware, in Britain we have very few geographical indications of origin and it is very much more a policy pursued by our European partners.

Professor Wyn Grant: I believe we have something like over 50.

The Chairman: Are they enforceable afterwards? They are quite important to niche parts of the country.

Professor Alan Swinbank: They would be enforceable in an EU context, in the sense that the EU insists that we continue to recognise their geographical indications of origin.

The Chairman: I understand that with theirs but I am concerned about ours, worldwide.

Professor Alan Swinbank: Then we are back to WTO rules, and I am no expert on that.

The Chairman: That is a good prompt. We are going to move on to trade, and perhaps I could ask Lord Cunningham to start us off in that area.

Q6 **Lord Cunningham of Felling:** We are going to leave the European Union, and that means we will be leaving the Common Agricultural Policy. We will be in a free state, to some degree, although we will be, on the other side, governed by what you have described as rather weak WTO rules. They are not weak when it comes to the Government financing agriculture, are they?

Professor Wyn Grant: My Lord Chairman, one of the crucial issues here is, of course, the level of support that farmers receive under the Common Agricultural Policy which, for many farm businesses, has made the difference between running at a profit and running at a loss. All the projections would be that if you withdraw the Basic Payment then quite a lot of farm businesses will be plunged into very serious financial difficulty. Careful thought needs to be given to how we transition out of the Basic Payment. I am not saying the basic payment or that sort of blanket

subsidy should continue into the future, but we need to have a transitional arrangement to ensure that farm businesses are not faced with a cliff edge.

Allan Wilkinson: My Lord Chairman, I would like to add a little bit to that. Clearly, for the record, we will do our utmost to help our customers. We always do in periods of change. Helping those businesses adapt to the change, whatever the change is, is probably the most important part. Picking up on the points made about time and reference, clearly, to maintain all the things we have talked about—the high standards of food, the high standards of animal and crop production and to help those rural communities through that change—it is possible we need this transition period to help the industry adapt and to seize the opportunities that lie ahead.

Lord Cunningham of Felling: I can see that is important, of course, and you have a wealth of experience in that area—you and other organisations similar to the one you work for. Is the WTO going to give us a transition period? Or are we going to be faced with the WTO rules as they are?

The Chairman: Perhaps you could go through and describe to us what a WTO world looks like for the UK. That is what we are trying to get at.

Professor Alan Swinbank: There is no definitive answer to that, but the belief is that we would continue to remain a member of the World Trade Organization and would be bound by WTO rules including, for example, the Agreement on Agriculture and the Agreement on Sanitary and Phytosanitary Measures, and measures of that sort. Most people believe that the standard tariffs we have, the most favoured nation tariffs, would simply be inherited from what we currently have. The high sugar tariffs would be our high sugar tariffs, et cetera. We could, if we wished, reduce those tariffs unilaterally, or we could, within the framework of free trade area agreements, get rid of them. From that trade perspective, on day one after Brexit, things would be much the same as they are now.

There are two areas where there is absolutely no consensus, as far as I can see, among lawyers. The first is how the maximum amount of subsidy that the EU is currently allowed to give to its farm sector would be shared out between the EU and the United Kingdom, and that could be crucial depending upon the sort of policy we wanted to pursue later. The other characteristic of the agricultural sector is that there are many so-called tariff rate quotas—that is to say, a certain quantity of product that can be imported in at a lower rate of duty than the full rate of duty. People coming back from Geneva, where they are having lots of discussions, tell me that the Australians and others are monitoring that development very, very carefully because how those tariff rate quotas are reallocated between the EU and the UK matters enormously to some of their trade interests. They may find that some reallocations are not to their liking.

The Chairman: This is really crucial. Who decides whether it needs to be

split at all or how it is split? Is that a tripartite agreement between us, the EU and the WTO?

Professor Alan Swinbank: I think you need to go to Geneva to ask those questions. I am not qualified to answer them.

Lord Cunningham of Felling: That is a good idea, Chairman.

Professor Alan Swinbank: This is getting into highly complex areas.

The Chairman: We forgive you, if that is outside your knowledge. We have noted it for next time.

Professor Wyn Grant: Your specialist adviser knows probably as much as we do about the topic.

