



**Cynulliad Cenedlaethol Cymru
The National Assembly for Wales**

**Y Pwyllgor Materion Ewropeaidd ac Allanol
The Committee on European and External Affairs**

**Dydd Iau, 25 Medi 2008
Thursday, 25 September 2008**

Cynnwys
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Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynndi yn y pwyllgor. Yn ogystal, cynhwysir cyfieithiad Saesneg o gyfraniadau yn y Gymraeg.

These proceedings are reported in the language in which they were spoken in the committee.
In addition, an English translation of Welsh speeches is included.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Nerys Evans	Plaid Cymru The Party of Wales
Michael German	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Sandy Mewies	Llafur (Cadeirydd y Pwyllgor) Labour (Committee Chair)
Brynle Williams	Ceidwadwyr Cymreig Welsh Conservatives

Eraill yn bresennol
Others in attendance

Dai Davies	Llywydd, Undeb Cenedlaethol yr Amaethwyr President, National Farmers' Union of Wales
Dr Nick Fenwick	Cyfarwyddwr Polisi Amaethyddol, Undeb Amaethwyr Cymru Director of Agricultural Policy, Farmers' Union of Wales
Mary James	Cyfarwyddwr, Undeb Cenedlaethol yr Amaethwyr Director, National Farmers' Union of Wales
Brian Pawson	Uwch Swyddog Polisi Defnyddio Tir, Cyngor Cefn Gwlad Cymru Senior Land Use Policy Officer, Countryside Council for Wales
Gareth Vaughan	Llywydd, Undeb Amaethwyr Cymru President, Farmers' Union of Wales
Rod Williams	Aelod Cyngor, Cyngor Cefn Gwlad Cymru Countryside Council for Wales Member

Swyddogion Gwasanaeth Seneddol y Cynulliad yn bresennol
Assembly Parliamentary Service officials in attendance

Gregg Jones	Pennaeth Swyddfa UE Cymru, Gwasanaeth Ymchwil yr Aelodau Head of Wales EU Office, Members' Research Service
Annette Millett	Dirprwy Glerc Deputy Clerk
Stefan Sanchez	Clerc Clerk

Dechreuodd y cyfarfod am 1.31 p.m.
The meeting began at 1.31 p.m.

Cyflwyniad, Ymddiheuriadau a Dirprwyon
Introduction, Apologies and Substitutions

[1] **Sandy Mewies:** I welcome Members, officials and those in the public gallery, although there do not seem to be many today. Headsets are available for translation and for sound amplification. The translation is on channel 1 and the amplification is on channel 0. If the alarm sounds, it is because there is an emergency and the ushers will show us the safest way out. I remind everyone to turn off their BlackBerrys and mobile phones.

[2] I have received apologies from Jeff Cuthbert, who cannot attend because he is chairing the Proposed Learning and Skills Measure Committee. Brynle will substitute for William

Graham today. I have not been notified of any other substitutions.

[3] Our new clerk, Stefan Sanchez, has reminded me—although I had not forgotten—to introduce him. He is the new clerk to this committee. We welcome him and Annette Millett, the deputy clerk. I hope that they will enjoy what is going on here. I am sad, in a way, that our previous clerking team is not here, because I wanted to thank Kathryn Jenkins for the sterling work that she did in the time that she was with us. That is on the Record, but perhaps Stefan could write a short note of thanks to Kathryn. I am sure that Members would like to join me in thanking her.

1.33 p.m.

Archwiliad Iechyd y Polisi Amaethyddol Cyffredin Common Agricultural Policy Health Check

[4] **Sandy Mewies:** Our guests have now arrived, so let us move on to the next item. You are very welcome indeed, Mr Pawson and Mr Williams. Please switch off any mobile phones, BlackBerrys, or any other transmission devices that you might have, because they interfere with the broadcasting equipment. You do not have to operate the microphone yourself; it will operate automatically, so it is better if you do not touch it. If you hear an alarm, it is very likely that something is going wrong, so follow the ushers, who will see us safely out.

[5] There have been some apologies. Brynle, who I am sure you know, is substituting for William Graham. Jeff Cuthbert cannot be here because he is chairing another committee.

[6] For Members' benefit, I introduce Gregg Jones, who is our new man in Brussels—the man with the suitcase. He has taken over from Anna Daniel. I think that we ought to send a note to Anna to thank her for her work, which was very helpful indeed, as I am sure you are all aware. Welcome, Gregg. We are hoping to join Gregg in Brussels, but we are having the usual problem of the Committee on European and External Affairs, namely that of finding a date when everyone can get away. However, we are looking at a fresh date now. I have been talking to Stefan and to Gregg about making it a worthwhile visit, as the last one was. We got a lot out of that. I also want it to be planned so that people are not totally exhausted from travelling, and so on. So, we are looking at dates, and they will be circulated to Members as soon as possible.

[7] The committee has been looking at the European Commission's draft legislative proposals for the common agricultural policy health check, which is a half-term review, as I understand it, and not a complete change. Our inquiry commenced last term, when we took evidence from the European Commission and the Wales Environment Link. The Minister for Rural Affairs was also present at our last meeting, although I was unable to attend. We have had a videoconference with Dr Klaus-Dieter Borchardt, the EU's director general of agriculture and rural development, and we have also heard from Michele Aitchison, the advocacy officer of the Wales Environment Link, and Philip Bird, head of the European policy secretariat. So, that is where we are.

[8] Today, we are calling on the Countryside Council for Wales to give us its opinions, and, later, the National Farmers' Union and the Farmers' Union of Wales. I welcome Rod and Brian again to this meeting. We have all had a copy of your paper, and you ought to assume that we have read it. Therefore, I ask one or both of you—however you are comfortable—to introduce your paper, and then Members will ask you questions.

[9] **Mr Williams:** Diolch. Rod Williams **Mr Williams:** Thank you. I am Rod wyf i, aelod o Gyngor Cefn Gwlad Cymru. Williams, a member of the Countryside Cyn i mi fod yn aelod o'r cyngor, yr oeddwn Council for Wales. Prior to that, I was

yn gyfrifol am adran amaeth banc HSBC yng ngogledd Cymru. Bùm yn aelod o'r cyngor cefn gwlad ers dros bum mlynedd bellach. Gyda mi heddiw y mae Brian Pawson, uwch swyddog polisi amaeth y cyngor. Brian wnaeth yr holl waith ar y papur hwn.

responsible for the agriculture department of HSBC bank in north Wales. I have been a member of the countryside council for over five years. Joining me today is Brian Pawson, the council's senior agriculture policy officer. Brian did all the work preparing this paper.

[10] Cyngor Cefn Gwlad Cymru sy'n cynghori'r Llywodraeth am faterion bioamrywiaeth, agor cefn gwlad i'r cyhoedd, a thirwedd. Felly, ni yw cynghorwyr y Llywodraeth. Teimlwn mai'r ffordd ymlaen yw cydweithio ag amaethwyr. Mae 80 y cant a mwy o dir Cymru yn cael ei ffermio, ac, yn y pen draw, ni chawn ffoamrywiaeth safonol heb inni hefyd allu cydweithio â ffermwyr. Credwn mai ein rôl ni yw cydweithio â ffermwyr, gyda'r bwriad o wella'r amgylchedd.

The Countryside Council for Wales advises the Government on issues of biodiversity, opening up the countryside to the public, and the landscape. So, we are Government advisers. We think that the way forward is collaboration with farmers. More than 80 per cent of Welsh land is farmed, and, ultimately, we will not ensure quality biodiversity unless we co-operate with farmers. We feel that our role is to work alongside farmers, with the aim of improving the environment.

[11] Gadawaf i Brian siarad yn awr, gan mai ef sydd wedi gwneud yr holl waith papur ar y cyflwyniad hwn. Credaf y bydd yn siarad yn Saesneg, yn hytrach nag yn y Gymraeg.

I will hand you over to Brian now, as he has done all the paperwork on this presentation. I believe that Brian will address you in English rather than in Welsh.

[12] **Mr Pawson:** Thank you very much, everyone. I will go straight into a summary of our evidence. The 'health check' is a term that has been bandied around; it is a good metaphor for adjustment. This is not, as we see it, major surgery, although it must be said that, if every member state did everything that is being proposed—and some are a long way behind the UK when it comes to decoupling—it would be a substantial change. The big debates will come as part of the European Union's budget review, which it has already started. I am sure that, as usual, the review will carry on until the last day of 2012. Commissioner Mariann Fischer Boel has talked about the CAP health check as being one vision, two steps, and it seems as though the budget review is very much the second step.

