



Select Committee on the European Union

Energy and Environment Sub-Committee

Corrected oral evidence: Brexit: agriculture

Wednesday 22 February 2017

10.30 am

Watch the meeting

Members present: Lord Teverson (The Chairman); Lord Cunningham of Felling; Lord Curry of Kirkharle; Viscount Hanworth; Lord Krebs; Duke of Montrose; Lord Rooker; Lord Selkirk of Douglas; Baroness Sheehan; Lord Trees; Baroness Wilcox.

Evidence Session No. 5

Heard in Public

Questions 59 - 71

Witnesses

I: Richard Hebditch, External Affairs Director, National Trust; Tom Lancaster, Agricultural Policy Officer, RSPB; Professor Ian Hodge, Department of Land Economy, Cambridge University.

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Examination of witnesses

Richard Hebditch, Tom Lancaster and Professor Ian Hodge.

Q59 **The Chairman:** Can I welcome you to the next evidence session for our look into Brexit and agriculture? Can I just remind Members to declare any interests that they have? This session, obviously, is a public session and although we are not being televised, we are being webcast and we are also taking a transcript. I would say to our witnesses that if when we send you a copy of the transcript there is anything on it that you feel is inaccurate, please let us know and we will change it.

Perhaps I could ask, not just for the Committee but for people listening and the public, if you could briefly introduce yourselves so we have some context to the meeting. Mr Lancaster, perhaps we can start with you and work across.

Tom Lancaster: I am Tom Lancaster. I am a senior land use policy officer at the RSPB. For four or five years I have been leading our work on agri-environment policy and Common Agricultural Policy implementation. Since 24 June I have been spending a lot of time thinking about what comes next.

The Chairman: We look forward to hearing about that. Professor Hodge.

Professor Ian Hodge: I am professor of rural economy in the Department of Land Economy at the University of Cambridge. I started my career as an undergraduate looking at the possibility and the implications of entering the European Common Market and, as I have reached the later stages in my career, I am spending a long time looking at the consequences of exiting from it. I have an interest in land, environment, agriculture and rural issues, primarily from an institutional economics perspective.

Richard Hebditch: I am Richard Hebditch. I am external affairs director for the National Trust. Obviously, we have a very strong heritage interest but we also own a lot of land. As part of that we are a very big farmer ourselves on land we directly manage as farmland. We also have around 1,800 tenancies, slightly fewer tenants, and we have a big farming interest as well.

The Chairman: Part of this session is to look more broadly than at farming as such, into the rural economy and some of the other areas that are involved. Perhaps I could start by asking you what you see as the implications of withdrawing from the CAP on the management of the countryside and the agri-environment. Who would like to start on that side?

Richard Hebditch: This is potentially the biggest peacetime policy change since the repeal of the Corn Laws. This is a very big thing: £3.1 billion is spent from the Common Agricultural Policy within the UK, which drives certain behaviours. The end of CAP will be a very significant change, particularly for many farmers for whom it is very important,

particularly those upland farmers or coastal farmers in less favourable areas, where they are very reliant on farming. I think it also has the potential to change things for the natural environment, as the RSPB and others, including ourselves, have shown with the *State of Nature* reports. Nature is very much under pressure. The long-term future of farming depends on the natural ecosystems that support it. This is a chance to think about what we really want to do in how we support the natural environment, and to change to a policy that works for the long-term future of farming but also starts to address the decline in nature as well.

Professor Ian Hodge: We have to think about what CAP does and therefore what the implications are of potentially removing that. CAP creates incentives for farmers to increase intensity and incentives for them to reduce intensity in different contexts. We need to unpick that and think what the implications would be and, by that token, if we took that away, some farmers would find that they were not viable. Farmers tend to be quite resilient. They tend to hang on in land use. We have not often in the past seen the radical changes in land use that we might have expected, but I think if you took away subsidy in the medium term, we would see a lot of land being abandoned and so on. Also, if you removed elements from Pillar II, which are trying to restrain intensity, we might see some farmers going back and increasing their intensity again. I think it is a mixed pattern that is fairly hard to predict, but there will be elements of both.

Tom Lancaster: Picking up on Professor Hodge's point, I think it is important to note the reliance of the UK and conservation and sustainable land management efforts in the UK on Pillar II-funded agri-environment schemes. In that respect, there are significant implications for existing environmental land management initiatives, such as agri-environment schemes, and the way that they interact with private sector funding through water companies. They are quite important, or absolutely fundamental in underpinning those efforts to achieve more sustainable land management, but they are limited, and it is important to recognise that the CAP is a massively inefficient policy when it comes to the use of public resources. In some respects the implications are absolutely massive. Whether or not there is a positive or negative outcome depends upon how proactive we are in reacting to that and planning for the future.

The Chairman: Going back to this idea that it is one of the biggest changes since the Corn Laws, this could be an occasion where how the UK's land surface looks could change quite radically over the next 10 years, or is the momentum to stay the same likely to be there?

Professor Ian Hodge: It strikes me that there is huge path dependency in policy: once you have set out in a particular direction, you become very quickly committed to that direction because of the political forces that bear on it. If you look at the development of the Common Agricultural Policy over the last 40 years, if it was compressed into a decade, it would have looked like a rational, probably fairly rapid adjustment in a logical way, but of course, it has been spread out over

several decades, a much longer period. My sense is that the nature of this opportunity at the moment is remarkable because there is a possibility we may be able to take of setting out in a different direction. I have been trying to persuade people that we do not really need an agricultural policy; we need an ecosystem services policy. We need to set out thinking that our aim should be to deliver the maximum social value from rural land rather than to recreate an agricultural policy. If we set out in that slightly different direction, I am not sure I quite know where it will lead in the longer term, but it seems to me now is an opportunity to change direction that will not occur again.

Richard Hebditch: I think it is also important to think about the trading position. That is what really worries the National Farmers' Union, obviously. There are going to be the imports and exports that we have, how farmers are locked into—not locked into but, as you were saying, there is path dependency: we have certain trading patterns; how will they change? What will be the implications of the UK leaving the EU, the EU's regulatory framework, and then having a choice around whether we adopt elements of an American trading framework? How do we compete with the very big farms in America, South America or New Zealand? There are potentially major changes across trading, regulation and funding. Those are potentially three massive drivers of change.

Tom Lancaster: The CAP is obviously a huge policy. It has had a major influence on how we use land in this country for the last 40 years. Similarly, European regulation and legislation has had an influence of a similar magnitude, but there are levers that have been domestic all that time, particularly around fiscal policy and the tax regime. Leaving the EU provides an opportunity, I think, to meld what have been European competences with what have always been domestic competences, to create a more coherent policy framework that manages that change. The question about change is probably pertinent but it is not one we can answer. That debate has not really started yet, and is unlikely to start until some of that change becomes apparent. As it becomes apparent, the policy framework will need to be fleet of foot in managing it and reacting to it but, as I was trying to say earlier, we will need to be proactive in how we plan and predict so that we are not always on the back foot for the next 10, 20 or 30 years, or however long this takes to play out.

Lord Krebs: If I could follow up with Professor Hodge, I was very interested to hear you say that you were advocating the replacement of an agricultural policy with an ecosystem services policy. Would you envisage within that imposing constraints, for example, on the requirement to produce food, or could it be the case that eventually our farmers farm birds, butterflies and wild flowers?