Lord Cunningham of Felling: We know about, and we have all seen the pre-briefing about, the meeting between the new President of the United States of America and our relatively new Prime Minister at the end of this week. If Mr Trump is as keen as we are led to believe on having a very good relationship with the UK and he suggests to Prime Minister May that that should include access to Britain for American agricultural products, what should she reply?

Professor Wyn Grant: My Lord Chairman, I think the Prime Minister would need to be very cautious about that because these products coming into the UK market could disrupt enterprises which are already in some difficulty. Beef enterprises, for example, are in some difficulty. The arrival of large quantities of chickens could have implications for the poultry sector. One has to be very careful about what level of access one gives the United States in the context of such an agreement, but there is no doubt the United States will be pressing for such access in return for favours elsewhere.

Lord Cunningham of Felling: That sounds like a no to my question—they should not allow American agricultural products access to the UK market.

Professor Wyn Grant: I think, my Lord Chairman, we should allow them very limited access; we should be very cautious. At the moment, there is very limited access into the EU for the so-called Hilton beef, but one would not want to expand that access too much if one wanted to defend British beef enterprises.

Lord Cunningham of Felling: Similarly, with, say, Australia or New Zealand: New Zealand lamb is marketed in the UK now; you can see it in Waitrose and elsewhere. Should we be looking for good, open fair trade deals in agriculture with Australia and New Zealand?

Professor Wyn Grant: My Lord Chairman, I would have had some concerns about the nature of an agreement with New Zealand. As you say, of course, already we allow in a certain quantity of New Zealand lamb. In some years they have not taken up the full quantity because

they also have very substantial markets in the Middle East and elsewhere. There has been talk of a free trade agreement with New Zealand in which we want certain advantages in relation to financial services. The pay-off for that would be greater access for New Zealand agricultural products to the UK market. Of course, they would again compete on price but the sheep meat sector is, again, in quite a marginal financial position.

Professor Alan Swinbank: Australia, in particular, would be very interested in expanding its sales of sheep meat to the British market. It currently has a very small tariff-free quota compared with the much larger tariff-free quota that New Zealand has.

Lord Cunningham of Felling: Can you name any countries in respect of which an agricultural trade agreement between them and the UK would be positively beneficial to UK agriculture?

Professor Alan Swinbank: Japan, Korea, Norway—countries with highly protected agricultural sectors, where we appear to be less highly protected.

Lord Curry of Kirkharle: Going back to WTO rules, have you any concerns about any future support system being compliant with WTO rules dubbed "Green Box", based on what we have now?

Professor Alan Swinbank: Yes, in the sense that the green box—this is parlance within the WTO describing policies which are not subject to financial restrictions—rules are quite complex. One could argue that the current European Union system of direct payments is not a credible Green Box measure.

Lord Curry of Kirkharle: That is why I asked the question.

Professor Alan Swinbank: No one is going to challenge it at the moment because the European Union has such a large allowance in terms of its support, but if we came out of the EU and continued to give that same support within Britain and, in the divvying-up of the allowance between the EU and the United Kingdom, we ended up with a very small allowance, we could potentially be in some difficulty. If we continued the direct payment, if it was deemed to be not a Green Box payment, we could end up exceeding our WTO allowances. What would then follow from that would depend upon whether anyone challenged us, how long it took and what sort of measures were taken against us. If the United Kingdom wants to be seen as a paragon in the WTO, then it would not be a good start to have a ruling against us.

Baroness Wilcox: I was Chairman of the National Consumer Council for seven years and during that time we encouraged the European Union to come in with the precautionary principle after some wheat had come in from the United States and gone straight into biscuits, and gone through. There was a lot of trouble at that time. Some of the questions you are being asked to answer strike me as to do with definitely looking after the

consumer, so the question I would like to ask you is: since the National Consumer Council and others were all put in together with the Citizens Advice Bureau, do you think consumer representation is strong enough for us coming out on our own from the European community?

Professor Alan Swinbank: Not at all. It has not been strong enough for some years. We went through the last CAP reform and there were no consumer voices at all being expressed about the policy changes. It is a tragedy that the consumer voice is so weak. I think the National Consumer Council used to do a very good job.

Baroness Wilcox: Thank you. I am very pleased to hear you say this because I think we should now be looking very strongly at what we are doing for consumer protection. The sorts of questions you are having to try to answer now are those that such an organisation would be answering.

