



Cynulliad Cenedlaethol Cymru The National Assembly for Wales

Y Pwyllgor Amgylchedd a Chynaliadwyedd: Grŵp Gorchwyl a Gorffen ar y Polisi Amaethyddol Cyffredin

The Environment and Sustainability Committee: Common Agriculture Policy Task and Finish Group

**Dydd Mercher, 9 Tachwedd 2011
Wednesday, 9 November 2011**

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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

Vaughan Gething	Llafur (Cadeirydd y Pwyllgor) Labour (Committee Chair)
Yr Arglwydd/Lord Elis-Thomas	Plaid Cymru The Party of Wales
Rebecca Evans	Llafur Labour
Llyr Huws Gruffydd	Plaid Cymru The Party of Wales
William Powell	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Antoinette Sandbach	Ceidwadwyr Cymreig Welsh Conservatives

Eraill yn bresennol

Others in attendance

Jean-Bernard Benhaiem	Rheolwr y Rhaglen, Polisiau'r UE y Comisiwn Ewropeaidd Programme Manager, EU Policies, European Commission
Alun Davies	Aelod Cynulliad, Llafur (Y Dirprwy Weinidog Amaethyddiaeth, Bwyd, Pysgodfeydd a Rhaglenni Ewropeaidd) Assembly Member, Labour (The Deputy Minister for Agriculture, Food, Fisheries and European Programmes)
Betty Lee	Dadansoddwr Economaidd a Pholisi, y Comisiwn Ewropeaidd Economic and Policy Analyst, European Commission
Flore Jeanmart	Rhaglenni Datblygu Gwledig, Cyfarwyddiaeth Gyffredinol dros Amaethyddiaeth a Datblygu Gwledig Rural Development Programmes, Directorate-General for Agriculture and Rural Development
Ansa Norman-Palmer	Cydlynnydd Polisi, Cyfarwyddiaeth Gyffredinol dros Amaethyddiaeth a Datblygu Gwledig Policy Co-ordinator, Directorate-General for Agriculture and Rural Development
Rory O'Sullivan	Cyfarwyddwr, Materion Gwledig, Llywodraeth Cymru Director, Rural Affairs, Welsh Government
Terri Thomas	Pennaeth yr Is-adran Polisi Cefn Gwlad, Llywodraeth Cymru Head of Countryside Policy Division, Welsh Government

Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol

National Assembly for Wales officials in attendance

Leanne Hatcher	Dirprwy Glerc Deputy Clerk
Gregg Jones	Gwasanaeth Ymchwil Research Service
Nia Seaton	Gwasanaeth Ymchwil Research Service
Naomi Stocks	Clerc Clerk

*Dechreuodd y cyfarfod am 9.31 a.m.
The meeting began at 9.31 a.m.*

**Cyflwyniad, Ymddiheuriadau a Dirprwyon
Introductions, Apologies and Substitutions**

[1] **Vaughan Gething:** I welcome Members to this meeting of the task and finish group on the common agricultural policy, which is considering reforms to that policy. The meeting will be bilingual. You all have headphones before you, and you do not need to touch the microphones as they will come on automatically. I ask you all to turn off your mobile phones; I was embarrassed to be caught out in a meeting yesterday, which will remind me to do so. No fire alarm tests are planned, so if the alarm should sound it will be a real emergency.

9.32 a.m.

**Ymchwiliad i'r Diwygiadau Arfaethedig i'r Polisi Amaethyddol Cyffredin—
Tystiolaeth gan y Dirprwy Weinidog Amaethyddiaeth, Pysgodfeydd, Bwyd a
Rhaglenni Ewropeaidd**

**Inquiry into Proposed Reforms to the Common Agricultural Policy—Evidence
from the Deputy Minister for Agriculture, Fisheries, Food and European
Programmes**

[2] **Vaughan Gething:** I welcome Alun Davies AM, the Deputy Minister for Agriculture, Fisheries, Food and European Programmes. I also welcome Rory O'Sullivan and Terri Thomas. Witnesses will note the rather odd layout of the room, which is due to our video-conference later on. Before I ask you to make a brief introductory statement, Deputy Minister, I thank you for providing written evidence. Your statement will be followed by questions from members of the task and finish group.

[3] **The Deputy Minister for Agriculture, Fisheries, Food and European Programmes (Alun Davies):** Thank you; it is good to be back. I think that I spend more time at this committee now than when I was a member of it. It is good to have an opportunity to discuss these matters with you. I will start by formally introducing the officials accompanying me; Rory O'Sullivan is director of rural affairs for the Welsh Government, and Terri Thomas is the head of countryside policy.

[4] Turning to where we are with the process, you may find during this session that—I will try to put this with a degree of diplomacy—my answers may not be as full as some Members might wish or expect. I say that with all due candour because we are at the beginning of a process of consultation with people in the industry and with the population of Wales. I am, therefore, anxious that the Government should not start with fixed positions, saying, 'This is where we are going to be in February or March when we end the conversation'. This morning, I would like to outline the process in which we are involved, and perhaps this will at least give Members some context in terms of where we are and where we are going.

[5] The process has long been trailed. We know that the European Commission's proposals on CAP reform were published on 12 October. We discussed the proposals, and the commissioner gave a presentation and an analysis of them at the meeting of the Council of Ministers in Luxembourg three weeks ago. All member states then had the opportunity to discuss and respond to the proposals, and we did that over the rest of the day. A meeting between Ministers of all devolved administrations of the United Kingdom and the Department

for Environment, Food and Rural Affairs was held in London on 25 October. We ran through some of our initial positions and the sort of perspectives that we had on CAP reform. The United Kingdom delegation is meeting the commissioner in Brussels next Monday and will be running through some of the issues that it wishes to raise. I will be attending a meeting of the Council of Ministers later that day, and will continue to attend those meetings where these matters are being considered.

[6] We are beginning, at the moment, what is called a period of reflection, which will give us the opportunity to reflect on these matters. I want us to listen actively to what people in Wales have to say. Members will be aware that the Government is tabling a motion for debate on the common agricultural policy at the end of the month, which will give Members the opportunity to debate the issues. We will also publish some documents, as a Government, in an attempt to stimulate debate in the country. We will seek, by the end of February, to arrive at a position that has broad support across Wales.

[7] We are also anticipating the implementing regulations being published in the new year. I know from meetings over the last few weeks that people are asking for an enormous amount of detail and where we stand on all sorts of different issues. The proposals that were published in 12 October set out the overarching policy and direction of the Commission, but the implementing regulations are absolutely crucial for the delivery of that policy. As a consequence, we are still waiting for those. We expect them in January—I think that that is a fair expectation. So, some questions that Members have today might well be better answered when we have sight of those regulations.

[8] In conclusion, the objectives of the Welsh Government are to seek the best deal for Welsh agriculture and for Wales. We want to focus on objectives as much as process and to see simplification in terms of process. We want to focus on food production, environmental protection and competitiveness. We hope that the regulations that are eventually adopted will help us to deliver all of those objectives.

[9] **Vaughan Gething:** Rebecca Evans has indicated that she wants to speak, and then I will try to ensure that everyone gets at least one pop, but I imagine that we will all have a couple of different questions for you.

[10] **Rebecca Evans:** I want to open with questions on environmental benefits. Particularly, how would you ensure that the level of environmental benefit derived from a reformed CAP would be commensurate with the scale of delivery required to deliver the 2020 targets to reverse biodiversity decline as well as our emissions reduction targets and requirements under the water framework directive?

[11] **Alun Davies:** You will be aware that the Glastir scheme that was introduced by my predecessor seeks to ensure that Wales is in a good position to deliver on all those matters. One of the reasons that Glastir is so important and why all the other agri-environment schemes were closed by my predecessor is because they were not capable of delivering that level of objective. That does not mean that those programmes were not good programmes when they were launched and developed, but it means that the new standards and objectives that have been outlined in the directives that you have outlined, Rebecca, would not be met under current schemes. So, we believe that the Glastir scheme, which will be open for applications next year, will be able to deliver on those objectives. It will fit into the overall CAP framework, we expect. Again, we are at the beginning of these discussions and they have not concluded, but we are confident that CAP will have the flexibility to enable us to deliver on that. Terri, you might want to fill in some of the detail on that.

[12] **Ms Thomas:** The whole point of the way that the regulations work and of the negotiation process with Europe is that Commission officials will come at this from a position

of asking whether we are meeting those requirements before we are allowed to have a rural development plan and the schemes within it approved. So, it is part of an integral process to ensure that we hit not just the 2020 targets, but all of the directives that are required as well. A great deal of work has already been done with Glastir. We will go through that in the context of the new regulations and in discussions with the Commission. As the Deputy Minister said, we may find that there is a need for change, but it is far too early to say that because it is not within the draft rural development regulation; there may be something in the implementing regulation that takes it further, but we do not have sight of that at the moment.

[13] **Rebecca Evans:** Given the vital role that you described of agri-environment schemes in delivering environmental enhancements, what is your position on modulation from pillar 1 to pillar 2 as a means of further supporting the rural development programme funds?

[14] **Alun Davies:** I will ask Rory to come in on this, but, in terms of our overall approach, we wish to see much greater flexibility and the ability to move funds and moneys around the different schemes. In terms of where we are, the UK has traditionally done very poorly on pillar 2. We will know the allocation criteria when we see the implementing regulations, which will be published in the new year. The objective, which I think is a clear one for all four UK administrations, is to get a better deal. We are therefore looking for an allocation that will deliver far greater capacity within pillar 2 but without going down that route. Having said that, of course, we do need the flexibility to be able to do so if necessary.

[15] **Mr O'Sullivan:** In terms of what we currently have before us, modulation, as the mechanism that we have today, will not be in place from 2014. What we have is a proposal from the Commission about being able to move money from pillar 1 to pillar 2, and to move money from pillar 2 to pillar 1. In terms of the pillar 1/pillar 2 transfer, that would be up to 10 per cent of the Wales financial ceiling, and if you were to move it, you would be reducing the amount of money to be distributed under pillar 1. In terms of the switch from pillar 2 to pillar 1, that would relate only to the European funding, and potentially, the sums involved are relatively small. If we were to assume that, under the next financial perspective, we have a similar amount of money from Europe—£195 million over seven years—that will work out at just over £2.8 million a year that we would move from pillar 2 to pillar 1.

