HOUSE OF COMMONS

Environment, Food and Rural Affairs Committee

Oral evidence: Work of DEFRA: Health and Harmony , HC 870

Wednesday 14 March 2018

Ordered by the House of Commons to be published on 14 March 2018.

Watch the meeting

Members present: Neil Parish (Chair); Alan Brown; John Grogan; Kerry McCarthy; David Simpson; Angela Smith; Julian Sturdy.

Questions 1 - 86

Witnesses

I: Guy Smith, Deputy President, National Farmers Union; Tim Breitmeyer, President, Country Land and Business Association; George Dunn, Chief Executive, Tenant Farmers Association.

II: Richard Hebditch, Government Affairs Director, National Trust; Tom Lancaster, Principal Policy Officer for Land Use, Royal Society for Protection of Birds; Arlin Rickard, Chief Executive, The Rivers Trust; Ellie Brodie, Senior Policy Manager, The Wildlife Trusts.

Examination of witnesses

Witnesses: Guy Smith, Tim Breitmeyer and George Dunn.

Q1 **Chair:** Gentlemen, most of us know who you are, but for the record would you please introduce yourselves?

George Dunn: Good morning, Mr Chairman. My name is George Dunn. I am the chief executive of the Tenant Farmers Association.

Guy Smith: Guy Smith, deputy president, National Farmers' Union.

Tim Breitmeyer: Tim Breitmeyer, president of the Country Land and Business Association.

Q2 **Chair:** I have a nice easy question for you all in the beginning. In the long term, do you agree with Defra that its proposals will deliver a brighter future for farming?

George Dunn: The consultation document probably sets up more questions than answers in that respect. As yet, there is not the level of detail in the document to be able to answer that question correctly. Certainly if you read the document, it refers to everything you would hope that it would. Therefore, it seems to cover all the bases. My concern is to ensure that we have a proper systems approach into the long term, so that we answer all of questions in the document, and not just the ones where there appears to be detail at the moment.

Guy Smith: Chairman, can I first give apologies on behalf of President Minette? She cannot be here because she is chairing our first policy board. That leads me to another observation. A limitation I am under this morning is that we are about to undertake four weeks of consultation on the command paper. Obviously I should be listening to our membership before I do any deep-dive on detail.

I will quickly refer to an excellent question that was raised in the House on Friday morning. An erudite Member, while he welcomed the command paper, asked if it would be able to increase, rather than decrease, the food that we grow in this country as we go forward. That is an excellent question and I would urge this Committee to keep asking it of the command paper.

Chair: I will bring in Tim and then come back, because that leads me on to my supplementary.

Tim Breitmeyer: We believe that we give broad support to the direction of travel as far as the consultation paper is concerned, in particular the model behind public payment for public goods. We feel that was coming in Europe when we were in Europe. That is probably the direction of travel for engagement with the public and a way of getting a good income stream through to farmers, providing that the actual model is broad enough to cover all the various sectors of land management. That includes not just the environment but some sort of food element as well.

Whilst there are grandiose statements and vision, the one thing we are extremely disappointed about is that there is no element in there of any certainty of how we are going to support a profitable food production sector going forward. Farmers in the black are those who produce the best green environment as well.

Q3 **Chair:** I could not agree with you more. That leads me on to my supplementary. We talk about public payment for public goods. You may want to expand on this. Do you not believe that there is a public good in food production? This paper is woefully lacking in anything to do with proper food production—large-scale, small-scale, all sorts of production—so that our supermarket shelves and other big retailers across the whole piece have plenty of affordable food. Do you see anything in the command paper that covers that? Perhaps I have missed it.

George Dunn: We have to be careful about the semantics that we are dealing with here. Certainly the Treasury thinks of public goods in a particular way. They are things that my consumption of does not diminish your consumption of. We talk about landscape, clean air and clean water. Traditionally, those are what economists call public goods.

What you are talking about is stuff that is in the public good. The exam question that this seeks to answer is how we deliver safe, nutritious, high quality food, produced to high standards of environmental management and animal welfare, to consumers at prices that they can afford, at a price that can be sustained at a business level for a farmer. At the moment, this does not answer that question. That is certainly in the public good that we have a system that operates in that way.

This paper fails to properly address the market failures that exist to deliver that system. The BPS may be a blunt instrument, may be a tool that is applied in a way that is not very specific. However, it is keeping lots of people in business who are doing the right thing by the environment, by animal welfare, and delivering safe, nutritious food to consumers. Remove that and we have a market failure that we need to look at.

Q4 **Chair:** Good answer. Guy, could you just avoid the direct payments for a moment? David will ask that question. What is in it there to make sure that there is good, healthy food that people can afford. I know farmers want to pay oodles of money for their production. I am a farmer; I would like that too. Also, you have to be aware that the consumer has to have a good-quality food and plenty of it on the shelves. They have been used to it. Is there anything in this command paper that gives you confidence that will be there in the future?

Guy Smith: I do not think we want oodles of food. We just want a fair price that keeps viable farm businesses in the rural economy. This issue about what a public good is is key to this. Classical economics will tell you that food is a market good, whereas public goods go beyond that. The second question is whether it determines where that food comes from. As a nation, could we just return to where we were in 1939, importing 89% of our food needs from somewhere else? That soon came to be a strategic mistake, as we found out in 1940.

The other question is about foods produced to a certain standard. I would argue that food produced to relatively high standards, in terms of animal welfare, environmental responsibility and traceability and safety, is a public good. Any sensible Government should look to secure an element of that in its policy.

Tim Breitmeyer: This Government seem insistent that the quality of animal welfare is not good enough at the moment, although we are the fourth best in the world already. That is going to be a significant hindrance to our farmers, trying to keep those standards, if we have a trade deal, for instance, that possibly undermines those standards. We cannot guarantee that that is not the case at the moment. Therefore, from a traceability point of view, an animal health and welfare point of view and a quality point of view, I believe that food production in itself is a public good, yes.

Q5 **Chair:** I fear that we will move into very much an open free market, which may be fine. If we are then not going to support enough food production, will we be able to compete? You have probably hit the nail on the head. I do not know if you want to comment further on that. It is probably more of a comment than a question.

Tim Breitmeyer: To come back on how we make sure farmers are profitable, I know the consumer wants cheap food. The initiative that the Food and Drink Sector Council intend to put forward is very good. My fear is that agriculture will not get much of a say in it, and so it will not deliver the extra value back to the farm gate that is the intention. Only a very small amount of money needs to come back through the food chain to make farmers a lot more profitable. I will give you the example of a loaf of bread. If one penny came back to the farm gate from that price that exists on the shelf at the moment, that is the equivalent of £100 a hectare, which is 50% of the basic payment scheme.

Q6 **Chair:** Our market, and the way we market and sell food as a commodity in particular, is the one we need to really look at in the future.

George Dunn: We fall into the trap of assuming that we are talking here about homogenous products. When we talk about free trade and free markets, one of the assumptions of a perfectly operating free market is that the product you are looking at is homogenous. We know already from the dialogue we have just had that we are talking about stuff produced to very different standards. Those products are not homogenous. Chicken produced here, in comparison to chicken produced abroad, is not a homogenous product. Therefore, if our standards mean anything to us, as producers, consumers, processors and retailers, we need to find a way of protecting them at the retail and food service outlets and at our borders. If those standards are important to us, we need to maintain them.

Q7 **David Simpson:** Gentlemen, you are very welcome. The Government want to phase out direct payments. What do you think the impact will be on the agricultural sector when that starts to happen?

George Dunn: I think I said in answer to an earlier question that the BPS system is a blunt instrument, but it is keeping people in business who are doing the right thing by the environment, animal welfare, et cetera. However, if you remove that money from the system, obviously you do not just have a stasis. You do not have a situation where nothing else changes.

From the Tenant Farmers Association's perspective, one of the areas that we are concerned about, particularly for those tenants who are occupying land on the newer farm business tenancies, is we find that the BPS payment does become capitalised into the rental value that people have to pay for that land. We would want to see an immediate change in the rental market for access to land. We would absolutely see a change at that level.

A lot of owner-occupiers and tenants occupying under the 1986 Act, who have longer-term secure tenancies with a regulated rent, will need time to adjust. The paper talks about five-ish years, which seems a reasonable period of time for us to do that.

Q8 **David Simpson:** Is the uncertainty of exactly what is going to happen one of the problems farmers are facing? I stand to be corrected on this, but I understand the Secretary of State, Michael Gove, has said that whenever we come to the end of the payments scheme in 2022, whether it be CAP reform or whatever, farmers will know exactly, well in advance, how everything is going to be paid and what is going to replace that. Does that give you confidence in that?

George Dunn: The problem for me is that the market failures I have just been talking about will still exist when we remove the BPS payment. The BPS payment has been an important element to this day. This paper does not give us any certainty as to how the Government intend to address those market failure issues to ensure a profitable industry producing good food to the high standards that we want going forward.

Guy Smith: When we discuss direct payments, it probably pays to look at the history of how the European Union came to that point of what appears to be a rather crude, unsophisticated and poorly targeted instrument of paying farmers, or landowners as Mr Gove likes to call them, on the basis of the land they own or rent. The European Union always sought to provide some support for its farmers from its inception, just as was the norm in other parts of the world, such as the US. As you know, it started off with a very complicated system of market intervention and the like. There were two problems with that. One was that it had an irregular draw on budget, so the EU treasury could never be sure how much they should budget, because it depended on market volatility. Secondly, it was rather complicated to administrate, so they moved to this rather crude system of area payments. Budgeting became easier and it was easier to apply.

You have to recognise that, if we now want to move away from that, those two challenges are still there, particularly in terms of delivery. As this Committee very well knows, it is all very well laying out a policy but, if you have not got have the competent means to deliver it, it falls apart quite quickly. I would always raise the issue of delivery when it comes to the design of policy going forward.

With regard to the proposals to withdraw direct payments and support based on that, it depends on what system is going to be put in its place. Quite clearly, it will have impacts on some sectors quite quickly, particularly livestock and cereals, other sectors less so. The devil will be in the detail. It will depend on what alternative policies are brought in in its place.

You make a very good point about confidence. Agriculture is an industry that very much runs on confidence. As Lloyd George famously said, the best fertiliser for the soil is the confidence of the farmer. It is really imperative that Government put out signals that do not destabilise confidence in our industry, so we do not stop investing in our farm infrastructure. That will be a self-determining prophecy that will tailspin us down into lower production.

Q9 **David Simpson:** I know Tim wants to come in. Very quickly and briefly, in your opinion, and from the farmers' union point of view, how long of a transition period or phase would farmers need after leaving the EU to adopt this new support policy right across?

Guy Smith: One key point to make this morning is we have always said that it would be reckless to lay out the detail of a future agricultural policy until you are clear what our exact relationship with the European Union is, what our trade position with the rest of the world is, and on issues like what access to labour we have. My worry about this command paper is it is setting a direction of travel before we are clear on those wider factors. Our concern would be that the transition period should be as long as it takes to find out what that clear position is and also gives time to test and pilot new ideas to make sure they work.

Tim Breitmeyer: Could I just start on that last point that Mr Smith mentioned earlier? This business of being able to pilot and make sure that the administrative system is in place, that a new policy works, is absolutely critical. The experience we have had from the past with stewardship in this last round shows that something that is going to be just as complicated, if not possibly a little more with the breadth of public goods we are talking about, will take significant time. At the moment the consultation paper has great clarity on the timespan for getting rid of BPS. It has great clarity for some transition ideas, but absolutely no clarity about where the programme is going to be to replace that support for food production that the sector really needs.

Chair: That is a very good answer.

Q10 **Angela Smith:** The points I have just heard slightly recast the question. I was going to ask whether you have spotted any obvious unintended consequences potentially for food security from the paper. In the light of what I have just heard, a lot of the answer to that lies in the need for the Government to be very careful about how they apply the scheme, piloting it and testing it. I wonder whether, apart from that, there are any obvious unintended consequences that you have spotted in the command paper so far, in terms of food security.

George Dunn: As Guy has said, there is a lot of stuff that we need to think about all at once here. There is access to labour. There is trade. There is the environmental regulatory framework we are going to be introducing. There is access to future policy for productive assets on land. There are taxation, planning and housing issues. No one has ever left the European Union before. We are in an uncharted position and therefore we do need a Government to be the Government that look at everything in the round.

This is a cross-Government issue, not just a Defra issue. We cannot hang everything on whether or not we get a replacement to the BPS. We have to be looking at everything in the round. That is where the unintended consequences occur. If we do not take a proper systems approach to this, so we are holding every part of the blanket at once, we run the risk of causing problems in the long term.

