Unrevised transcript of evidence taken before

The Select Committee on the European Union

Agriculture, Fisheries, Environment and Energy (Sub-Committee D)

SECRETARY OF STATE FOR ENVIRONMENT, FOOD AND RURAL AFFAIRS

Evidence Session No.1    Heard in Public    Questions 1 - 17

WEDNESDAY 15 MAY 2013

11 am

Witnesses: Rt Hon Owen Paterson MP, Martin Nesbit and Amy Holmes

USE OF THE TRANSCRIPT

1. This is an uncorrected transcript of evidence taken in public and webcast on www.parliamentlive.tv.

2. Any public use of, or reference to, the contents should make clear that neither Members nor witnesses have had the opportunity to correct the record. If in doubt as to the propriety of using the transcript, please contact the Clerk of the Committee.

3. Members and witnesses are asked to send corrections to the Clerk of the Committee within 7 days of receipt.
Members present

Lord Carter of Coles (Chairman)
Baroness Byford
Earl of Caithness
Lord Cameron of Dillington
Baroness Howarth of Breckland
Lord Lewis of Newnham
Baroness Parminter
Lord Plumb
Lord Renton of Mount Harry
Lord Whitty

Witnesses

Rt Hon Owen Paterson MP, Secretary of State for Environment, Food and Rural Affairs, Department for Environment, Food and Rural Affairs, Martin Nesbit, Director, EU and International, and Amy Holmes, Deputy Director, CAP Reform Negotiations

Q1 The Chairman: Good morning, Secretary of State. You are indeed very welcome, you and your officials. We have been very much looking forward to seeing you and hearing what you have got to say. If I may, I shall just deal with the formalities. You should have a list of interests that have been declared by Committee Members. In fact, Members will also be declaring their interests orally. This, as you know, is a formal evidence-taking session of the Committee. Full shorthand notes will be taken and they will go on the public record in printed form and on the parliamentary website, and of course we will send you and your officials a copy of the transcript to revise in terms of any minor errors.

We do have a question on the CFP, and we are aware of the discussions that are taking place, and we recognise you may be limited in what you wish to say. Just for the record, we know that Mr Benyon, the Fisheries Minister, is set to come and speak to us, but we would be grateful to hear something from you on how you feel that is going.
Perhaps I will take the first question. This is really on the balance of competence between the EU and the UK. We would really be keen to hear from you the UK’s priorities in the area of environmental, food and rural affairs matters over the coming years.

**Owen Paterson MP**: Right. Thank you very much for inviting me along to speak to your Committee. Can I just also, very briefly, introduce Martin and Amy, my two stalwart officials, who frequently visit Brussels with and without me? We work closely together.

Very simply, Defra is an inherited accumulation of mainly overlapping pieces of EU legislation, some residual bits and pieces from previous Secretaries of State, and I have tried to boil it down to four key priorities. One, on the clear instruction of the Prime Minister, is to grow the rural economy. Secondly—and of absolutely equal standing, because I do not see the two as mutually exclusive—is to improve the environment. I do not want to protect the environment; I want to improve the environment, and I see the two going absolutely hand in hand. Then, I have made the third and fourth priorities protecting the country from animal disease and protecting the country from plant disease. Those are the four key priorities around which all policy in Defra is driven.

**Q2 The Chairman**: Very helpful. Thank you. Particularly on growing the rural economy, given where we are, perhaps you would give us some guidance on how you think that is going to happen. What would the main levers be that were available to you, within the framework particularly of the CAP and how we allocate the funds for rural development? Would you like to expand on that?

**Owen Paterson MP**: Sure. Obviously, the main activity in the countryside is the production of food, and manufacturing of food is our largest manufacturing sector. I am very clear that we would like to see emerging from the CAP reforms an environment in which it is easy to produce food. I have made it clear that eventually—it has not gone down very well in some quarters, and it is not going to happen in this round—I would like to see all decisions related
to food made by farmers on the basis of signals sent from the market, which has been interpreted as my wanting to get rid of Pillar I tomorrow afternoon. That is actually not going to happen, but I think what we have seen in this current round of reform is that the UK has played a very valuable role in ensuring that the direction of travel of the reform of the CAP continues with that which was sent in train, originally, by McSharry and Fischler. I was genuinely shocked at my first couple of Councils to hear voices all round the table—and I have to say they are from countries who are net receivers of funds, not net contributors like us—hollering for more public money for this particular type of food production or another. I am very clear that those signals should be set by the market. We do not want to go back to subsidising unwanted product that then has to be dumped. We have played a pretty key role in this.