Professor Ian Hodge: I think the answer is that our farmers should be farming both. In the land-sparing/land-sharing debate I incline towards the land sharing. I tend to think of the UK as an example of an old world country where the environment that we value is a consequence of a long

period of agricultural production. That is why sometimes we are trying to increase farmers' intensity and sometimes we are trying to decrease it, because we want what we might think about as a well-managed environment that is managed by agricultural production to a large extent. In most cases it is going to be a matter of producing agricultural products and ecosystem services, or other ecosystem services. I think what is important about that approach is that it is recognising marketed output as an ecosystem service, as a provisioning service, alongside other sorts of services such as cultural services, and we need to think about that balance, which will vary from place to place. I do not anticipate any particular constraints on marketed outputs, and I guess it takes us into issues about property rights and so on—what rights landholders have and how we develop those rights over time. We have seen constraints on production through Nitrate Vulnerable Zones, but we have tended to think about the services in a positive light. I could suggest we have ecosystem disservices as well, and that we need to think about how we regulate those disservices and encourage those services, trying to find a balance. I think an ecosystems approach probably suggests that we think about that on a more local scale rather than trying to think what that means on a national scale.

Q60 The Chairman: Can I tie up the beginning of our evidence session by asking you about ecosystems? Also, the Government have said they want a better environmental outcome from Brexit than there was before, which I am sure we applaud. Are we saying there needs to be a radical change, getting rid of Pillar II completely and replacing it with something else? How does that work?

Richard Hebditch: In some ways it is a difficult debate we have been having, because there is nothing to quite fasten on to. Sorry, I am not quite answering your question. At the moment it is very difficult for organisations such as ours to engage with Defra around what future policy might look like, because of the uncertainty around what the trading position would be like, and because of the uncertainty around how devolution impacts on this. We are not really seeing a conversation around what the replacement scheme design might look like. For us it is very much about how we adapt over time, so building on what we currently have, particularly around the Pillar II agri-environment funds. I think there is a need for support for farmers to adapt to a new world, investing in their ability to change, but in the long term it is probably a mixture of the possibilities around grant funding, the sort of things you know landowners, farmers, can deliver, and then perhaps more of a move to buying outcomes around ecosystem services. That probably requires some change in how you set that up, but it is about building on what we currently have. There is a need for farmers to be able to transition to that, not to have a cliff edge where suddenly all support disappears, and they are left facing potentially a very difficult international trading situation, the decline of Pillar I subsidies, and particularly there is a danger for those in upland areas, where they are very reliant on that funding to survive. Most farmers do not make a profit from their farming activities but depend on diversified income from

tourism, farm shops or elsewhere, and from basic payments from Pillar I and often agri-environment funding from Pillar II as well.

Tom Lancaster: In terms of Pillar II, it is not a case of a like-for-like replacement but it is certainly a case of building on the successes of agri-environment schemes in particular, which are funded by Pillar II. Typically, our experience to date suggests that those schemes have been underfunded, so while there have been very important successes, for example, in species recovery, improving the condition of certain habitats, improving water quality, it has been a story of one step forward, two steps back, because the scale of that expenditure has not been sufficient to address some of the environmental pressures coming from the other side, particularly from agricultural management, which evidence suggests is still the biggest driver of environmental degradation, biodiversity decline, et cetera.

I think there is a lot to learn from Pillar II-type measures, in that they are contractual, targeted, and outcome-focused—the expenditure is related to those outcomes, typically through a proxy of actions. When you compare that to Pillar I, which is entitlement-based, untargeted, inefficient, and there is no link between outcomes and payments, clearly Pillar II is the model we would want to adopt, but the lessons suggest it was not sufficient, so going forward it will be a case of taking the lessons from it but significantly scaling up our ambition and our activity.

Professor Ian Hodge: The answer is not just to say I agree with that; I do agree with that but perhaps I would emphasise the point that my sense of an ecosystem services policy is a direction of travel, and I would absolutely say that we need to gradually get into that and not fall off a cliff. That seems to me important. The other point I would make is that agri-environment policy is the major source of funding for payments for environmental purposes across the whole economy—not just agricultural policy but much more generally—and therefore we need to think about how we use this funding. The fact that we are talking about Pillar II suggests we need a new language for how we describe and discuss these things.

Q61 **Lord Curry of Kirkharle:** Can I declare my interests? I farm in Northumberland and receive the Basic Payment Scheme. I am also trustee of Clinton Devon Estates, which also receives the Basic Payment Scheme. Both are actively involved in stewardship management.

I want to press you a little more on the implications of potentially losing EU support, particularly Pillar 2, the consequences of that and the risks associated with that for the rural economy, for agri-environment, et cetera. There was also some reference to the impact on the upland areas. It would be helpful if you expanded on the impact of the loss of that on different areas of the United Kingdom, if you would not mind.

Tom Lancaster: We are obviously very mindful of the risks of losing Pillar II income. The Treasury commitment to allow Defra to continue those Pillar II schemes until we leave the EU and then honour those

agreements until they expire is obviously very welcome. That is the only public money on offer to farmers now beyond 2020. While that is a significant risk, our focus is obviously on the opportunity of using Pillar II as the main model for how we can construct future agricultural and land use policies across the UK.

There are risks, but our focus is on how we can take the lessons from that and create opportunities for the future. As for uplands, clearly particular consideration needs to be given to the more economically marginal and vulnerable farming systems, not just in the uplands but elsewhere in the UK. The Highlands and Islands of Scotland are a classic example, but those areas are also renowned for producing a lot of the environmental goods and services that we would want to see a future policy provide. In some respects, we need to think about turning those risks into an opportunity for those farmers—not just turn them into landscape managers; that is not at all what we are talking about, but to try to make sure that agriculture that is practised in those areas and that can deliver those goods and services is rewarded for those goods and services.

Professor Ian Hodge: There is, I guess, some evidence of the impact of Pillar II from a lot of ecological work, much of which is slightly ambiguous; it has proved very difficult to demonstrate the extent and nature of the benefits arising from agri-environment payments. The consensus is that there is clear evidence of some benefit, although we note that the farmland bird index has not been turned around, so it is not an overwhelmingly successful impact, and that is the implication that we are not doing enough. Do not forget what Pillar I is doing too. Pillar I payments are standard, fixed across all areas irrespective of what we may or may not want to achieve from those areas—and I think that is a problem—clearly in areas such as the uplands Pillar I is fulfilling a substantial role in keeping people on the land. We need to think about the combination of these two types of funding. It seems to me there is lots of scope for taking Pillar I payments and using them in a more targeted and thoughtful way. We should not forget those payments completely.

Richard Hebditch: I think there is also a risk around losing some of the gains we have had so far. We are aware of cases, perhaps less in the upland areas, where there have been Pillar II agri-environment schemes—grassland reversion and things such as that—where farmers are now ploughing up the habitat creation that has taken place already. There is that danger as well. There is some evidence from the *State of Nature* reports that the rate of decline we have seen in many species has been slowed, or for some reversed, and there is a danger of losing some of those gains we have had already.

Lord Curry of Kirkharle: You may be aware that I was the sort of architect of the entry-level scheme, and I am concerned at your latter point, that many farmers, having made some progress in their agri-environmental stewardship management, are now in danger of going

backwards, because the current schemes look very bureaucratic and difficult to access, and the funding is quite limited. On what happens afterwards, I would suggest that we need to be quite careful in how these things are designed so as to attract farmer engagement. One of the downside risks—and I am interested in your views on this—is that if Pillar I funding disappears, the cross-compliance element of Pillar I disappears also. We could risk going backwards at an alarming rate if these issues are not recognised.

Richard Hebditch: I think so. It is also a bit around long-term certainty. The EU provides that long-term certainty about the Common Agricultural Policy. It changes slowly. What would be worrying around UK policy or England policy would be the extent to which it is very tempting for the Treasury every year where there is a funding shortfall to look at taking a bit out of whatever replaces the Common Agricultural Policy in England. That would be the worry, that you do not have the certainty that farmers and other land managers can plan for; you do not have that certainty about keeping the gains you have had from agri-environment schemes.

There is also a bit of a point around the extent to which Pillar I is a form of social contract between farmers and society at large, and what might replace that, whether we can keep some element of that which accepts that farmers have a role, the kind of farming that the country accepts is a certain kind of farming, and how we can perhaps keep that kind of social contract in a scheme that replaces the Common Agricultural Policy.