Q11 **Chair:** We are moving on to Julian's question there a bit. Are there any other comments you would like to make?

Tim Breitmeyer: Could I just add to that? There is a concern out there, in the food industry itself, for the disruption of their supply chain. The supermarkets rely on quite a lot of quite large operators now, who will quite possibly face some significant restructuring if we were to go to the plan that is in the consultation paper, or the ideas that are based there. There is very significant concern. If you look at the compendium in the back, 16% of farmers on 55% of the land in the UK produce 74% of the agricultural output for this country that goes into that food chain. If we disrupt that then the supermarkets are not going to enjoy the consequences.

Guy Smith: I would raise a general concern about whether Government have an accurate notion of the structure of our industry. To give you a headline figure, it says in the annexes that we have 220,000 farm holdings in the UK. I would suggest that is just a figure plucked out of the sky, based on annual return figures. We know that it is much lower than that. The question is how many active farmers there are out there, how many risk-takers, how many active farm land managers. If you cannot identify how many they are and where they are, how can you possibly implement a successful agricultural policy?

Q12 **Chair:** And target future payments at those.

Guy Smith: Yes, exactly.

Q13 **Chair:** We have tried this for a long time, have we not? We have never really quite got to what an active farmer is.

Guy Smith: No, Neil, but we should not give up, should we?

Chair: No, we should not. No, quite right.

George Dunn: Your Committee did agree with a definition that the TFA put forward some time ago. An active farmer is someone who is in occupation of the land, who is taking the entrepreneurial risk of the activities on that land, and is in day-to-day management control of that land. That is an active farmer, and those are the people we should be seeking.

Chair: We must very much reinforce that.

Angela Smith: If the command paper is so focused on productivity improvement, and it is, then that point is critically important.

Tim Breitmeyer: Quite.

Chair: It is.

Q14 **Alan Brown:** Apologies, I might be repeating what has already been said. I was picking up on previous comments Guy made, then I think, George, you covered them. Just to be clear, the Government seem to be saying, "We have given farmers a certainty by guaranteeing income up to 2022", which otherwise was through the CAP. Am I right in thinking you are saying that is a small part, because we need to know what the trading deal is going to be? George, you touched on labour. There is a whole myriad of other factors. In actual fact, you do not have clarity or certainty at the moment. Is that correct? Obviously we are now only a year from leaving the European Union, so I suppose it is almost rhetorical, but I am just looking for that clarification.

George Dunn: That is absolutely the case and Tim put it really well. The paper talks about how to remove the payments in great detail, but does not give us any detail as to what is coming beyond the removal of those payments. That covers all those things you were talking about.

Guy Smith: Let us not be too down in the mouth. We welcome the fact that there was a commitment to spend £3 billion on agricultural policy through to 2022. It was absolutely essential that was put in place not long after the referendum, and it was. We congratulate the Government for doing that, but you raise a good point that we seem to be going from 2020 into some sort of vague hinterland where no one is quite sure what the implementation period is going to look like, in terms of its exactitude. We then have this agricultural adjustment phase after that, which is also unclear.

I come back to that point that you should not start laying out the needs of your agricultural policy until you are clear what your future relationship with the European Union is and what your trade relationship with the rest of the world is. There are also other issues like access to labour and the regulatory environment, which is very important to a farmer's costs.

Chair: I am hoping that we can press for continued support until we can get ourselves into that position. That is what is really necessary.

Tim Breitmeyer: I would only just pick up on that last point. Certainly anything that I would have said has already been mentioned. On the business of the regulatory baseline, there is quite a bit of talk, deep in that paper, of actually pushing that baseline higher and even taking away what in the past would have been seen as an environmental public good delivered by farmers. When it comes to terms like "polluter pays", that is concerning language that just breeds greater uncertainty. Once again, we need to know the ground rules before we start getting into that sort of territory.

Q15 **Chair:** Just one final question from me, playing a little bit of devil's advocate on direct payments, the benefit of them is they give an income to farmers if they are owner-occupiers, but they drive up the price of rent. If you see the end of the direct basic farm payment, will we see rents come down? Is that a positive side? Can we target the money more towards those that are actually doing the farming? You may not want to answer this question, but there is a degree of basic farm payment that does not find its way into the pockets of active farmers. I do not wish to say further, but you gentlemen know exactly what I am talking about.

George Dunn: We have two systems of renting land in this country, primarily the 1986 Agricultural Holdings Act and the 1995 Agricultural Tenancies Act. With the former there is a regulated rental position within that, which tries to find a sensible rent between a prudent and willing landlord and a prudent and willing tenant, taking into consideration all the relevant factors, including the productive and related earning capacity of the holding. In that sense, you do not get as clear a transfer of the basic payment scheme to the landlord in rent, because of the way in which it is regulated.

When you move to the newer tenancies under the 1995 Agricultural Tenancies Act, we regularly hear from our members that the BPS is a cost on their business. When they bid for land in the open market they are expected to factor in almost entirely the BPS payment that they are going to get. In some cases we are talking about people renting land from retiring farmers who still want to have the benefit of the BPS but obviously cannot apply for it directly, and so therefore expect their tenant to be able to claim it and pay it back to them.

We certainly have a growing number of younger, progressive businesses for whom the BPS is not an important factor in their lives going forward. However, they still face the same market failures that everybody else faces in the marketplace. Although they are passing their subsidy back up the chain in rent, I can point you to many businesses where they are not making the profit they need to be making in order to sustain viable businesses going forward. Removing the payment does not answer the question of how we have a properly functioning marketplace for those producers.

Q16 **Chair:** That is right. From the NFU's point of view, there are probably mixed views on this.

Guy Smith: We like to think we embrace both sectors, rather than falling through the gap, Chairman, as you know. We have to remember that any support system laid down for agriculture by a Government will tend to be capitalised in land. That is whether it is a deficiency payment scheme that we had before we joined the European Union, or whether it is the insurance model they have in America.

There are some systems that are going to be more directly related. We think the foreword to the command paper is a little bit dismissive of the way the CAP has impacted on land prices and rents. As you know, Chairman, we have seen no great change in the support structure to farmers in the last 10 years, but land prices have quadrupled. We must remember that there are other drivers here.

Chair: It is not so much land prices I was targeting the question at as rents, really.

Guy Smith: They are related, but not exactly, I agree. We accept that direct payments based on area are crude and not very sophisticated. I go back to our desire to target the actual risk-taker, the active manager. I am a little bit concerned that there sometimes seems to be an assumption that if you are a smaller landowner you are more likely to be more of a risk taker than a larger landowner. Trust me, I know plenty of people who own 100 acres of farmland who take no risk whatsoever. They simply bring in a contractor who does the job for them.

Q17 **Chair:** Tim, do you want to venture into this world?

Tim Breitmeyer: By all means. I understand George's point about the 1995 Act. It did bring a lot more rental land to the market, so it achieved its first objective, but it did set an open market rent. The activities of businessmen and how much they want to pay for that has certainly surprised me, as an ex-farm business consultant. Inevitably, there is an element of BPS that is included in that rental payment, and I would think that the market will adjust accordingly going forward, but I cannot vouch for the behaviour of my fellow farmers.

Q18 **Chair:** It is a little bit like the retail sector. You have to make sure everybody has a fair bite. You would probably accept at the moment in some of these agreements the landowner is getting too big a slice of the cake because of this system. I do not know whether you want to venture there or not.

Tim Breitmeyer: The flexibility that Act brought meant that rents went in the direction they did. If that flexibility was not there then I think you would go back to seeing a lot of land taken off the rental market. That would not be in the interests of the sector, because the tenant farming sector is an incredibly important part of British agriculture.

Q19 **Chair:** Will you see some of these rents come down as well?

Tim Breitmeyer: I think they will come down. I am sure the market will readjust over time.

Q20 **Chair:** That might make farming more profitable.

Tim Breitmeyer: It is remarkable how much farmers are prepared to pay for the ability to expand their business at the moment.

George Dunn: The issue is it is quite a thin marketplace. There are many more people out there chasing land to add to their businesses or to farm than there are people offering land. We still have the situation Guy was referring to where owner-occupiers are able to use contractors, take no risk in farming that land and still get all the benefits of being a farmer. There is a question mark as to whether that should be allowed to continue, from a tax perspective.

These are some of the market failures we have been talking about. It is an open market, but it is not a free market, in the sense that there are not many buyers and many sellers who are individually unable to set the price. If we were in a commercial landlord-tenant situation there is plenty of office space around in various parts of this country where people cannot get a bid on that office space and landlords have to take rent-free periods and pay tenants—

Q21 **Chair:** What you are saying is there is not enough competition in the market.

George Dunn: Exactly, and we are not making any more land, and therefore land is a scarce resource. There will always be more people chasing land than there is land available.

Chair: We had better leave it there. I could last all morning just teasing you all into slightly different positions. Thank you for that. That was very good.

Q22 **Kerry McCarthy:** Initially at least this is to the NFU. The Government have suggested that farmers should be responsible for managing income volatility, as other sectors have to do so. What is your opinion of this? In the answer could we not stray into talking about insurance schemes? Angela has the next question on that and I do not want to steal all her material. Obviously it is a sector that is hit by volatility in price; it can be quite difficult for farmers to respond quickly to what is happening in the market. What is your take on where the Government want to put you?

Guy Smith: Thanks for that. It is an excellent question. We have always felt that any agricultural policy has to have three corners. One should concentrate on the environmental delivery, one should concentrate on productivity, and the other should concentrate on volatility mitigation. How you address volatility mitigation is probably the most demanding of those three areas, and in different parts of the world they do it in different ways.

Let us be clear, a direct payment is a means of protecting a farmer against volatility mitigation. If he has a disaster, or a drought, or the price collapses, at least he or she can be assured of an income because of a direct payment. In America they do it through different mechanisms, particularly crop and price insurance. In their Government at the moment, as we speak, there is a multi-billion-dollar farm Bill going through Congress. A quarter of that will be used to subsidise insurance mechanisms, where farmers get subsidised insurance to protect them against volatility in income or crop yield. That model is one that is interesting to look at, because it is how one of the big powerhouses of global agriculture support their farmers.

We get the impression from the command paper that Government are not so impressed that that should be the direction of travel in the UK. We are pleased to see that they recognise things like mandatory price reporting are important. That is your first step to an American type of system, where Government require market players to be transparent in their prices and acts as a means whereby those are reported and collected.

If Government are minded to set up those sorts of mechanisms through agricultural policy that is a step in a direction to an insurance-type concept going forward, without actually jumping into the pool fully, as it were. We are glad to see that in the command paper and would like to see that explored more.

Q23 **Kerry McCarthy:** One of the problems with the command paper is the fact that it is just about agriculture and does not look at the supply chain, from the role of the supermarkets to the role of the consumer. I asked a question at Defra questions and NFU retweeted me, so clearly they thought it was the right thing to ask. It says in the command paper we will adopt a trade approach that promotes industry innovation and lower prices for consumers. You have had the likes of Jacob Rees-Mogg saying that Brexit will mean cheap food prices. My argument was that we already have historically cheap food prices. Does that direction of travel concern you? How do you think British farmers will be able to compete in a global marketplace if you are expected to produce more but get less for it?

Guy Smith: The phrases "wanting it both ways" or "having your cake and eating it" come to mind, do they not? You make a very good point. It would be very difficult for our nation's farmers to deliver high standards in terms of animal welfare, environmental responsibility and assurance, as we do now, and yet compete on a global market against competitors who do not have those standards.

Sometimes we get overinvolved in what is good and bad—for example, whether chlorinated chicken is good or bad. The key point is the impact those standards have on a farmer's costs. We tend to have a high cost structure in the UK because of our high standards. As British farmers, we welcome the fact that we have an expectation to have high standards. We are happy to rise to that challenge. As you rightly allude to, Government have to be aware that you cannot compete, having high standards and high costs, against farmers who have different standards and lower costs.

You also make a very good point, Kerry, that there are other issues here, such as better functionality within the food chain. In amongst agricultural policy going forward—and again it is good to see it acknowledged in the command paper—we would expect to see a greater role for the Groceries Code Adjudicator.

Q24 **Kerry McCarthy:** That has just been rejected, has it not?

Guy Smith: Shall we say it has been muffled and put into the long grass? It will have to come out of the long grass. As I said, the command paper recognises the importance of the office of the GCA.

Chair: Just to interrupt, Guy, we have the Groceries Code Adjudicator coming in on 2 May.

Guy Smith: Excellent; you can ask exacting questions of what she thinks about the future of the office. We would like to see it expanded. We would like to see things like the dairy code and the beef code given statutory bite. That will protect the producer and give them greater strength in what we see as sometimes a bit of a dysfunctional grocery supply marketplace dominated by a handful of players.