I take just one example: sugar. There is a long-standing agreement among Member States, going back I think to 2006, that in 2015 the current sugar regime would end. The current sugar regime at the moment, to give you an idea of its inefficiency and incompetence, means that our sugar processors pay 35% above the number that they could get elsewhere. That actually relates directly to our hard-working taxpayers: it is 1% on the shopping basket, which is just outrageous given the current economic conditions. I do not see why our citizens should pay twice. So we totally support the Commission in its proposal to end the sugar regime in 2015. There have been very significant moves, and there still are as the negotiations continue, to extend the sugar regime to 2020, which would mean that it would get into the next round and we would not get a stake through this thing’s heart for decades at that rate. So we have made a major stand on this. At the moment, the Council proposal which we signed up to is that the regime should end in 2017. We have also consistently raised the issue of cane sugar imports, because we have got Tate and Lyle just down the river and we think it is of significant importance that we have variety of supply, and that
should be continued. That is actually rather a different question for the Commission, because that is another part of the Commission to do with duties. But that just gives you one idea of where we are going on CAP. I can elaborate further.

The Chairman: Well, we would just quite like to come back on that, because you may be aware that this Committee did an inquiry into sugar. I think I speak for the Committee: we would be deeply disappointed if you were not able to negotiate an end to this. We absolutely share your view as a Committee, I think, on this, and it will be very interesting to see how that comes out.

Owen Paterson MP: I did choose that particular example because it is a pretty simple graphic one. I know you played quite a key role in this. What McSharry and Fischler began was tremendous at the time, and they moved the CAP an awful long way. The problem is that we do not have, sadly, a very live trade round at the moment. Doha is not putting real pressure on the Commission and other Member States. It has been very much the UK’s role to stop us slipping back, because there have been significant attempts through these negotiations, certainly in the Council, to say that we should slip back, bluntly, into spending taxpayers’ money on products that are not wanted. Of course, there are significant elements in the Parliament who are pushing that. As the UK, we accepted some pretty unpleasant compromises, but we accepted them because I think in Simon Coveney, who is the Irish Minister—Ireland has the Presidency—we have got someone who really does understand the industry and is really determined to get a deal through. Our best bet at getting a deal is that we do it under the Irish Presidency, with him really pushing this and working closely with Commissioner Cioloş. So we swallowed some pretty bad things in the compromise, and that has now gone to the trilogue. We had a meeting on Monday—the Council met on Monday. It is a bit like a papal election; there are little sniffs of smoke emerging from the
trilogue. We do not yet know where the block is going to come from, but we are heading for a sort of four-day session in Luxembourg in June.

Q3 Lord Plumb: I should say, first of all, that I am Henry Plumb, the past president of the NFU and a farmer. On sugar, I well remember—I just raise this in passing, because sugar has been mentioned as a commodity—the last real negotiation we had back in Fischler’s day on the sugar regime, and there was a considerable cutback in support on sugar, which upset a lot of growers in this country at that particular time. The big squeal came from the cane growers. With the way you are approaching this now, how do you see the cane growers’ reaction to the next round, because they fit very well into the sort of support measures that apply in beet growing?

Owen Paterson MP: Just to deal with your first comment: the one element I did not mention was other customers. China, for instance, last year, doubled its sugar imports from £600 million to £1.2 billion. Out there, people are buying more food. We have these enormous increasing markets. Hundreds of millions of people now have a higher standard of living in China and other countries. There are great opportunities out there, so I just do not see these issues of food production as a nil-sum game. We are going from 6 billion to 9 billion human beings. There are great opportunities in food production. I would chuck the cane producers into that. We are absolutely emphatic. I never mention sugar in the Council without always saying, “We must have arrangements which continue to allow significant amounts of cane to come in”, because I do think we need variety, but they are in the same game. There is a huge market out there—get stuck in.

Q4 Baroness Parminter: Can I take you back, Secretary of State, to the question that the Chairman raised about the balance of competences? You very kindly outlined your four personal priorities for Defra. Could you say to us how you see the EU helping you deliver those four priorities?
Owen Paterson MP: On growing the rural economy, for a start, the EU can help, with opening up markets. There is no doubt about that. The EU negotiates on our behalf. I have just come back from New Zealand, where I was really struck by the fact that because they have got rid of agricultural subsidies they can very rapidly sign up for free trade agreements with other countries. I was really stunned by the progress they had made. So the first thing—we are obviously negotiating; the Prime Minister is in the United States at the moment—is that there are real opportunities for the EU to open up free trade agreements round the world.

Going the other way, on technology, I am very keen—this goes back to Lord Carter’s question—that we enable our farmers to take advantage of all the latest technologies. I have been clear about that in my support for GM, which has given significant advantages to many of our competitors. That actually is an EU competence, so we need to work with our partners—not just the Council, but in Parliament and also obviously with the Commission—to move on opening up technology.

Then the issue that comes up the whole time—I do not think I have ever visited a farm or a food business without people mentioning it—is regulation. One of my mantras is that one of our roles in Defra is to “get out of your hair”. I would like to make it as easy as possible for our farmers to operate, so long as they respect the rules, and we are changing that. We had the MacDonald review, and I take my hat off to my predecessors Spelman and Paice, who did a lot of work on this. One example of that: within the framework of European regulation, there will be 12,000 fewer dairy inspections this year. What I am trying to do is to follow on from that so that the emphasis is on those that respect the rules getting bothered less. That is the reward. Those are three key areas where the EU can help.