Professor Ian Hodge: There is an important question we should be asking and I am not sure whether anyone is, which is about the longer-term effect of Entry Level Stewardship. One of the arguments about Entry-Level Stewardship was that it would draw farmers into thinking about the environment and managing the environment on their farm at a very broad scale. If you take that away, there is a question whether that either leads to farmers being better environmental managers, so there is some continuation even if they are no longer in a scheme, or it could have the counter-effect that it commoditises environment and they only look after the environment if they are paid to do it, and therefore if we stop paying them to do it, they stop managing the environment. I am not sure which of those two sorts of effects is likely to be more significant.

On cross-compliance, it comes back to the question about regulation and what the rules of land management should be: do we say we lose cross-compliance because we dismantle Pillar I, or do we say cross-compliance rules are really just good land management and therefore we should roll these into some enforceable code of practice for the way in which land should be managed in the future?

Tom Lancaster: That reflection on cross-compliance, starting at the end of your questions, is absolutely right. Cross-compliance was brought in, in 2005 or so, so that where farmers and land managers were receiving public money, they should not receive that money if they were breaking the law, effectively, because most of what comprises cross-compliance are existing Regulations that stand without the payment. Over time, that

has morphed into the public having to pay farmers not to break the law, which is a totally perverse use of public money and is a bit of a perversion of its original purpose. As Ian said, we need to think about how in the future we can create a regulatory framework that stands independent of any future payments and is enforced independent of any future payments.

On your point about ELS, conceptually it was a great scheme; but there were options in it that did not provide significant benefits, did not provide value for money, and dominated the budget, but you are right that there are elements to the new scheme that are very bureaucratic. A lot of that though flows from European requirements, such as the record keeping, the single annual start date, various other points of detail, and that is an opportunity when we leave to create a less bureaucratic scheme but also one that melds what we have done with countryside stewardship in England with the concept of entry-level stewardship, which was, as you say, attractive and accessible for a lot of farmers.

The Chairman: When we did the environment report, one of the big issues that came from NGOs was that the European context on environmental policy legislation gave long-term stability, so everybody knew what they were doing. People could invest in particular policies because they knew that, however good or bad they were, they would be there for quite a long time; there was stability. I am interested, particularly perhaps Professor Hodge, in the agricultural policy, in a way. That is going to be the same issue: at the moment, maybe for bad reasons, it is not easy to change the CAP, but post Brexit one Parliament could change the system quite regularly, and this is true of the devolved Administrations as well. Is that an issue, or is that something we should not be concerned about?

Professor Ian Hodge: I think that is an issue, and one of the features of Pillar II, of course, is that the funding is not long-term; as we have seen, the schemes come and go, and farmers do not quite know where they stand. One of the things we have been looking at fairly recently is large-scale conservation areas. I will make two points about that. One is they are substantially using agri-environment funds as the mechanism for influencing land management by encouraging farmers to use agri-environment schemes in particular ways. The other is that there does not seem to be a dedicated funding stream, despite the Government saying, "This is the approach we want to take in conservation to have larger scale, bigger and better" and so on. Despite that, there is not a dedicated fund that will pay for the administration and management of large-scale conservation areas. That funding is very much short-term and project based—often for projects that may not be what the organisers of these large-scale conservation areas want to do in the first place. It tends to be short term.

Trying to reflect on that, or looking at it in the context of ecologists, who see ecological restoration as a very long-term programme perhaps without a very clear end state, suggests the solution lies in thinking about

programme funding rather than project funding. We could think about a longer series of projects where one could imagine, say, for large-scale conservation areas, there is a dedicated fund that people running organisations, running these projects or conservation areas, could apply to for funding, in the expectation, if they are doing what they said they would do, and the judgment is that they are doing it well, that that funding would be continued. There could be a programme approach where there was a series of projects: you complete one project but if you do it well, according to certain criteria, there would be a presumption that it would continue because that funding is available for these sorts of projects.

Q62 Duke of Montrose: First, I declare that I am the President of the National Sheep Association and I am a livestock farmer in an area of natural constraint, receiving money from the EU. We have got into the subject of cross-compliance, and it seems to me that at the moment part of the disciplining of cross-compliance is due to EU inspectors as well as our own inspectors. Do you see a larger role for the department to monitor the Pillar II exercises and the remains of cross-compliance?

Tom Lancaster: I think enforcement of legislation and regulation is really important. If it is not enforced, it might as well not exist. Equally, advice and support to farmers, land managers, in how they can comply with that regulation, which is often quite complicated and unclear, is also really important. When talking about Pillar II schemes, particularly agri-environment schemes, an increasingly good body of evidence suggests that dedicated advice and support from a trusted adviser is make-or-break when it comes to the success of those schemes and the investment that sits behind them. In the future, we see a central role for advice to farmers and land managers across the whole range of policy, in complying with regulation and engaging with more positive, proactive incentives in whatever form they may take.

Professor Ian Hodge: Can I make an observation about language? Lord Montrose has referred to areas of natural restraint, and that is the language we use, but, on the face of it, it is slightly perverse to say we support producers because they have high costs. In other sectors of the economy we would say if there are high costs, they are inefficient and therefore we would be looking to shift production elsewhere. I am not saying we should not support those farmers; I am saying we should think about why we support those farmers and make that explicit. We support those farmers because the land they are looking after, the effect of their activities, is generating something that society values. These are areas of high environmental value where we want to continue farming to achieve that rather than supporting areas because they have particular handicaps.

Q63 Lord Rooker: I have nothing to declare, except that I am a member of the RSPB and my wife is a life member of the National Trust. A thought has come to me: it is common consent that half the farmers voted for Brexit. That is why the NFU never took a position. They voted to get out of the constraints of the CAP, so what is the situation for farmers,

because there is a variety of farmers, who say, "Hang on a minute, I don't need any of these Pillar I, Pillar II; I am going to farm differently and I can do it, and I can make more money that way; I can produce more"? Therefore, my question is: should the offer of payment for looking after the environment be compulsory or voluntary? What is to stop the situation of farmers who are freed up? Notwithstanding the fact that we are going to bring some of the rules that exist now into the Great Repeal Bill, the fact is half of them voted to get out from those rules; they wanted to be free to farm in the way they want, and therefore they would not want to be constrained by joining rules under a reformed Pillar II. What do we do about those?

Richard Hebditch: One of the elements of that is that the way people farm has an impact on others as well. You cannot simply say you can do whatever you want with your land, because there will be implications for water pollution and flood prevention, and there might also be implications for the long-term future of that farm so, to the extent to which you have those aspects of it, there will always be a need for overall regulation, but, as we were saying, it is around how you regulate and advise farmers to help them. What we would like to see is more incentives for farmers to farm differently—not forcing farmers to do so but making it worth their while to think about the different kinds of services they might provide. For us it probably also includes the historic environment as well, looking after the many scheduled ancient monuments on farmland.

Picking up a couple of points made earlier, we have an EU system and we are looking at how we move to a national system. There is also the local side of that, the help and advice that is available to farmers, how we localise that better and how we better define the natural environment outcomes or historic environment outcomes we might want. There is an advantage to setting those locally, and that is also potentially the way to build up public support, if people can see what is happening around their neighbourhood. Some of the ideas that Rt Hon Andrea Leadsom MP was talking about in her speech yesterday around local catchment partnerships is one way to do that, or local nature partnerships, or whatever. I think that offers one way to do that.

Professor Ian Hodge: We could think about a reference level in terms of the responsibilities and duties of land ownership, so there is a line in terms of what standard society expects in a sector such as land management. If you fall below that level, we regard that as being an external cost or pollution, and therefore we say there is a polluter pays principle and we should penalise that action. There should be a baseline; maybe that comes out of cross-compliance and the various other Regulations we have that set a baseline. If farmers want to go above that, we would say they are then producing a public good, an external benefit, and therefore they deserve some sort of payment in return for providing that extra benefit.