Professor Alan Swinbank: At the moment we have the farm lobby, quite understandably, and we have the environmental lobby, but we do not have a consumer lobby arguing for a change in policy.

Baroness Wilcox: Thank you very much.

The Chairman: The Duke of Montrose, and then I think we need to move on from this subject.

Duke of Montrose: We were discussing the question of importing beef from the US. Would we be looking to have any restriction on or designation of growth hormones?

Professor Wyn Grant: My Lord Chairman, at the moment there is a restriction through the European Union—that only a very limited quantity of this beef is allowed into the European market. I think this is an issue which consumers and others might be concerned about, about beef being produced in this particular way. It may be, of course, that consumers, if they were aware of the way in which the beef is being produced, would not want to buy it, but then of course price is often a very big driver of consumer behaviour. We need to be very concerned about these sorts of issues.

Professor Alan Swinbank: I think the US is a very unpredictable trade partner at the moment. If we have a hard Brexit and if we are trading by ourselves and continue to have restrictions on beef hormones, then I would predict that the United States would take us to a dispute settlement panel within the WTO pretty quickly.

The Chairman: Thank you very much. Let us move on to Lord Selkirk, please, on trade.

Q7 **Lord Selkirk of Douglas:** Perhaps I can declare a family interest in a small company which owns pockets of land, a few fields, for grazing, and one which has an interest in a possible turbine. May I ask to what extent and how food and agriculture supply chains will be affected by Brexit?

How could any adverse impact be mitigated? I would like to go on from that to ask a further question: to what extent are agricultural products processed in the UK only?

Professor Wyn Grant: My Lord Chairman, clearly one of the concerns I would have is that if there is a sudden and substantial withdrawal of subsidy, some farm businesses are going to run into trouble, and that will affect the production that comes from within the UK for the food chain. That will have a knock-on effect. If that product was not available one would have to import more, and the domestic self-sufficiency level would fall.

Professor Alan Swinbank: In terms of the food chain, we import quite a lot of product from the European Union, largely because, in the case of meats, the external tariffs are so high that it is not possible to bring in product from elsewhere. The supply chain could be heavily disrupted in the case of a hard Brexit. One thinks of the port of Dover trying to cope with products coming in and coming out. If we have to start checking microbiological contamination of chicken carcasses coming from the Netherlands, for example, those tests can take several days and the product wastes in that period. There are all sorts of complications of that sort. Particularly in Ireland, where you have companies shuttling wagons backwards and forwards across the border with products being partly manufactured in one part of the island of Ireland and partly in the other, it is a terrible outlook. I heard the other day that 30% of the pigs grown in the Republic of Ireland are slaughtered in Northern Ireland. The implications for supply chains are quite considerable.

Allan Wilkinson: My Lord Chairman, I would like to emphasise the points that have been made about specific customer cases. When I speak to our customers they want to make sure that they maintain standards, but they pick up the point about how fresh and efficient the food chain is now seen by the public: it is able to deliver high-quality, fresh product, if you do not mind me saying, just in time—that well known phrase. They regularly highlight the points that have been highlighted about borders and making sure that paperwork and all the documentation is right in order to effect such an efficient process.

Lord Selkirk of Douglas: May I ask a very elementary question, to which I am sure I should know the answer? Do you know exactly what percentage of our own food we are producing, both with livestock and with crops? Is the trend in the direction of us producing more food for home consumption, or not? Do you have a clear picture on that?

Allan Wilkinson: My Lord, I think the latest self-sufficiency figures are around 62% of the crops that we can grow, and livestock, but obviously that varies by sector. There are some products where we produce far more than we would need here and their export into Europe has been mentioned—things such as cereals, oilseeds and lamb which we export quite heavily. We are extremely dependent on fruit and vegetable sources globally, for obvious reasons. I think the fruit and vegetable trade deficit is about £8 billion. We export about £1 billion-worth of fruit and

vegetables. Obviously, we source all the pig meat that we cannot produce ourselves from Europe, for obvious health and safety standards, but, as has been well reported, we are starting to export the so-called fifth quarter into the Far East, with good effect. It is mixed right through each particular sector. But I think 62% is the latest figure I have seen.

Lord Selkirk of Douglas: Thank you.

The Chairman: Can we move on to the funding side of agriculture, and Viscount Hanworth?