[16] **William Powell:** My question links back to the earlier question on biodiversity, but I would like to link that to the Welsh Government's proposal that those farmers who have previously been involved in agri-environment schemes should automatically be entitled to the greening payments. What does the Minister feel is the perspective that the Commission is likely to adopt on those proposals?

[17] **Alun Davies:** I might be in a better position to answer that question after next Monday's meeting. In terms of our general approach, though, let us go back to a few principles. We have the two pillars in CAP. We see pillar 1 as being a means of maintaining the viability of farm businesses across the country. Our view is that that should be as simple and as straightforward as possible and that it should be there for clear economic and social benefit. As for pillar 2, I believe that it is something that has enormous potential—I am sure that we will discuss some of this in this afternoon's debate—as it has the ability to shape the industry in terms of competitiveness, ensuring that we can invest in supply chains and in creating a profitable and prosperous industry in the future. It also has those environmental benefits.

[18] Currently, all of our agri-environment schemes are paid for out of pillar 2. We would like to see a focus on that so that you try to deliver greening, not through pillar 1, but through pillar 2, and you do so in such a way as to focus in on the shape of the industry and how it functions. That gives us enormous potential to do an awful lot more than is currently being done. I am therefore very excited by the potential. We need to have a very clear idea of why

the two pillars are there and why these things are separated in policy. In structural terms, it is to enable us to say that we have pillar 1, which provides the basic financial support, while pillar 2 is how we change the shape of the industry and protect the countryside.

[19] **William Powell:** What views have you encountered from the UK Government and the other devolved administrations with regard to the Welsh Government's approach to this greening issue, particularly with regard to those who previously have been involved in agri-environment schemes such as Tir Gofal and are now looking to go forward into Glastir?

9.45 a.m.

[20] **Alun Davies:** If your question is about the UK Government or governance, I think that it is fair to say that there is a fair degree of commonality across the four administrations. We have some disagreements that are well advertised and well trailed in various media sources. However, with regard to where we are on developing this policy approach, the general approach is one on which there is broad agreement across the United Kingdom. We believe that there is the potential to do far more, and we are working together.

[21] One thing that I think I said in my first appearance before this group as a Minister was that I was very anxious that Wales should play its full part as part of the UK delegation and be an effective team player within the United Kingdom. I think that it is fair to say that, by Christmas, I will have attended more Council of Ministers meetings than my predecessor did in four years. I think that that demonstrates a commitment to ensuring that Wales's voice is heard as part of the UK delegation and in wider discussions. From our point of view, we need to ensure that Wales has a very cohesive voice and a very loud voice and that we are able to engage. I have to say that, to date, the conversations that we have been having as Ministers within the United Kingdom have been very positive.

[22] **Antoinette Sandbach:** I am grateful, Deputy Minister. I am glad to hear that there has been a change of culture in terms of attending Council of Ministers meetings, because I know that, certainly with the previous UK administration, that was perhaps not a priority. I would like to move on to the implications of the 7 per cent ecological focus area and, in particular, the conflict between that and the requirement to maintain permanent pasture. How do you see that operating within the Glastir scheme, particularly given the issues highlighted at the beginning of Glastir in terms of there being difficulties with farmers obtaining enough points, as it were, to qualify?

[23] **Alun Davies:** I do not know how far you want us to go into Glastir this morning. Perhaps we should get some cocoa out if you want me to start that. [*Laughter.*] However, let me say this: I believe that Glastir is CAP-proof. I believe that it provides the means by which we deliver on many, if not all, of the requirements that the Commission is setting in these initial documents and its initial proposals. The ecological focus area that you refer to is, of course, part of a list of different means by which the 7 per cent is achieved. The Commission says in regulation that it is whatever is appropriate to that particular farm. Also, although you are correct to ask what that means—we need more clarity to answer the question more fully—it is being interpreted, I think wrongly, in some quarters as simply meaning a set-aside. It does not mean that. It means an ecological focus area. We need to know what the Commission means by that and how it will be defined, but our initial view as a Government is that requirements placed on farmers who join Glastir could well enable farmers to achieve 7 per cent by virtue of Glastir. That is certainly our expectation. We have not yet begun detailed negotiations with the Commission on this matter, but we will certainly be taking the approach that Glastir enables farmers to deliver the greening element by virtue of the scheme. Rory, is that clear?

[24] **Mr O'Sullivan:** Yes. I was just going to say that there is quite a strong view,

certainly within the Council and the European Parliament, that the initial proposals from the Commission on greening are very narrow and rigid. It is a one-size-fits-all approach for EU 27. It does not take account of the particular characteristics of, say, Wales. We would much prefer a menu of options, with a fair amount of discretion for Wales, with the Welsh Government deciding in consultation with the industry how we should go about this. There is also the issue of the 30 per cent in terms of the payments. We need to understand the Commission's thinking on that. It is also interesting that the Commission made it quite clear that, if you are an organic producer, you have this automatic exemption. It is failing to appreciate the progress that we have already made in Wales with Tir Gofal and Tir Cynnal and the way that we want to take that forward with Glastir. It is certainly an issue that we will be pursuing with the Commission.

[25] **Antoinette Sandbach:** Do you see that as a barrier at the moment to entry into Glastir, because there is no certainty regarding the implications for Glastir? Farmers believe—and I appreciate that you said that this perception was wrong—that they may have to set aside 7 per cent of their land and they are not clear how that will work. In effect, given the uncertainty contained within the proposals and the negotiations, what implications are there for Glastir and what assurances can you give farmers about the scheme that they are signing up to, or are being asked to sign up to?

[26] **Alun Davies:** Let me make our policy approach to this absolutely clear: we believe that Glastir is CAP-proof. We will ensure that there is sufficient flexibility within Glastir to enable people to sign up to it with the certainty that it will not impact their ability to receive direct payments in the future. We will ensure that there are break-clauses in the contracts to enable people to have the certainty that you seek and require. We believe that Glastir is future-proof. Glastir was introduced over two years ago by my predecessor because those guarantees could not be given with the other schemes. So, Glastir was designed with these changes to the CAP in mind and in anticipation of the reforms and the direction of travel. As a Government, we will ensure that people who apply to be part of Glastir next year can feel comfortable in what they are signing and can be sure that it will not have an adverse effect on their businesses in the future.

[27] **Mr O'Sullivan:** There are many misconceptions and it is interesting that people have focused on that particular aspect of greening, when there is quite a lot of paperwork to wade through.

[28] **Antoinette Sandbach:** That may be the problem.

[29] **Mr O'Sullivan:** We are at the start of a process. What we see today might not still be true when we reach the endgame position. So, it is important to remain fairly open minded. As I said earlier, we will be pursuing this particular issue with the Commission. As the Deputy Minister has mentioned, we will ensure that there is total flexibility in case we have an endgame position that has the potential to disadvantage certain farmers under certain options of Glastir—we need to be careful and remember that it is only some options that may be impacted by this. We will be able to discuss with farmers what their options will be when we have absolute clarity at the end of the process.

[30] **Llyr Huws Gruffydd:** Hoffwn fynd ymhellach ar y pwynt hwnnw i wneud yn siŵr fy mod wedi eich deall yn iawn. Yr oeddech yn dweud bod Glastir yn 'CAP-proof' ac y bydd Glastir yn digwydd, doed a ddelo. Yr ydych yn awgrymu efallai y bydd angen gwneud ambell newid, ond yr ydych yn dal i ragweld y bydd hwn yn digwydd o

Llyr Huws Gruffydd: I would like to pick up on that point to ensure that I have understood you correctly. You said that Glastir is 'CAP-proof' and that Glastir will happen, come what may. You suggest that a few changes may be required, but you still anticipate that that will happen under pillar 2, despite any greening elements within pillar 1.

dan biler 2, er gwaethaf unrhyw elfennau gwyrddio o fewn piler 1.

[31] **Alun Davies:** Yr wyf yn dweud bod Glastir yn cyflwyno'r math o amodau a fynnyd o dan biler 1. Yr ydym hefyd yn dweud bod y dull yr ydym yn ei ddewis yn rhoi'r hyblygrwydd i ni sicrhau, ar gyfer unrhyw oblygiadau newydd nad ydym yn ymwybodol ohonynt heddiw, y ceir hyblygrwydd digonol i sicrhau ein bod yn gallu delio â hynny mewn blwyddyn neu ddwy.

Alun Davies: I am saying that Glastir is delivering the kind of conditions insisted upon under pillar 1. We are also saying that the approach that we are taking gives us the flexibility to ensure that, for any new obligations that we are not aware of today, there is adequate flexibility to ensure that we are able to deal with that in a year or two.

[32] **Mr O'Sullivan:** Glastir is not totally fixed. We have always made it clear that we can adapt the scheme to changing circumstances. CAP reform and the results of greening would be only one factor. However, I stress that the focus area has the potential to impact only on a very limited number of the options available under Glastir, and not on every option.

[33] **Llyr Huws Gruffydd:** Diolch am yr esboniad hwnnw. Yn fwy cyffredinol, yr oeddech yn cyfeirio yn eich sylwadau agoriadol at anghytuno rhwng y Deyrnas Unedig a rhai o'r gwledydd datganoledig o fewn y Deyrnas Unedig. Mae rhwyfaint o'r anghytuno yn eithaf sylfaenol, am bethau fel maint y gyllideb a'r cydbwysedd rhwng cyllidebau piler 1 a piler 2 ac yn y blaen. Sut yr ydych yn gweld y trafodaethau hynny yn datblygu? A ydych yn gweld y bydd cyfaddawdu, yn enwedig mewn ardaloedd lle mae'r dair gwlad arall o fewn cyd-destun y Deyrnas Unedig yn anghytuno gyda llinell San Steffan? Ynteu a ydych yn teimlo mai derbyn y safbwynt Brydeinig, doed a ddelo, yw'r unig opsiwn realistig?