The Chairman: If I could just interrupt, we will come on to this with Lord Krebs in a couple of questions' time, so, because of the time, I will call a halt on this at the moment and we will come on to it later on.

Q64 **Lord Trees:** Good morning, gentlemen. You will all be pleased, Professor Hodge particularly of course, to know that George Eustice MP has indicated that the Government are contemplating a new approach to agricultural subsidies based on an ecosystem services approach. Could you tell us what in your view public goods or ecosystem services are in the context of agriculture and rural development? Are they different? What distinction can be drawn between those two approaches? As a personal request, Professor Hodge, you have a lovely definition of public goods as a metaphor for the market, and if you have the same quote we have, if you could enlarge on that, I would be grateful.

Professor Ian Hodge: Thank you. I am trying to think where it comes from; I cannot remember.

Lord Trees: I can read it to you.

Professor Ian Hodge: No, I can make it up as I go along. The term 'Public good' has a technical meaning to economists. That is why it has become important in policy. Public goods we can think of as being, if you will excuse this, non-rival and non-excludable. When they are provided, one person receiving the benefit does not detract from the amount of benefit that is available to anyone else. The classic model is of a lighthouse: if you provide a lighthouse, one person benefiting from the light does not reduce the value of that benefit to anyone else. They are also non-excludable, because when they are provided, it is very difficult to stop people from benefiting from them. Again, the lighthouse: if the lighthouse is there, it is hard to stop people benefiting.

The point is that in those circumstances it is almost impossible to create a market. The logic of public goods is saying there is in effect a missing market and that therefore policymakers should intervene to secure the delivery of that valuable benefit. The value of the benefit may well be more than the cost, but the market does not deliver it. In that sense, there is a missing market. That is why the argument is used to the economists in the Treasury to say: "Here is an example of market failure; there is a missing market; therefore, there is a logic for a policy that corrects that market failure".

Ecosystem services is different. I do not think they are inconsistent ideas, but it is a different idea. An ecosystem service is saying an ecosystem is a combination of ecology—and I hesitate to talk about ecology in this context—it is the natural organisms and the environment in which they are set. Increasingly, social scientists are talking about social ecological systems, so we think about the interaction between people within that natural environment, or that managed environment perhaps more likely. One then thinks about what benefits we gain from that system, and it is not too unreasonable to say we can think about that system as being a place, and we can think about the land in that place as generating those benefits. The question is what sort of benefits we get from ecosystem services, and, as I say, there is a sense in which maybe there are disbenefits as a consequence of human activity, so ecosystem disservices. Although some people encourage us not to talk about

disservices, it seems to me it is relevant, and we need to think about the good things as well as the bad things that, say, an agricultural sector can generate.

It seems to me public goods and ecosystem services are different, and the point about the metaphor of the market is, if you think about public goods, it implies that there is a market solution; if you use the word "goods", it implies that it is leading you down towards a market. The difficulty is that ideas coming from ecology suggest that ecosystems are hugely complex. We need to think about regulating services, supporting services, and so on, and these are things that are often a long way from a market and it is difficult to conceive of those sorts of factors in that language. If we focus on public goods, it will say, "Ah, there is a missing market; how do we fill that market?" If you think about ecosystem services, it draws you more towards thinking about resilience and adaptive management, and different sorts of approaches to the way we manage this system, which may often require public funding but without the simplification of the public good approach.

Lord Trees: That is very helpful. Many people who are not economists might think the provision of safe food in a sustainable way, with good welfare standards, was a public good but by your definition it would not be a public good.

Professor Ian Hodge: It probably has public good attributes, I am afraid. You might say that high-quality food is probably associated with a better society and lower health risks are good for society in a general way as well. Those sorts of qualities, we could argue, have public good attributes and therefore there is a role for society in supporting them.

Richard Hebditch: For me, the public goods discussion is helpful; not all market failures are public goods. For me, it is more that these are the ones where the state or other actors need to step in to provide, otherwise they would not be provided. These are the ones that perhaps require more intervention in the market through regulation or through behavioural nudges, working with actors within the market. I think that is where it is a helpful thing. Food security, for instance, is one which does not necessarily require you to pay farmers to produce food; it is maybe more around the market and supply chains, and whether farmers are having a fair price for the produce they produce.

Tom Lancaster: Building on that, with public goods, we often talk about positive and negative externalities. If you take biodiversity, a skylark singing in a field will often be talked about as a positive externality, particularly if a farmer has taken action to improve the condition of the habitat for that species, but poor water quality arising from diffuse agricultural pollution would be a negative externality, and identifying what character the particular public good has is important for then identifying what the most appropriate public intervention might be. If it is a positive externality and you need to somehow drive proactive behaviour on behalf of a farmer or land manager, you would probably need to pay them for that, but if the externality is negative, if it arises from pollution

or some other damaging activity, the most appropriate mechanism is probably regulation, because there you are trying to internalise that cost to the business through the polluter pays principle rather than externalising it to society through taxpayers having to pay through the Environment Agency or their water rates to clean up that pollution.

Q65 Lord Krebs: I want to build on the conversation we have just had, and although the question formally is about whether farmers should provide such public goods and services on farms, I want to put the emphasis on farmers. In a paper by Dieter Helm, he makes the suggestion that, whether you call it public goods or ecosystem services—and we will park that distinction for the moment—there is no particular reason why farmers themselves should be paid directly for providing these. It could, for example, be that national parks authorities or organisations such as the National Trust would receive the money and, if they thought it appropriate, they would contract farmers to maintain dry-stone walls in the Lake District or hedgerows in Exmoor National Park.

Why are we focusing so much on farmers? If the broader question, if the Government is to spend money, is to provide ecosystem services, farmers have to be one player in supporting the natural environment, but there are other players—it could be RSPB, the National Trust, national parks authorities. Why should the money not go to them, and if they think it is appropriate, they will contract farmers to do the work for them?

That is part A of my question. Part B really builds on what Tom Lancaster was saying: rather than paying farmers to clean up their act, why are we not charging them for the pollution they create? Why are we not internalising the externalities of food production? Is that something we should be doing post-CAP, post-Brexit?

Professor Ian Hodge: If I can open on that, I can talk in general terms and my colleagues can pick up some details, I am sure. There is an important issue about decentralising governance. One of the problems of the Common Agricultural Policy is that it starts with farmers, and indeed, in the last reform has focused even harder on farmers. I think that is a mistake. I would envisage a British ecosystem services policy as having a much broader remit and doing the sorts of things that you referred to Dieter Helm as referring to.

If we are to devolve governance, we need to think about what structures and institutions we have at a devolved scale that can make governance decisions. It seems to me a national park is a good example of an organisation which can look across different sectors; it can think about carbon, land, landscape, biodiversity, public access, as well as agricultural production, as it applies at a local level. When we are thinking about integration, I think we have to think about integration at that local scale and not worry too much about integration at a national scale, because it is too complicated at that level.

We do not have that governance structure at this stage, and that is something we ought to think about moving towards. The idea of using national parks is interesting. In the Netherlands, their reformed agri-

environment scheme goes entirely through agri-environment co-operatives. There are, as I understand it, no individual contracts between individual farmers and government any more; it takes it all through a collective body at a more local level which is doing the sort of thing that might be done at a landscape scale or a catchment scale.

If I can quickly respond to the second point, we are familiar with the polluter pays principle. Years ago with the OECD we developed the idea of a provider gets principle, which is the other side of polluter pays. We need to differentiate—and this is back to my reference level point—in terms of polluters who are not achieving the standard that society says they should, and therefore they are polluters and therefore the polluter pays principle applies so we ought to internalise that externality. Above that there is the other side of the coin of the provider gets principle, so we focus on who is the decision-maker and how we get that incentive right. The polluter pays principle is about getting the incentive right to recognise the full costs of production; the provider gets principle is about getting the incentive right to provide the correct incentive to provide public benefits. Society decides where that line is.