[13] Therefore, from our point of view, the key parts of the health check are those that help to set the scene for the CAP post 2012, and particularly the emphasis on the new challenges. They probably do not cover all the new challenges, but they will certainly help to set the justification for the CAP of the future. At CCW, we think it important that incremental changes made as part of the health check help rather than hinder the long-term direction of travel towards a CAP that rewards the provision of public benefits such as clean water, healthy soils, biodiversity, landscapes, and public access.

1.40 p.m.

[14] We also think that the health check should help to position agriculture to meet future challenges. We see these as providing food and fuel in an uncertain world, which has been in the news a great deal recently, but, at the same time, ensuring that the basic life-support services that underpin production—purification of water, flood protection, carbon storage and soil formation and so on—are safeguarded. This ecosystems approach, as we have described it, very much sees humans as part of nature and not separate from it. So, those are some of the principles underpinning our evidence.

[15] I will say a few brief words on the evidence itself. In principle, we think that the single payment scheme will have to be adjusted if it is to be retained in the long term. An historic

model will become progressively less justifiable over time, but we have said in our evidence and in our response to the Assembly Government's consultation, that adjustment should be post-2013.

[16] By and large, we support the commission's proposals on cross-compliance. We see advantages and disadvantages with national envelopes. We think that it is worth having a tool in the toolbox, but we are not saying that you should necessarily take the tool out and use it right now.

[17] Finally, the modulation proposals signal a continued shift towards a CAP focus on the direct and proportionate purchase of public benefits. For that reason, we think that the modulation proposals should be supported. You have already had evidence from the Minister and others who have indicated that many in the EU are against them, but we think that they should be supported because they signal the long-term direction of travel. Ideally, we would like to see a fundamental re-orientation of the CAP budget, based, as I said, on the proportionate delivery of public benefit.

[18] **Sandy Mewies:** Rod, do you want to add anything to that?

[19] **Mr Williams:** No, I think that Brian has covered it comprehensively. If there are any questions, we will take those.

[20] **Nerys Evans:** Diolch am y cyflwyniad. Hoffwn ofyn ynghylch y tâl hanesyddol. Yn y cyfarfod diwethaf, dywedodd y Gweinidog ei bod o blaid cadw tâl hanesyddol ond, o'ch papur, mae'n glir nad ydych mor gefnogol. A allech ymhelaethu ar hynny, ac esbonio sut, yn eich barn chi, y gellid cyflwyno model trawsnewid? Sut fyddai hynny'n gweithio?

Nerys Evans: Thank you for the presentation. I would like to ask about the historical payment. In the last meeting, the Minister said that she was in favour of retaining the historical payment, but, from your paper, it is clear that you are not so supportive. Could you expand on that and explain how, in your opinion, a transitional model could be introduced? How would it work?

[21] **Mr Pawson:** The difficulty that we see with historic payments is that they will become less justifiable over time. They are based on the situation that applied during the reference period and the further we move away from the reference period, the harder it is to justify that model. It is also difficult for the European Union to justify a historic model in the long term in World Trade Organization negotiations. Effectively we are saying that the single payment scheme is a green-box payment, but that is likely to be subject to increasing challenge. My reading of the evidence that you received from the Minister—this is certainly the case given the noises coming from the commission—is that a change will have to be made post-2013. Our evidence states that it is not a good idea to make a change between now and 2013, because we do not know exactly how 2013 will pan out. Post-2013, we think that there should be a transitional period towards an area-based model. There are quite a lot of complications in terms of exactly how you design an area-based model—you could make it a simple one where you take all the money and divide it by the amount of land, but that would lead to a certain number of inequities. We would see the need to make certain adjustments so that you have a sensible area-based model, and we certainly see a period of transition towards that area-based model. Our long-term aim is to see a payment that is based more on the proportionate delivery of public benefit and, with an area-based model, it would be easier to make a secondary transition towards that final destination.

[22] **Nerys Evans:** Yr ydych yn sôn am fudd-daliadau cyhoeddus. Beth yw'r diffygion ar hyn o bryd, o ystyried nad oes,

Nerys Evans: You mention public subsidies. What are the current shortcomings given that, in your view, there are no public subsidies in

yn eich barn chi, fudd-daliadau cyhoeddus yn y system bresennol? Sut mae modd eu cyflwyno i'r system daliadau? Sut fyddai'r modelau hynny'n gweithio er mwyn sicrhau'r gorau ar gyfer y diwydiant yng Nghymru? that system? How can they be introduced into the payment system? How would those models work in order to ensure the best for the industry in Wales?

[23] **Mr Pawson:** Sorry, I did not catch the whole question, I am afraid. I am sorry about that.

[24] **Nerys Evans:** In terms of the public benefits, what do you feel is not being done at the moment in the industry in Wales? How do you see that changing? How would any measurement of public benefit change the payment system in Wales and any models for that kind of payment, based on public benefit?

[25] **Mr Pawson:** When we talk about public subsidy, there is obviously public subsidy that goes into the single payment scheme. There is also public subsidy that goes into what we call pillar 2, of which the agri-environment schemes are a part. It is much easier, when you look at pillar 2, to see what the public subsidy is actually buying. I think that it is much more difficult in terms of pillar 1, which is primarily now the single payment scheme. Plainly, whereas, under the historic model, payments related to the amount of farming that was taking place in the reference period, we are now in a situation where, potentially, some farms could be farming in a particular way, delivering a substantial amount of public benefit in terms of managing ecosystems, goods and services and providing other public benefits, while other farms may be farming in a much more intensive way that delivers fewer public benefits, but the amount of public money that they receive under the SPS does not actually bear any relationship to those benefits.

[26] **Mr Williams:** With EU budgets coming under increasing pressure, questions will obviously be asked about public benefit, as you have mentioned, Brian. Farming wise, the farming industry is providing economic goods and services to the whole of the population of Wales and, through providing and managing a better environment, we are more able to justify the single payment to the farming industry. My background in agricultural finance means that I know that the SPS is absolutely critical to the farming industry in Wales. We are saying that it is important that, in the future, the industry is able to clarify the economic goods and services that it is providing for the single farm payment.

[27] **Michael German:** Before I ask my question, I would like to pursue this issue, because it runs to the hub of pillar 1. First, do you think that, over time, we are going to see the demolition of pillar 1 and pillar 2 and that, basically, they are all going to merge into one set of public goods, supported by the European economy? I would like to know a little bit about how you would reward the public benefit that is being carried out. You could say that Tir Gofal, for example, provides public benefit. It is basically a scheme that people can bid for and they provide a set of things that they are then paid for. Is that how you see the single payment scheme being replaced?

[28] **Mr Pawson:** First, on the question about whether we see the two pillars remaining in the long term, I could envisage a situation in which the two pillars merged together, so that we had a CAP that was based on two main principles: first, ensuring that we protect the factors necessary for food production in the long term and supporting food production per se and, secondly, ensuring that we maintain the fundamental environmental services on which food production and everything else depends. I can see that happening, but whether it will happen or not is obviously a separate issue.

[29] On public benefit, it depends how you define it. You could define 'public benefit' purely in terms of environmental goods but, bearing in mind what I said, we see a role for the

CAP in terms of supporting the factors necessary for agricultural production. So, I think that the SPS could play a role where, over time, it supported, to a greater extent, those farmers who were managing environmental goods and services, on a sort of income-support basis. On top of that, if farmers who were managing more intensively or those who were managing environmental goods and services wished to go further, a pillar 2, Tir-Gofal-type mechanism would come in on top. However, if one looks at the level of public support going to the industry at the moment and looks at farmers in Tir Gofal, one would see that many of them are still dependent on a level of support from the SPS, Tir Mynydd and Tir Gofal. They package all that together with what comes from the market to make a coherent whole. What we would like to see is the SPS used in a rather more coherent way to address the fundamental objectives.

1.50 p.m.

[30] **Mr Williams:** That is all a matter of time. It is very important that any transition that does take place, takes place over a number of years. We do not want a repeat of the English scenario here. The transition period must be a very gradual one.

[31] **Michael German:** We may put aside the issue of a soft landing, which I think makes absolute sense—you do not want to put a lot of people out of business simply because you are making a rapid change; you want to give people time to adjust to the change. Is it your position that the historic model, in terms of public benefit, is unsustainable, that it can only work when you reward the environmental public benefit and so on that people provide, which will vary from landholding to landholding, and that you will need some form of alternative structure for measuring the way in which that takes place? That would be a structure that is not simply based on the amount of land that you have or on ownership back in 2000, or in the reference period.