Q25 **Kerry McCarthy:** Perhaps the Defra angle is all about British quality, protecting the British brand and increasing exports based on that quality. It is almost like we are going to export quality but import cheap lower standard food because that is where the Department for International Trade is going.

George Dunn: Mr Gove has moved on that particular issue. If you listened to him at the Oxford Farming Conference, he was saying that we could trade our way out of that problem by trading on our high standards, our gold standards.

Q26 **Kerry McCarthy:** That is what I am saying. That is what Defra is saying but I do not think that is what Liam Fox is saying.

George Dunn: By the time we got to the NFU conference, he was saying he would not accept lower quality products coming in from abroad. You are absolutely right: we need to make sure that is a policy not just espoused in Defra but in the Department for International Trade as well. We believe that we can produce to high standards and are producing to high standards. As I said earlier, if our standards mean anything we do not want to be undermined at the retail point of sale in the food service outlets by stuff that is not meeting those standards.

Q27 **Kerry McCarthy:** Going back to the original question that I asked about volatility, if we are looking at scrutinising future trade deals, are there things we should be looking for? We have talked about standards and the impact it might have on prices. Would it have a potential impact on the volatility of markets?

George Dunn: There is not one silver bullet that is going to resolve the volatility issue. Farmers have traditionally been price-takers at both ends of the supply chain. They have had to take the price on the inputs that they have to buy—we have seen volatility in fertiliser markets, for example—and the prices that they accept at the farm gate as well. As Tim said, we only need relatively small changes in farmgate prices in order to massively impact upon the profitability of farm businesses. Things like a mandatory price reporting aspect will be important in that respect.

We already have five-year averaging for tax, which has helped a lot of businesses. We have been talking about the possibility of having a farming business fighting fund, where you put money away in good years, in order to protect yourself in bad years—a glorified farming ISA, if you like. There are lots of things that we can be doing in this space. It is not just going to be one item.

Q28 **Kerry McCarthy:** One of my concerns is when some people would talk about increasing production, as opposed to improving productivity. There is a difference, in that improving productivity is partly about reducing input. It might mean that there is less in terms of what is produced. In terms of impact on price, increasing production is not necessarily going to get us very far. It could just bring the price down. How do we balance that?

For example, I went to a pig farm once where they were selling to Tesco and losing £80 per pig. They were making money when they were selling it to the local butchers. It was because they had hit the wrong spot in the market. Everyone had suddenly gone into pig production. How do you deal with that issue? Other than having a Stalinist five-year plan for pig production, how do you deal with that question? How do you almost rein back production sometimes?

Tim Breitmeyer: I would suggest the word "profitability" is really what we should be talking about, rather than productivity. Producing the biggest pile of grain is not necessarily the answer. Producing a pile of grain that is profitable is a much more important point. That will produce the profitable businesses that will be able to do the environmental management that the Secretary of State is talking about. Getting the sector profitable may include some productivity measures as part of the programme, along the lines of infrastructure investment, skills, the use of innovation, and research and development going forward, so that we increase our productivity, but make sure that the bottom line increases as well.

Q29 **Kerry McCarthy:** Improved productivity. Increased production is something that I am concerned about, but when you say "increase productivity" you do not mean increase production.

Tim Breitmeyer: I do not necessarily mean a bigger pile.

Kerry McCarthy: That can have a real knockback impact.

Tim Breitmeyer: The word "profitability" is really what we should focus on, because that is what we want for our businesses in the rural economy. Could I just expand on your volatility? Volatility really means having resilient farm businesses that can withstand the swings and troughs that we are seeing. That will come if we have a really well funded public goods model that is sufficiently broad to look after what I call the food security elements within it. That includes good soil that will produce profitable farmers, good animal health and welfare and traceability support, so we keep our quality standards, and alongside that the programme of profitability measures that I talked about. Equally, there need to be measures for the rural economy so that the businesses can expand and diversify a little bit, so that they are not totally exposed to the ups and downs of the food price of the day.

Q30 **Kerry McCarthy:** When you say "diversify", do you mean mixed farming or diversifying into, say, holiday homes or quad biking or whatever?

Tim Breitmeyer: It can be mixed farming, and I would encourage that where land is not very productive, but certainly broadening their income stream so they have other things to rely on. That could be anything from leisure to renewable energy to the environment. If it is a profitable environmental farming enterprise that farmers can make a profit out of, then they will do it, because they actually love the countryside they look after. If it is not making any more than a field of wheat then, sadly, they will not do it.

Q31 **Kerry McCarthy:** Can I just ask about what you said a moment ago when we were still on the other question. You said the reference to "polluter pays" was very worrying. That principle already applies through EU law. Why are you worried about it?

Tim Breitmeyer: It is extremely difficult to actually apply in the countryside when it comes to something like diffuse pollution. You can apply it to point pollution, but it is very difficult to work out who the polluter is a lot of the time in the countryside because of the nature of farming.

Q32 **Kerry McCarthy:** I am on the Environmental Audit Committee and we are looking at nitrates at the moment, so there is quite a lot about farm pollution entering the water supply.

Tim Breitmeyer: Severn Trent may have a problem with the level of metaldehyde in their water, but it comes from a whole catchment. It is very difficult to work out who the polluter is.

George Dunn: Even in the supply chain you need to ask who the polluter is. Is it the person that buys the product from the farm that is not prepared to pay a price that sustains a sustainable outcome? Is it the retailer that puts it on the shelf at a price that is lower than what could reasonably be paid for the standards that you want to see coming through? Who is the polluter? Is it the ultimate consumer, or the person who is producing it at the other end of the supply chain?

Kerry McCarthy: That is quite a philosophical discussion.

Chair: You raise a fascinating argument there, George.

Q33 **Angela Smith:** On maintaining standards in the context of a trade deal, Michael Gove has been clear. Theresa May, when I asked her about it the other week, was very careful in her wording and did not guarantee standards. She just said we will maintain high standards. I think we have more work to do on that, just as an aside.

George Dunn: We might as well forget our standards if we are not prepared to back them

Chair: Yes, to defend them, basically.

Q34 **Angela Smith:** Precisely. Absolutely, 100%. In relation specifically to an insurance scheme—a scheme to try to smooth out volatility—there are options. These include state-sponsored, as in the US, quite oddly in some ways, but understandable given the size of the sector. The paper seemed to be veering towards a much more market-orientated approach. Guy, I think you mentioned a potential role almost for regulation here, in terms of making sure there is a level playing field in terms of transparency over prices. I would like to explore with the panel views on where a potential approach on insurance should best sit. There are risks with a market-orientated approach, in terms of the capacity of farmers to engage fully in them and the cost of engaging in the marketplace. I would like views from the panel specifically on the need for an insurance scheme.

Guy Smith: As you know, Angela, there are already a number of financial instruments that farmers can use to manage volatility, whether it is option type trading or some insurance ideas, such as hail insurance or frost insurance for sugar beet. These are all mechanisms that are delivered through the free market that farmers can use. Going forward, farmers should never close their minds off to increasingly use this.

To pick up on a point Kerry made, volatility is going to be increasingly a challenge we have as farmers, as we move away from the European Union. You could argue that currency fluctuations may be greater; market volatility will be greater. Of course there is also climate change. At the end of day, as much as the politicians might think they can determine farmers' fortunes, it will be the weather. There will be greater volatility, so farmers needing to develop new strategies in their businesses to manage volatility. There are a number of financial instruments already out there that they can use.

There is a role for training for farmers to get a better understanding of this, to deploy this within their businesses. Milk futures is something that is really interesting for our dairy industry at the moment. We are holding seminars ourselves as a union for our members to get a better understanding of how they might deploy that. I am told throughout this that to work you have to have price transparency. You have to have a clear notion of what the market is doing. In America and Canada, it is quite clear that there has to be a role for Government here in making price reporting mandatory. The command paper recognises that, and that is a good first step.

You could argue, from experience in other parts of the world, that unless you subsidise insurance, farmers are reluctant to take it up. That is the story in America. In the 80s they slowly introduced more and more insurance-type models and lured the farmer in by subsidising it to the tune of between 40% and 60%. Now it is universally used across America by hundreds of thousands of farmers. That is a success story there. I would accept that whether or not an agriculture policy in the UK should use similar ideas is very debatable. However, the first step is mandatory price reporting, and we are pleased to see the command paper mention that.

Q35 **Angela Smith:** Guy, who do you think should best manage price reporting? You are broadly saying Government should do that, but is there any particular regulatory body that could do that that exists at the moment, or is it a new function?

Guy Smith: You could argue AHDB are well placed to do this. However, I am mindful of the fact that AHDB is financed from levies from farmers' pockets, and so it is a bit of a circle going on here. We would like to see Government taking more initiative in setting this up and having expectations of other agencies, such as AHDB.

Q36 **Angela Smith:** Just on the point about the subsidy of insurance in the US—effectively state sponsorship—does the size of the sector in the US make it easier to implement and embed, as they have done in the US, state subsidy of insurance?

Guy Smith: I am no authority on this, other than spending two weeks in America last year looking at this, but as I understand it the story is that in the 1980s the American system was permanent crisis payments, where the industry would go to Government and say, "We have a crisis on our hands", and they would bail out through the Treasury. Slowly and incrementally, they introduced insurance-type concepts, but they started with the low hanging fruit, which was the crop sector, where it is easier to apply for various reasons that I will not go into now. They then moved to other sectors, such as dairy and horticulture. Everyone accepts that the sector that is least compatible or least easy to bring in insurance-type products is red meat. It is livestock. We would be mindful of that when we consider it for the UK.

Q37 **Julian Sturdy:** I just want to take the panel back to the transition period, if I can. What do you think about the time length of the transition period? Is it long enough? Is there some concern out there that the period might affect certain sectors within the industry, i.e. they will not have enough time to adapt to potential changes coming down the line?

George Dunn: It goes back to the answer that Guy gave earlier. You need a transition period that is as long as you need it to be in order to get to where you want to be next. Because we do not know what the trade deal is, what we are going to do with labour or what we are going to do with the regulatory framework, we cannot say for sure what the transition period needs to be in terms of its length. However, as Guy also said, the fact that we have a transition period is good news, because we know at least we have five-ish years in order to plan where we go next. The job that we all have to do collectively is to make sure that we have a sensible system for the long term beyond that transition period. The five years gives us the time to do that, so long as there is a willingness of all parties to work towards a new system for the long term.

Tim Breitmeyer: The key point there, which has been mentioned, is when it starts. We have no clarity at the moment on the trade. We have no clarity on how the money spent in transition will be pushed into programmes to improve productivity and profitability, and also the piloting of the new model. As I mentioned earlier, I really think that new model is going to take a long time to get fit for action. Therefore, we have to be very careful about the starting of this transition, until that clarity, whether it be trade, labour or the policy alternatives, is in place

Q38 **Julian Sturdy:** Basically, you are all saying we need a lot more information from Government about where they feel we want to be, or the journey we are going on. Is that what are you saying?

Guy Smith: Could I just make a point? I agree with these two observations. How long should the transition period be? How long does it need to be? That is the glib response. There is a tone in the command paper of, "Throw out the old; bring in the new". We need to be careful there, because we must remember that we have existing environmental schemes that have a legacy. We have to see them through the next few years. We cannot just cut them off. There are five to 10-year contractual style agreements, as you know. The idea that we will just draw a line in the sand and jump into a brave new world is hopelessly naïve.

Similarly, we are very keen on an element of productivity within the agricultural policy, but again, as you know, how you actually deliver that is very complex. We think we are learning some lessons from the current RDPE programme, but maybe it is best to work this up through existing models, recognising what works, whether LAGs work, whether LEPs work, seeing where good practice is and developing something, through evolution rather than revolution.

Chair: Not too many abbreviations, please, Guy.

Guy Smith: I do not even know what "LAG" stands for.

Chair: I am not very keen on it.

Q39 **Julian Sturdy:** I do not want to put words in your mouth, but is there an argument to say that what the Government and the Secretary of State are pushing for is a change that I think we all feel probably has to happen, whether we are leaving the European Union or not? If we were in the European Union, this change would be coming anyway. Do you feel that there is an emphasis that they are trying to deliver what probably should be done over 10 years in, say, five years?

Guy Smith: I do not want to appear unambitious. This is a brave new world and we are up for that challenge. Things are going to change. It would be ridiculous to suggest that we want the same old same old, ad infinitum. That is not what we want. But, as this Committee knows very well, the British Civil Service does not always cover itself in glory when it comes to implementing—

Chair: Do you mean the Rural Payments Agency?