Llyr Huws Gruffydd: Thank you for that explanation. More generally, you referred in your opening remarks to some disagreements between the United Kingdom and some of the devolved countries within the United Kingdom. Some of those disagreements are quite fundamental, about aspects such as the size of the budget and the balance between the pillar 1 and pillar 2 budgets. How do you see those discussions panning out? Do you foresee that that there will be compromise, especially in areas where the other three countries within the United Kingdom context disagree with Westminster's line? Or do you think that accepting the British position, come what may, is the only realistic option?

[34] **Alun Davies:** Gweinidogion amaeth ydym ni, ac nid ni sy'n penderfynu beth yw maint y gyllideb. Ein gwaith ni yw dosbarthu beth sydd ar ôl ohono, mewn ffordd, felly mae'n bwysig deall beth sy'n digwydd mewn perthynas â'r penderfyniadau hyn ar y CAP. Yr ydych yn iawn i ddweud bod anghytuno sylfaenol ar faint, natur a siâp cyllideb y Comisiwn Ewropeaidd. Yr wyf wedi ei gwneud yn hollol glir yn ystod cyfarfodydd y gyd-bwyllgor Gweinidogion yn Llundain y gall y polisi sy'n cael ei ddilyn gan y Trysorlys wneud difrod difrifol i Gymru. Mae hynny'n glir. Pe bai cyllideb y Comisiwn yn lleihau, fel mae'r Trysorlys wedi mynnu, bydd llawer llai o arian ar gael i'r polisi amaethyddol cyffredin a ffermwy'r Cymru.

Alun Davies: We are agriculture Ministers, and we do not decide on the size of the budget. Our job is to distribute what is left of it, in a way, so it is important to understand what happens when it comes to these decisions on the CAP. You are right to say that there is a fundamental disagreement when it comes to the size, nature and shape of the European Commission's budget. I have made it absolutely clear during meetings of the joint ministerial committee in London that the policy followed by the Treasury could cause great damage to Wales. That is clear. If the Commission's budget were to decrease, as the Treasury insists, far less money would be available for the CAP and for Welsh farmers.

[35] **Llyr Huws Gruffydd:** Felly, mae elfen o dderbyn eich tynged ar y mater hwnnw.

Llyr Huws Gruffydd: So, there is an element of accepting your fate on that matter.

[36] **Alun Davies:** Yr ydym yn derbyn ac yn gwybod mai dyna yw'r linell mae'r Trysorlys wedi ei dilyn—mae hynny yn fater o gofnod cyhoeddus. Mae safbwynt Llywodraeth Cymru yn fater o gofnod cyhoeddus hefyd.

Alun Davies: We accept and know that that is the line that the Treasury has taken—that is a matter of public record. The view of the Welsh Government is also a matter of public record.

[37] **Mr O'Sullivan:** All that I would want to say there is that this is a decision that has to be made by EU 27 and the European Parliament. So, when you ultimately get to financial perspectives, as was the case in 2005, there will always be compromise.

[38] **Llyr Huws Gruffydd:** Un agwedd ar yr argymhellion sydd o ddiddordeb mawr i ni yw'r pecyn llaeth, fel y gwyddoch yn sgîl y drafodaeth yr wythnos diwethaf. Nid ydych yn cyfeirio'n benodol ato yn eich papur, ond byddwn yn falch o glywed rhai o'ch sylwadau ynglŷn â'r argymhellion a amlinellwyd, a pha un a ydych yn hapus gyda hwy fel ag y meant.

Llyr Huws Gruffydd: One aspect of the recommendations that is of great interest to us is the dairy package, as you will know from last week's discussion. You do not refer to it in your paper, but I would be pleased to hear some of your comments about the recommendations outlined, and whether you are content with them as they stand.

[39] **Alun Davies:** Yr wyf yn croesawu rhai o elfennau'r cynnig, ac yr ydym yn gallu derbyn ambell beth sy'n cael ei gynnig, megis tryloywder yn y farchnad a chryfhau gallu ffermwyr a chynhyrchwyr i gefnogi ffyrdd o gynyddu cydweithio yn y diwydiant. Felly, mae sawl peth yr ydym yn gallu ei dderbyn a'i groesawu. Mae pob un ohonom yn croesawu'r ffaith bod y drefn cwota yn dod i ben yn 2015, gan fy mod yn gwybod fod llawer yn y diwydiant wedi ei ganfod yn faich.

Alun Davies: I welcome some aspects of the proposal, and we can accept some of the proposals, such as transparency in the market and strengthening the ability of farmers and producers to support ways of increasing co-operation in the industry. So, there are many things that we can accept and welcome. We all welcome the fact that the quota regime will end in 2015, as I know that many in the industry found it to be burdensome.

[40] Fel y trafodwyd yn y Siambr yr wythnos diwethaf, nid wyf mor gefnogol i'r syniad o gontractau rhwng cynhyrchwyr a phroseswyr. Yr ydym am weld cynnig nad yw'n orfodol yn cael ei ddatblygu yn y diwydiant, ac, fel yr ydym wedi ei glywed, mae Adran yr Amgylchedd, Bwyd a Materion Gwledig yn Llundain yn arwain trafodaeth ar hynny ar hyn o bryd. Pe bai angen i ni gymryd safbwynt gwahanol yng Nghymru, byddwn yn hapus iawn i wneud hynny. Fodd bynnag, nid wyf wedi gweld unrhyw dystiolaeth bod angen i ni wneud hynny ar hyn o bryd.

As we discussed in the Chamber last week, I am not as supportive of the idea of contracts between producers and processors. We want to see a proposal that is not compulsory being developed in the industry, and, as we have heard, the Department for Environment, Food and Rural Affairs in London is currently leading the discussion on that. If we were required to take a different stance in Wales, I would be happy to do so. However, I have not seen any evidence that we need to do so at the moment.

10.00 a.m.

[41] Cawsom drafodaeth wythnos diwethaf, ac nid wyf am ei ailadrodd, ond yn rhy aml, yr ydym yn edrych ar rôl Llywodraeth mewn ffordd negyddol. Yr ydym yn edrych ar y rheolau y gallwn eu gosod fel Llywodraeth i fynnu bod pethau'n digwydd. Yr wyf am ystyried sut y gall y Llywodraeth weithredu mewn ffordd llawer yn fwy positif, gan fuddsoddi yn y gadwyn gyflenwi, y diwydiant a phroseswyr. Cefais y pleser ddydd Gwener o fod yn Nolgellau yn yr EUROSPAR. Gwelais fod cynhyrchwyr llaeth Cymru yn cynnig cynnyrch i'r cyhoedd a pha mor boblogaidd yr oedd yn siopau Dolgellau. Mae pobl yng Nghymru eisiau prynu cynnyrch llaeth o Gymru. Yr wyf am weld sut y gall y Llywodraeth gynnig cymorth i'r diwydiant i'w alluogi i wneud hynny. Pe bawn yn gwneud hynny, byddai'n gyfraniad hynod o bwysig ar gyfer y dyfodol.

[42] **Yr Arglwydd Elis-Thomas:** Yr wyf yn falch bod y Gweinidog wedi bod yn siopa gyda Mr Conrad Davies, pencampwr bwyd Cymru, yn EUROSPAR Dolgellau. Mae croeso i'r Gweinidog ar unrhyw adeg. Cwestiwn oedd yn cael ei drafod yn Nolgellau ddydd Gwener ddiwethaf yw un o'r cwestiynau y cyfeirir ato gennych yn eich tystiolaeth ysgrifenedig. Yr ydych yn dweud mai'r cwestiwn allweddol i Gymru yw'r graddau y gellir gweithredu drwy'r cynllun datblygu gwledig i liniaru effaith y symud o daliadau sengl hanesyddol i daliadau yn seiliedig ar ardal o dan piler 1 o'r diwygiadau. Yr wyf am ofyn am hyn. Yr oeddech yn dweud ei bod yn ystyriaeth allweddol. Pa mor obeithiol ydych y bydd modd defnyddio'r cynllun datblygu gwledig i'r dibenion hynny, ac i ba raddau y byddwch chi, fel Gweinidog, yn barod i wneud hynny?

[43] **Alun Davies:** Yr wyf yn eithaf hyderus y bydd yn bosibl gwneud hynny drwy'r cynllun datblygu gwledig ond hoffwn i berswadio'r Comisiwn y dylai'r symudiad hwn ddigwydd yn raddol dros gyfnod. Nid wyf yn credu bod anghytuno ynghylch lle fyddwn ni yn 2019-20. Ceir anghytundeb ar y pwyslais o ran sut y byddwn yn cyrraedd y pwynt hwnnw. Hoffwn i ni ddechrau ar raddfa o tua 20 y cant yn y flwyddyn gyntaf, ac yna'n symud yn raddol dros gyfnod o tua saith mlynedd, pan ellir rhagweld incwm ac y

We had a discussion last week, and I do not wish to repeat it, but, all too often, we look at the role of Government in a negative way. We look at the rules that we can put in place as a Government to demand that things happen. I want to consider how the Government can act in a far more positive way, investing in the supply chain, the industry and processors. I had the pleasure last Friday of being in the EUROSPAR in Dolgellau. I saw that Welsh milk producers are offering products to the public and how popular those are in the shops of Dolgellau. People in Wales want to buy dairy products from Wales. I want to know how the Government can offer assistance to the industry to enable it to provide that. If we did that, it would be an extremely important contribution for the future.

Lord Elis-Thomas: I am pleased that the Minister has been shopping with Mr Conrad Davies, Welsh food champion, in the EUROSPAR in Dolgellau. The Minister is always welcome. A question that was discussed in Dolgellau last Friday is one of the questions referred to in your written evidence. You say that the key question for Wales is the extent to which we can operate through the rural development plan to mitigate the effect of the shift from single historic payments to area-based payments under pillar 1 of the reforms. I would like to ask about that. You said that that is a key consideration. How hopeful are you that it will be possible to use the rural development plan to that end, and to what extent will you, as Minister, be willing to do that?