[32] **Mr Pawson:** That is fundamentally the case. What we are saying is that, in the run-up to the EU budget debate, considerable difficult questions will be asked about what this money is for in relation to all the other priorities that the union has, be they environmental priorities, research priorities or dealing with the kind of issues that we have seen in the newspaper in the last few weeks. The spotlight is going to be on expenditure, and trying to justify that expenditure on the basis of what happened in the past is going to be rather difficult. We think that it would be much easier to justify that expenditure if it were buying some specific things that agriculture Ministers could put on the table in front of other Ministers and say, ‘This is actually what the CAP is purchasing’.

[33] **Michael German:** May I ask a second, entirely different, question, about modulation?

[34] **Sandy Mewies:** Yes.

[35] **Michael German:** The proposals, as they currently stand, indicate that compulsory modulation would replace some of what the voluntary modulation has been doing, but the net difference might not be substantial at all. What consequences will that change have on match funding and for the way in which we currently match fund that money, given that this is a significant amount of money coming in that we have to use for the benefit of rural development? If the match funding rules alter, it might be to our detriment rather than to our benefit.

[36] **Mr Pawson:** The problem is that we have seen the commission’s proposals, but there are also proposals from the Environment, Public Health and Food Safety Committee—I know that it is advisory—and the Committee on Agriculture and Rural Development of the European Parliament. It is not entirely clear to many of us who are doing our best to read all the details exactly how the details will apply. Let us say that, at the very top of the

progressive modulation approaches for larger farms, you could potentially have a modulation rate of over 20 per cent. Does that 20 per cent apply to the entire payment or do you apply it like the tax system and do a little bit on this level and a little bit on that level? There are so many different ways in which you could interpret it that, when one does the arithmetic, one ends up with rather different answers. I have seen Rory O'Sullivan's calculations as well. Put simply, the best that we could do, if you were to increase compulsory modulation by x per cent and take x per cent off voluntary modulation, is that it should not make a great deal of difference. However, from looking at the next level down of the calculations, it seems that once you apply compulsory modulation, you will potentially not be taking money from payments below €5,000 or the part of a larger payment that is below €5,000; so, you will lose some money coming in and you may well be taking money off larger farmers as part of progressive modulation. Those two elements do not seem as great as the move from 45 per cent match funding to 50:50 or, in fact, 100 per cent match funding.

[37] **Michael German:** Perhaps I could rephrase the question in a slightly different way. What do you think are the dangers that the National Assembly should look out for, where we could be getting a worse deal instead of a better deal in terms of modulation?

[38] **Mr Pawson:** Put simply, the dangers would be that those countries that currently apply voluntary modulation, mainly Portugal and the UK, could end up worse off as a result of a reform that is designed to deliver more money for pillar 2. I have seen proposed amendments to the report of the European environment committee that propose a safeguard clause saying that the end result of these reforms should be that no member state should end up worse off in terms of pillar 2 than it currently is. There are so many bells and whistles that one could apply in different ways that it is rather hard to say which one you should apply. However, you could have a simple bottom line saying that whatever happens, whether you retain your own modulation or apply the percentages in slightly different ways at different bandings, you should not end up worse off than you already are.

[39] **Michael German:** That is wise advice.

[40] **Sandy Mewies:** To continue on that line, are you saying that as long as the end result is that the balance remains, you feel that we must move towards voluntary modulation but you do not have a rate of travel or plans as to how that should be progressed?

[41] **Mr Pawson:** I suppose that what I am responding to, in terms of our evidence and the response that we made to the consultation, was the commission's proposals. There already is 5 per cent compulsory modulation and the commission is proposing an extra 2 per cent every year until 2011, which gets you up to 13 per cent compulsory modulation. That is slightly more than Wales's current voluntary modulation plus compulsory modulation, but there are all of these complicating factors. What if, having applied compulsory modulation, we were not allowed to keep 100 per cent—what if we only got to keep 80 per cent, which are the old rules? What if we did not apply the modulation in the way in which I described, in a banding way? What if we were told to apply match funding in slightly different ways? One could end up with slightly different results. Our starting point is that we are in favour of the principle signalled by compulsory modulation, which is about purchasing public benefits in a proportionate way. What we do not want to do in seeking to achieve a principle is to upset the apple cart in terms of the current detail. So, we think that there should be a floor that states we should not be worse off than we already are.

[42] Beyond that, on how much modulation should be applied, the first thing to say is that we think that modulation is one way of funding public benefits but we would rather see a fundamental reorientation of the budget. It is a tool, so it is there and we would like to see it used. It signals the future direction of travel. When it comes to how much modulation you need, I think that we need to go back to deciding what the problem is that we are trying to

solve. We do not know the full details, but we know about biodiversity loss and what it says in the environment strategy for Wales. We are starting to think about carbon loss, water quality issues and minimising greenhouse gas emissions. We need to have a clear idea of what solving these problems might add up to, and then think about how we apply the modulation that will allow us to solve the problems and to spend the money in a sensible way. We have had experience of running Tir Gofal on behalf of the Assembly Government, and there is no point in having a lot of money if you do not have the staff to go out and deliver the money. So, we must ensure that we understand the process rather than just setting a figure. However, if we had to set a figure, it is interesting that we are talking about 2 per cent extra per annum and 8 per cent in total. It was not so long ago—in 2003, in the run-up to the last major round of reforms—that the commission was talking about 20 per cent. So, even if all of the European agriculture Ministers agree to 8 per cent—and if it is a negotiation, it seems unlikely that you will end up with the number that you first thought of—we are still nowhere near what the commission originally suggested might have been necessary five years ago.

[43] **Sandy Mewies:** Right, but given that we are responding to what is happening now, you are clear that the end result should not mean a shift in balance—I think that that was the point that you were making. Also, your caveat was that any receipts should remain within the country of origin. Do you think that there is a danger that that might not happen?

[44] **Mr Pawson:** I think that, if you are one of the new member states and are not necessarily getting full payments under pillar 1, you would argue that if money is being taken off those that are getting higher rates in pillar 1 than you are, you would like a slice of it. You could say that there should be a floor in the current compulsory modulation for member states, where you get to keep at least 80 per cent; the UK gets to keep 80 per cent, but 20 per cent goes back. However, as soon as you start to say that, if you apply 80 per cent modulation and you only get to keep four fifths of it, you are immediately seeing a reduction in the amount of money in your rural development plan.

2.00 p.m.

[45] **Sandy Mewies:** I just wanted to make it transparent why that caveat was in your paper.

[46] **Brynle Williams:** I am concerned by how rapidly the situation is moving. We are talking of agri-environmental schemes that cover the water, soil and so on. How do you square that with production? We are being overtaken now. Given the price of oil and the price of fertiliser, we are seeing less land used for intensive production, we are seeing a considerably higher demand for food and we anticipate a world population of 9 billion or 10 billion by 2020. In terms of agriculture, we are moving towards larger holdings, but we are losing a lot of expertise. We might be getting environmentally friendly farming, but how do we get a balance?

[47] **Mr Pawson:** I do not see the need to produce food and the need to manage the environment as mutually exclusive. They basically go hand in hand, and, as I said, our objective for the CAP is that it ensures that we retain the capacity to produce food, which means putting probably a lot more effort into research and development and knowledge transfer. There are issues around maintaining the genetic stock that we have and maintaining the amount of land on which we are able to produce food, possibly looking at the critical mass that we need for certain industries and sectors to survive. There is a role for the CAP there. There is also a role for the CAP in relation to producing the food that it is argued—and there is a lot of argument in this area—will become increasingly necessary in the future. At the moment, the amount of calories produced by agriculture per capita continues to rise faster than the rise in population. People doubt whether that will continue, because, due to climate change, some parts of the world may no longer be able to produce, so we will have to try to box clever.

[48] A recent multinational report by the International Assessment of Agricultural Science and Technology for Development, and we can give you a copy if you have not already seen it—its working group was chaired by the person who is now DEFRA’s current chief scientist, and it was signed by large number of countries—essentially said that agricultural production has gone up over the years, but that, in achieving that, we have paid an awful lot in terms of the fundamentals of the soil, air and water on which we all depend. Whether we can continue to go down that road in future is debatable. The IAASTD report said that we need to put in a lot more money into research and development to ensure that we farm in ways that do not involve substantial greenhouse gas emissions. At the moment, about 11 per cent of Wales’s greenhouse gas emissions are from agriculture, and the level of emissions from agriculture has gone down. One of the reasons for that is that we have fewer livestock, but we could bring the level of emissions down lower still by looking at the ways in which we feed and breed stock and the ways in which we manage soils—it is not just oxides and methane that are the big problems at the moment, and if, heaven forbid, we had a warming climate, carbon dioxide would oxidise all the carbon that is locked up in our uplands. It is about how we do the things that are necessary simultaneously rather than saying ‘either/or’. That is how one can justify the CAP to finance Ministers in Europe.