Guy Smith: You said that, Chairman.

Chair: You could not possibly comment.

Guy Smith: You could add Natural England, which you savaged last year, but I will not go back to that. Let us be clear: it has been difficult to implement new ideas and new policies, either through bad IT or things being half-baked and launched too early. We need to remember those lessons before we start jumping into radical new ideas.

Q40 **Julian Sturdy:** This is the last point on this particular one. Within the transition period, do you feel that it is very frontloaded at the moment? There is a lot of talk about the first year, but then really very limited information beyond that.

Tim Breitmeyer: One of the worrying things in the command paper is that it only talks about the first year. It is very silent on the fact that the whole industry, within five years—or probably about that timeframe—will have no BPS left. It does not make that at all clear. It is a very dangerous thing to frontload it in particular sectors as well, and not make sure that the industry has a chance to gradually transition, throughout the industry, over that period. It only talks about that first year at the moment.

George Dunn: In saying that, we have to give credit that the command paper does at least reference all of the things that we should be concerned about. Yes, there is detail on bits of it that we can mull over and chew over, but there are other aspects that are referred to almost in passing within the command paper. At least they are in there. The job of work we have to do now is to find out how we can make those bits of the command paper that have been referenced but not in detail fly to a higher height.

Guy Smith: Again, I would come back to delivery. We have to be clear that things are properly tested and do work. I would come back to having a good understanding of who the risk-takers and the active farmers are in our industry, before we go jumping in with new ideas. I return to the fact that the NFU is not asking for an endless continuation of the CAP. We are up for the challenge. We want something ambitious.

Q41 **Chair:** What worries me is that we want a transitional period, but it needs to be a transitional period. I am a bit worried it is going to mean, "God, make me good, but not just yet". We have five years, we all sigh with relief and the whole thing carries on the same. What we need to see from the command paper and from Government—I do not know whether you agree with me—is a clear transition, where the basic farm payment is not going to be there. What is going to replace it? Are the market, the insurance policies and all those things that will be needed going to be in place? Are farmers ready to do it and have they been encouraged to do it before we get to the five years? I am a bit worried they might do a little bit of capping here and there, mess about with this, that and the other and then just carry on the same, and we still fall off the edge in five years' time. What would you like to see in the command paper? I know it is very difficult as farming organisations to say you want to see the basic farm payment go, but what we need to see is what is going to replace it. Do you see over that five years any clear direction?

George Dunn: We have to be mindful that it is transition. It is transition to what? The "what" is the thing that is as yet unanswered. We would like to see, if we are talking about productivity as a key driver for the future, looking at investing in farm businesses, to put them in a position to be productive into the long term. For example, we spent a lot of time in the 1970s spending money on fixed equipment, on drainage schemes on land, which are now coming to the end of their natural lifetime. We need to be thinking as a nation, "Do we want to put some money back into those productive assets, into that fixed equipment, into that drainage system, so that we have a farm system that is fit for the future, for the long term?" For after transition, it is not just about the public goods. It is about creating the right framework for farmers to be profitable into the long term as well.

Q42 **Chair:** You hit a real nail on the head, about how we get a profitable, productive agriculture in five years' time. If we are not going to have a basic farm payment, we will need that. It is how we help you to get to that stage. Does anybody else want to comment on that?

Guy Smith: There has been much talk about impact analysis of leaving the European Union, and whether Government are being a bit furtive about this. In this command paper I would like to see some clear work on impact analysis, based on good intelligence about our industry. I am not sure that is there. It may be there. We are told that Defra has doubled the number of staff. It has an extra 1,500 people working in Defra now. Hopefully some of those are good economists who are doing this impact work, but I have yet to see it.

Tim Breitmeyer: I would wholly back that last point up. There are some indications in the very praiseworthy compendium that goes with the consultation paper, and some of the statistics in that paper are truly terrifying as to how big a problem we have to make sure we move from the system that we have got used to over 40 years, rightly or wrongly. We have to make sure we prepare the industry and give it the support, whether it be in five years, seven years or whatever.

Chair: We have just recently done our report on Brexit and the effect on different sectors. It shows that it is not the same across the whole sector either. Lamb and beef are particularly hard hit in certain scenarios. Cereals and milk are there as well. They are all going to have different effects. That is what we also want to see from Government.

Q43 **Angela Smith:** The point about impact assessments is really crucially important. I just wonder, in that context and the context of the timeline needed for transition, whether you feel that the paper deals adequately with an assessment of how long it will take to secure improvements in productivity, given that investment in skills, in plant and machinery and in new technologies necessarily will take some time to have impact. I just wonder if you would expand on that point about impact assessments in the context of the need to improve productivity.

Guy Smith: I described the command paper as wide-ranging but rather thin. In a way, that is good, because nothing is ruled out and nothing is ruled in. There is plenty in there to go at, but obviously we are going to have to start distilling this as we go forward to get a better understanding of what ag policy looks like. Your point about a clear understanding of the impact on the change in policy, particularly on productivity and production, is really important. I would urge this Committee to increasingly ask Defra those searching questions.

I am not clear in my mind what the exact relationship is between this command paper and the Agriculture Bill that is going to go through Parliament in the autumn. Is this going to be just a shell of a Bill, an enabling piece of legislation, or is it going to be something more substantive in terms of direction of travel and policy?

Chair: Is it a proper consultation? That is what we also want to know. Do not worry. We will be asking those questions.

Tim Breitmeyer: Coming back to the impact, we have done quite a lot of modelling on just what it would mean to a number of different types of farm business. Backing up what I said about the compendium, the scale of the problem is readily there when you see that 42% of livestock businesses are making no money whatsoever. They are making a loss without the BPS. On arable farming, between 2003 and 2017, the average arable farm made a total of £65,000 in 13 years from its agricultural output. We have a big journey to go on, and we need to make sure that we are given the support to get there. By all means, we have a paper on it, if the clerks would like to see it.

Chair: Yes, please. I will make that plea at the end. Guy, you are consulting today with members. Please let us have everything you have. That helps us with written evidence as we report, and the same with George.

Q44 **Angela Smith:** The Government have suggested during transition that direct payments could be invested by farmers in tax options or commercial insurance, to manage income volatility. Is that a realistic option to present to farmers?

George Dunn: There is something within the command paper that talks about the ability for decoupling the payments completely from what goes on on the holding. We are certainly interested in looking at how that could play out, because that gives options to the farming community in terms of whether individuals want to retire, to invest in diversified activity, to invest off the holding, to invest in their own businesses or to invest in insurance schemes. If we can have the option for that flexibility available to the farming community without being too prescriptive about how they can use that finance, obviously within a ring-fence of regulation, there could be some major benefits from that type of arrangement.

Q45 **Angela Smith:** The problem there is that the direct payments now include also significant contributions towards greening. Is there a risk here that, during transition, if farmers have more flexibility in terms of how they use direct payments, then some of the environmental benefits will be lost?

George Dunn: On the greening element, what is euphemistically called "greening" is just a regulatory system, and we have to ask the question as to the extent to which we are seeing the sorts of environmental improvements that we want to see from that money. The greening options are pretty broad-brush in that respect. We need to be using the agri-environment system to deliver the environmental improvements that we want to see, not trying to use the BPS by bending it round corners to get green options out. I am not sure that we would lose significant amounts of the environmental improvements that we have seen over the years.

Q46 **Angela Smith:** That is to argue that greening is not working now. I just wonder what the other panellists would say on this.

Guy Smith: That is a good point. If you ratchet back the BPS payment, do you ratchet back the greening conditionality that goes with it? That is a good question to ask. It is not clear, and I cannot see it in the command paper. I do not know if you were alluding earlier to the idea of turning your entitlements into a lump sum of bonds, which has been discussed. My get-out clause there is that that is something we are going to consult our members on. When I get a clear indication—

Chair: That sounds like a politician

Guy Smith: It is infectious, obviously.

Tim Breitmeyer: Funnily enough, we put this question to our council and our members over the last month. There are some merits there, particularly from a retirement point of view. Our feeling was that the system might be open to abuse, and therefore might not curry great favour with the Treasury.

Chair: Or the National Audit Office, possibly.

Tim Breitmeyer: Or the National Audit Office. We came around to the fact that, if there was some way of making it applicable to retirement, then possibly that should be looked at.

Chair: Perhaps linked to a new entrant somehow. I know it then becomes a bit complicated.

Angela Smith: Exactly.

Tim Breitmeyer: I fear we felt that, in the public interest, as you say, the National Audit Office and the Treasury might not take it a great deal further.

Chair: You cannot be ruled entirely by them.

Angela Smith: We are.

Chair: We probably are. Yes, you are probably right, Angela.

George Dunn: It is a transitional arrangement. It is not the forever situation we are going to end up with. If it gets us through a set of issues through the transitional period, then we would hope that those bits of Government you refer to would look at it more favourably.

Guy Smith: You mentioned the National Audit Office. That raises an interesting question. Sometimes in the command paper there is assumption that all the delivery problems with the current CAP are due to EU regulation and once we are free of the EU we will have this liberty to deliver as we like. As you know, Treasury is not minded to throw money around. We should remember that an audit and inspection trail will always be required, and that is not going to go away.

Q47 **Chair:** It is public money. It has to be followed. The National Audit Office, I suspect, is going to be quite as strict as the Commission, if not stricter. We have to try to design something that is easier to administer and easier to check. The idea that you are not going to get any checks in a minute is cloud cuckoo land. We have to devise a system that is relatively simple, perhaps does not need to be checked as often, but there will still have to be checks and balances, because we cannot hand out public money without some checks and balances. You are absolutely right.

Tim Breitmeyer: Can I just reinforce that point and say how long that is going to take to design? The system is not working at the moment. I know that there has been a change to the system in the last two weeks. I am not 100% sure that the farming community will have great confidence in the fact that that is going to make a great deal of difference.

Chair: Also, for 40 years, we have had a common agricultural policy that we have moaned about and chewed corners off, but we have always had that to follow. We should be able to do it, and we should be able to do it well, but we now have to step up to the plate. You made the point, Guy, that we have extra people in Defra, but they have to not only be extra people; they have to be the right people, and we have to be able to design a system that, even when we put it into the computer, might actually work. That is absolutely key. I do not know what I am referring to, Angela. Do you?

Angela Smith: Not at all.

Chair: In the past—it does not matter which Government it is—we have not managed to do that. I am not sure that is all Europe’s fault. That is going to be the interesting thing to see as we go forward. We can do it more simply and we can do it better, but it is a real challenge to make sure we do. What we shall do in this Committee, among others, is try to follow that strongly.

Q48 **Angela Smith:** Just to finish with one more, we have moved slightly away from the question, but one of the means of reforming CAP, if we were to be staying in the European Union, would be to introduce more devolution into the framework, as they have with fisheries, for instance, if we could. Is it important that a new system, as we move out of transition, should include devolutionary elements, with as much devolved decision-making as possible?

Chair: Alan is asking the next question, so that is probably a good one before we bring Alan in. My view is mixed on this, and Alan may not agree with me. We need to have devolution of policy across the United Kingdom, but we also need to have a degree of uniformity, so there is not too much competition across the borders.

Angela Smith: I am not talking necessarily just about Northern Ireland and Scotland. I am talking about being as devolved as possible.

George Dunn: We are living in an age where we have devolution already to the four parts of the United Kingdom. That devolution settlement has to be respected. Yes, there are discussions about whether or not you apply the Barnett formula to the Brexit dividend and what happens to that through the transition. All of that needs to be resolved, but we also have to realise that we are moving out of one single market and into another single market, which is the United Kingdom. Traditionally, we have been able to ensure that we have rules in place within the UK because we are part of the EU single market. What we would not want is to see England take a different approach on a regulatory matter that made Scotland—

Chair: Or Wales or Northern Ireland.

George Dunn: —decide not to trade food across that border or whatever. We need to be mindful that we live in a single market within the UK, and ensure that we protect that marketplace from a trading perspective, but also allow sufficient devolution for the policy framework—

Chair: So we can still trade across Hadrian's Wall, not that I would stir up trouble.

George Dunn: We run the theoretical risk of having that type of arrangement where there are trade barriers between parts of the UK, because agricultural matters will be devolved, so we need to guard against that risk.

Guy Smith: Also, we would not want vastly different support structures, whereby you could make money by taking sheep from Carlisle and back again. We respect that devolution. I am deputy president of the NFU, which is England and Wales, and we respect that Scotland, Northern Ireland and Wales have slightly different topographies and sector balances, which should be respected in any agricultural policy. However, as you say, Chairman, we would like an element of homogeneity that does not create nonsense, particularly in the border areas.