If you think about nitrate pollution, 30 or 40 years ago we probably did not use the word “pollution” in that context; we saw nitrates in the environment and were not worried. It has subsequently become recognised as pollution. We started off dealing with the issue through Nitrate-Sensitive Areas, where we subsidised farmers to reduce their emissions, so we looked as though we were subsidising farmers to reduce pollution. Over time society recognised that that should be regarded as pollution, and we have moved into a regulatory regime under Nitrate Vulnerable Zones. That reflects a change in the expectations of society about what land managers should do.

Tom Lancaster: Picking up on your reference to Dieter Helm’s paper, we would be the first to recognise that it is more than about farmers; it is about farmers, land managers and foresters perhaps if we are talking about an integrated policy that looks at different types of land uses. There is though something about the realities of land ownership and control in this country, in that you could give the money to a national park but they would still have to give it to the farmer because farmers have monopoly control over land. Obviously that is regulated but, when it comes to maintaining a stone wall or maintaining a hay meadow, or any other sort of positive actions that we need farmers and land managers to take, you have to engage with the individual farmer or land manager in any circumstance—unless there is a different type of tenure such as common land, but that is fairly niche.

The realities of how we own and control land in this country dictate that farmers will remain a central part of any future agriculture and land use policy, even if it is an ecosystem services policy.

Richard Hebditch: As was just said, there are aims in what we are saying about the future of the Common Agricultural Policy or its replacement that are around what works better in looking after places of

historic importance or natural beauty and the wildlife within them. We have accepted that our income from farming subsidies might well go down. That is a starting point. In Dieter Helm's paper it is around the political implications of such a system. If we are to move to a system that has that long-term certainty we were discussing earlier, farmers need to accept that system and have some measure of support for it. There is a danger in what was being proposed; I cannot see that necessarily going down very well with many farmers.

The third point, which Professor Hodge was talking about, is around how we localise those decisions. Starting from the principle of Subsidiarity, where are those decisions best taken? They are probably not always best taken for the natural environment around individual farms; it is the landscape or the catchment. There is also a point around accountability of those bodies. There would be a challenge for national parks. Perhaps there is more accountability in that way. We are an independent charity and I think we would be worried about moving towards a system where we would be taking decisions that are not just about our own land but more widely. However, if you are moving to a system where, as I was saying earlier, there might be more of an element of grant-making within what is being done, using grants to drive those outcomes might be the appropriate way, and you might give those grants to the RSPB or the National Trust, or you might also give them to wildlife trusts or to groups of farmers.

Lord Curry of Kirkharle: First a brief comment and secondly a question. I have felt for a very long time that we needed to operate on landscape scale here and address many of the issues. With river catchments, it is not just the national park, as you have mentioned; a whole raft of other bodies are currently completely disengaged from the management of what is happening on farms, whether it is the Environment Agency, Natural England, or the local authorities.

My question is on the value of the ecosystem services or the public good. We talk glibly about this but, ultimately, someone at some stage will have to try and capture the value of these things. How far do you think we have got in valuing the benefits? They vary from area to area, but the methodology that we will need to determine what these values are is a real concern, particularly, whether it is EU or WTO, in looking at this income foregone figure, which is a very nebulous and difficult definition.

Professor Ian Hodge: I would be very cautious about valuation, if by that you mean placing monetary values on particular impacts. I do not think we have got very far. Economists have spent decades refining, changing and developing methodology, but I suspect there are fundamental problems in determining monetary values. I do not think our public debate should be excessively driven by those efforts. It seems to me that we do not always use monetary values. As far as I am aware, the Ministry of Defence does not tell you how much a tank is worth in monetary value before it puts in an order for a tank. In that sense, it

ought to be possible to determine policy without those monetary measures.

Lord Curry of Kirkharle: Excuse me interrupting, but how is the Treasury going to buy that?

Professor Ian Hodge: The danger is that we have monetary values for things we can value—public access, say, is quite easy to value and it makes sense to ask somebody how much they are prepared to pay for that—but for something like biodiversity it is probably impossible. We can spend a long time talking about economics of valuation—I will not—but it seems to me that there are fundamental questions about it.

The solution is to try to use the idea of Subsidiarity to drive down decisions to the people most affected by the consequences of those decisions. One could think about a catchment management organisation that knows that certain things will improve water quality, even if they cannot quite put a monetary value on it, or a local community that values its landscape and is prepared to put money into it or to allocate funds to it rather than something else because they appreciate that value. It is a matter of thinking about governance institutions rather than monetary valuation.

Tom Lancaster: There are certain public goods that are hard to value, and the case for addressing and providing those public goods may be non-economic. There is a moral case and intrinsic value in conserving biodiversity. From our perspective, that is equally powerful in terms of the logic for public intervention. Yes, we can try to value some of the benefits that flow from that in the monetary benefits they provide to society, and the Treasury is quite good at doing that. Fundamentally, as a public good that is non-marketable, the primary reason for public intervention is that people want a countryside rich in nature. That is where our focus is in justifying that intervention.

Richard Hebditch: It can be helpful learning from other areas such as health and transport, which have made a difference in terms of valuation. My background is in transport, where willingness to pay to tackle places where people are killed or seriously injured drove a change in behaviour and fundamentally changed the UK's approach to road safety. It is helpful if you can do that, but it is not the be-all and end-all.

The Chairman: It seems to me that Defra's broader environmental 25-year plan has to be integrated with the agricultural plan. That would sell it rather better.

Lord Trees: I was going to bring this into a later question. The elephant in the room is that everybody is talking as though the £3 billion from CAP will roll on, but it will be distributed differently. Much as I am a supporter of nature and the countryside—I love it to bits—I do not think we can assume that. It will be crucial to determine and argue how much you need for environmental stewardship. Can you approach that? We do not have time to go into it in any detail, but is it £1 billion a year? Is it £2

billion or half a billion? Ultimately, it is the British taxpayer who will have to foot this bill.

Tom Lancaster: A 2009 study commissioned by the Land Use Policy Group, which comprises the UK environmental government organisations, estimated just under £2 billion as the scale of need associated with a range of environmental obligations and requirements, but it made it clear that that was an underestimate. We are looking to commission some work on understanding the outcomes we need from land in terms of public goods and ecosystem services, the costs associated with those outcomes, but also, importantly, where the benefits are in ecosystem services for agriculture, access benefits, and health and well-being benefits, and how we can construct a case that we can sell to the Treasury and other government departments we need to convince of the case for investing in this area. For me and for everybody who cares about public investment in agriculture, that is why the public goods case for investment should be the central argument we sell to government: it is the one that can most easily draw that line between expenditure, outcomes and the associated benefits, rather than just arguing for continued subsidy, which seems a bit of a road to nowhere.

Richard Hebditch: It is also around the long-term viability of farming. If we want to ensure its long-term viability, we have to look after the natural systems that underpin it. There is also an element of the future of rural economies, so starting to think about tourism within that and diversifying farmers' incomes.

Professor Ian Hodge: Rather than trying to answer the big question—I do not know the answer to the big question—is it possible to break it down? Could we think about a carbon budget, expenditure on biodiversity, providing public access perhaps at a local scale, providing separate funds where it is clear what we are trying to achieve with those funds, devolving them at an appropriate scale, and then allowing the people at the local level to procure an appropriate quantity? In the evolutionary approach, I guess we would say in some areas it is not obvious what we are getting for Pillar 1 Payments. They would probably be wound down gradually, perhaps without any significant change in the landscape. In other areas it will be difficult to do that, so one would keep those payments. In that process over time of transferring from one type of policy to another it would become clear—or clearer—what funds we need for what purposes.