[49] **Mr Williams:** There are some good examples in Wales of which you will know, such as Tir Gofal farms that are operating environmentally friendly farming and are very efficient farms. So, the two camps can be brought together and there are some very good examples in Wales of farmers who are producing food and producing for the environment.

[50] **Nerys Evans:** Hoffwn sôn am dir sydd wedi’i neilltuo. Yr ydych yn sôn am Loegr yn eich papur ond nid oes llawer o sôn am Gymru. Beth yw eich barn ynglŷn â thir wedi’i neilltuo yng Nghymru? **Nerys Evans:** I would like to discuss set-aside. In your paper you mention the situation in England, but there is not much talk about Wales. What are your views about set-aside in Wales?

[51] **Mr Pawson:** We mentioned set-aside in passing because one of the commission’s proposals is to abolish the set-aside mechanism. We are not opposed to that—it was a market mechanism—but set-aside has had a substantial number of environmental benefits along the way. Cross-compliance, when it was first originated, was originated on the basis that cross-compliance would remain in place. The area of set-aside in Wales is only slightly over 4,000 ha. Plainly, you have concentrations of arable farming. I think that there is an argument that says that we have talked about cross-compliance in terms of our evidence about buffer strips, which, I think is more about meeting the water framework directive requirements, and we have talked about arable field margins, which could be as much about protecting traditional boundaries. I think that there is a route for saying that if you farm a very large arable area, there is room for some measure of replacement mechanism in terms of securing environmental benefits. That might not have to be particularly demanding in terms of saying that you would have to stop farming particular areas; it could simply require that a certain amount of area on a large arable farm had to be devoted to spring cropping or the retention of overwintering stubbles rather than being devoted to winter crops only.

[52] **Nerys Evans:** A gredwch y dylid gwneud y penderfyniad hwnnw ar lefel Cymru gan fod tir wedi’i neilltuo yn wahanol yma o ran maint o’i gymharu â’r tir wedi’i neilltuo Lloegr? **Nerys Evans:** Do you think that that decision should be made on a Wales level since set-aside land in Wales is different in size compared to that in England?

[53] **Mr Pawson:** Yes, very much so.

[54] **Brynle Williams:** On that, would you agree with farming interests that think that

introducing more cross-compliance requirements will result, once again, in a further unnecessarily complex regime? We are bogged down with paper work, red tape and what have you. May I have your views?

[55] **Mr Pawson:** Obviously, cross-compliance covers more than just environmental issues. We are looking at it from the environmental perspective, and from that perspective we would say that the role of cross-compliance is to stop damage from happening. We would argue that many cross-compliance measures from the environmental perspective are about good environmental practice. It depends on the farming practices that you are undertaking as to how draconian you perceive the measures to be. In the longer term you could argue that, in the same way that the single farm payment is designed to give farmers more freedom to farm, cross-compliance ensures that farmers are enabled to move towards a situation where they are more in touch perhaps, in some cases, with what the market will eventually look for.

[56] I previously worked as an agri-environment officer doing Tir Cymen work, although I am not saying that everyone should necessarily be in a scheme like Tir Cymen, but we do have entry level schemes. If you are in an agri-environment scheme, the commission regulations basically state that the floor level is cross-compliance. You get paid for the extra things that you do over and above that. Therefore, the floor level is at a certain level, and, when you are in a scheme, you are at a higher level and you get paid for the bit in between. In going out to farms, I did not go around saying to people, 'You are not doing this right; that is cross-compliance, but this is not part of the scheme'. All I would say was that the scheme requires you to do these things, whether it is cross-compliance or agri-environment. Certainly, if the majority of farmers were, say, in some kind of base level scheme, you could argue that you could do your agri-environment inspections and your cross-compliance inspections in the same way and at the same time. Therefore, the amount of bureaucracy that is in the minds of the people doing inspections, and has to be reported to the commission, is not necessarily what the farmer sees when someone comes to the farm. What the farmer sees is when someone says, 'Under the way that we have agreed that you will operate, that is not part of what you should be doing'. Whether it is cross-compliance or something else is, in a sense, not relevant.

[57] **Sandy Mewies:** I will draw this discussion to an end shortly, but I will take a short question from Mike German. Please focus on giving a short answer so that we can move on to the next item.

2.10 p.m.

[58] **Michael German:** If you were given a bag of money, under the European Commission's challenge agenda, what would be your first priority for Wales?

[59] **Mr Pawson:** It would probably be trying to find a way of ensuring that we could address biodiversity decline, climate change issues and water management all in the same places, rather than trying to say, 'We will spend a bit here and a bit there'. So, it would be about how to get synergistic benefits and allowing us to make our bag go as far as possible.

[60] **Sandy Mewies:** I thank both of you for coming and for being so helpful. I intend to send the evidence that was given here to the First Minister, the Minister for Rural Affairs, our Members of the European Parliament and to the European Commission. That is basically it.

[61] **Michael German:** Can we not lay this report before the Assembly in the same way as other committee reports?

[62] **Sandy Mewies:** We are not clear at this stage, Mike, what will happen, but I know that these views need to be taken forward to hit the right spots.

[63] It is much appreciated that you have been here and, at some stage, presumably, you will be sent transcripts of the final report. Thank you very much for coming; you are welcome to stay for the remainder of the session if you want to.

[64] We now move on to the second part of this agenda item. I welcome you all here today. I will give you time to settle down and, at the same time, I will tell you that we operate through the media of Welsh and English, so there are translation devices. You need to switch to channel 1 if you do not speak Welsh or if you need some aid, and channel 0 can enhance your listening experience, as they say, if you have hearing difficulties.

[65] If you have any electronic devices, such as mobile phones or BlackBerrys, please switch them off, because they will interfere with the broadcasting equipment.

[66] Last but not least, if you hear an alarm, it is likely to be for a reason. So, in the event of an alarm, the ushers will come in and we will all follow them out quickly to wherever they want to take us.

[67] I welcome Dai Davies, the NFU Cymru president, Mary James, the NFU Cymru director, Gareth Vaughan, the FUW president and Nick Fenwick, the FUW director of agricultural policy. I think that you all probably know far better than me the subject about which we are talking today. We have read your papers, so please assume that we have. I do not know which one of you will introduce the papers or whether you will all say something today. What format would you like to use?

[68] **Mr Davies:** The intention, with your permission, Chair, was to make an opening statement and to move on from there.

[69] **Sandy Mewies:** I see that you have agreed to share the table. So, let us start off with you, Dai, and then follow on from there. Would you like the questions to immediately follow your presentation?

[70] **Mr Davies:** I have only a short opening statement. Gareth, are you going to make an opening statement?

[71] **Mr Vaughan:** Yes.

[72] **Mr Davies:** Do you want Gareth's opening statement to follow mine and then to move on from there?

[73] **Sandy Mewies:** Yes, that is the way that we will do it.

[74] **Mr Davies:** Prynawn da. We would like to thank the European and External Affairs Committee for giving NFU Cymru the opportunity to present written evidence and for today's oral session on the common agricultural policy's health check.

[75] As you already mentioned, Chair, I am Dai Davies, NFU Cymru's president and a farmer from Whitland in west Wales. On my left hand side is Mary James, who is NFU Cymru's director, who has a lifetime's experience in farm and rural policy. However, to translate, saying that two years is a lifetime at this point in time would be very ungentlemanly of me.

[76] NFU Cymru represents some 15,000 members in Wales. We operate on a county structure basis throughout Wales and our governing body, the Welsh council, is responsible for determining Welsh farm and rural policy. We are a democratic organisation, and the views

that we give today represent those canvassed from our membership across Wales.

[77] The long-term objective of the CAP should be to provide support that allows farmers to make a fair living producing food for our nation. The recognition of the strategic importance of food security appears to be gaining momentum, and farmers are also held accountable for delivering wider, non-market benefits. In 2006-07, the latest year for which we have figures from the Welsh Assembly Government, the estimated average farm business income was £23,300, of which £24,400 is derived from the single farm payment. Therefore, without the single farm payment and the common agricultural policy, many farm businesses in Wales would have a negative income, and their position would be economically unsustainable. This would have a knock-on effect on the environment and the social and cultural wellbeing of Welsh rural communities.

[78] Unfortunately, CAP support has distorted the market in the past, with retailers using it as an excuse to reduce the farm-gate price that they pay farmers. For this reason, NFU Cymru has, as a principle, supported the decoupling of CAP payments from production. We believe that a direct support payment in return for what farming delivers for our nation should straddle the existing pillars 1 and 2 of the common agricultural policy.