Q8 **Viscount Hanworth:** Is there a case for the continuation of the funding regime for farmers? I think we have been talking about this for quite a while. This relates to direct payments to farmers under Pillar 1. If I can extract something from the text that Allan Buckwell has written for the Worshipful Company of Farmers, he says, "If these payments were eliminated from one year to the next and nothing else changes, then the figures show a fall in farm business income ranging from 31% for dairy farms to 112% and 137% for grazing farms in lowlands and less favoured areas respectively." That is closely aligned with what Professor Grant was telling us. There seems to be a consensus among agricultural economists that the benefits of the direct payments are being dispersed throughout the supply chain with only small benefits to the farmers. The converse suggestion is that if these direct payments were removed then the effect on farmers would be not nearly as dramatic in the long run, given the process of adaptation, as has been suggested by Buckwell's figures. Can we talk about this issue? Can we get some sense of the likely impact of a diminution in direct payments?

Professor Alan Swinbank: Most British agricultural economists, and, for that matter, most European agricultural economists, have been highly critical of the direct payment regime for many years, believing it does not fulfil any substantial objective. It is presented in the sense of a mechanism of income support and yet it is not related to the level of income of the farm household, or whatever. It is presented as a means of supporting multifunctional agriculture, but there is no direct link to that. There are cross-compliance conditions attached, but they are not really related to the level of payment. Certainly I think there is a good case to substantially reduce, if not eliminate, those payments over time. Admittedly, if you did it overnight, that would have a drastic effect upon individual farm businesses, so some sort of phased reduction might be called for. If I were advising the Government, I would say, "Right, you've made a guarantee that these payments will continue until 2020" and say two further things. One is that 30% of that payment is supposedly a greening element. From the day we leave the EU that 30% will be used for what is currently referred to as Pillar 2 expenditure on agri-environmental schemes, and the remaining element will be phased out over a five, 10, 15-year period—however generous a timeframe you wanted to give. That gives farmers some time to adjust. There will be problems in adjustment but it does not make sense to continue making those payments, many of which were authorised because of price

changes that took place in 1992 in the first reform of the Common Agricultural Policy.

Professor Wyn Grant: My Lord Chairman, I am not an economist, but I would agree with most of what Professor Swinbank has said. I have written a paper for the Yorkshire Agricultural Society, which I have just finished, proposing how one could phase out these payments and how one could, instead, give farms a capital payment to reinvigorate and reinvest in the business. We need to think about how we can phase them out. I think we need to get rid of them eventually; it is a question of how we do it in such a way as not to disrupt the industry.

The Chairman: What would your customers reckon, Mr Wilkinson?

Allan Wilkinson: Certainly, my Lord, they make the comment that we have arrived here through a very convoluted route, and if we were starting again, which I suppose this process implies, we might not start from where we are at the moment. Having said that, many businesses are looking for direction; they are looking for leadership, for clarity and for a period of time to adapt without making that so long that we do not see any change. I think most businesses would be ready and prepared to make that change if they had the clarity and direction and if they could see what a food and farming strategy would look like, either as the UK or as devolved countries. There is no doubt about it, if we had a shock some businesses would really struggle to cope with that change.

The Chairman: I have a number of members of the Committee who want to come in. Perhaps I can ask them to be fairly short in their supplementary questions, given the time. Lord Rooker first.

Lord Rooker: Briefly, on this one. We were supplied with your paper, Professor Swinbank, on trade policy, which I found very interesting and very useful. It was written post-Brexit, whereas some of the other stuff we have had was written pre-Brexit with people assuming we were going to remain, which colours it a bit. You made the central point on subsidies that the present system makes us less efficient than we should be. I would ask you to address that on one aspect only. The farmers who can make a special case in England are those in the uplands. There is a different factor involved in incomes on the uplands because the opportunities for doing other things are completely different from those of the "grain barons" in East Anglia, for example.

Professor Alan Swinbank: The extent to which those direct payments impact upon land prices and rental values is debated, but none the less they must have some upward impact. New entrants to the industry either face higher land prices or higher rental charges to enter the industry. Those who are already there benefiting from the payments do not have the same incentive to change their production structures as they might otherwise do. There is lots of evidence to suggest—Wyn has been quoting the data—that many small farmers are not making a living from farming, as such, they are making a living from the direct payment. I am afraid we

are talking about a restructuring of the industry if we do away with them, but a more efficient, dynamic industry would emerge as a consequence.