The Chairman: Thank you. The next two questions are on a similar area, so perhaps we can make sure we do not re-cover ground we have already been on, but find some of the deeper areas we have not yet covered.

Q66 **Lord Selkirk of Douglas:** Perhaps I should mention an interest in a small family company with small pockets of land, including a field which may or may not have a turbine in due course. It seems to me in very large measure you have answered the question I wished to ask, so may I ask about transitional arrangements? Presumably if a subsidy is going to be withdrawn, to some extent at any rate, this issue will come on to the

agenda overnight. It is very difficult to answer without knowing the details, but how do you envisage our policy should develop?

Professor Ian Hodge: I can be the first one to say I am not sure. The trading arrangements make a huge difference to this. Until we know what those are, it is hard to fill in any of these gaps. I think the implication is—we have touched on this—that it should be transitional and gradual, not making sudden changes, making long-term trends clear so that if farmers anticipate a reduction in direct payments, they can see that happening over a five-year or perhaps even 10-year period so they can plan for it. The transition ought to be gradual and steady, rather than doing anything radical because, as you say, we will not know until late in the day.

Tom Lancaster: What is key about the transition for me is that it should be predefined, so that we can say, “This is the end point, this is where the Government want to get to, and to get there we will have this predefined transition period”. If we do not define it ahead of time, we will find ourselves drifting towards 2030, 2040, and there will be no proactive step towards managing that change, which is so important. Yes, during that predefined transition period there may be scope to taper away from direct payments or use measures such as bonds, which various people have talked about. There may be a case for using capital investment to get farmers to a position where they can comply with regulation that is then enforced after that transition. The key is to define that transition period so that, going into it, farmers, politicians, economists and everyone else can have certainty about the road ahead.

Lord Selkirk of Douglas: If CAP payments are withdrawn, what specific goods and services do you think would be most at risk?

Professor Ian Hodge: In a sense it takes us back to the beginning: if you withdraw it in the uplands, farmers will go out of business and we will lose the landscapes and biodiversity those upland landscapes maintain. In the lowlands, lower levels of profit might encourage farmers to farm harder, or they might encourage farmers to extensify. It is hard to predict how individual farmers will respond.

Richard Hebditch: The two most profitable areas will be intensive pigs and poultry, so you would see the growth in those. There might be some response in horticulture as well. We saw in the post-war period the loss of natural features such as hedges and ponds, so we might again see those starting to decline.

Tom Lancaster: There is also a case to focus on the positive: there are risks, but often the opposite side of the coin is that there is an opportunity.

The Chairman: We like opportunities as well.

Tom Lancaster: A public service focus would provide a lot of opportunities to secure a lot from agriculture and land management that we do not currently get and have not been getting for a long time.

Professor Ian Hodge: The income foregone is less, I guess, if agriculture is less profitable. Therefore it ought to be cheaper to buy adjustments in land management.

Duke of Montrose: We were talking about how things develop. At the moment we have more or less drowned in known unknowns, and you are asking for a few knowns to be put in place. The initial complication is that we are really talking about England for all of this, yet these changes are bound to have some effect on the devolved areas. I do not know who is responsible for conducting discussions between the various agricultural development sides.

The Chairman: We are going to come on to devolution in the last question, so perhaps we could leave it till then.

Q67 **Lord Cunningham of Felling:** You seem to be agreed and proposing that the central facet of farming policy when we have left the European Union is the case for paying farmers to deliver public goods and ecosystems. Is that what you are saying to us?

Professor Ian Hodge: We are talking about land management issues, and the focus is on—

Lord Cunningham of Felling: Forgive me. I beg your pardon for interrupting. I should have declared an interest as a long-standing member of the Royal Society for the Protection of Birds and of the National Trust.

Professor Ian Hodge: Are you a graduate of the University of Cambridge?

Lord Cunningham of Felling: No, of the University of Durham.

Professor Ian Hodge: I am not saying that this is all we need. There will be issues of investment in agricultural technology, of pests, disease and all sorts of other things that policy needs to do. The focus of my view about paying for ecosystem services is that how we manage our rural land and agricultural production is part of it. It is not saying it is not about agricultural production and products; it is, but it is how we find that balance, because these non-marketed aspects of land management are important. The evidence suggests they are relatively important: that is to say, I do not know quite what the balance is of the total value we get from our rural land, but these non-valued, non-market aspects are important relative to the marketed aspects.

Richard Hebditch: It is reasonable to think about how we support the productivity of UK farmers. That does not necessarily equate to having subsidy to support production. As Tom was saying, access to loan finance and things like that to help farmers improve their productivity is one element of it, but it is moving away from a subsidy for production or for land ownership.

Tom Lancaster: For me, it is the central case. A very simple equation might be: strength of the intervention logic associated with public goods plus the scale of need associated with securing those goods and services equals it being the main focus of a future agriculture and land use policy. As Rick was saying, that does not mean it is the only part of a future agriculture and land use policy, and there are other reasons and other ways in which government might support agriculture to be more productive, innovative or sustainable through grants and loans, but the main focus of effort and expenditure should be in securing public goods and services.

Richard Hebditch: But it also does not mean we are talking about only a handful of farmers.

Lord Cunningham of Felling: Presumably you are talking about a one-size-fits-all policy, which would apply to all farmers and all farming.

Tom Lancaster: You can think about it, very crudely, in terms of building blocks. There might be a universally available element that is relatively simple and focused on securing those widespread environmental priorities, such as farmland birds or water quality. That might be applicable to the majority of farmers, but there may be a more targeted bloc that is more focused on, say, catchment-scale restoration and the bigger-scale projects that Ian was talking about. That landscape-scale stuff knits together that more wide-scale action.

Lord Cunningham of Felling: When we have left the Common Agricultural Policy, the Government have said they will maintain the financial support for at least two years. After that—other people have said this already—there is no likelihood that Defra will be given an amount of money and left free to its own devices to decide what that amount of money should be and how it will be distributed. The Treasury is certain to become involved in that. At the moment the Treasury's hands are somewhat tied by our obligations as a member of the European Union. Those will all go. There has to be a very substantial case—I do not think I have heard it yet—for following the path you are suggesting. After all, agriculture is now about 0.7% of GDP in this country; it is a comparatively small industry. I am not saying it is not important, but it is comparatively small. It is a relatively small employer too. The Secretary of State for Defence might come along and say, "We want to build more aircraft carriers" or aircraft, or whatever it might be. We need more investment in the National Health Service, and, as we have just learned from the National Audit Office, 40% or 50% of our schools were built pre-1970.

The Chairman: I think we need to let them answer your question.

Professor Ian Hodge: The response begins with saying agriculture is a small percentage of the economy, but it controls three-quarters of the land. The way we manage the land is fundamental to a variety of issues: landscape and biodiversity, carbon capture and storage and water management. These are important aspects of land management that the

Government need to be involved with. As we have said, it is difficult to place a single total amount on that, but it seems plausible to say we ought to see a particular contribution to climate change mitigation coming from agriculture and changes in land management. We could think about that. We should think about the role of land as supplying biodiversity and think about the contribution to that. We should break it down and make those arguments.

I have already said I do not particularly want to try to place monetary value on those. My guess is that when the Ministry of Defence asks for a new aircraft carrier, it is not giving a total social value of an aircraft carrier; it is making the case in the contribution it makes to the defence of the nation. We ought to be able to make the same sort of case in support of landscape and biodiversity, because the countryside is an important part of our national heritage and our national activity.

Lord Cunningham of Felling: Can any of you give an example of what you are suggesting in practice in any other modern economy around the world?