[79] In essence, NFU Cymru sees the CAP health check as just that—a check on the state of play. We witnessed radical reform in 2003, and the current review should represent a tweaking of the system rather than further radical reform. Farming revolves around long-term management decisions: today's actions may take years to bear fruit. We cannot work in an environment where the goalposts are perpetually being moved. We desperately need a period of stability. The Welsh Assembly Government, wisely in our view, adopted a historic approach to the single farm payment in 2003. Although we are aware of pressure for a flat-rate, area-based payment, NFU Cymru is firmly wedded to the continuation of the historic approach, at least until 2013. If we are forced to move away from that, we would expect a transitional phase leading into the new system. We will be happy to elaborate on that later in the proceedings, should the committee wish.

[80] Another crucial issue for NFU Cymru is that of modulation. The UK's historical allocation of 3.5 per cent of the EU's rural funding budget represents a poor deal for UK farmers and has been reflected in the funding available for Wales. We have therefore faced a voluntary modulation in Wales over and above the EU's compulsory rate. Although the European Commission's proposals are aimed at mitigating some of the disparity that we face compared to the majority of member states, we are concerned that the application of the reformed article 69 in Regulation (EC) No. 1698/2005, commonly known as the national envelope, could be used as back-door way to modulation without core financing to address the inadequate rural development budget.

[81] As the final point of my opening remarks, I will refer to cross-compliance. These words hang like the sword of Damocles over the farming industry and fill everyone with trepidation. Cross-compliance has grown from an instrument that seeks to assure good practice to one that increasingly prescribes agricultural activities and precludes flexible land use. This was recently reflected in our need to seek from the Minister for Rural Affairs a derogation of the Good Agricultural and Environmental Conditions 3 regulation, which refers to the use of mechanical equipment on waterlogged soil. Waterlogged soil is something that we have had in abundance over this summer, and having to go to the Minister to seek permission to carry out our normal activities makes life difficult for farmers.

[82] The European Commission's proposed changes to cross-compliance amount to little of substance by way of simplification. The commission should, in our view, have been far more ambitious. I would like to leave it at that for now.

2.20 p.m.

[83] **Mr Vaughan:** Prynawn da. I would like to thank the committee for giving us an opportunity to address it on the issues that play such a vital role in Wales in terms of our economy, society and culture as a whole. However, I should emphasise that the written evidence that we have provided you with does not necessarily reflect my views or Nick's views but the democratically established views of our members, collated over a period of 12 months and during regular consultation with our 12 county branches.

[84] These members and the farming industry as a whole constitute an essential part of the fabric of our society in Wales and without them we would not have such a range of unique and valuable assets. At the core of that fabric is the traditional Welsh family farm, which the FUW was established more than 50 years ago to protect; we currently have a mailing list of 15,000.

[85] I do not intend to reiterate or repeat what has already been presented to you on paper, but I would like to emphasise that, although we welcome some of the developments that have occurred in terms of the CAP health check, we believe that an opportunity has been missed. I do not want to appear to be scaremongering, but I believe that we are at a crossroads in terms of the impact that decisions taken today will have on future generations. The success of the common agricultural policy in providing an abundance of food has led to the embedding of apathy regarding food security in some quarters. With all the challenges that the world will face over the coming decades in terms of oil supplies, global warming, rising populations and the like, we would have liked to have seen the European Commission reacting more positively to the critical issues that will shape the future of coming generations. We have recently seen the devastating repercussions that short-sighted decisions made by financial institutions here and in the US have had throughout the world. There is a real danger of far worse repercussions if the European Commission does not change course in the coming year and bring the CAP back to its core purpose, which was to look after the future security of Europe's people.

[86] **Brynle Williams:** I have questions for Dai and Gareth. Are you happy with the proposals, and is the fine-tuning being proposed in the right areas? Perhaps Dai can answer, and I will come to Gareth afterwards.

[87] **Mr Davies:** We do not know exactly what the fine-tunings will be, but we assume that there will be fine-tuning. As I mentioned, there were radical changes in 2003 and the industry is crying out for some stability between now and 2013. Do you want to expand on that, Mary?

[88] **Ms James:** We are expecting compromise proposals to come forward from the presidency in October. That will give us a measure of where the negotiations are going at member-state level. It is quite possible that the proposals that are currently tabled could be significantly different by the time member states have finished negotiating the compromise deals that are likely to be put forward. So, it is very difficult for us at this juncture to say whether the tuning will be right or not.

[89] **Brynle Williams:** The face of the industry is changing and that is causing problems. Gareth, what additional measures would you propose for inclusion in the CAP health check to address your concerns, which I share, regarding the issue of food security?

[90] **Mr Vaughan:** There is virtually no mention of food security in this document, and that is a great worry to us. I will pass over to Nick in a moment on this question, but I would like to reiterate something that Dai said. The industry is crying out for a period of stability, and I cannot emphasise that enough. Perhaps Nick is better equipped to answer that than I am.

[91] **Dr Fenwick:** As has already been said, we are at a crossroads and food security has been a major issue throughout the world. Returning to the framework on which the common agricultural policy was established and seeing the budget reflecting security issues around the world would be a welcome move. What we have seen instead in these proposals is a mixed bag. We welcome the abandonment of the proposal to abolish the historical system immediately from 2009. However, we are seeing potential changes in cross-compliance, and, as has already been emphasised, there is a huge amount of ambiguity about what we will be finally lumped with. We are looking at a situation in which cross-compliance severely restricts food production and where farm incomes are unacceptably low. If farmers are to meet the challenges of the future, we need a source of revenue, whether from the CAP or the market. There is very little move at a European or a domestic, Westminster level to redress that imbalance. For many years, the European Union has moved towards liberalising food production and moving away from subsidies, but it has not been prepared to put in balances that redress the fact that large supermarkets in particular have the power to drive down prices to unsustainable levels. I think that that summarises it.

[92] **Mr Vaughan:** To expand on that, we talk about 'public goods' but it all depends on your interpretation of public goods. A person who is short of food would say that farmers were delivering public goods by delivering food to the public. As an organisation, we have discussed issues with the public, and one question that we asked was, 'What public good does the farmer contribute, as far as you are concerned?'. Seventy per cent of the public replied 'The landscape'. They did not mention biodiversity or anything else, but the landscape seemed to be important to the public. As Welsh farmers, we have delivered the landscape of Wales and it is appreciated by everyone who visits Wales. We should not assume that public goods are outside practical agriculture, because the critical mass of food production will be important to us, as we go forwards. We produce only 60 per cent of the UK's food requirements, so public goods should not be dismissed as just contributing towards the environment; they can also contribute towards food production.

[93] **Brynle Williams:** Leading on from that, the situation has changed rapidly. The price of oil means that the price of fertiliser has virtually quadrupled in nine months and that we will possibly see a reduction of 30 per cent in cereal production and other food production next year. This will have a knock-on effect on the marketplace for the consumer. I make no apologies for saying that I think that we will see food shortages to a degree in the UK within 10 years. That may be a rather radical thing to say, but it will happen, because world food requirements are increasing.

[94] **Sandy Mewies:** Thank you for that question, Brynle. [*Laughter.*]

[95] **Nerys Evans:** Diolch yn fawr am eich tystiolaeth ac am ddod yma heddiw. Mae'n amlwg bod y ddwy undeb yn cefnogi taliadau hanesyddol ac yr ydym wedi clywed y Gweinidog yn cefnogi'r rheiny hefyd. Beth yw eich ymateb i'r sawl sy'n anghytuno?

Nerys Evans: Thank you for your evidence and for coming here today. The two unions obviously support historical payments and we have also heard that the Minister supports them, too. What is your response to those people who disagree?

[96] **Mr Davies:** O edrych yn ôl, gwelwn mai'r newidiadau mawr yng Nghymru o ran y taliadau hanesyddol oedd pan newidiwyd sut cafodd arian Tir Mynydd ei dalu. Yr adeg honno, gwelwyd llawer o arian yn symud o un ardal i'r llall, ond y cyfan oedd hynny yn y pen draw oedd, ys dywed y Sais, '*Robbing Peter to pay Paul*'. Dyna'r peth diwethaf yr ydym am ei weld yng Nghymru ar hyn o bryd

Mr Davies: On the historical payments, looking back, we see that the major changes that happened in Wales occurred when the way in which Tir Mynydd funding was allocated changed. During that time, much funding was transferred from one area to another, but it was ultimately a case of robbing Peter to pay Paul. That is the last thing that we wish to see in Wales when the

pan fo'r sefyllfa mor fregus. Yr oedd sôn mai'r ffigur ar gyfer incwm ffermwyr yw £23,300 pan fo'r taliad sengl yn talu £24,400.

current situation is so fragile. Mention was made that the figure for farmers' income is £23,300 but the single payment is £24,400.