Alun Davies: I am quite confident that it will be possible to do that through the RDP but I would like to persuade the Commission that this movement should happen gradually over time. I do not think that there is a disagreement about where we will be in 2019-20. There is disagreement about the emphasis in terms of how we will reach that point. I would like to start at a rate of about 20 per cent in the first year, and then move gradually over a period of about seven years, when income can be predicted and people

bydd pobl yn gwybod lle fyddant yn sefyll. Yna, bydd busnesau ffarm yn gallu ymdopi â hynny. Dyna fy mlaenoriaeth i—sichrau bod y symudiad hwn yn digwydd yn raddol ac o dan reolaeth y ffermwyr, fel eu bod yn gallu cynllunio ar gyfer lefelau gwahanol o incwm.

know where they stand. Farm businesses will then be able to cope with that. That is my priority—to ensure that the movement happens gradually and under the control of farmers, so that they can plan for different income levels.

[44] Yr ydym wedi comisynu llawer o waith modelu ar hyn ac mae'r grŵp wedi gweld rhywfaint o hynny. Fel Llywodraeth, yr ydym yn hapus i rannu pa bynnag bapurau a modelau sydd gennym gyda'r grŵp ac efallai y gallwn drafod hynny gyda'r Cadeirydd. Yr ydym wedi gwneud y modelu yma ond bydd mwy yn digwydd yn ystod y flwyddyn nesaf. Byddwn yn hapus iawn i rannu'r wybodaeth honno gyda'r grŵp. Felly, yr ydym yn gwneud ymchwil i weld sut y byddwn yn wynebu'r sefyllfa. Yr wyf yn credu fy mod yn hapus y bydd digon o hyblgrwydd yn y cynllun datblygu gwledig i'n galluogi i gynnig cymorth i'r rhai y bydd hwn yn effeithio arnynt, ond y flaenoriaeth yw sichrau na fydd yn effeithio'n ormodol ar fusnesau unigol.

We have commissioned a lot of modelling work on that, some of which the group has seen. As a Government, we are happy to share any papers and models that we have with the group and perhaps we can discuss that with the Chair. We have done that modelling but more will happen over the next year. We will be happy to share that information with the group. Therefore, we are undertaking research to see how we will deal with the situation. I think that I am happy that there will be enough flexibility in the RDP to offer support who will be affected by this, but the priority is to ensure that it will not have too much of an effect on individual businesses.

[45] **Mr O'Sullivan:** There is an awful lot of flexibility in the rural development plan. When we have a much better understanding of the potential impacts of redistribution—particularly on intensive dairy and beef production—we could use the national envelope approach. We can do things under the RDP as regards competitiveness, enhancing supply chains, working with agri-food businesses, depending on what the circumstances are. There is an awful lot of flexibility, but we are still working our way towards trying to understand not only the sectoral impacts, but where they might occur and why they are occurring. One issue about the move to an area-based scheme is that our initial modelling indicates that it will impact adversely on the more productive sectors and that money will move to less productive sectors, if I could put it that way. Where would the incentive be, with that latter category, to increase production to compensate for fall-off elsewhere? It is about what Hybu Cig Cymru calls maintaining a critical mass, particularly in the beef and milk herds.

[46] **Yr Arglwydd Elis-Thomas:** Pan fyddaf yn siarad ag amaethwyr unigol sydd wedi bod yn llwyddiannus yn y sectorau y mae Rory'n cyfeirio atynt, maent yn dweud wrthyf eu bod, wrth edrych ymlaen pum mlynedd, yn gweld gostyngiad sylweddol yn eu hincwm tebygol o'r sectorau y maent wedi bod yn llwyddiannus ynddynt hyd yn hyn, a bod hynny'n eu harwain i fynd allan o'r sectorau hyn yn gynharach yn hytrach nag yn hwyrach. Felly, a fydddech yn cytuno y gallem fod yn colli capasiti ac yn colli llawer o'r cynnydd sydd wedi'i wneud, yn enwedig ym maes magu cig eidion?

Lord Elis-Thomas: When I speak to individual farmers who have been successful in the sectors that Rory referred to, they tell me that, in looking ahead five years, they see a significant reduction in their likely income from the sectors in which they have been successful thus far, and that that leads them to leave these sectors sooner rather than later. So, would you agree that we may lose capacity and lose much of the progress that has been made, particularly in terms of beef production?

[47] **Alun Davies:** Dyna'r perygl. Yr **Alun Davies:** That is the danger. We

ydym yn cydnabod hynny ac yr ydym yn gwneud y gwaith modelu hwn i sicrhau bod ffermwyr yn cael y gefnogaeth sydd ei hangen arnynt. Mae angen inni drafod siâp y diwydiant yn y dyfodol. Yr wyf wedi cael y sgysiau hyn yn breifat; nid wyf yn gwybod os mai dyma'r lle i gynnig rhywbeth yn gyhoeddus—

recognise that and we are doing this modelling work to ensure that farmers get the support that they need. We need to discuss the shape of the industry in the future. I have had these discussions in private; I do not know whether this is the place to offer something in public—

[48] **Yr Arglwydd Elis-Thomas:** Pam lai, Weinidog?

Lord Elis-Thomas: Why not, Minister?

[49] **Alun Davies:** Maint cyfartalog y fuches laeth yng Nghymru yw tua 75 o wartheg. A yw hynny'n *viable economic unit* ar gyfer y dyfodol? Rhaid inni gael y sgws hwn ac ystyried beth fydd siâp y diwydiant yn y dyfodol. Yr wyf wedi dweud o'r blaen bod angen cael y drafodaeth hon am biler 2 ynghylch sut yr ydym am siapio'r diwydiant ar gyfer y dyfodol. Mae hynny'n golygu sicrhau bod pobl yn cael y cymorth ariannol sydd ei angen arnynt i redeg busnes a derbyn hynny mewn ffordd y gellir ei ragweld ar gyfer y dyfodol er mwyn gwybod lle mae busnes yn mynd. Bydd hynny'n eu galluogi i gynllunio ar gyfer y dyfodol, a bydd yn ein galluogi ni i wneud hynny hefyd. Os ydym am ddweud bod y diwydiant hwn angen cymorth gan drethdalwyr, rhaid inni gyfiawnhau hynny, ac yr wyf yn hapus iawn i wneud hynny. Fodd bynnag, credaf mai rhan o'r cyfiawnhad hwnnw yw cael y sgysiau hyn am siâp y diwydiant yn y dyfodol. Ambell waith, mae pobl yn rhedeg i ffwrdd o'r drafodaeth honno, oherwydd gall fod yn drafodaeth ddigon anodd. Fodd bynnag, hoffwn ehangu'r rhan hon o'r drafodaeth am y PAC i weld pa fath o ddiwydiant yr ydym am gynnig cymorth iddo mewn 10 mlynedd.

Alun Davies: The average size of dairy herd in Wales is around 75 cows. Is that a viable economic unit for the future? We must have this discussion and consider what the shape of the industry will be in the future. I have said before that we have to have this discussion about pillar 2 around how we want to shape the industry for the future. That means ensuring that people get the financial help that they need to run a business and accept it in a way that is predictable for the future, so that they know where the business is going. That will enable them to plan for the future, and will enable us to do that too. If we say that this industry needs support from taxpayers, we must justify it, and I am very happy to do that. However, I think that part of that justification is that we have these conversations about the shape of the industry in the future. Sometimes, people run away from that discussion, because it can be quite difficult. However, I would like to expand this part of the debate about the CAP to see what kind of industry we want to offer support to in 10 years' time.

[50] **Vaughan Gething:** I will certainly take you up on your offer of further help and assistance in terms of understanding the model that the Government is producing on the impact on different aspects of the industry in Wales as we go forward.

[51] **Antoinette Sandbach:** I am relieved to hear that you have identified the beef sector as a particular problem. I know that, on the European impact assessment, France and Portugal were identifying the beef sector as an area that was suffering from problems. Have the conclusions of your modelling been presented in Europe? Are you showing the relevant officials how that will adversely impact on those sectors?

[52] **Alun Davies:** It is the intensive beef and dairy sector. We are having these conversations. Terri has been sharing this information with the industry in Wales—we spent most of last Friday doing that. We need to get the information packaged, if you like, and secure, because we are still doing this research. We had these proposals on 12 October. We

have just had Guy Fawkes' night, so we are at the beginning of the process. However, the answer to your question is 'yes': we will be sharing this information. I do not see the point of the Government spending taxpayers' money and creating this evidence base if we then keep it secret. I want to provoke and stimulate as wide a debate as possible, both within the industry and across the wider community of Wales, as well as contributing to debate in the United Kingdom and across the European Union. So, yes, we will be sharing this information with people, and we will be sharing it with yourselves and others. We want this to be as open a process as possible. Do you want to add anything, Terri?

[53] **Ms Thomas:** Yes, just briefly. At the beginning of the year, I and a number of colleagues went over to Brussels as part of what is termed an 'expert mission', which is a slightly scary term. We presented the modelling that we had done on the European Commission's impact assessment unit, taking it carefully through the impact on the different sectors and the different sizes of farms. We had about a three-hour session to help it understand the impact on Wales. I believe that Scottish colleagues did likewise. We did it first, and we will continue to do it and to maintain those contacts with those individuals and other officials, but it is also part of a wider UK tactic of going in and trying to raise awareness so that they understand what they are doing.

[54] **Mr O'Sullivan:** I would like to add that, in negotiating with the Commission, you have to have the argument, and you also have to have the counter-proposal. There is no point simply going in with the argument. There is also the issue, which Terri referred to, about historical practice in the UK regarding Wales, Scotland and, to a lesser extent, Northern Ireland. There are other member states that operate a historical scheme, and they are facing exactly the same concerns. On the transitional period, five years is a short time to enable businesses to reshape their future, and we will be pressing the Commission about the length of that transitional period. As the Minister said, the Welsh Government also has to determine what the step change should be in Wales. We know that there is an inevitability about the move to area-based payments, but can we have the discretion to decide the pace, and can we have a longer transition period?