Chair: Tim, I expect you would largely agree with that.

Tim Breitmeyer: There is little I can add to that, other than to say, yes, equally, my Welsh cousins are very keen that they should have sufficient control over their own policy, particularly when it comes to the whole public goods model and the environmental side of it. I can understand that, because there are differing priorities there. As to how much further you devolve that particular subject down into England itself, so you have local prioritisation to get the best result, that is probably another matter.

Angela Smith: That is what I am driving at.

Tim Breitmeyer: There is a case for that, but I absolutely would not suggest that we devolve the allocation of the money, because I am quite sure my members in national parks will not be happy if they controlled the purse strings as well.

Chair: That was quite a diplomatic answer. Alan, I reckon I can bring you in now. You may have a slightly different take on this.

Q49 **Alan Brown:** I have a substantive question, but I suppose I would just make a plea in terms of devolution. Make sure you do speak to your partner organisations in the devolved nations, because I know the NFUS, in particular, want to have a system that can be adapted to suit the needs of Scottish farmers, because clearly we know the common agriculture policy is a blunt instrument, but there is no point getting a similar blunt instrument that is tailored towards one sector of the United Kingdom, so there does need to be devolution. In terms of the Barnett formula, George, I would ask you, again, to speak to partner organisations. The Barnett formula would completely move away from a needs-based payment system. That would be detrimental, I suggest, to people in the devolved nations.

George Dunn: All three of us are members of a group that is sponsored by the NFU that has representation from right across the United Kingdom, where we are talking on a very regular basis about those issues. Do be assured that those conversations are happening in real time.

Guy Smith: To emphasise that, we have very good and regular talks and discussions with the NFUS and the UFU, and long may that stay the way. More commonality is in the interests of all our organisations rather than more differences, while respecting there is always going to be an element of devolution within agricultural policy, and quite rightly so.

Q50 **Alan Brown:** I will just move on to the substantive question. This is back to land management and also the environmental considerations. In the command paper, the Secretary of State has set out a few suggestions in terms of soundbites and tick boxes, which sound great: world-class animal welfare, high animal-health standards, the protection of crops, increased productivity and public access to the countryside. That is suggested as a range of possible environmental public goods that could be funded through the new agricultural policy. I just want to ask what your views are in terms of what you consider to be the public good.

Tim Breitmeyer: If I could kick off with that, we recognise the fact that public goods in the past have been considered to be, by and large, environmental public goods. Perhaps one of the things that concerns me as far as the command paper is concerned is the fact that there is only a vision for an environmental land management system at the moment, and supposedly there will be another one to follow. Our vision of this is that it has to be one scheme and much broader, so that it does include animal health and welfare, and it includes significant attention to soil, which produces so many benefits, from nutritious food to better water retention to climate change and to productive agriculture.

Q51 **Chair:** Do you want to talk very briefly about your idea of a sort of contract? That is quite interesting.

Tim Breitmeyer: We believe that if we are to receive public money, we have to produce public benefit for that. That is effectively a contractual relationship between society—the public—and the land manager, and there are responsibilities on both sides. We believe it should be multiannual so that there is certainty there. We come back to resilience and volatility. We want this to be seen as part of a farmer and landowner's business model and as part of his annual enterprise, as it were.

It would cover everything from soil to animal health and climate change. Cultural vitality, i.e. the uplands, is a hugely important part of it, because there is no doubt about the fact that it will be extremely difficult for upland farming going forward. It is already difficult now, but going forward it will be almost impossible to continue productive agriculture on the hills unless they are extremely well supported.

We will consider a very broad range of things. The command paper talks about innovation, skills and education as a public good. We are beginning to get into territory that I would regard as productivity measures for making British agriculture more profitable here. There is a slight blurring of the distinction there. It comes back to the fact that it is a public good that British agriculture is profitable, but that should not be part of a multiannual project, necessarily.

Q52 **Alan Brown:** If we just go back to the previous comments about devolution, that contract could turn out quite all-encompassing. You talked about diversity. How do you see that working? If it is the UK Government setting the framework, how would that work in the devolved settlements? Clearly, we are going to have different priorities in different areas of the United Kingdom. The UK Government have mentioned public access to the countryside. In Scotland, for example, you already have a right to roam. You actually already have a public right to access the countryside. I am thinking about how all of this fits into the framework for a new agricultural policy and payments system.

Tim Breitmeyer: As far as my Welsh compatriots are concerned, they do not have a difficulty with it. They see a similar type of system coming out of Natural Resources Wales. They believe that is the direction they are going in. I know there will be differences with NFU Scotland and the Scottish farming sector. Yes, we certainly have to make sure it can be sufficiently broad to be transferable across the devolved nations.

George Dunn: If we are talking about public goods solely here, and trying to divorce ourselves from the conversations we have been having about productivity and profitability, within the United Kingdom there are already various statements about what is special about certain areas. We have the Natural England character maps, which tell us what is important about bits of England.

We have to take a very localised approach. We have the area statements within Wales, for example, which set out what is important about individual aspects of Wales. It is not beyond the wit of policymakers to use those frameworks that already exist to develop the types of contractual arrangement that Tim is talking about. More importantly than that, knowing what is important about an area and what you want to promote about an area is one thing, but we need to guard against it being too process-driven. Rather than telling farmers and land managers how to do it—"You tick this box, you do this much, you do this then and that then"—you say, "This is what we want to achieve; these are the outcomes we want to see. You decide how best to achieve those outcomes".

We might need some proxies for some of those outcomes. If we are talking about migratory species of birds that do not arrive because of issues in Spain or whatever, we might need some proxies for that, but, as much as possible, we need to be outcome-focused on what it is we want to achieve and having a dialogue with the farming community in much the same way as we did in the 1980s with environmentally sensitive areas, the first tranche of agri-environment schemes that we developed. There was a real dialogue between the project officer and the farmer on the ground to say what worked best in that locality, and we need to move towards that system. The contract-based system that Tim talks about provides that opportunity.

Guy Smith: We always recognise that the uplands have particular needs, and there is a greater proportion of uplands in the devolved nations. That should colour agricultural policy going forward. Under the CAP, LFA and SDA are recognised, and we expect something similar going forward. You can deliver that through environmental policy. I would also add that you can also deliver that through productivity measures. For instance, it is now possible to put a bolus in a sheep that can tell the farmer its temperature while it is on a hillside and the farmer is in the farmhouse. Clearly, that will give advantages when it comes to animal welfare and the like.

But I do not need to remind this Committee that to allow that technology to be used by the farmer, he needs good digital connectivity and broadband. There lies another issue.

Q53 **David Simpson:** Very quickly, I do agree with the devolution issue. The devolved nations need to be able to tailor things to suit themselves. Certainly—not to throw a complication into the works—in Northern Ireland and the Republic of Ireland all of those issues are very complicated.

Among the farmers who I speak to, there is a concern that within the new command paper we may over-emphasise the environment. It is important and it is vital that we get it right, and that point has been made today, but surely it is about common sense and the proper approach to this. The farmers have been the custodians of the land for hundreds of years. 99.9% of them do not really need to be told how to handle their land and about soil erosion and all of that.

Surely we need a common-sense approach and to balance all of this. In his Oxford speech, I believe the Secretary of State mentioned the environment 22 or 23 times. It scared a lot of farmers that the emphasis was going to be on the environment, not on profitability and productivity, which you have mentioned, Tim. That is something we need to get right. Profitability is going to be a difficult one, because we have a new generation of housewives who will look at the price of goods and what they can afford to pay for meat and fish. That is a big issue.

Chair: That should be "house-person", not housewife.

David Simpson: Yes, I am sorry. You have my apologies. It is not PC to say that. You have my apologies for that.

Tim Breitmeyer: David, I will come back to you on two points there. First of all, "yes" is the answer. We are custodians of the land; we have created it. That is the land and the landscape our public want to go and enjoy in the countryside. We have done that of our own volition and in many cases with our own investment and funding over many, many centuries almost. It has to be that if you produce the outcome, we will give you the public benefit in return. I could not agree with you more.

I come back to the breadth of any model that is put in place. It has to have some element within it, as well as the programmed profitability we have been talking about, that recognises the good farmers do, which includes their food production. I take soil, animal health and clean water as examples of that.

Guy Smith: We are really pleased to hear yourself and Mr Gove acknowledge that farmers are the best stewards of the land. We accept that simply owning land does not mean to say you actively manage land. We welcome the suggestion that support should be directed and targeted to the man or woman on the ground who understands the farm and manages it on a day-to-day basis. They are the key players here. I am not convinced that Government have the ability to identify who those people are. That is a key step in designing agricultural policy.

George Dunn: We have used half of our discussion today to talk about the productivity element, which is vitally important. The Government have two roles. One is to allow for a market where no market exists in those elements of public goods we have been talking about. The second role is also to correct for the market failures that exist in a market that is operating inefficiently. Let us face it: the food market does operate inefficiently—for many reasons. It is legitimate territory for the Government to be involved in ensuring we are delivering sustainable outcomes for society as a whole by ensuring we have a system that encourages farms to be profitable.

Q54 **Julian Sturdy:** I just want to come back on a couple of points there, if I can. I entirely agree that farmers are the custodians of the land. The vast majority are very passionate about what they do, about the environment and about delivering environmental good. To flip it slightly, have Government played on that a little bit in the past? Environmental policy going forward and the environmental schemes that are being proposed are actually not quite financially viable, but they have played on the goodwill of farmers. Because they want to deliver them, they will still deliver them. When the Government are talking about new environmental schemes going forward, have they considered, and do they have a sufficient awareness of, making them commercially viable to farmers to deliver?

Chair: The cost of delivery, basically.

Julian Sturdy: Yes, and whether they are commercially viable to deliver them.

George Dunn: If you go back to what I said earlier about the environmentally sensitive area scheme, I was in my first incarnation in employment as a MAFF economist looking at the impact of those ESA schemes in reality. Where they worked well was where you had a vibrant, engaged project officer who was a good advocate for their scheme and had a dialogue with the farming community to deliver those arrangements on the ground.

Where they did not work well was where things became removed and you had a sort of "us and them" type of approach. Sadly, through the decades of agri-environment schemes, we have found ourselves in a situation where we have become more removed. Although we have talked about being more engaged and being more outcome-focused, the last set of stewardship is the most process-driven, removed piece of agri-environment policy we have had for a very long time.

We need to get back to a situation where—it is unpalatable, because we are talking about putting people back on the ground—we get engaged and enthusiastic individuals who are advocates for the schemes, who know the farming community well, who are prepared to work with the farming community to deliver those schemes. You will have the uptake. The problem we have at the moment is that farmers feel disenfranchised.

Guy Smith: The key metric of whether agri-environment schemes are successful is uptake. That is why the countryside stewardship scheme so far has not been particularly successful. It is absolutely imperative that the agri-environment schemes going forward are attractive to farmers, not just financially but also in terms of faff, paperwork, clarity or confidence in them and the like. That must be incorporated into the design. A bit of an unknown at the moment is whether agri-environment schemes under WTO rules can be based on the income or above income foregone or above income foregone. The view of Defra and the command paper is that they will not be bound by the strictures of income forgone, but a little bit more homework needs to be done on that.

Tim Breitmeyer: I would only add to that last point. Certainly our impression is that we would not necessarily be hidebound by them.

To come back to your original question, the answer is no. They do not understand the fact that if people are going to engage with these schemes—and they need to be able to engage with them to ensure a broad income stream going forward—it has to be seen as a business enterprise within their overall farm business model. They will not do it if it is better to plant a crop of wheat.

Chair: That is a good point.

Q55 **John Grogan:** My apologies for being late, by the way. I am trying to balance two Select Committees, including the Northern Ireland one, where we are discussing agriculture. Following on from Julian's question, as you have acknowledged in the past, quite a lot of farms and landowners have not got involved in countryside stewardship schemes. There is now simplification on offer even while we are still in the EU. Do you have any further reflections on that? Is that simplification helpful, in the first instance? Will it encourage a little more take-up? What lessons can we learn for the future if new environmental land management schemes are designed?

George Dunn: One of the things we have heard just recently, Mr Grogan, is that the administration of agri-environment schemes is going to pass to the RPA. Obviously, the RPA has its own issues; it is not really doing very well meeting its own KPIs, aside from taking on any further KPIs. The language the RPA uses with farmers in terms of communications tends to be rather more pejorative than the language you might get from Natural England in terms of the engagement we are talking about.

Chair: It is about putting a scheme together.