2.30 p.m.

[97] Heb y taliad sengl, ni fydd gennych amaethyddiaeth broffidiol, ac os ydych yn lleihau lefel y taliad hwnnw, bydd y gallu i reoli cefn gwlad Cymru yn lleihau, oherwydd bydd llai o ffermwyr am eu bod wedi mynd allan o fusnes.

Without the single payment, agriculture will not be profitable, and if you reduce the level of that payment, your ability to manage the countryside of Wales will be diminished, because there will be fewer farmers as they will be going out of business.

[98] Yr ydym wedi clywed pobl yn dweud, 'Ni allwn siarad am daliad hanesyddol yn 2013', ond yr wyf innau, ffermwr laeth yng ngorllewin Cymru, wedi byw gyda thaliadau hanesyddol—cwotâu laeth—oddi ar 1984, ac yr wyf yn dal i wneud. Erbyn 2015, byddaf wedi bod yn byw gyda'r drefn honno ers 31 o flynyddoedd.

We have heard people saying, 'We cannot talk of a historical payment in 2013', but I, as a dairy farmer in west Wales, have been living with historical payments—the milk quotas—since 1984, and I still am. By 2015, I will have been living with that regime for 31 years.

[99] Mae'r arian yr ydym yn ei gael gan Ewrop drwy'r gronfa datblygu gwledig yn daliad hanesyddol. Mae'n daliad bach sydd wedi'i seilio ar yr arian yr oeddem yn ei gael gan Ewrop yn oes Margaret Thatcher, ac yr ydym yn dal i fyw gyda'r taliad hanesyddol hwnnw. Nid wyf yn cyd-fynd â'r gosodiad na allwn sôn am daliadau hanesyddol ar ôl 2013, oherwydd buom yn gwneud hynny dros y 30 mlynedd diwethaf.

The money that we receive from Europe through the rural development fund is a historical payment. That small payment is based on the money that we drew down from Europe in Margaret Thatcher's day, but we are still living with that historical payment. I do not agree with the statement that we cannot talk about historical payments post 2013, because we have been doing so for the past 30 years.

[100] **Dr Fenwick:** Hoffwn bwysleisio un peth. Pe bawn yn mynd i'r dafarn i siarad â phobl nad ydynt yn ffermio am hyn, ni fyddent yn sôn am broblemau gyda system hanesyddol, gan nad ydynt yn gwybod beth yw hynny. Nid oes dim pwysau yn dod o'r cyhoedd. Pan wyf yn siarad â ffermwyr ac aelodau'r undeb, nid oes gan y rhan fwyaf ohonynt broblem gyda'r system bresennol. Os oes ganddynt broblem, mae'n gysylltiedig yn fwy â phroblemau a oedd ganddynt yn 2002. Ni wn am bwysau mawr yn dod o'r hyn a elwir yn drydydd byd, yn gwthio am y system gyffredinol sydd gennym yn Ewrop. Mae'r rhan fwyaf o'r pwysau yn dod o'r gwledydd hynny sydd wedi symud draw yn barod.

Dr Fenwick: I want to emphasise one point. If I were to go to the pub to talk about this to people who are not farmers, they would not talk about problems with a historical system, because they would not know what that was. No pressure is coming from the public. When I speak to farmers and union members, I find that most of them do not have a problem with the current system. If they have a problem, it is to do with problems that they had in 2002. I am not aware of any great pressure coming from what are called the third countries, pushing for the general system that we have in Europe. Most of the pressure comes from those countries that have already transferred.

[101] O ran y system hanesyddol, fel yr ydym wedi'i egluro yn y ddogfen sydd gennych, mae pob dim sydd gennym, gan gynnwys y gronfa datblygu gwledig ac ati,

On the historical regime, as we explained in the document that you have received, everything that we have now, including the rural development fund and so on, is worked

wedi'i gyfrif ar sail system hanesyddol, ond nid oes sôn am ailedrych ar y rheiny.

out on the basis of a historical system, and yet there is no talk of revisiting those.

[102] **Mr Davies:** Peth arall i'w gofio yw bod gan bob gwlad y system hanesyddol. Yng Nghymru, yr ydym yn cael arian ar sail yr hyn yr oeddem yn ei gynhyrchu yn 2000-03, ond mae Lloegr hefyd yn cael arian ar sail yr hyn yr oedd yn ei gynhyrchu yn y cyfnod hwnnw. Os ydych yn symud oddi wrth system amaethyddol, rhaid rhoi holl arian Ewrop yn ôl yn y bwced a'i ailddosbarthu os ydych am gael system sy'n deg i bawb. Heb wneud hynny, hyd yn oed ar ôl 2013, byddwn yn bwrw ymlaen â'r system hanesyddol.

Mr Davies: Another thing that we must bear in mind is that every country has the historical system. In Wales, we receive funding based on what we produced in 2000-03, but England also receives its funding based on what was produced by it during that same period. If you move away from an agricultural system, you will have to put all of the money from Europe back in the pot and redistribute it, if you want a system that is fair to everyone. If you do not do that, even post 2013, we will be continuing with the historical system.

[103] **Ms James:** I have two quick points to add. The budget is set historically anyway, so the budget for every member state, irrespective of whether it receives an area payment or a historical payment, is historical. In addition, you must look at the alternative, which for Wales would possibly be an average area payment. We have many smaller farms that have had to operate relatively intensively, historically, to be viable. To shift to a purely average area payment would prejudice the viability of many of those farms that are intrinsic to our community.

[104] **Dr Fenwick:** A gaf ychwanegu un peth?

Dr Fenwick: May I add one thing?

[105] **Sandy Mewies:** Could you just hold it there for a minute? Nerys has another question so I want her to ask that, and then I have someone else who wants to speak.

[106] **Nerys Evans:** Yn eich sylwadau agoriadol, bu i chi sôn am y system yr oeddech chi'n ei rhagweld yn dod i mewn ar ôl 2013. A allwch ymhelaethu ar hynny?

Nerys Evans: In your opening remarks, you talked about the system that you anticipate coming in post 2013. Could you elaborate on that?

[107] **Mr Davies:** Ni wyddom beth fydd anghenion 2013. Mae'r sefyllfa o ran cynhyrchu bwyd wedi newid yn ddramatig dros y chwe blynedd diwethaf. Pwy fyddai wedi breuddwydio chwe blynedd yn ôl y byddem yn trafod diogelwch bwyd yn awr? Nid oedd ar ein hagenda. Ni ddylem newid ein system yn awr gan na wyddom beth fydd ein hanghenion yn 2013.

Mr Davies: We do not know what our needs will be in 2013. The food production situation has changed dramatically over the past six years. Who would have dreamed six years ago that we would be discussing food security today? It was not on our agenda. We should not change our system now, because we do not know what our needs will be in 2013.

[108] Would you like to expand on that, Mary?

[109] **Ms James:** A European budget review is coming up next year, which will be a critical factor in this. For us to be trying to determine what support arrangements should apply post 2013 without knowing the outcome of those very important negotiations is premature.

[110] **Dr Fenwick:** I agree with everything that has been said, and emphasise that we have members who are cross-border farmers, including a small number who farm exclusively in Wales. We know, from their experience of the transition that England is undergoing, that they

are suffering extremely because of their particular circumstances. They are very efficient farms that have very good business models, but they are losing substantial amounts of money and their future sustainability is under threat. If, at some point in future, we have to undergo a transition—and, as Dai emphasised, we do not know what will happen over the next few years—we need to have a sufficiently flexible model to make up for the extreme imbalances that could result if we see a huge movement of moneys from fertile, small family farms up to the uplands. The worst-case scenario is to see an average payment given to a large upland farm, because farms of 200 to 300 acres would be completely ruined.

[111] **Michael German:** To pick up on that final point about historical payments, there is one small group of farmers that is disadvantaged by historical payments, as well as those who have made all sorts of changes since the reference period. How do you think you could protect those people who have been affected adversely by rising historical payments? It is a small number, admittedly, but I presume that they are also the sort of people whom you want to encourage in farming at the present time.

[112] **Mr Davies:** You will never be able to devise a perfect system; let us accept that. If we sat here forever and a day, we would never devise a perfect system. There are a lot of farmers who will have made changes and developed their businesses. I hope that they will have developed their businesses based on market conditions and can, therefore, see a return from the market for what they are doing. It would have been far easier for us to sit down here today and discuss the future of the single farm payment if we had a buoyant market in which farmers could make a reasonable living from the marketplace. However, the reality is that there are not sufficient profit margins coming out of the marketplace and, therefore, we still need this single farm payment to make our farms viable.