Professor Ian Hodge: I think we are different. I mentioned the Netherlands devolving government expenditure to agri-environment co-operatives, which are allocating funding to farmers within their local area. There are case studies of management in particular places. They tend to be places of particularly high conservation value—national parks and so on. That is why national parks are a good example of the way this sort of management might be constructed, where you have an agency or organisation within a particular local area that is looking to develop and build these sorts of values. We have those sorts of models, but is there a single country that is doing this? As far as I am aware there is not, but the UK has often led in the governance of the managed countryside. Because of the pressures on our countryside and the importance of the countryside in national life, we have been leaders internationally in developing the way we manage that. Brexit is an opportunity for us to continue in that way.

Lord Cunningham of Felling: I have one final question. Do you believe that, if we were to take that approach, it would have a positive or a negative impact on agriculture and farming competitiveness in the UK?

Richard Hebditch: I would go back to my point about the long-term future for farming. I think it would. The way UK agriculture will compete is around the quality of its produce. It will not compete around a race to the bottom, low labour costs, intensification—I do not think that is how the UK will be able to compete internationally.

On your earlier question, the comparator countries to the UK are in Europe. We are a European country, we are a densely populated country in terms of settlements, and we have a long history of agriculture. Those are the countries we will compare with. I do not think it is sensible to compare us with New Zealand and its withdrawal of subsidies, which was not quite your question, or with America.

People care about what happens to the countryside. You can see that when changes were proposed to the planning system in 2012 and with fracking, for instance. Fracking has not taken off in the UK because people care about what happens in the countryside. That is one of the key points for how future policy will be taken, but I absolutely understand your point around whether we will get Treasury officials or Ministers to agree to this. I have been in a meeting with Treasury officials—the smirks on their faces when we talked about the £3 billion is a sign of what we might expect to happen to funding. We absolutely need to get our case in order about the value of the long-term future for farming, of the natural environment and of how we look after the UK's countryside, which people really value.

Tom Lancaster: There is a certain onus on us, as well as large membership organisations, to demonstrate that this is something that people want, as well as something that society needs. There is a big job for us to do there. There has been a great deal of stability around European legislation and funding for the last 40 years. Maybe that has led to some complacency on our part in demonstrating public support for these things, and we need to address that in the coming years to demonstrate that that support is there. Going back to what I said earlier, the best way for us to do that in making the case to the Treasury for funding in this area is to point to the things that are non-marketable, that fit in with its *Green Book* thinking and demonstrate the benefits that would flow from investing in those public goods and services.

Q68 **Viscount Hanworth:** I wish to consider the WTO rules. Would the subsidies that might be necessary to sustain the provision of public goods and ecosystem services be compatible with WTO rules?

Tom Lancaster: Yes. It is fairly well established.

Viscount Hanworth: Might you have seen any difficulties?

Tom Lancaster: They are set out in Annex 2 of the Agreement on Agriculture on the WTO website. Typically, environmental programmes are limited to income foregone and costs incurred. Where you have a fundamentally profitable farming operation, you have to ask why you would pay more than that. There may be scope within WTO rules to add some incentives and sweeteners but, beyond that, why would you pay more than the income foregone and the costs? Where you have examples where the farming is inherently uneconomic and you want to maintain that agricultural activity to secure the goods and services we have been talking about, the scope exists within the same part of the Agreement on Agriculture to pay the total costs of production. That would mean paying the entire agricultural costs of production, not just the income foregone. That might apply to extensive cattle farming in the uplands, where we need that sort of grazing management to maintain SSSIs and other priority habitats, and where we may want to maintain agricultural activity for other reasons. It is fairly well established that you can do a lot of this within WTO rules.

Viscount Hanworth: The casuistry that is appropriate to arguing that these sorts of subsidies are compatible with WTO rules is readily available, in other words. Can I press you further? How does the European Union manage to reconcile its Pillar II provisions with WTO rules? Was there any problem there that you can recall?

Tom Lancaster: Not that I can recall. I think they notify them all as green box, so expenditure is unlimited.

Viscount Hanworth: Other members accepted that?

Tom Lancaster: Yes. Where they may be on a stickier wicket is with their Pillar 1 Direct Payments, some of which is on the edge of acceptability, but WTO rules only really come into play if someone challenges you at the WTO. The WTO as an organisation does not proactively police the rules; it depends upon someone challenging. Typically, if the EU or the UK does something slightly strange, probably somewhere else in the world is too, so there is a delicate balance, where typically countries do not bring challenges against one another unless they really have to, because they may be subject to a counterchallenge.

Viscount Hanworth: That sounds very favourable.

Professor Ian Hodge: Can I make two very quick points? One is that we should be talking about payments, not subsidies, because as soon as we talk about subsidy it is an implication that it is something we are giving people for no very clear reason, whereas a payment would be an explicit payment for doing something. That goes back to the things we have talked about.

The second point is that we should look for policies that are trade-correcting, not trade-distorting. A well-managed, well-tuned, well-implemented ecosystem services policy should be correcting, to use the language for a missing market, rather than distorting trade. The international trade discussion does not use that language, but it should.

Q69 **Baroness Sheehan:** I start by declaring my membership of the RSPB also—you are indeed demonstrating that you are the largest membership organisation in the UK. My question is looking ahead to how we work with the EU post-Brexit. The NFU and others have raised concerns that without subsidies UK farmers would not be able to compete with EU farmers. Others have noted that the UK may wish to align its policies to those of the EU and to its upcoming CAP reform. My question to each of you is: would it be appropriate or necessary for the UK to co-operate with the EU to achieve an enhanced natural environment through agriculture and rural policy? If so, how and why?

Professor Ian Hodge: The answer will depend on the trading arrangements. If we have free trading arrangements with the rest of the EU it will be tough on farmers to say, "We are taking your subsidy away but we are going to have free trading arrangements with other farmers who are continuing to get a subsidy". That sort of argument seems a very

strong argument and a potentially problematic one. It is that sort of argument that constrains what we will be able to do in the UK.

Presumably there would be certain standards that we would be able to adjust, and we could adjust the approaches we take. Within the different EU member countries we have seen increasing degrees of nationalisation of the Common Agricultural Policy. There has been more-decentralised decision-making. Brexit would presumably take that opportunity further, but there would be constraints because of the trading arrangements, which would be needed to keep some sort of level playing field.

Tom Lancaster: From our perspective, the strongest case for ongoing European co-operation or co-operation with our EU partners is the fact that a lot of environmental issues are transboundary in nature. Biodiversity and climate change do not respect national or international boundaries. In some respects how that relates to agriculture policy is that if we come up with shared arrangements regarding environmental co-operation it is likely to drive the shape and focus of any future agriculture policy. I would not expect us to remain in any way mimicking or aligned with the CAP, which I think everyone agreed before the referendum was something we would want to move away from. People have spoken since the referendum of that being one of the main opportunities for changing and reforming policy so that it works better for our needs in the future.

Richard Hebditch: I suppose there is the model of Norway: it is not a member of the Common Agricultural Policy, but it largely follows EU Directives. That model still requires it, as part of EFTA, to co-operate with Europe. Obviously the Government have chosen not to go down that route but it would be useful to look at that experience in more detail.

Baroness Sheehan: I would like to ask a quick follow-up question about organic food production. We are at a tipping point where farmers are dipping their toes back into wanting to enhance production of organic food. Can you go over the answers with respect to how the production of organic food could be affected by implementing parts of the CAP?

Tom Lancaster: There are some quite well-evidenced benefits of organic production, particularly in certain sectors. We would expect a future policy to support organic production for those public goods and services that the system of organic production provides, just as we would expect a future policy to support other more conventional farmers to provide those public goods. Organic is slightly different from other assurance schemes, in that it is underpinned by a European-wide Regulation. There are accepted standards within that Regulation that apply everywhere, and there is a significant body of evidence that points to the benefits that flow from those standards. We expect that Regulation to be transposed into UK law through the Great Repeal Bill. There is a particular case for supporting organic farming in any future policy apart from any other assurance schemes.