George Dunn: Yes, that is right. Again, the RPA language is very process-y: "You have ticked the wrong box; go away and come back when you have ticked the right box". Even though we have launched four new apparently simplified schemes, there are concerns that moving the administration at this stage is going to cause us some problems. Until we are through the six-month long TUPE process, which seems inordinately long as far as I am concerned, we will not really know how that is going to play. Whilst we were encouraging our members with the Gove guarantee—that no one entering a scheme now would be worse off in comparison to what might come later—there is now a bit of reluctance if we are going to see major change in the administration of those schemes within a very short period of time. We are seeing some people being put off.

Guy Smith: We called for simplification, and we were pleased to see simplification. We hope that it encourages more farmers to take up the scheme. The proof of the pudding will be in the eating, and it comes back to the importance of uptake in any agri-environment policy, and the recognition that delivery is key to the success of a scheme, not just design.

Chair: Yes, it is not just about talking about it. It is about delivering something.

Tim Breitmeyer: Could I just give you an example of what we have been talking about it? Severn Trent Water has a scheme with its farmers where it pays them for water management. The farmers take that up, albeit it is probably less valuable than stewardship. The reason they take that up is so they have somebody to engage with who they know understands the issue; it is simple; and, by the way, they get paid on time.

In my own case, I thought I should lead from the front with higher-tier stewardship. I have been paid 40% of 2016; I have been paid none of 2017. I have been inspected and not received a report 15 months later. To me, that is Government not answering their side of the bargain.

Chair: We will be having the Rural Payments Agency in soon. Rest assured these cases will be put to them very directly. I promise you that.

Q56 **Angela Smith:** Should any future agri-environment scheme or payments system include horticulture?

Chair: Yes, has horticulture always been a poor man or poor woman in this?

Angela Smith: It does not get any subsidies at the moment.

Guy Smith: The nature of horticulture is that it tends to take place in more intense, smaller areas. That colours the way agri-environment schemes play out in those areas. It is a good question, Angela. I will have to consult my members on that and see how they feel. Do not forget that agriculture involves broadacre crops such as potatoes as well.

Tim Breitmeyer: All I would say is that our vision is that this is voluntary. It may be that horticulturists feel that on the best grade 1 land in the country they will possibly concentrate on their food production business. They will concentrate on their food production business because that is part of their model. Yes, they will probably choose to engage to a degree, but not necessarily as heavily as many other businesses might do.

Chair: They would not want their hands tied behind their backs either by too many controls. That would be the problem.

Q57 **Angela Smith:** No. To really play devil's advocate, given that the horticultural sector may well start investing in vertical farming options, should any new scheme apply to innovations like vertical farming?

George Dunn: We have to consider this with an outcome focus. We are talking about things like climate change adaptation and mitigation as well. There are elements of the horticulture industry that can play into that with some assistance from Government.

It depends on what outcomes you are looking for. If you develop a scheme based on outcomes and there are some outcomes that are attractive to the horticulture industry to deliver even higher standards than they are already producing, you might attract some of them into the scheme as well.

Chair: Gentlemen, you have given us a great deal of your time this morning. Thank you for some very good evidence. It will be part of our presentation back to the Government on the command paper. As I said to you earlier, please let us have anything you are getting through straightaway. We will try to incorporate that in our thoughts to Government.

Guy Smith: Could I just ask this Committee a question? How are you approaching this? This is an initial bite of the cherry, and it is very wise to get in early, as it were. Are you going to make an initial response or do you intend to hold further inquiries as we go forward?

Chair: What we will do is have about three sessions on the command paper. We will get back to the Government with our views from the Select Committee. Naturally, when the Agriculture Bill comes in, we will really drill down on that as well. As a Committee, we did not want to miss this opportunity to be able to give some thoughts on this. That is what your very thoughtful evidence this morning will help us put together, so we thank you very much.

Examination of witnesses

Witnesses: Richard Hebditch, Tom Lancaster, Arlin Rickard and Ellie Brodie.

Q58 **Chair:** Good morning. Thank you very much for joining us. You have my apologies for keeping you waiting. We will get straight on with our second round now. If you would like to introduce yourselves, we will start straightaway.

Richard Hebditch: I am Richard Hebditch. I am government affairs director for the National Trust.

Ellie Brodie: I am Ellie Brodie, senior policy manager for The Wildlife Trusts.

Tom Lancaster: I am Tom Lancaster, principal policy officer for agriculture at the RSPB.

Arlin Rickard: I am Arlin Rickard, chief executive of The Rivers Trust, and I also chair the national support group for the Catchment Based Approach.

Q59 **Chair:** I will start off with the first question, which is quite a broad one. Are you pleased with the ambition within the Government's command paper to focus on policies underpinned by payments of public money for public goods? What is your general opinion of the command paper?

Ellie Brodie: Generally, the direction of travel is a really positive one, in terms of the public goods direction of the command paper. Yes, we welcome the focus on really rewarding farmers, particularly for the environmental public goods they provide to society and a move away from area-based direct payments as well.

Tom Lancaster: I would second that, really. It would be remiss of us not to welcome something that talked about the environment being the cornerstone of a future agriculture policy. Obviously, we really welcome that direction of travel. If you take the public goods and environment focus to its logical conclusion, you would see significant expansion of what we currently know of as agri-environment schemes to a much bigger environmental land-management system, as they have described.

There were some obvious gaps in there. The paper did not talk about funding. That is an area of particular concern, which we want to pick them up on. We share some of the uncertainties.

Chair: You think that there is not enough detail on funding.

Tom Lancaster: Beyond restating the commitment to the end of the current Parliament, there was nothing on funding and how you would match the ambition the paper set out and that we welcomed with adequate resources to achieve that ambition in the future.

Richard Hebditch: I would echo those comments. On first reading, I was thinking a little along the lines of your first panel of witnesses about the lack of certainty. Actually, reading it again, it is clearly moving towards a system based on public money for public goods, with environmental land management as the cornerstone of that policy, and farming profitability based on quality as well. I understand the farming sector's concerns about the lack of clarity in some areas. It is very strong around environmental land management, but it is less sure about the productivity and profitability of the farming industry. As we go forward, that is what we will want to explore. But we are very clearly moving towards a system that is based on public money for public goods and environmental land management as the cornerstone.

Arlin Rickard: I would endorse the comments made, and indeed those made by the earlier panel giving evidence. I do have a couple of areas just to add in. It is really important that the consultation period is really deep and meaningful. Obviously, there is actually a really short timescale to agree an awful lot of things; I am aware that Defra are recruiting people. It is really important that there is a strong dialogue with agriculture—farmers and landowners—as well as NGOs and other interested parties. Otherwise, there is a danger of some of these things being decided in a vacuum.

Importantly, we must be brutally honest. We all must do that. I am a small farmer myself, so I am very well aware that there are a lot of things that we nod towards but the reality is that it is just not really happening or it is just not there. This is a really good chance to do that, because so much of the CAP has been based on compliance and avoiding infraction from Europe. To some extent, we have done an awful lot of nodding towards it without really making it happen on the ground. For farming's sake, as well as the public and public goods, we just have to be honest about that. Particularly, that would bring forward areas of regulation and enforcement, which are very weak at the moment.

Q60 **Chair:** Can I ask you, as a panel, whether you think that the command paper brings enough together? You all work with farmers in order to deliver what you want to do, whether that is with a bird population, a plant population or from a conservation point of view. Does it bring you together enough with farming? At the end of the day, we all have to live together. Farming will help to deliver what you want to deliver, but does it bring us together enough? What is your view on that?

Richard Hebditch: The important thing is that it provides the opportunity for us to have that conversation, if you like. I think it does. We have around 1,300 tenant farmers. We want to work with them to deliver our strategy, ambition and charitable propose. It provides that in terms of needing the certainty about farmers being able to be profitable in the new system. We do not want to see large-scale abandonment of farming. It should do, provided that it does actually provide that certainty, so that we have certainty about the endpoint we are moving towards but we need that certainty about how we are going to get there.

Q61 **Chair:** You would allow your tenants to have quite a bit of flexibility, would you, in how they deliver as well?

Richard Hebditch: Yes. It depends slightly on the kind of tenancy they have, obviously, but we are working with the farmers and we want to do things ourselves. We are running one pilot in North Yorkshire on the "payments for outcomes" approach, where we are working with them. That is a good pilot for the kind of approach Defra seem to be moving towards. We definitely do want to work with them. It is also about how you provide that consensus going forward. The thing we would all be worried about, both the farming sector and our sector, is the Treasury and the demands on funding for other public services. We need a consensus between farming and conservation about this being the way to go forward, that this is a way of providing profitable farming that is sustainable into the future.

Q62 **Chair:** Yes, we are all conscious that the Treasury will watch the spending very closely. If there is a way they think they can shrink it, I suspect they will. We need to be aware of that, yes. Does anybody else want to comment on that?

Ellie Brodie: There could be some better links made between the different sections of the command paper: for example, the sections on public goods and natural capital, and the sections on farming futures. One example of that could be a better integration with the environmental land management focus of the command paper in, for example, looking to how we might encourage new entrants and new skills. One example from Cumbria Wildlife Trust is the fact they are working very closely with the local agricultural college on a conservation grazing project.

That is a nice example of those two things coming together and making sure new entrants and young people are attracted into farming by this new environmental land management scheme, which is going to be fantastic.

Tom Lancaster: In terms of bringing farmers, environmentalists and others together, one of the unhelpful aspects of the CAP was it created an antagonistic dynamic between farmers and environmentalists. It was about who could get the biggest slice of the cake, really, whereas Brexit completely changes those dynamics. Apart from farmers, now we are one of the few lobbies arguing for continued large-scale investment into farming, land management and all that it can provide for society.

Just the very process of having this command paper and the fact we are talking much more to farming unions than we have done in the past has actually brought us together around that. That is why I sometimes get concerned about some suggestion that a focus on public goods and environmental land management is a threat to farming. Actually, it is the biggest, and perhaps only, opportunity to maintain that sort of public investment into the future.

Arlin Rickard: One interesting aspect of it is that there is some very good practice taking place already. For instance, many of the rivers trusts and certainly catchment partnerships are working in many cases with water companies acting as the kind of ethical broker, working with a wide range of farmers. All of us here are involved in those schemes to a lesser or greater extent.

Again, you will have heard something similar from the CLA and the NFU. They have good examples of being involved in these programmes. First, there is some really good practice there and some really good opportunities. There are some very cost-effective measures. To some extent, the reason they have come into place is because the risk has gone up for water companies, and effectively for their shareholders and consumers. From the food-chain and food-retailer perspective, their risk has gone up as well, so they too are getting increasingly involved.

That points to two things. It points to the fact the existing system is actually not working particularly well; otherwise, why would they need to make these interventions? It also shows there is a considerable cost benefit to the public, to the consumer, to get these things right in the first place. There is an aspect of farming where farmers are embarrassed to take money for environmental goods, funnily enough, and feel driven towards this productivity route, which is not necessarily in the interests of the public. Again, we have to have a really honest debate. Clean water and clean air are as important as food. We must get the balance right.

Q63 **Julian Sturdy:** Tom, could I pick that up? I entirely agree with what you have said about the unity between all the different groups about the fact we need to invest in public goods and the environment, and that is only going to be good for the farming sector going forward—if done properly, I might caveat on that. On that point, my first question is to Tom and Arlin. I wondered whether you have made any assessments on the impact on your own conservation projects abut phasing out direct payments.

Tom Lancaster: The RSPB is a fairly major recipient of direct payments. It receives in the order of £1 million a year as a large landowner. That will obviously have an impact, but it is an impact that is for us secondary to being able to achieve a stable but relatively swift transition to that new environmental land management system. There will be an impact, obviously, but effectively it is one we are willing to accept for the greater good in terms of a policy that more effectively secures a range of outcomes for society.

Q64 **Julian Sturdy:** To drill down a little bit on that, you think that initially there could be some concern, but the payments would tail off or be capped. You would potentially come under that capping.

Tom Lancaster: Yes.

Q65 **Julian Sturdy:** It would drop or tail off. Do you have concern that, if it is coming down, at the same time there has to be the money coming back on the other end for environmental projects? It seems to be a bit vague. They are quite clear about how they potentially want to see it come down in the transition period, but then they seem to be a bit vague about how it is going to come back. Would you say that is a concern to your potential projects going forward?

Tom Lancaster: We are concerned about that, but I would not say it was for ourselves. The RSPB has a range of HLS and other agreements, any of which are 10 years long. In some respects, any taper effect or dip is manageable in terms of moving toward that new system. We are fairly animated about the risks associated with a transition, both when it comes to stability for farmers and also the environment. Really, Defra has one shot at that. It is like trying to hit the bull's eye on the dartboard with one dart. If it gets it wrong once, it gets it wrong the only time it has a chance to do it.