[113] **Michael German:** That was not the main thrust of my question. I wanted to ask about public benefit, which Dai has referred to, and which I am sure everyone would say is the important thing. Food security has been mentioned, and providing food is part of the reason why you should be supported by the subsidy regime. Can you describe how a provision-of-food model would work in a common agricultural policy, given that we have moved away from supporting the production of food? How would you make that work?

[114] **Mr Davies:** As a farmer, I can see it quite clearly. The weakness in the past was that the environmental schemes that we had—and we had very good ones—had to be operated on a whole-farm basis. I can look at my own farm and say that 30 per cent could probably go into environmental projects, with the other 70 per cent producing food at a fairly intensive level. However, we have never had the opportunity to put parts of farms into Tir Gofal. That needs to be reviewed, going forwards. We could have a balance: looking after and developing the environmental side of the farm, hand in hand with looking after the food-production side.

[115] **Michael German:** I was trying to understand whether you agree that we should move away from subsidising the production of food, which was what decoupling addressed in the previous round. How would you manage to support the production of food given that providing food is seen as a public good and that you see it as food security? How would you do that? What is the mechanism that you would introduce to do that?

[116] **Mr Davies:** There should be a market mechanism. We should never have been producing food under the cost-of-production method. There is a moral obligation on retailers to give their suppliers a fair return for what they do. However, the reality is that we are not in that position at the moment. You have to remember that these historical payments are based on the production capacity of the majority of these farms. It is related to that. As Nick says, if you cut back on these payments, you will deprive many conventional Welsh-type family-farms of a viable income.

2.40 p.m.

[117] **Ms James:** Could I just add that it is not direct subsidisation of farming? You are also subsidising food standards, the food processing sector and local procurement. It is not just the farming industry per se that receives the benefit of this. As Dai said earlier, it is basically about a critical mass upon which the whole structure is dependent—for example, abattoirs, and the food processing sector itself, would just collapse if there was not sufficient production.

[118] **Michael German:** That is the nub of the issue that I was trying to ask about. You agree that the CAP should be decoupled from production. Whatever you think about historic payments in Wales, and wherever they go, if we are talking about the production of food as a public benefit—which I think is the point that you were making at the beginning—then somehow, you have to support that through a financial mechanism. I was just asking what that financial mechanism might be. All the factors that you have mentioned, such as processing, the food chain, and the quality of food, are already present in the mechanism, somewhere—not usually in the single farm payment, but perhaps in the other pillar. Perhaps you could describe a system that would work both in terms of food security and the food production that you wanted.

[119] **Ms James:** With respect, those factors are present by virtue of the statutory management requirements, and through the good agricultural and environmental conditions regulations. Those measures are imposed to ensure that you deliver to those standards, and without them, you do not have the same quality control or welfare control.

[120] **Mr Davies:** Some regulatory standards are expensive to the industry—standards of animal welfare, for example, which are perhaps not prioritised in third-world countries, but which we have to adopt by law, therefore adding cost to the industry. The industry should have some public reward for that.

[121] **Michael German:** Are these things under threat? That is what I was trying to get at. Is anyone suggesting that we should not reward the industry for all this regulatory achievement?

[122] **Ms James:** We are saying that, unless we deliver through the single farm payment system, we will not be in a viable position, because it has a huge impact on cash farm incomes. So, the reliance upon imports would increase significantly, and the quality of imports is questionable—they are certainly not produced to the same stringent standards, and welfare issues that are high on our agenda are perhaps not so high on the agendas of other countries, particularly in the third world.

[123] **Michael German:** Forgive me—I am sure that we would all support these mechanisms, but they are perhaps recorded in a crude way at the moment, with the single farm payment. Would you advocate that standards and compliance issues should be applied in a different way, in order to satisfy the requirements of food security—which is perhaps what you were getting at in terms of public benefit? In other words, we could reward those requirements directly, rather than giving a general payment because of the EU grant. That was the question.

[124] **Mr Davies:** We are directly rewarded for the fact that we meet the cross-compliance standard. It is a package. If you do not meet cross-compliance, you are not rewarded, so a system along the lines that you propose is already in operation.

[125] **Michael German:** My other question is a general one about the direction of travel. If you were an observer from Mars looking at what was happening in Europe, you would see that first there is a health check, and then a budget reform programme, and it is all talked

about in terms of the World Trade Organization, and everything else. You would think that, by 2013, there would be some sort of shift in the tectonic plates around this. I noticed that you mentioned 2013 as a point of stability at the end of the budgetary period. Do you believe that that is the direction of travel of the European Commission's proposals? What outcome would you like to see, bearing in mind the position in other European countries at the moment?

[126] **Dr Fenwick:** May I start to answer that by saying that there is a big problem in terms of synchronisation in rural development programmes? Everything is staggered, so that you are looking at different budgets at different times and different proposals are being passed at different times, and that is clearly problematic. If you were looking at this from Mars, I think that you would have grave concerns about the degree of support that is given to the one commodity that we cannot do without, namely food. If you look at what scientists were predicting 20 years ago about global warming and the consensus that exists among scientists now regarding this issue, and the similar predictions that are being made by scientists in terms of food production and shortages, certainly from a scientific point of view and the point of view of an observer from Mars, you would be saying, 'These guys need to pull their finger out to start ensuring future food security'. They need to do that, not only through mechanisms that ensure food production, but through funding appropriate research and development, domestically and at a European level. We have seen huge cuts in those areas in terms of research. Unfortunately, a huge number of those research programmes are being delivered into the hands of companies that will profiteer from them rather than deliver them for the future interest of the general public and the world population.

[127] **Sandy Mewies:** Brynle and Nerys have indicated that they wish to speak. Brynle, is your question on this subject?

[128] **Brynle Williams:** No.

[129] **Sandy Mewies:** Fine. Nerys can come in first, then.

[130] **Nerys Evans:** A allwch chi esbonio'r pryderon ynglŷn â chwtogi taliadau i ffermydd mawr a sut y byddai hynny'n effeithio ar y diwydiant yng Nghymru?

Nerys Evans: Can you explain the concerns regarding reducing the payments for large farms and how that would affect the industry in Wales?

[131] **Mr Davies:** Mae'n rhwydd iawn dweud, 'O, mae'r bois mawr yn cael digon o arian, felly fe gwtogwn ni eu taliadau', ond rhaid cofio bod llawer o'r ffermydd mawr yng Nghymru yn cael eu rhedeg gan fwy nag un teulu—weithiau mae tad a'i ddau fab a'u teuluoedd yn rhedeg un fferm. Nid oes llawer o'r ffermydd mawr y bu ichi gyfeirio atynt yng Nghymru; mae rhai, ond mae'r nifer yn fach iawn. Yr hyn yr ydym yn ei ddweud hefyd yw y bydd y ffermydd mawr hyn yn cael eu rhannu'n ffermydd llai; bydd ffermydd llai yn cael eu creu'n artiffisial. Pan yr ydych yn siarad am redeg busnes yn effeithiol, yn aml iawn, bydd uned fawr yn fwy effeithiol. A yw'n ddoeth mynd i lawr y llwybr hwn? Yn y pen draw, faint o arian ychwanegol fydd gennych yn eich cronfa oherwydd eich bod wedi dilyn y llwybr hwn? Ni chredaf y byddai gennych lawer.

Mr Davies: It is very easy to say, 'Oh, the big boys receive enough funding so we will reduce their payments'. We must remember that many of the large farms in Wales are run by more than one family—sometimes a father and his two sons and their families run one farm. There are not very many of the large farms that you referred to in Wales; there are some, but it is a small number. What we are also saying is that many of these large farms will be broken up into smaller farms; smaller farms will be created artificially. When you refer to running a business effectively, very often, a larger unit may be more effective. Is it wise to go down this path? Ultimately, how much more money will you have in your fund because you have followed that path? I do not think that you would have very much.

[132] **Mr Vaughan:** Hoffwn ychwanegu fy mod yn cytuno'n llwyr â'r hyn a ddywedodd Dai. Y trueni mawr yw, os ydych yn rhannu'r ffermydd hyn yn rhai llai, eich bod yn ychwanegu at y costau oherwydd bod yn rhaid prynu peiriannau, ac nid ydych yn arbed fawr ddim yn y tymor hir.

Mr Vaughan: I wish to add that I totally agree with what Dai said. The great shame is that, if you break up these farms into smaller ones, you add to the costs because you have to buy machinery, and you save very little in the long term.