[55] **Antoinette Sandbach:** I wish to move on to a different issue, which is the definition of 'active farmer'? Could you let me know your views, or the views of the UK Government, as well as of the other devolved administrations, on the inclusion of this requirement in the regulations, and what you believe is the most appropriate definition of 'active farmer' for Wales?

[56] **Alun Davies:** That is a long question, which allowed me to find my notes in time to answer it. It is quite a detailed question, and, as I said at the beginning, I am positively shying away from being too precise in my answers, because I want this debate to take place—I want to lead the debate without closing it down, if that makes sense. At the moment, we find the Commission's approach to be unduly complex, and it will create difficulties in implementation. We all support the principle that the taxpayers' money funding CAP should be directed to those who derive their primary economic livelihood from farming, and not used to subsidise other activities. I think that that is fair and is accepted. However, you do find yourself in difficulties. Five per cent has been mentioned, but I do not think that that really advances the argument in any real sense. What we have to do is to avoid penalising. For example, take a married couple living on a farm, and let us say for argument's sake that the wife goes out and works as a teacher somewhere, or whatever. The husband, who is a full-time farmer, is unable to demonstrate that the income that they derive from agriculture is sufficient, and that agriculture is the primary economic activity that he undertakes. There are issues there that could affect the very family farmers that you want to protect in many ways, and so we would be seeking a definition that is workable, but straightforward, and does not undermine the purpose of the wider policy.

[57] **Mr O'Sullivan:** I think that the Commission has found itself under a lot of political pressure, particularly from EU-12, where you tend to have the smaller farms, and as a result of seeing large amounts of money within the old EU-15 going to people who might not be altogether active.

10.15 a.m.

[58] The Commission has tried to come up with a definition; this is its attempt, which is complex. It has also tried to come up with a definition of 'inactive', which was even more complex. The answer is that either we, in Wales, are allowed to determine what the definition should be, or we go back to a definition around agricultural activity. That is one of the areas that, again, we will be pursuing with the Commission.

[59] **Vaughan Gething:** We need to move on to try to get everyone's questions in before we run out of time. I call William Powell and then Llyr Huws Gruffydd.

[60] **William Powell:** Another important aspect for the future of farming in Wales and food security is the age profile of farmers and growers across the nation. I want to move on to the issue of support for young farmers and entrants into the industry. What are the Deputy Minister's views on the current Commission proposals to introduce a mandatory top-up payment for young farmers under pillar 1?

[61] **Alun Davies:** This is one of the issues that will be covered in the implementing regulations that will be published in the new year. We are currently looking at potential funding being provided by the top-slicing of 2 per cent from the financial ceiling, which will lead to a 2 per cent reduction with regard to the new direct payment regime. We are looking for flexibility and we are concerned about the complexity that has been built into pillar 1, which creates concern. The point that I tried to make at the beginning was that simplicity and simplification are key objectives of this reform.

[62] We need to provide support for young people to go into the industry, which also means, to go back to the answer that I gave to Dafydd Elis-Thomas earlier, change in the industry. We all know that the age of the farmer does not necessarily reflect the age of the person doing the farming. I know that we all have informal conversations, but we need to have a formal conversation, given that the change that we are seeing as a result of this debate will lead to more change and perhaps unforeseen cultural change as well within the industry. If you look at what Macdonald said, you will see that there is a requirement to have this conversation within the industry, and I hope that the CAP reform will enable us to do so. We are committed to ensuring that there is support for young farmers that is delivered in a way that avoids complexity.

[63] **Mr O'Sullivan:** In principle, we can support, but it is mandatory. It is, again, this one-size-fits-all approach. There are also issues relating to what we might be able to do under the rural development regulation.

[64] **William Powell:** You have anticipated my next question.

[65] **Mr O'Sullivan:** Sorry. We must bear in mind that we already have the young entrants support scheme in Wales, which is not operated under the rural development regulations; we have separate state-aid cover from the Commission to take it forward. The other point that I want to make is that this is yet another deduction on pillar 1. We have the greening element at 30 per cent, the national reserve, the national envelope, the scheme for small-scale farmers and this.

[66] **William Powell:** That reduces the flexibility even further.

[67] **Mr O'Sullivan:** If we were to pursue all of these options, there would be potentially quite a significant reduction in the basic payment that would go to farmers. So, we need to look at how we would shape support for young farmers, which is relevant to the needs of Wales. So, this is fine in principle, but we would much prefer to have the discretion over whether or not we apply this.

[68] **Llyr Huws Gruffydd:** Un frawddeg arwyddocaol yn y papur yr ydych wedi ei gyflwyno yw'r un sy'n cyfeirio at gymorth cysylltiedig. Yn amlwg, byddai derbyn hynny fel modd o weithredu neu fel egwyddor yn dipyn o newid polisi. A allwch chi ymhelaethu ychydig ar y syniadau sydd gennych yn y cyd-destun hwnnw?

Llyr Huws Gruffydd: One significant sentence in the paper that you provided is the one that refers to coupled support. Obviously, accepting that as a modus operandi or as a principle would be a significant change of policy. Will you expand on the ideas that you have in that context?

[69] **Alun Davies:** Mae'r ddeddfwriaeth ddrafft yr ydym wedi'i gweld yn dweud na ddylai'r amlen genedlaethol gael ei gweld fel mesur parhaol, ond fel rhywbeth sy'n cynnig elfen o gefnogaeth i sicrhau rhyw sector arbennig. Yr ydym hefyd yn gwybod bod y gyllideb ar ei gyfer yn dod o frigidori nenfwd ariannol pob un ac wedyn ailgyfeirio'r arian at un sector yn benodol. Nid ydym wedi gweithredu hynny yng Nghymru. Yr unig le mae'n cael ei weithredu ar hyn o bryd yw'r Alban. Yr ydym yn edrych ar oblygiadau hynny ar gyfer Cymru.

Alun Davies: The draft legislation that we have seen states that the national envelope should not be seen as a permanent measure, but as one that offers some element of support to ensure the stability of a certain sector. We also know that the budget for this comes from top-slicing the financial ceiling for everyone, and then reallocating the money specifically to one sector. We have not implemented that in Wales. The only place where it is implemented at present is Scotland. We are looking at the implications of that for Wales.

[70] Yr ydym newydd drafod y diwydiant llaeth ac, ar hyn o bryd, yr ydym yn edrych ar rai modelau a gweld y bydd symudiad at daliadau arwynebedd yn achosi colled ariannol i ffermwyr llaeth. Mae potensial y bydd hyn yn ffordd o gynnig rhywfaint o gymorth i ffermwyr llaeth. Nid ydym wedi dod i unrhyw gasgliadau eto. Yr wyf yn gwybod ei fod yn hynod o amhoblogaidd, ond credaf ei fod yn elfen y bydd yn rhaid inni ei drafod ac ystyried yn ystod y flwyddyn nesaf. Unwaith y gwyddom sut bydd y trawsnewid hwn yn cael ei weithredu gyda rhywfaint o sicrwydd, gallwn wneud tipyn bach yn fwy o fodelu, o wybod y cyd-destun. Unwaith y gwelwn, er enghraifft, beth fydd y golled ariannol yn y blynyddoedd cyntaf, byddwn mewn sefyllfa i weld sut gallwn gynnig cymorth ychwanegol ar gyfer ffermwyr yn y sector llaeth. Dyna le'r ydym ar hyn o bryd. Mae'n un o'r pethau sydd ar y bwrdd. Gallwn ei drafod a hoffwn ei ystyried, ond nid wyf eisiau i bobl redeg i ffwrdd gyda'r syniad bod ystyried yr un peth â gwneud. Fodd bynnag, byddai'n anghyfrifol i

We have just discussed the dairy industry, and, at present, as we look at some models, we see that a shift to area payments would lead to financial losses for dairy farmers. Potentially, this could be a way of offering some level of support to dairy farmers. We have not come to any conclusions yet. I know that it is extremely unpopular, but I believe that it is an element that we will have to discuss and consider during the coming year. Once we know how this transition will be implemented with some level of certainty, we can do a little more modelling work, once we know the context. Once we see, for example, what the financial losses will be during the first few years, we will be in a position to see how we can offer additional support to farmers in the dairy industry. That is where we are at present. It is one of the things that are on the table. We can discuss it and I would like to consider it, but I do not want people to run away with the idea that considering something is the same as doing it. However, it would be irresponsible of us not to consider the situation.

beidio ag ystyried y sefyllfa.

[71] **Mr O'Sullivan:** One of the issues that we also need to consider is that, say you could top-slice at 10 per cent and you had a pot of money, where would you direct it where it would make a difference in terms of achieving an objective? If you wanted to support intensive beef and dairy, with 0.5 million animals, you would get £26 million potentially, which would be £52 a head. Would it make a difference? You have to look at it in a much narrower way and at what you are seeking to singularly achieve in a particular sector where the investment of taxpayers' money will make a difference.

[72] **Rebecca Evans:** On a different topic, I want to seek your views on the proposals for the European partnership for innovation for agricultural products and the proposals for a new prize for innovation, Deputy Minister. What added benefits do you think that they could bring to the industry in Wales and what would you like the scope and the utility of those new initiatives to look like?