Ensuring that transition and taper brings in an environmental land-management system whilst the taper is ongoing, or however they transition away from direct payments, will be really key, so we do not see that deficit in terms of environmental protection and land management in the interim.

Richard Hebditch: Our view is similar. We also start from the fact that, however much we can do on our own land, we need the wider environment to be improved as well. There are limits to that, and that is why we have started to be more vocal around what might replace the common agricultural policy. For us, there would be quite significant income losses. We get around £2.5 million to £3 million from basic payments. Our tenants receive basic payments themselves. We are aware of that, but we have always said that it is not how much money we receive; that is not the point of what we think about what replaces the CAP. It is actually what the overall objectives are. It is quite reasonable for Defra to say, "We want to start trialling things, and we have around £150 million to give us enough to test the approaches we want to do". That sounds quite sensible to us. Again, it is just about making sure that money that has come out does go into actually reliable, good tests of what the new approach might be.

Q66 **Angela Smith:** I am aware that you are all involved in various schemes to improve, if you like, or marry together successfully environmental outcomes and farming for food. The National Trust does Moors for the Future; the Rivers Trust has mentioned water quality, pollution and working with farmers; the RSPB is involved in the Eastern Moors Partnership. Other organisations do that as well. In my constituency, I know the wildlife trust are doing it with the Lakeland Partnership.

The command paper mentions the need to initiate more pilot schemes to make sure they get this new arrangement right. What is your view on all of that? Is there any sign that Defra will be taking the work you have already done into account? Will they be working with you as partners? Have you been approached to be part of this? I know Natural England are doing pilot work as well with lowlands and uplands work on agri-environment. How well dovetailed will these pilots be, given what we already have by way of evidence?

Arlin Rickard: At this stage, I do not think any of us have been involved to put forward those pilots. In some cases, aspects of Defra will be knowledgeable about some of them. Again, the nature of Defra is still to be quite siloed, if I may say that. Therefore, water quality does not interface particularly well with biodiversity. They will each have different pieces of information. For instance, within the Catchment Based Approach, we have a series of working groups. One of those is now looking at the abstraction plan issue, in terms of this major review that is overdue in terms of how we manage abstraction and the management of water. If you like, that will probably have its own Bill in due course, but at the moment we are making really good headway using existing regulations. In order to gain consensus and get some exciting ideas moving forward on that—there are a lot, including water trading and a range of other options—that is the route. That is probably the only one that is moving at this point. That was flagged in the 25-year plan.

Angela Smith: Yet there has been so much work done by conservation charities on reducing water pollution.

Arlin Rickard: Again, the water companies have now been investing in this in two cycles. Under the current PR19 process, we are all working quite closely with the water companies, looking to encourage them to have ambitious plans in those PR19 processes. We are looking for output indicators, which Ofwat could then hold them to, and the Environment Agency has given them guidance in terms of the environmental plan, where water companies are tasked with delivering quite a large amount of our green outputs in terms of improving water quality, bathing water quality and so on.

Q67 **Angela Smith:** To the rest of the panel, I am quite keen to understand whether or not you get the feeling Defra will be taking account of the work that has been ongoing so far and the expertise you all have.

Richard Hebditch: Defra can give the impression of a department that is going places, if you like. It is the domestic Brexit department. It has a very active Secretary of State. It is interested in ideas, in a way that it probably was less so in recent years.

The challenge will be this. The policy is still emerging about quite what they want to trial and quite what to do. It depends on what willing partners there are at a local level. We are trying to track what is going on and how much we are involved with it. A lot of the time, it is about people such as general managers in National Trust places who are aware of things or individuals. We are actually trying to co-ordinate what we know is going on. That is quite a challenge for us, as I am sure it is for Defra as well.

Q68 **Angela Smith:** Surely it is incumbent on Defra to reach out.

Richard Hebditch: They are reaching out, but Defra are expanding at the same time, as we were saying earlier.

Q69 **Chair:** You are right in saying we have a very enthusiastic Secretary of State. The question we probably need to ask is this: does Defra keep up with the Secretary of State? When he grabs hold of something, he really grabs hold of it.

Richard Hebditch: The challenge is about whether that translates down to the wider Defra family as well? You were talking about the Rural Payments Agency earlier.

Chair: You were talking about this in a cross-departmental way as well.

Angela Smith: Let us face it: this is also about the design of the scheme.

Ellie Brodie: There are several important points to make. Yes, Defra have been in touch with us. We suffer from diversity—not "suffer". It is wonderful being such a diverse organisation as the Wildlife Trusts. Several individual wildlife trusts have been approached by Defra, as we have at the centre as well, about exploring ideas for a new universal land management scheme. Defra are getting in touch. I know they are talking to the National Trust and the RSPB as well.

An important point to make is that the command paper has come out hot on the heels of the 25-year plan for the environment. The new environmental land management scheme is really going to be one of the key delivery mechanisms and key funding streams for realising quite a lot of the ambitions in the 25-year plan for the environment, including the nature recovery network.

We would be really keen to see in these pilots how an environmental land management scheme is going to deliver the ambitions of a nature recovery network. That £150 million is a fraction, really; it is a third of current agri-environment spend, and it is going to take an awful lot more of that to deliver the ambitions we want to see. But, yes, some of that could be used to explore ideas around spatial mapping and ecological network mapping. Where are some of the opportunities for nature recovery? Where should we target the investment?

Angela Smith: You are actually suggesting a measurement framework for the outcomes of the scheme potentially there.

Ellie Brodie: Potentially, yes.

Tom Lancaster: You made the point about whether we already know a lot of this stuff from existing schemes and projects. There is a bit of a danger that we overlook the fact that we have been doing agri-environment at scale in England and the rest of the UK for 25 or 30 years. We know a lot of what works. There could be temptation to invest too much time in some fairly blue-sky pilots and thus neglect the need to actually build that environmental land management system now, if it is going to come on stream in 2022.

We are still developing our thinking around some of this stuff, but what we would question is whether there is a need for Defra to think about pilots in terms of what sort of generation of post-Brexit policy they might fall into. If we are talking about quite innovative mechanisms, is that more second-generation policy, late 2020s stuff? Do we need to think about what we need to trial and pilot now in order to make sure a new environmental land management system can come on stream in 2022 in a way that farmers can engage with, that Defra can deliver but that will also deliver the outcomes the environment needs?

Q70 **David Simpson:** I want to follow on from Angela's point. Ellie, you raised the issue about the £150 million. I know you have talked about that, and maybe all of you have mentioned it. In relation to the £150 million, could you pinpoint a number of projects where the money could be prioritised? How can it be more prioritised to deliver the outcomes you are looking for?

Chair: This is the top slicing, basically, with the capping payment.

Ellie Brodie: I would go back to what George Dunn said earlier. It depends on what we are transitioning to. I would make a pitch for the £150 million to be used to really explore how our new environmental land-management system could deliver nature's recovery through a nature recovery network. That would be a valuable trial, I would think.

We have recently done some work on, if the Government were to reach their existing commitments around biodiversity, water quality and a range of other environmental measures, how much would that cost? It is really quite a lot. We need to have a better sense of what the overall pot is going to be and some commitments around that. At the moment we have a sense from the command paper about some ideas about capping direct payments and then what money might become available, but we do not have a sense of the amount of money that might be available to deliver some of the ambitions within the command paper around the environment.

There is another important thing about the public goods that are highlighted within the command paper. People are being asked to rank them. That is a little bit dangerous, because lots of ways that we can manage land in an environmentally sensitive way deliver multiple outcomes and multiple public benefits. Asking for a pick-and-mix in a ranking is a little dangerous. Maybe some of that £150 million could be used to explore what the projects are that really deliver multiple benefits, such as water quality, flood risk mitigation or biodiversity. There is a whole range of things there.

Q71 **David Simpson:** When you were talking about water quality, Arlin raised the issue about rivers; the last panel mentioned the pollution of rivers. Certainly in Northern Ireland we have seen a lot of pollution of rivers but also a lot of fish kills. Is there any way that money like that could be targeted to help that? Is that really something that is out of your control? Is it down to those who pollute the rivers or whatever? Is there any way that can be targeted?

Arlin Rickard: It certainly could. There are projects operating. We have a cross-border project operating there at the moment, Source to Tap. That is focusing largely on the use of chemical spray—MCPA—reductions and it is largely based around water quality. There will be improvements for fisheries in relation to that. There is an engagement with farmers, working on a range of measures that would help to reduce that. It is also about making them aware of risks on the farm. Some of the infrastructure around livestock farming and slurry storage is quite old now, and it is subject to failures. Again, the point was made earlier that it is really important that farming is profitable, because it allows farmers to reinvest in the infrastructure, those safety measures and the management measures to support them.

There is a lot that we can do. To be blunt, you need the threat, if you like, of enforcement to back up the voluntary measures. If those voluntary measures can be bought along with some supporting grant, either a capital grant or a revenue grant, then you can make progress very quickly. We always find farmers extremely receptive to government policy, and to initiatives and schemes. It is usually that they have not been previously thought through or integrated sufficiently, or they are not sufficiently outcome-driven, which is where we want to move the debate.

Q72 **David Simpson:** The other point we need to make is that it is not always the farmers who pollute the rivers. Industry does it as well, so you need to be targeting industry, not just the farmers.

Tom Lancaster: On the £150 million specifically, we need to be mindful of the fact that that is for piloting future policy. It is not for delivering what future policy will seek to deliver, which, as Ellie says, will take a lot more than that.

As Ellie also said, we definitely need to know where we are going in order to spend that money effectively or at least have a vague idea. Through the consultation, it is incumbent on Defra to zero in on a few options and look to pilot those. A particular part of that would be the alignment with the 25-year environment plan, particularly the metrics that Defra are currently developing for how we can monitor progress against the targets and the outcomes that plan seeks to achieve.

Q73 **Chair:** The point about the 25-year environment plan is one well made, because we do not want it to be in isolation, really. You cannot have the agriculture and food policy and the environment policy separated; they must be incorporated.

Tom Lancaster: Yes. I am thinking about how we can really attribute cause and effect when it comes to the environmental land management system, the targets in the 25-year environment plan, what role the metrics play in that and what role farmers and land managers themselves might play in assessing progress. Those could be useful areas where pilots could focus.

Q74 **Kerry McCarthy:** One of the things farmers often mentioned being a problem with CAP was all the regulation, monitoring and enforcement that came with it. What is your view of the proposed changes, and particularly the idea there might be more industry self-regulation? I do not know who wants to start.

Ellie Brodie: I could start on that. Looking at the regulation section in the command paper, there are a few risks. One is around the fact that when we move away from direct payments we will move away from cross-compliance. The link between paying farmers to comply with certain environmental standards will go. That is one risk. I am not saying that is necessarily a good thing or a bad thing, but we have a risk there. Currently, they are getting paid to meet certain minimum requirements.

There is another risk. Some of the regulations that currently exist may also not get brought over. One set in particular are the new farming rules for water. They bring some cross-compliance and they bring some existing things over and make them mandatory, which is good, but there are some things that are missing from that. There is a risk there. There is also a risk to boundaries. Boundary features such as hedgerows are really important. They bring a range of benefits for wildlife and habitat connectivity. They are currently part of cross-compliance, and we would need to see those being picked up somewhere.

With that kind of link between the payments and the regulation going, we need a really strong enforcement mechanism. That is a real concern, and I am not sure that is a role for industry.

Q75 **Chair:** Basically, you are not keen on self-regulation.

Ellie Brodie: That is the point I am making.

Chair: You may as well come out and say it, if that is what your position is.

Ellie Brodie: I am not keen on it.

Tom Lancaster: There is a lot of stuff to welcome in the command paper about the maintenance of high standards and in some cases looking to raise the regulatory baseline, but there are also risks around some of the suggestions around a reduction in enforcement or potentially reducing the enforcement of those regulations. If you do not enforce a regulation, you may as well not have it.

There are huge questions, say, on the farming rules for water. There is a lot of good stuff in there, but the Environment Agency does not have any resources at all to even advise on these rules, let alone enforce them.

We need to think about how we can meaningfully maintain those regulatory protections, not just have them on the statute book.

Q76 **Kerry McCarthy:** Is it possible to square the two? You have this whole thrust towards public goods, but does that mean anything if it is not monitored or assessed in some sort of way?