[133] **Brynle Williams:** Some environmental organisations define the public benefits provided by agriculture in terms of clean air and water, health, and so on. How does the NFU understand this in the context of its statement, given that the SFP that a farm receives is relative to the public benefit that it delivers?

[134] **Mr Davies:** In terms of having a rural upbringing, it is always nice to be in the country, because you enjoy the clean air, and so on. However, the topic that has been discussed recently is the level of methane that cattle generate. Methane can be of a huge disadvantage in terms of climate change, but it can also be beneficial. I was quite fortunate to spend some time in Austria recently looking at its biodigesters. It is capitalising on its level of methane and generating electricity from the methane that is produced from the slurry of animals, and so on. We have been a bit loath to go down this route in Wales, but I am sure that the Assembly and the Welsh Assembly Government could consider it for the future. We should not look at agriculture as being the problem, as it could well be the answer to the problem.

[135] **Dr Fenwick:** It obviously boils down again to research and development. There has been a huge gap in the funding for research and development in that area, and we are now looking at huge pressures as a result.

[136] **Nerys Evans:** Mae gennyf gwestiwn cyffredinol. A ydych yn credu bod llais Cymru yn cael ei glywed a'i fod yn ddigon cryf yn Ewrop o ran yr archwiliad iechyd, y polisi amaethyddol cyffredin a materion amaethyddol ehangach?

Nerys Evans: I have a general question. Do you think that Wales's voice is being heard and that it is strong enough in Europe in terms of the health check, the common agriculture policy and wider agricultural issues?

2.50 p.m.

[137] **Mr Davies:** Yn naturiol, byddem yn hoffi'i weld dipyn yn gryfach a byddem yn hoffi gweld y Gweinidog yn cael cyfle i fynd i Ewrop yn amlach. Gobeithiaf y bydd y Gweinidog yn gallu mynd, gyda'r Gweinidogion eraill, y mis nesaf er mwyn sicrhau llais cryf i Gymru. Mae'n bwysig y dyddiau hyn i Gymru gael llais yn Ewrop, oherwydd, fel yr ydym wedi gweld yn hanesyddol, yr ydym yn dilyn gwahanol drywydd yng Nghymru i rai o wledydd eraill y Deyrnas Unedig. Felly, mae'n bwysig i Gymru gael llais mor gryf â phosibl yn Ewrop, neu'r broblem yw y byddai'r llais yn cael ei wanhau cyn iddo gyrraedd.

Mr Davies: Naturally, I would like it to be a lot stronger and I would like to see the Minister have an opportunity to go to Europe more often. I hope that the Minister will be able to go, along with other Ministers, next month in order to ensure that Wales has a strong voice. It is important these days that Wales has a voice in Europe, since, as we have seen historically, we are taking a different path in Wales to that of other United Kingdom countries. It is important that we have a voice that is as strong as possible in Europe, or the problem is that it is diluted before it gets there.

[138] **Mr Vaughan:** Mae problemau hollol wahanol yma yng Nghymru o'i gymharu â'r

Mr Vaughan: Wales has different problems to other parts of the United Kingdom—take

hyn sy'n bodoli mewn rhannau eraill o'r Deyrnas Unedig—oherwydd nifer y defaid, er enghraifft, sy'n llawer yn uwch nag mewn gwledydd eraill—ac mae hynny'n creu problemau arbennig. Byddwn yn hoffi mynd ymhellach na Dai Davies gan ddweud y byddwn yn hoffi gweld y Gweinidog hefyd yn cael yr hawl i gael sedd yn Ewrop, neu i fod ar yr yn lefel â Gweinidogion eraill.

[139] **Mr Davies:** Os oes pwnc sydd angen ei drafod yn Ewrop sy'n bwysicach i Gymru nag i Loegr, yr Alban neu Ogledd Iwerddon, credaf mai Gweinidog Cymru a ddylai fod yn arwain. Yn yr un modd, os oes pwnc sy'n bwysicach i Loegr, mae'n iawn mai Gweinidog o Lundain sy'n arwain arno. Mae'r un peth yn wir am yr Alban hefyd. Nid wyf yn gweld hynny'n digwydd hyd yma.

[140] **Dr Fenwick:** Un o'r problemau sydd gennym yng Nghymru ar hyn o bryd yw'r taliadau hanesyddol, er gobeithio bod y broblem wedi pasio am gyfnod. Yr oeddem mewn sefyllfa lle'r oedd Lloegr yn trosglwyddo i system unffurf, ond nad oedd Cymru yn gwneud hynny. Felly, beth yn union fydd Gweinidog San Steffan yn ei ddweud pan fydd yn mynd i drafod y pwnc hwnnw? Efallai eu bod yn teimlo'n gryf iawn yn Lloegr eu bod am i Gymru fynd yn unffurf oherwydd ei fod annheg arnynt hwy.

[141] **Sandy Mewies:** May I stop you there, because we have moved completely off the CAP policy and what might happen in the future. I am afraid that our wish list here will really not affect how things are going. It is fair to say that Welsh voices are heard clearly, far more than they were in the past. We as a committee—Nerys is one of our representatives on the committee of the regions—will continue to see that it is heard clearly. However, today, we have been to Mars, we have had the bag of money and we have heard ideas about what should come next. They have all been listened to very carefully.

[142] Would any of you like to make further contributions on what has been said today, in what has been a lively and interesting debate? I will then call Members to see whether they have any other questions.

[143] **Mr Davies:** I will conclude with a few comments. We have not done too bad a job of it so far. Thirty years ago, 30 per cent of the individual's income was spent on food; today, it is less than 10 per cent. I do not think that the farming community has contributed too badly towards the wellbeing of Wales and the rest of the UK.

[144] **Dr Fenwick:** There has been a lot of talk about public benefit today, and the real benefit is that we have a fantastic country that is enjoyed by millions of people. Were it not for farmers, that simply would not exist, and there are already major concerns among environmental organisations that de-stocking, particularly in the uplands, is causing huge environmental damage.

the number of sheep, for example, which is much higher than in other countries—and that creates its own problems. I would like to go further than Dai Davies and say that I would like to see the Minister have the right to a seat in Europe, or at least to be on the same level as other Ministers.

Mr Davies: If there is subject that needs to be discussed in Europe that is more relevant to Wales than to England, Scotland or Northern Ireland, I think that the Welsh Minister should lead on it. In the same way, if the subject is more relevant to England, then it is right that the Minister from London leads on it. The same is also true for Scotland. I have not seen that happen as yet.

Dr Fenwick: One of the problems that we have now is on historic payments, which I hope has passed for a while. We were in a situation where England was transforming to a flat-rate system, but we were not. So, what exactly will the Westminster Minister say when he goes to discuss that subject? Perhaps they feel strongly in England that Wales should move to a flat rate, because it is unfair on them.

[145] **Mr Vaughan:** I have nothing really to add, except that I picked some figures up the other day. To go on from what Dai said, we have not done so badly. In 1950, it took the working man 91 days to put food on the table, in 1970 it took 71 days, and today it is 31 days. I think that a lot of that has been achieved by the farmers putting in a lot of time, for little reward, in some respects. Going back to what Dai and I said earlier, what we must have now is quite a long period of stability.

[146] **Sandy Mewies:** Mary, we shall let a woman have the last word.

[147] **Ms James:** I will finish on a point of detail. We would all want to congratulate the Welsh Assembly Government on its payments performance with the introduction of historic farm payments. It has excelled and beaten every constituent part of the United Kingdom in that delivery. However, while it has managed to get 80 per cent out in the first payment window at the beginning of December each year, inevitably there are always a number of queries on outstanding claims. You have already heard today how important single farm payments are to the viability of these farms. There may be scope within the current commission's proposals to make a part payment without compromising the early payment of support to the vast proportion of farmers. We would like to see the Assembly investigating further to see whether that opportunity can be realised. If it could be realised as soon as possible it would be of huge benefit to the industry.

[148] **Sandy Mewies:** I assure you that there will be a mechanism for us to pass that information on to the appropriate person. Unless anyone has anything else to add, I will thank everyone who has been present today and has contributed to this debate. It was a wide-ranging debate, as it should be. It is important to the whole of Wales. I have certainly enjoyed it and I hope that you have too. We will ensure that you receive a copy of the report.

[149] Members, I will move on to the end of the agenda, which is to look at the minutes of the last meeting and note them. Our next meeting will be held on 9 October from 1.30 p.m. to 3.30 p.m.. With that, I declare the meeting closed.

*Daeth y cyfarfod i ben am 2.57 p.m.
The meeting ended at 2.57 p.m.*