[73] **Alun Davies:** I apologise for saying this again, but I will make a general point on this matter. I have spoken previously about pillar 2 and competitiveness within the industry. One of the things that I have really enjoyed about the last six months has been seeing the innovation that exists throughout the Welsh food sector. We have an almost unmentioned giant in terms of food production in Wales, and the products that I enjoyed in Dolgellau on Friday are the sorts of things that I would like people across the whole of Wales to enjoy every day of the week, or certainly every week of the year. We have great potential in the food technology centres that are funded at the moment through the rural development plan to give small producers great opportunities to develop and deliver new products in their local markets and, if successful, move to a more regional market and the national market. I hope that I have made it clear—I think that I said this when I was first appointed last May—that, as a Deputy Minister in an economic department, I am focusing on profitability and prosperity within the industry and wider industry. We need to be judging a lot of these proposals as to their stability, but also in terms of their ability to move forward, develop the industry and entrench profitability within the industry. So, the proposals as they have been made bring together some key areas of policy in terms of sustainable development, encouraging development and a dialogue between farming and the research innovation knowledge transfer that can foster better relations.

[74] In Brussels, last month, or two months ago, we held an event to celebrate the knowledge innovation technology exchange project, bringing together some of the food technology centres. It was an enormously successful event. It demonstrated that we can use public money to help shape and create an economic sector that will be successful in its own right, in terms of driving profit for the businesses and enterprises involved with it. It is emblematic of the country as a whole—Carwyn was talking about the Welsh red meat sector in China two weeks ago—and it delivers something that we, as a country, are able to use to sustain ourselves. So, there are huge benefits to that. I will ask Terri to come in on some of the detail, Rebecca. It is one of the areas where we have the potential to make a very exciting change. If I had more time, an extra hour in the day, I would be investing that in looking at how we can continue to invest in these linkages, enabling and supporting people. It is a great use of taxpayers' money. There is always a question about whether it is the correct use of taxpayers' money to enable one person to drive a private profit. Where there is no question about the use of taxpayers' money is in relation to the development of an industrial sector and a stimulation of activity within that sector that will stimulate the creation of wealth in the country. We have tremendous opportunities here.

[75] **Ms Thomas:** I will echo what the Deputy Minister said. As with everything, we need more detail on what exactly they are proposing and how they intend to implement it, because they have a great track record of making something that is really good extremely complicated.

There is huge potential here—it echoes what they have done with cohesion funds, previously—to support a lot of the work that we have done in the supply chain efficiency scheme within the current rural development plan, for example, and, as the Deputy Minister said, to set up operational groups that will help to break down some of the barriers between farmers, food processors, academia and all of that. So, we are seeing a step change in what farmers are doing. So, rather than just looking at how we can avoid moving money around too much, it is an active part of the mitigation, so they are given new opportunities.

[76] The prize for innovation seems like a good idea, but it has already got some thorny issues bound around it. It is for certain organisations. It has to be between two member states. It is for certain activities. To a large extent, this seems to be the Commission driving the transnational co-operation agenda. It is not too clear what exactly its rationale is for that, given what it has set out. There is very little in the draft regulation. So, again, this is an implementing-regulation issue. A huge question for me is: how does this read across to all the LEADER activity? Where is the added value? They say that they are bringing in their national networks. We have a Wales rural network, but that is targeted at LEADERS. So, where does this fit? Where does it add value? It is funded by taking receipts from elsewhere, as is everything in this regulation.

[77] **Vaughan Gething:** We need to conclude because we are about to start our next session. Thank you for the evidence today, Deputy Minister, to the officials who have attended and to committee members for asking questions. We will continue to have a dialogue with you as the Government position develops. Also, there are a range of subjects that we did not manage to touch on today that I am sure that we will as we progress in the inquiry. We will certainly want to hear more on what you have to say about moving to a flexible system and whether simplification is possible to achieve, not only within the UK delegation, but with other partners in Europe as well. We look forward to seeing you again during the course of the inquiry.

[78] **Alun Davies:** In conclusion, I thank the committee for its questions and time this morning. This is something that I would like to give further evidence on when we have completed this part of this process. I see this process as a tremendous opportunity for us. All too often, we are all in danger of portraying change as a threat and a danger. All too often, we see the same headlines screaming out of newspapers, which say that this is going to lead to the end of whatever sector of agriculture.

10.30 a.m.

[79] I believe that we must grab this opportunity with both hands. We must dominate the change and not allow the change to dominate us. If we do that, I believe that we have an opportunity over the coming year or so to help create and contribute to the shaping of an industry that can be enormously successful in future.

Gohiriwyd y cyfarfod rhwng 10.31 a.m. a 10.35 a.m
The meeting was adjourned between 10.31 a.m. and 10.35 a.m

**Ymchwiliad i'r Diwygiadau Arfaethedig i'r Polisi Amaethyddol Cyffredin—
 Tystiolaeth gan y Comisiwn Ewropeaidd
 Inquiry into Proposed Reforms to the Common Agricultural Policy—Evidence
 from the European Commission**

[80] **Vaughan Gething:** All members of the task and finish group are here. For the avoidance of doubt, my name is Vaughan Gething. I am the Chair of the National Assembly for Wales's task and finish group examining the common agricultural policy. We have with

us members of staff who work in the Commission. They have particular areas of expertise, and we will have a dialogue on the thinking and interpretation behind proposals in the regulations. I will briefly introduce them: we have our man in Europe, Gregg Jones. We also have Ansa Norman-Palmer, Betty Lee, Jean-Bernard Benhaiem and Flore Jeanmart.

[81] We will start with questions from Members of the Assembly, and then we will try to ensure we have a dialogue as effectively as possible. The meeting will be bilingual, so there may well be some questions and comments by Members in Welsh.

[82] **Lord Elis-Thomas:** I would like to start where we ended with our Deputy Minister earlier, which is on the issue of the regulations on direct payments, and in particular, the change in basic farm payments from historical allocation to area-based payments. I am particularly interested in any discussion with those working in this area on the length of the transition period that would be proposed from the historical allocation to the area-based system. In particular, what flexibility would there be for the Welsh Government, and by analogy the other devolved Governments in the United Kingdom, to vary such a period? I accept, of course, that it is likely there would have to be an end-time limit, but I understand our Deputy Minister would like a seven to 10-year transition rather than what is currently proposed. Over and out.

[83] **Ms Lee:** Would you like us to address each question as you put them or do you want a number of questions coupled together?

[84] **Vaughan Gething:** Members may want to move on to different areas as we go along. So, I think that each question in turn would be helpful.

[85] **Ms Lee:** That is no problem. As you said, we are aware that the length of the transition period is difficult for those member states that have to make quite a considerable change. We appreciate that there will be considerable redistribution in support throughout Wales. The proposal currently is for a five-year transition period. So, by 2019, and by budget year 2020, you would have had to reach a flat-rate payment for the basic support payment. In the regulation it also states that you must introduce 40 per cent within the first year, and then you have the flexibility after that, subject to agreement with the Commission, to introduce it in steps. So, you phase it in over the remaining years.

[86] **Lord Elis-Thomas:** My one question on that is how flexible is flexibility? Our Deputy Minister told us earlier, and in his paper, that he was looking for a longer timescale, which would take it up to seven years or even longer. Also, the steps of transition would not be as significant as 40 per cent in the first year. In your work on this, do you think there is room for us to press for flexibility, because this may be the sort of thing that we might put in our letter of recommendation at the end of this inquiry? That is for example, Chair, and not to anticipate anything.

[87] **Ms Lee:** Thank you for the question. The work has started. We have had negotiations and discussions in council working groups and you will be making your views known through the European Parliament. Ministers will be making their views known in discussions within the Council of Ministers. What we have in our proposal, as I said already, is five years. With regard to your flexibility, it will be up to the member states and the European Parliament to hold discussions to perhaps come to a different arrangement in the end. We are defending our proposal; five years is included. We understand that there are issues for a number of member states—it is no secret that some member states may also be looking for a longer transition period.

[88] I understand that the phasing-in is an issue, and the proposal is to start with 40 per cent. Again, that is something that will have to be discussed among Ministers in the European

Parliament. The phasing-in over the remaining years would be up to the member states. Maybe some of my colleagues would like to add or clarify something.

[89] **Ms Norman-Palmer:** What Betty said was great, in that there is a starting percentage and that we do not know what will be the end of the negotiations on it. From that starting percentage to the end year, there is flexibility for the member states on how to do it. The way in which you want to reach convergence must be pre-established, but there is flexibility for member states in the regulations apart from the starting 40 per cent, and also the stopping date of 2019.

[90] **Vaughan Gething:** I have Rebecca, then Llyr, Antoinette and Bill, so every Member should get to ask a question in turn.

[91] **Rebecca Evans:** What is the rationale for the proposed definition of ‘active farmer’? We heard from the Deputy Minister that he thinks that the definition is unduly complex and will create difficulties in implementation. He also said that he is seeking a workable, straightforward definition that does not undermine the purpose of the policy. Could you tell us about some of the thinking behind the rationale for the definition, and whether or not you think that the current definition would undermine the CAP?

[92] **Ms Lee:** As a general comment, there has been pressure from all around the EU and concerns from the wider public about payments being made to large beneficiaries or sofa farmers who were not deemed to be in need of support if they were not actively involved in farming. So, this was the thinking behind introducing a definition, but, as you point out, it is very difficult to achieve something in an EU proposal that is applicable throughout the whole of the EU, given the very diverse situation between different member states. What we tried to do with this definition was to target support at those who were actively producing and for whom agricultural activity was a major part of their total activities. It does not try to exclude part-time farmers by any means, but instead tries to restrict payments to those for whom farming is their main activity. So, we considered that 5 per cent seemed to be a reasonable number for which we would not exclude deserving causes, shall we say. So, 5 per cent of your total receipts coming from non-agricultural activities did not seem like an overly burdensome percentage.

[93] **Rebecca Evans:** Could you provide some clarity on the extent to which member states will be given the freedom to interpret this definition at a national level?

[94] **Ms Lee:** On the issue of the 5 per cent, there is no room for member states to adapt that to their own particular needs, as it stands. Going back to the point that we made earlier, this is our proposal and we are at the very start of the process, which will involve a negotiation between you, the member states, the Commission and the Parliament.

[95] In terms of the definition of ‘agricultural activity’, there will be some scope for member states to define, for example, a minimum level of activity within a framework defined by the Commission, in order to define what is ‘active farming’ in terms of article 4. So, member states will be required to require farmers to be doing something productive in order to receive the payments. So, in that sense, there will be some scope within the definitions required under article 4. However, the Commission will define rules on how member states should go about that.