Professor Ian Hodge: I would only make the point that the environmental benefits of organic farming are probably more complicated

than people think. There is clear advantage per hectare of production: if you compare the land hectare by hectare against conventional, the environmental benefits are very clear. If you compare per unit of production then sometimes organic is better, sometimes conventional is better. The point is that conventional production is producing more output per unit area. If you produce conventionally, it gives you a bit more land to do something else with. A fair comparison between organic and conventional is to recognise that difference in intensity of production.

The Chairman: Thank you. I think we have covered everything else on that question already.

Q70 **Baroness Wilcox:** EU legislation, such as the greening elements and cross-compliance conditions of the CAP, and the Birds and Habitats Directives, all regulate agriculture and rural activities and affect the management of the countryside. Some argue that withdrawal from the EU offers the UK an opportunity to replace the overlap between the Common Agricultural Policy, rural development policy and environmental protection policy at the EU level with a more holistic agri-environmental policy at the UK level. We have heard quite a bit on this so far, but I thought I would repeat that for myself so that I got the context of it. Until such a policy is in place, however, the extent to which the current measures are carried over into the great repeal Bill will be important. My question is: the Government have indicated that they will carry over EU law into domestic law through the Great Repeal Bill. In your view, what aspects of EU law should be preserved through the Bill and what should be replaced?

Richard Hebditch: The view we have taken, certainly in the first instance, is that all relevant ones should come into UK law. There will be an issue around the enforcement and monitoring of the UK's performance or individual devolved nations' performance on that. A slight worry is around the strength of environmental governance in all four nations. It is variable, but we have seen spending cuts to the Defra family—to all the relevant environmental bodies. Their ability to carry out that role and their powers to do so would be the worry for us. Although there are probably advantages to having a debate around the best way to integrate those different things, it has to be on the basis of strong, independent, capable environmental bodies that are able to monitor and enforce the rules that we have. Given the likelihood of continued pressure on spending and a desire for organisations such as Natural England to be seen as delivery bodies, we would have worries in the future.

Tom Lancaster: Our position is that all legislation should be transposed through the Great Repeal Bill, as Rick said, but the Bill also needs to contain provisions that make sure when any changes are made to that legislation that has been transposed—particularly if it impacts on its purpose, scope or effect—those changes are subject to full parliamentary scrutiny and, if necessary, should require primary legislation. There is a fear that if the Bill simply transposes legislation without some of those safeguards in place, changes would be made through secondary legislation without that full parliamentary scrutiny. Theresa May included

that commitment to have those changes subject to full scrutiny in her speech to the party conference last year, but that is a priority for us as the Bill is drafted.

Another priority is that there are certain principles included in European legislation, such as the polluter pays principle, the precautionary principle, the Environmental Impact Assessment Directive and the Strategic Environmental Assessment Directive. These apply to the way legislation is developed, which make legislators take account of the impact on the environment when legislating in other areas. We would want to see those hard-wired into UK legislation.

The Chairman: We return to devolution.

Q71 **Lord Rooker:** This follows on from what has just been said. My experience is that Whitehall does not do devolution. The minute that EU legislation is transposed back into the UK, it is quite clear that a load of it belongs to the other three countries by definition, because we devolve agriculture and environment policies. What do you reckon the effect of devolution in a very serious fashion, which I do not think is fully recognised in Whitehall, will be on the policies we have been talking about? The other side of that is: is there a case—I do not wish to fall out with anybody who might be listening—for trying to get a UK-wide agri-environment and public goods system that would be beneficial to all four parts of the UK, because it is a UK system, rather than having completely different systems in the four countries?

Richard Hebditch: The starting point would be that the UK needs to be a single market once we leave the EU and to be able to negotiate trade agreements with other countries. That is one driver of it, but, as you said, it becomes very complicated in that it should be devolved to those nations. It is the balance between decisions being better taken at a lower level—the UK has embarked on devolution as the way to approach many of these issues; that is still a given, but we need to be a single market and trade with the UK—and the fact we need to have a principle around Subsidiarity: where can decisions best be taken so they can have best effect? Those things get very complicated. It is part of the problem that we are having around this debate: trade means we cannot talk about anything yet. Devolution complicates everything. The big challenge is that we will be running out of time to devise a system to replace CAP. Until we take those first big decisions in those big areas of contention, it is very difficult to get on to what the scheme might look like. That is part of the problem with this whole debate. That does not quite answer your question but it is one of those questions that you just cannot answer.

Tom Lancaster: It is interesting to think about how those powers were devolved in the first place. There was a report to the Scottish Parliament's Europe and external relations committee from a chap called Professor Alan Page that talked about the fact they were notional competencies when they were devolved. They are now real competencies. As well as trade, there are international obligations that the UK used the EU framework to meet, such as the Convention on

Biological Diversity and the various international climate change agreements. It seems to me that we have three choices. We could go for a devolution free-for-all, which could see significant divergence in policy. Our concern is that that could lead to a race to the bottom. You could have a situation where Whitehall and Westminster try to re-reserve lots of powers, but that is politically untenable so far as we can see. That leaves a third way whereby, through some form of pooled sovereignty, there is an enhanced model of co-operation between the Westminster Government and the devolved Governments.

Brexit seems to have revealed that the machinery to manage intergovernmental relationships within the UK is woefully inadequate. If you think about how the CAP is transposed through the Great Repeal Bill, at the moment the European Commission provides oversight of how it is implemented. How will we manage that? Will the UK Government provide the oversight for the devolved administrations? That does not seem particularly tenable. Who then would also provide oversight of Defra in that situation? Would they be policing themselves? Is there a need, would be our question, for new governance arrangements within the UK that make devolution work without the European framework that has made it work to date? That would not be a Whitehall imposition; it would be a shared approach developed in collaboration between the four Governments. That applies to environmental legislation as much as it does agricultural policy, because where it comes to our interests, again, going back to the point about European co-operation, environmental issues tend not to respect boundaries. Clearly there is a case for co-operation to ensure that we maintain high standards and have investment going towards, from our perspective, improving environmental outcomes rather than a competition within the UK that provides for a race to the bottom around regulation and standards.

Lord Rooker: You are saying—I am not putting words into your mouth—that one of the unintended consequences of Brexit is that for the first time Whitehall might have to start to do devolution really seriously.

Tom Lancaster: I guess so, yes. It points to the constitutional arrangements that we have, which are well above my pay grade, or well beyond the RSPB's charitable objects.

Professor Ian Hodge: I can only add my uncertainty about it and there is no point doing that.

The Chairman: There are some very interesting comments there, Mr Lancaster. Thank you for those.

Lord Curry of Kirkharle: Going back, Professor Hodge, to a comment you made earlier about the use of the word "subsidy", I have long been advocating that we should abolish the word "subsidy", but in your own rhetoric you have described Pillar I support as production subsidy. One of the things I was rather proud of in 2002 was to recommend the decoupling of support from production, which was later embodied in the 2003 Reform Package. I have 440 acres. I could just keep my wife's

three donkeys and follow the rest and still receive the Basic Farm Payment. I talk about support rather than subsidy. If the Treasury were listening in to this debate and heard the word "subsidy", it might be unhelpful to those negotiations. Should we ban it completely?

Professor Ian Hodge: There may be times when subsidy is what we are providing. If I said production subsidy, I apologise, I was probably wrong, because it seems to me the decoupled payment still has some effect on production. In a sort of Economics 101 way it ought not to affect production decisions, but my guess is most farmers will say, "I am a farmer. I get this much money per year. Can I carry on being a farmer? Farmers produce things". If he or she goes through that chain, he or she carries on farming. The decoupled payment is not fully decoupled. Nevertheless, it is often not clear what purpose it serves.

The Chairman: Thank you very much indeed. At this point I will bring this session to an end. Mr Lancaster, Professor Hodge and Mr Hebditch, thank you very much indeed for giving us your evidence. This will be an important part of our report we will make to government and to this House in due course. I end this public session at this point.