Tom Lancaster: The whole premise of the policy Defra are driving at, really, is "provider gets"—so the public goods stuff—on the one hand, but that really needs to build from "polluter pays". If you do not have the "polluter pays" aspect, the "provider gets" part is not going to work, because you will have pollution of water courses, loss of soils and all that sort of stuff. It will make the job of restoration through the provision of public goods all the harder. We are not saying that it is all stick.

Chair: You would like a few carrots as well.

Tom Lancaster: Yes. There are definitely things Government can do to move to more proportionate enforcement. It could maybe use more advice, where appropriate. Certainly, when it comes to incentives, countryside stewardship does have a lot of disproportionate and fairly burdensome record-keeping and evidence requirements that really do not need to be there. It should be easy for farmers to help nature and not overly bureaucratic.

Kerry McCarthy: There needs to be intelligent enforcement, yes.

Q77 **Chair:** There is also the remapping. There is this idea that every three years you have to remap everything. Very often, not many things change in that time.

Arlin Rickard: I endorse the point entirely. Again, it is really important to have this regulatory baseline that is enforced. When you go around, farmers will say, "I have invested quite heavily to be compliant, and I have a neighbour down the road who is flagrantly abusing this, and no one is doing anything about it". He is not going to shop in his neighbour, but his neighbour is letting everybody down. You will always find this in society. There may be a range of reasons why. Maybe there is financial or family hardship.

Kerry McCarthy: It might be that they just do not care.

Chair: Yes.

Arlin Rickard: Maybe they just do not care, but one needs to find out why and deal with it, either with a penalty or with some support. It is like anything in society; we need to do that. At the moment, we are turning a blind eye to it. If you are looking to build a structure on that, the actual foundations are not too strong. In many cases, you run the risk of the polluter being paid. In other words, you are throwing money at the people who are causing the problem. Perhaps that it is not necessarily right. You have to get the balance right.

Earned recognition is a good way to deal with the self-regulation. If you have earned recognition through being part of a recognised scheme, you are much less likely to be targeted in terms of enforcement visits. That is a perfectly reasonable point. There is an advantage in that, and you will probably command a slightly greater value on your product as well.

There is an element of self-regulation, but it still needs to be underpinned by an independent regulatory authority, like the Environment Agency, who currently do not have the resources or the political will to make them drive that forward.

Richard Hebditch: One caveat about the consultation paper as a whole is that there is a slight danger of seeing farmers as just economic animals who respond to prices or regulations. Actually, the culture of farming matters as well, i.e. the advice and knowledge transfer. That side of it is not as well developed in the consultation paper as perhaps we would like. From our work with farmers, it is very much about how we engage with them. As George Dunn was saying, it is about being close to farmers, helping them and working with them, rather than seeing them as people who you do things to and they respond to them. In the consultation paper, it sounds like we are doing things to farmers: "We will cut these kinds of payments or we will increase these kinds of payments; we will do this regulation to them". Actually, how do we work with farmers? How do you provide that advice at a more local scale?

Q78 **John Grogan:** You have touched on the farming rules for water and what you think of those rules. Obviously, they are the first of these that will come forward. In terms of base regulations, are there other comments you would make? Where could improvements be made? What comes after water?

Tom Lancaster: There is a whole debate to be had about soils and what the optimum mix of interventions is to improve the functioning and condition of soils. What is the balance between private and public? Obviously, soils are the assets upon which farmers depend, so they should probably be investing in them themselves, but at the same time improving soil function delivers a whole range of public benefits, so there is a case there to use public policy leavers.

At the same time you have issues. We probably need to make much better use of regulatory levers to reduce soil erosion. There are chronic losses of soil in the south-west associated with maize on really risky slopes and fields. Do we need to have a debate about whether we should just prevent the cultivation of maize in those sorts of places? At the same time, a future environmental land management payment should rightly provide much better incentives for farmers to improve the condition of their soils as well, particularly when it comes to restoring condition and building organic matter and structure.

That is a longwinded way of saying soils is definitely an area where we need more stuff in general, including regulation.

Arlin Rickard: The farming rules for water are a great start; there is some really good stuff in there. Again, it requires the will to enforce it. A very useful thing, too, is that we can employ civil sanctions-type penalties, which is referred to in a prosecution route. Indeed, I would like to see those civil sanctions hypothecated into a catchment fund to do more work, to provide more advice and more support. If you are doing the groundwork, as I said, and working with farmers, they will work with you. There is very little resistance to that.

You can help them improve the practice and raise awareness of the downstream costs sometimes, which they may not always take into account.

Q79 **Chair:** If you took this by catchment area, you could also add in the flooding as well, could you not? That could be a bonus.

Arlin Rickard: You could, absolutely. It is the integrated nature of the discussion we are having that is really important. You may have a number of funding mechanisms, and that is something we do need to examine in the wider programme. There are also things like cap and trade on phosphorus, for instance. If you set a cap for phosphorous in the river, then the water company can trade with the farmers and the farmers can find their position. Some cannot help but generate some phosphorus; others may change their programmes. They may be looking toward a retirement process; they may be looking to have more grassland or to reduce their inputs.

There are a range of options, but you can let the market find its place. I am all for that. It is possible to develop mechanisms on water trading and cap and trade, certainly for phosphorus and nitrates. All of these things are possible.

One thing I was very disappointed was not in the farming rules for water was closing the pre-1991 exemption under SSAFO rules. That is the slurry, silage and agricultural fuel oil storage rules. A whole number of farmers, particularly in the south-west, still claim the pre-1991 exemption, which means in effect they are not pursued at all in terms of enforcement.

Chair: This is like a sort of grandfathered right, really.

Arlin Rickard: It is a grandfathered thing. It is high time it was closed. We need to set a time limit and say, "You have five years to comply", or whatever. Equally, there should be funds to help them do that. This is something that was difficult to move forward under the previous CAP.

Q80 **Chair:** Yes, you make an interesting point. Government could say, "We will take away those rights, but we will help you with some capital costs to help put it right". That is interesting.

Arlin Rickard: Exactly, yes. In effect, some water companies are already doing that, again just to protect their water supplies.

Ellie Brodie: There is some good stuff in the farming rules for water on the application of fertiliser, manure and slurry storage and those kinds of things. It is also good on read-across, cross-compliance and nitrate-vulnerable zones. As Tom says, what it is not so good on is soils. Some soils stuff is picked up on those things I have just mentioned, but some is not. It would be good to see more regulation picking up things around, say, how to improve soil and organic matter and those kinds of things.

What we also do not see in the farming rules for water are some things that have not been picked up from, say, cross-compliance. Boundaries is one specific example; I have already talked about that, so I will not reiterate that. Riparian buffer strips are another one that has not really made it through. They bring a range of benefits: biodiversity benefits, benefits for small mammals such as water voles and those kinds of things, as well as water quality.

Q81 **Chair:** Riparian buffer strips really do. You are saying they are not there, are you?

Ellie Brodie: In the farming rules for water, the specific two-metre riparian buffer strip rule that is within cross-compliance has not made it through.

Richard Hebditch: I would just highlight heritage as well. 84% of scheduled moments are on farmland, so the CAP was really important for taking care of monuments at risk. That is still something to be looked at in the new regulatory system and also in terms of the environmental land management as well.

Chair: Kerry, would you like to come in with the last one? We will try to be quick with this question if we can, because we have Prime Minister's Questions in a minute.

Q82 **Kerry McCarthy:** My question is the broadest question there could be. I hate it when somebody asks me for just one thing as an answer, but the question is whether you have any views on what should be in the Agriculture Bill? I am sure you have lots of views, but do you have one thing?

Chair: Try to have different ones if you can.

Richard Hebditch: I will try to give you a short answer. One of them is about how to assess the need. I give a parallel in terms of transport, where there is the road investment strategy or the rail investment strategy, which say what the need is and how much funding is available. It is really important to draw on the expertise of Natural England, Historic England and organisations like that to assess it. The RSPB, the National Trust and ourselves have done our own work around assessing the scale of needs—around £2.4 billion—and on meeting current environmental priorities. You could actually have an independent process to do that set out in legislation, to which then the Government respond about how much funding is available to meet that need.

Ellie Brodie: Setting clear, long-term and overarching targets would be really important around environmental land management. We should also be making links between that and the 25-year environment plan.

Kerry McCarthy: This is things like the four per thousand soil targets and stuff like that.

Ellie Brodie: Yes, exactly, so they actually have some statutory—

Q83 **Chair:** Yes, Tom made the point about the 25-year environment plan as well. It is an interesting point that he raised this morning. The 25-year environment plan and this Agriculture Bill have to be linked more, do they not?

Kerry McCarthy: Yes, and we do not really know whether the Agriculture Bill is just going to be about the period up to 2022 or the future of agriculture.

Chair: Yes, whether it is going to be beyond that.

Tom Lancaster: Yes, from our perspective the page on the Bill in the consultation paper is too narrow and too technical. We would like to see some ambition in there, hence Ellie's point about targets. To go with that, we also need something to be able to hold Government to account against that ambition. One of the problems with the CAP is that DG AGRI have always resisted any real scrutiny of the extent to which it is contributing towards a range of other Union objectives. With the Agriculture Bill, we need some mechanisms to be able to ensure accountability against any targets or objectives that are set for it or any other areas of government policy or legislation, like the 25-year environment plan.

Q84 **Kerry McCarthy:** As we were looking at the EU (Withdrawal) Bill, there was talk about a Bill coming forward on a sort of regulatory or governance body. I do not know where that has got to, but that would be about enforcing things like whether we carry over the precautionary principle and "polluter pays" and stuff like that. Would that have a role to play in monitoring some of the stuff that has come out of this command paper, as opposed to the Environment Agency?

Tom Lancaster: Potentially. As I understand it, that governance body is more about how Government are performing and whether or not—

Chair: Yes, it is a monitor.

Tom Lancaster: For example, you could give that governance body a role to scrutinise the environmental performance of agriculture policy, to determine whether or not it is making a meaningful and significant contribution toward the goals of the environment plan, which may be given legislative underpinning by an Environment Act, or at least we hope will.

Q85 **Kerry McCarthy:** The sort of targets that Ellie was talking about would be like a national aspirational target. Therefore, you would have to have something at government level as opposed to each farm. When it comes to, say, meeting the soil-quality target, there will always be some farms where the soil just does not lend itself to that or they are not in that type of environment.

Ellie Brodie: That really links back to having some decent mapping of where action is needed and where it is going to contribute. Every farmer can make a contribution, so it is about saying where those environmental opportunities and risks are.

Arlin Rickard: I would endorse the comments made. Rather than repeat those, it is really important there is enough flexibility in that Bill or, if you like, a number of hooks there that do not limit us in terms of our ambition. It really is essential that the 25-year environment plan is thought through in terms of the wording of the Bill and the ambition of the Bill.

As I say, we have these fundamental problems, which we have often chosen not to address. It is often said that the consumer presently pays three times for their food. They pay the price in the shop, the subsidy that effectively supported that food production, and the clean-up cost afterwards. The clean-up cost afterwards is these downstream costs, whether that is water quality, air quality, bathing water quality or biodiversity. These costs are pretty huge and frightening. We should be able to make big in-roads into that, and we should be able to reward farmers for it.

This is not a criticism of farmers; it is a criticism of the policies we have. These policies are common across the world, so we are not alone. We just need to address them and be honest. It is important that that is in it, and that it does not focus too much on this idea of maximum production. We need to be looking at optimum production and what is a real public good. The transition from one to the other will be of real concern to farmers. It is really important that we are able to transition across without a hiatus that could be very damaging.

Q86 **Kerry McCarthy:** I would argue that perhaps they pay four times, because there is the whole public health element of the food that is produced and the extent to which we have obesity, diabetes and all those sorts of things. The command paper is called "Health and Harmony", but there is not a lot of health in there. That is too broad a topic to go into.

Arlin Rickard: If I may say, Kerry, it does highlight how an area of discussion on both panels has been bringing in the food supply chain. It is also critical to farm profitability that they are able to process more themselves and add value themselves, rather than relying on—

Chair: Yes, it is the whole structure as well, is it not?

Arlin Rickard: Yes, exactly.

Chair: It is not just quantity.

Kerry McCarthy: That is not really covered, is it?

Arlin Rickard: It takes in everything from local slaughterhouses to local markets and pack houses. There needs to be support for that and the technologies to back it up. That can all be there, but we just need that ambition.

Chair: Thank you very much. Your session was shorter but very good, thank you. We have had some very good evidence. We will take this, put it together and present this back to Government as part of our conclusions on the command paper. Like I said, when we come to the Agriculture Bill itself, we will also scrutinise that as well. Thank you very much for your evidence this morning. We will rush off, because we are going to Prime Minister's Questions. Thank you very much.