10.45 a.m.

[96] I am going to turn to my colleague to see whether there is anything else to add or clarify on that.

[97] **Ms Norman-Palmer:** I think that the principle is that if you have a clear provision in the basic articles, there is not much room for manoeuvre for the member state. However, you have some parts for empowerment delegated in this article on active farmers, where it would be either in co-operation between the Parliament and the Commission or by the Commission implementing the rules. Rules on how to implement it would be adopted, in discussion with the member states, of course. However, in general, you have a 5 per cent clearly set out and the provision, as such, does not open up to any flexibility to change that percentage.

[98] **Llyr Huws Gruffydd:** Hoffwn fynd ar ôl y pwynt hwnnw, oherwydd mae'n fy nharo i y bydd yr argymhellion o ran ffermwyr actif yn arwain at haen arall o fïwrocratiaeth, o bosibl, wrth brofi lefel incwm ac ati yng nghyd-destun ffermio. Onid yw hynny yn rhedeg yn erbyn yr agenda o sylleiddio'r holl broses?

Llyr Huws Gruffydd: I would like to follow up on that point, because it appears to me that the recommendations with regard to active farmers will possibly lead to another tier of bureaucracy in proving income levels and so on in the context of farming. Does that not run contrary to the agenda of simplifying the whole process?

[99] **Ms Lee:** As a very general response to that, it is true that we are asking farmers to make declarations with regard to their incomes, and I understand that some member states have indicated that they see that as an increase in the administrative burden. However, in general, the package of measures that we have proposed is trying to strike the right balance between our goal of targeting active farmers and ensuring that we have adequate controls in place. We cannot come forward with a definition of active farmer that will be linked to income that would avoid, in some way, addressing the issue of looking at farmers' overall income. I am afraid that you cannot make an omelette without cracking eggs—sorry about that perhaps silly analogy. However, overall, we are trying to simplify, and if you want to come back to the question of simplification, there are many examples throughout the proposals where we are reducing bureaucracy and the administrative burden, but, in some areas, we have to accept that we will have to require a certain level of control to protect public money. This is public money and you are as concerned as anyone that the money is spent properly and that it is targeted at where we want to spend that money.

[100] **Llyr Huws Gruffydd:** Mae honno'n ddadl a allai bara am fwy o amser na'r hyn sydd gennym, felly yr wyf am symud at y pwynt yr oeddwn yn bwriadu ei godi cyn gofyn y cwestiwn diwethaf. Hoffwn ganolbwyntio ar yr agenda gwyrddio yn PAC a'r tri opsiwn a amlinellir o safbwynt y disgwyliadau cyn y gall ffermwyr dderbyn y taliadau gwyrddio. Yr ydych yn cyfeirio'n benodol at 7 y cant o dir yn cael ei neilltuo yn ardal ffocws ecolegol. Beth oedd y rhesymeg dros bennu'r ffigur penodol hwnnw o 7 y cant?

Llyr Huws Gruffydd: That is an argument that could take more time than we have, so I will move to the point that I intended to raise before asking the last question. I would like to focus on the greening agenda in CAP and the three options outlined with regard to the expectations before farmers can receive the greening payments. You refer specifically to 7 per cent of land being allocated as ecological focus areas. What was the rationale behind determining that specific figure of 7 per cent?

[101] **Ms Lee:** In the impact analysis, many simulations were done, as you can imagine. We looked at figures of 5 per cent, 10 per cent and other figures. It is a matter of public record that nearly 3 per cent of land is already dedicated to ecological focus areas around the EU. You can find that in the detailed impact assessment. So, we thought that 5 per cent was not perhaps enough of an incentive for farmers to go further than what has already been achieved. We also looked at 10 per cent and, as has been pointed out on a number of occasions, demand is increasing globally and there are high commodity prices.

[102] You yourselves have made the point that, in such an environment, we do not want to

take land out of production unnecessarily, thus perhaps contributing to an under-supply situation or leading to a situation in which we could be seen to be increasing commodity prices. So, it was decided for that reason that 10 per cent would be too high and would have an impact on cereal prices in particular. So, once again, we ended up striking a balance. The figure of 7 per cent was decided upon because it will provide an incentive for farmers to do more in terms of the environment, which is what we want to achieve. We want to achieve greening under pillar 1, but we do not want to go too far. We certainly do not want to add to pressure on prices.

[103] **Llyr Huws Gruffydd:** Dyma'r cwestiwn olaf gennyf. Mae Llywodraeth Cymru wedi awgrymu y dylid ystyried caniatáu'r taliadau gwyrddio yn awtomatig i ffermwyr sydd wedi cyflawni buddion amgylcheddol o ganlyniad i fod yn rhan o gynlluniau amaeth-amgylchedd sy'n bodoli'n barod. Beth yw eich barn ynglŷn â hynny?

Llyr Huws Gruffydd: This is the last question from me. The Welsh Government has suggested that consideration should be given to allow greening payments to be made automatically to farmers who have achieved environmental benefits as a result of being part of existing agri-environment schemes. What is your opinion on that?

[104] **Ms Lee:** Within the proposals today, we say that organic farmers would automatically benefit from the greening element without any further administration on their part or need to prove that they are meeting the three requirements or any extra controls. I have heard a suggestion that those who are complying with agri-environment schemes should automatically comply with the greening element. However, I cannot immediately answer that question, and I will get clarification on that point from my colleagues here. We will be rationalising the pillar 2 schemes with what will eventually be decided for pillar 1. So, there would be no question of, for example, double payments to producers for meeting the greening requirements within pillar 1 and an agri-environment scheme that had exactly the same requirements. In fact, there would be some adaptation of agri-environment schemes to take account of the new baseline, to use the jargon. So, the agri-environment schemes would have to be adapted to take account of whatever is ultimately agreed for the greening element. I will just get some clarification from colleagues that that will be the situation.

[105] **Mr Benhaiem:** What you have said is correct. Greening comes under pillar 1 and agri-environment measures come under pillar 2. They are complementary. Agri-environment schemes will have to be more targeted and more specific than the greening requirements to complement the support that is given under pillar 1. There is not a contradiction between the two, because they can be designed now or adapted in this way, as is being done in Wales with regard to the agri-environment schemes currently under revision.

[106] **Antoinette Sandbach:** I would like to go back to the definition of 'active farmer'. In the UK, we have a very different land-tenure system to the system in Europe. We have, for example, farmers who are delivering under the agri-environment scheme whose land may be let on a shorter-term basis and the farmer claims the direct payment. Has the Commission considered the different land-tenure system that operates in the UK and whether or not there may be a disproportionate effect on the UK if the definition of 'active farmer' is introduced in the way that you are considering?

[107] **Ms Norman-Palmer:** This is linked both to the 'active farmer' and 'agricultural activity' definitions. We had a question from Wales last week on this issue. If you receive a payment now through the single payment scheme, two farmers cannot claim for the same parcel of land. However, two farmers can claim for the same land if one farmer is fulfilling the disposal date for the single payment scheme and the other farmer has a coupled payment. It is possible to co-ordinate that. You could also have a situation where the landowner is fulfilling an agri-environment commitment, so he gets paid for this commitment during this period. At the same time, it is another farmer who is declaring this land for a payment under

the first pillar, because he is fulfilling the requirements under it. However, you cannot say that generally; it depends on the measure itself. Some payments under the less favoured area scheme make it difficult for two different farmers to declare the same land. However, particularly under agri-environment schemes, it could be possible for two different farmers to receive the payment as you have two different basic regulations. You have the definition of an active farmer in the first pillar as well as the definition of agricultural activity. There are other definitions dealing with agri-environment measures.

[108] **Antoinette Sandbach:** Moving on to the less favoured area scheme, here in Wales, we have a lot of land designated as a less favoured area because of the soil conditions, which can be particularly wet, reducing access by farmers to the land. Will that be taken into account when considering things such as areas with natural constraints? Will less favoured area payments be permitted under the scheme, taking into account, for example, the waterlogged nature of the land and the difficult farming conditions that we have, particularly in the more mountainous areas in Wales?

[109] **Mr Benhaïem:** Thank you for the question. My answers are ‘yes’ and ‘yes’. On the first question, you know that we are re-designating the LFA. The second element of the LFA was socio-economic criteria, but we will no longer use those. We are redesigning the LFA and there are more concrete and physical criteria. We are negotiating the relevant criteria with the UK as a whole as well as with Wales and all the devolved administrations of the UK in order to see whether there are some difficulties. We have some simulations, and we did not see many problems for Wales, Scotland, Northern Ireland and England. So, this will be re-designated, and you will have a designation of LFA in Wales. For instance, soil moisture, slope and the quality of the soil are taken into account, but the indicators are a bit more complicated than simply soil moisture.

[110] On the second point, of course LFA designation can be used under the second pillar for the LFA measure, as it is now. It will also be used under the first pillar for the natural constraint support. Exactly like the agri-environment and greening elements, they will have to be complementary. For the second pillar, because they are more involved in the second pillar than the first, it will be more or less the same definition and design of the measure for LFA. That is my understanding of it.

[111] **Ms Norman-Palmer:** I just want to add that, if you look at the first pillar for natural constraints, you will see that the basic rule is that you use the designated areas for less favoured areas, but the member state may also decide, based on objective and non-discriminatory criteria, to restrict the payments to some of those areas with natural constraints.

[112] **William Powell:** I am very grateful to Monsieur Benhaïem for the clarification on natural constraints in his answer to the last question. I want to move on to a different area. There is concern here in Wales that the proposals may have an adverse impact on the dairy sector. What are your views on provisions for written milk contracts and whether they can be applied at a regional level within member states?

11.00 a.m.

[113] **Ms Lee:** I am afraid that we will have to come back to you on that one.