The Chairman: I have Duke of Montrose, Viscount Hanworth and Lord Curry, then I want to move on to the final question.

Duke of Montrose: I am not sure we would ever get the Government to admit to this but should we be asking them to consider what they think is the total number of farmers we need in the country? We have a level on the question of self-sufficiency at the moment, but what would be the trigger for saying we cannot go below a certain level?

Professor Wyn Grant: My Lord Chairman, of course, the Treasury has long had these payments to farmers in their sights and would like to get rid of them. Government will probably want to specify this as levels of output rather than the number of farmers. There is a very real issue which has been alluded to about upland farmers, and it may be that some sort of payment for ecosystem services might help them, in particular.

Viscount Hanworth: My question is: what proportion of agricultural land is rented? The question relates to the suggestion that if some subsidies were withdrawn then rents would fall and, therefore, some of the distress faced by farmers would be mitigated.

Professor Alan Swinbank: I do not have the figure to hand. Is it 50/50, more or less?

Professor Wyn Grant: Yes.

Professor Alan Swinbank: Very roughly.

Professor Wyn Grant: You have to remember that a lot of enterprises these days have a mixture of owner-occupied land and rented land.

Professor Alan Swinbank: The rented land market is not a perfect market by any means; it is not straight out of an economics textbook, so there would be all sorts of implications for the way individual rents might move over time. You would not expect to see rents falling the day after you moved.

The Chairman: Tenant farmers are represented next week in our evidence session.

Lord Curry of Kirkharle: We passed over the impact on hill and upland farmers quite quickly. I think it is really serious. Lord Rooker mentioned it and if you have any further comments on that I would quite like to hear them. Secondly, how concerned are you about losing that cross-compliance element of the Basic Payment Scheme, if it went? If it was replaced, as you say, by Pillar 2 funding then that is voluntary and optional. Cross-compliance is statutory, it is a requirement, and some of the environmental benefits we are currently required to comply with under the basic payment scheme might be lost.

Professor Alan Swinbank: It does seem a bit odd to me that if there is a requirement to do a particular thing with your land, you are rewarded for doing it by being paid a direct payment. The argument has been made that cross-compliance is important to ensure compliance, but if there were a problem then surely the answer would be to up the penalty for not complying with the rules rather than this indirect route of rewarding people through a direct payment for obeying the rules.

Lord Curry of Kirkharle: The two-metre margin is not a rule, it is a requirement, or I would lose the two-metre margin.

The Chairman: We are going to follow on this with Baroness Wilcox.

Q9 **Baroness Wilcox:** To what extent, and how, could the provision of public goods and ecosystem services be promoted or protected through the agricultural sector after Brexit?

Professor Wyn Grant: My Lord Chairman, this is a very interesting area. We do not have any experience of paying for these services, and they are a complex range of services which would be provided, such as preventing flooding downstream, afforestation, protecting peat land, and so on and so forth, but it does open up possibilities for looking after upland farmers. Certainly in Wales, for example, they are very concerned about what is going to happen to upland farmers in Wales, and particularly about the vulnerability of the sheep meat sector to changes as they occur. We do need to investigate much more closely how one would operate a system of payment for ecosystem services.

Baroness Wilcox: Thank you.

Q10 **The Chairman:** As this is our first evidence session, perhaps I could ask each of you for your opinion on what is the one crucial thing we should follow up in the rest of our inquiry, if that is not an unreasonable question. What should we really concentrate on? Could I go the other way and ask Professor Grant to start first?

Professor Wyn Grant: My Lord Chairman, it is important to identify those regulations which are not very effective but which have an onerous impact on farm businesses, and which one might want to either get rid of or change the way in which they are put into practice.

Professor Alan Swinbank: I would largely agree with that, but I would add that the whole food chain needs further examination—trying to understand our dependency on imports and how it impacts upon the food industries. Your inquiry should not be about just agriculture but the food industry as a whole.

Allan Wilkinson: I would like to emphasise what has been said about the standing of British food; the standing it has with the UK consumer and the potential standing it has in those new markets which our politicians have talked about.

The Chairman: Good. Mr Wilkinson, Professor Swinbank and Professor

Grant, thank you very much indeed for starting off our inquiry with a very good grounding on these issues. I bring this public session to an end. Thank you.