[114] On the proposals for direct payments, there are things that Wales can do to ease the transition, shall we say. There are opportunities for voluntary coupled support within the direct payments regulation, which I know that you might want to consider—not that we are necessarily telling you to do it by any means. Milk is one of the sectors that could receive support, if you can provide evidence that the sector would be seriously affected, using

objective criteria to define those sectors that you would relink support to.

[115] We appreciate that there are redistribution impacts, as I said, from moving to the new system, and that is why we are looking at a relatively long transition period. There is an opportunity for the different regions to try to address these issues in the ways that we have mentioned, whether they are looking at areas of natural constraints or voluntary coupling.

[116] With regard to clarification of the competition rules, I do not think that anybody here among us would feel competent to address them. If you would therefore like a written answer, we can provide one.

[117] **William Powell:** I would very much appreciate that. I understand, however, that this is a dynamic process, and we are very much in the middle of it.

[118] I will briefly move on to another topic of concern, which is the support mechanism for younger farmers. I would particularly like to ask the Commission what the rationale is for those support payments being under pillar 1 rather than under pillar 2, which is the established mechanism that we have had for young farmer support.

[119] **Ms Lee:** Going back to the thinking behind the proposals, certainly, Commissioner Cioleş is convinced that the future of agriculture lies with young people and in ensuring that the sector remains dynamic and attractive to young people. So, support for young farmers for setting-up remains within pillar 2. Indeed, young farmers will have access to modernisation grants and so on. However, what we wanted to do with this package was to provide an extra incentive for young people within the first pillar. That is why we have proposed that 2 per cent of the national envelope should be dedicated to young farmers to provide a higher intensity of basic support payment to young producers within certain defined limits. It is not that we wanted to take it out of pillar 2 and put it into pillar 1, it is that we wanted to provide more support and a greater incentive to people under the age of 40 who are starting out in their careers.

[120] **William Powell:** Thank you very much for that; I am sure that the Commissioner's concern is very much shared here in Wales. However, there is some apprehension that there would be more restriction on our ability to support younger farmers with the introduction of pillar 1, whereas we have an effective mechanism at the moment under pillar 2. It is the issue of flexibility, which I think has been the theme of the morning session.

[121] **Ms Lee:** It is obviously for the member states to decide how they want to operate the pillar 2 schemes and what measures they want to focus on with regard to the priorities that they will establish. You are right to say that, within pillar 1, the proposal that we should support young farmers and that 2 per cent of the national envelope should be dedicated to a high-rate intensity of support for young farmers is not one that would be voluntary for the member states. As proposed today, that would indeed be compulsory for member states. However, going back to the point that we made, it is up to the UK to argue its case on this issue.

[122] **William Powell:** I am grateful. Thank you.

[123] **Antoinette Sandbach:** I want to move on to the rural development fund. Historically, Wales has had a poor allocation from the European Union in relation to the rural development fund. Can you perhaps give us more information about how the rural development fund will be allocated between member states, and whether there is an opportunity to renegotiate the amount of rural development funding that the UK and its regions receive?

[124] **Mr Benhaïem:** Thank you for that difficult question. [*Laughter.*] Let me tell you a

secret: I am the desk officer for the UK, and I have the same type of question. So, the answer is not obvious. The key distribution among the member states will be done by the Commission through an implementing Act, I believe. It will be negotiated. In the regulation it is stated that we will use a historical approach and objective criteria. So, everything is open. Historically, the UK received a poor allocation of money in the second pillar. The UK decided to make voluntary modulation to put sufficient resource in the second pillar, because it believes more in the second pillar than in the first pillar; that is historical. So, in the regulation it is now possible to have voluntary modulation. It is just a mechanism; I am not saying that you will have to cover the lack of resource by voluntary modulation, because the key distribution is not yet fixed. It will be done on the basis of criteria, and I do not know what the criteria are yet. We will discuss this internally in the Commission. So, I cannot answer your question, because it is a broader question related to historical allocation. It is difficult to say, 'Yes, the UK has received a poor allocation and now the UK should get a better allocation'. It is not as easy as that.

[125] **Ms Lee:** There is the flexibility to transfer funding from pillar 1 to pillar 2, and likewise back from pillar 2 to pillar 1, for certain member states, which includes the UK. So, the UK would have the flexibility to transfer 10 per cent of its national envelope of pillar 1 permanently into pillar 2 if it so desired.

[126] **Antoinette Sandbach:** Thank you for that clarification. I understand that that flexibility is built in. The difficulty arises, of course, if the UK is starting from a particularly low base. Due to the less favoured area element, the marginal land and the difficulty of farming in the uplands in Wales, I urge those responsible in the Commission for considering these matters to take into account the fact that, historically, Wales has not benefited, in the way that it could perhaps have done, from pillar 2 and to give consideration to readdressing that balance.

[127] **Ms Lee:** There is one more point to add there. The distribution of the money within the member state is up to the member state. So, the internal distribution between the devolved regions will be an internal subject to be negotiated in the UK.

[128] **Llyr Huws Gruffydd:** Yr wyf eisiau holi ynglŷn â'r ffaith mai incwm a ildwyd yw'r mesur sy'n cael ei ddefnyddio yn y cynlluniau amaeth-amgylchedd. Y teimlad yw, yn sicr yn ôl y Cynulliad diwethaf, nad oedd hynny'n cynnig ysgogiad digonol i ffermwyr fod yn rhan o gynlluniau felly. Beth yw eich rhesymeg o safbwynt defnyddio incwm a ildwyd a chostau fel sail ar gyfer taliadau datblygu gwledig? Beth yw eich barn ynglŷn â defnyddio mesurau eraill sydd o bosibl wedi eu seilio mwy ar bris y farchnad fel opsiwn posibl?

Llyr Huws Gruffydd: I want to ask about the fact that income forgone is the measure used within the agri-environment schemes. The feeling, certainly in the last Assembly, was that that did not offer sufficient incentive for farmers to want to be part of such schemes. What is your rationale for using income forgone and costs as a basis for rural development payments? What is your opinion on using other measures that are perhaps more focused on market prices as a possible option?

[129] **Mr Benhaïem:** Income forgone and costs incurred is not the way to calculate the payment for all the measures; only for some measures, such as for agri-environment schemes, forestry management and so on.

[130] Income forgone and costs incurred are exactly the cost of a given commitment. It is just a reimbursement of something that has been endorsed by a farmer or a landowner. So, it is just that, when you buy something, you are reimbursed for what you paid for it. I do not understand your suggestion about market prices, because income forgone is based on market prices. For example, when you put a field aside for seeds for birds, you just calculate the

return that you could have had had you farmed that land. So, the market price is used. You are doing this calculation in Wales using the statistics about the market price of crops.

[131] **Rebecca Evans:** I want to take us onto the innovative partnership for agricultural productivity and the creation of a price for innovative local co-operation projects in rural areas. There is little detail on that, so could you enlighten us as to what the added value will be and how the programmes will be implemented?

[132] **Ms Lee:** I am afraid that, among the group here, there is no-one who feels sufficiently expert in that area. I therefore suggest, if there are a couple of outstanding questions, that you send them to us, perhaps in e-mail form, through Gregg, and we will send you a written reply.

[133] **Vaughan Gething:** We will take you up on that. We have time for one more question from William Powell.

[134] **William Powell:** I have one specific question relating to the importance of species-rich hay meadows, which have been under threat in Wales and across the UK for a number of years. That is one area where our agri-environment schemes have been particularly successful—Tir Gofal, Tir Cynnal and other schemes. I want to seek your views as to whether or not there will be safeguards under the greening option for that important area, which is vital not only for biodiversity, but also plays an important part within traditional farming practice. Will that be eligible under the greening element, or will it need to be dealt with separately? That is an important area of concern.

[135] **Ms Norman-Palmer:** I do not know the particular area that you are talking about, but, if you look at the provisions for the greening element, you will see that arable land laid fallow and permanent grassland are eligible under the greening element. If it is eligible for payment, then, normally, it is also eligible for the greening payment. I do not know to what extent this could also be part of the ecological focus area. I do not know enough about that part of the greening element to reply. However, if it is an agriculture area that fulfils the requirement and is eligible for payment, then it also comes in under the greening element. So, there is no specific payment for it, but it could be eligible for the greening payment.

[136] **William Powell:** As part of the currently proposed 7 per cent?

[137] **Ms Norman-Palmer:** As I said, you have different parts of the greening element. For example, if you have arable land that is laid fallow, or permanent grassland, then they will also be part of the greening element. The land is fulfilling the requirements, so to speak. So, in general, if it is fulfilling the eligibility criteria to be paid under the basic payment scheme, then it also fulfils the criteria to come in under the greening element. You then have certain requirements under the greening element, for example, you must have crop diversification, you must maintain the permanent grassland and you have to have a 7 per cent ecological focus area. I am not enough of an expert on this ecological focus area, which is difficult for a Swede to pronounce, just to see if it comes in, but it could be a part of it, I guess.

11.15 a.m.

[138] **William Powell:** Thank you for that, I am sure that it is an area that we can return to.

[139] **Vaughan Gething:** Thank you very much for taking the time to talk to us and answer our questions this morning. We are now right up against our next video-conference session. We are sure that we will have further contact with the Commission through the rest of our inquiry into the proposed reforms. We will send you a copy of the transcript of today's session for you to check for any factual inaccuracies. It will then be published. So, you will hear from us shortly. We will certainly take you up on your offer to send through some

further questions to be answered in writing. So, thank you to all four of you for giving up your time and best of luck with the rest of your day.

[140] **Ms Lee:** Thank you very much, it was our pleasure.

[141] **Mr Benhaïem:** Thank you.

[142] **Vaughan Gething:** That ends the formal public session. Thank you to all committee members for attending and for your contribution this morning. The next formal meeting of this group will be on 17 November, when we will be taking evidence from statutory agencies and non-governmental organisations. So, that will be the next formal part of the inquiry, but I know that there will be more work to be done between us before then. Thank you all very much.

*Daeth y cyfarfod i ben am 11.16 a.m.
The meeting ended at 11.16 a.m.*