The Chairman: We should move on, but before we do I should declare an interest as being a farmer in receipt of payments under the Common Agricultural Policy.
Q5 Baroness Howarth of Breckland: I am going to move on to energy. We have talked about our sugar report, and I hope that you have also seen the report on energy, No Country is an Energy Island, that we produced in the previous Session. In looking at that, we observed the real tension between environmental objectives, particularly in relation to the development of new infrastructure, and energy objectives. I wondered how you saw the link between environment and energy policy. In particular, what is the Government’s strategy to meet those two objectives in order to ensure that we continue to keep the lights on but at the same time deal with climate change?

Owen Paterson MP: That question is probably better directed to my colleague Mr Ed Davey, who is the Secretary of State for Energy and Climate Change. My role is to see the impact of policies on the rural economy and the rural environment. We are doing work at the moment—I do not want to pre-empt it—looking at the impact of some of our energy policies. Obviously, the most high-profile ones are renewables, and the most high-profile of those is wind energy, where I have been publicly critical. My mantra is, “It’s horses for courses”, so there are appropriate places where wind farms may generate valuable energy so long as, first, there is wind and, secondly, they have the support of local people. On the whole range of technologies that we are looking at, last week I was in Northumberland to see Northumbria Water’s £50 million investment in an anaerobic plant, processing 500,000 tonnes of sewage a day, which was absolutely spectacular. On that sort of technology, we have a direct input; we are responsible for the water industry and for waste. I am actually a huge fan of anaerobic, where the Germans, for instance, are miles ahead of us. There could be huge industrial plants such as the one that Northumbria Water has built, which is a flagship that I very much hope will be followed up by other companies on an enormous scale.
We have something like 8,000 to 9,000 slurry tanks around our cattle farms. I went to one in my own patch in Shropshire and met people who have developed a method of converting slurry tanks into AD, so you do not just stop the methane getting out and stop the rain getting in but you generate power near where it is wanted, without all the hideous infrastructure of new power lines, and you produce a digestate that is very valuable. It is as good as bag muck; it is nice and dry and does not soak the field. We are looking at all these different technologies, but the direct responsibility for energy policy lies with Ed Davey and DECC.

**Baroness Howarth of Breckland:** With respect, Minister, can I pursue that? One of the concerns we have had as a Committee is the difficulty of seeing joined-up government. All those things are important but they must be linked to the wider issues. Obviously climate change is going to have a huge effect on our farmers, and indeed recently it already has had. Then we have the whole issue about growing crops in order to produce fuel. These things are all interrelated, and we would be interested to know how your departments work together to ensure that there is a joined-up strategic policy.

**Owen Paterson MP:** As I said, we are doing some work on this at the moment, looking particularly at renewables and the impact on the rural economy and the rural environment. You have touched on energy crops and they will be very much of a part of that. Personally, I am not convinced that it is a good idea to use taxpayers’ money to effectively burn food, but on some anaerobic digestion where they are using chicken muck or slurry you may need a volume of lower-quality maize or something just to get the process going. We are looking at the very issue of where the subsidy should go to encourage the right sort of behaviour, and we are working closely with DECC on that.

**Q6 Lord Cameron of Dillington:** On that, my question has just been answered. As this is my first time of speaking, I declare an interest as a farmer who is in receipt of single farm
payments. I was going to ask about the competition between food and fuel, which I think you have just answered. Thank you.

**The Chairman:** That will be coming out after your review, will it?

**Owen Paterson MP:** We hope to get something out reasonably soon.

**The Chairman:** When would that be?

**Owen Paterson MP:** I want to do something this summer.

**The Chairman:** This side of the Recess?

**Owen Paterson MP:** Yes. My personal view, as I have made pretty clear, is that I am very taken with the advantages of anaerobic digestion. On food waste alone, incredibly, we throw away 15 million tonnes of food a year. As I saw, spectacular amounts of human sewage are produced—500,000 tonnes a day in Newcastle—which is a huge volume of material that could generate power. What is good about anaerobic digestion is that the power plant tends to be near where the power is required so we do not lose transmission, which is one of the big disadvantages of other technologies, where you might have to build the power generation a long way from human habitation.

**Lord Cameron of Dillington:** My only comment on your remarks about dairy and slurry, speaking as a dairy farmer, is that slurry does not produce a lot of energy unless you add crops to it—maize and so on—so there is a slight problem there.

**Owen Paterson MP:** I did touch on that in reply to Baroness Howarth. You do need a little bit, but I am not taken by the idea of growing crops to burn them, when we are heading from 6 billion people to 9 billion that we need to try to feed.

**The Chairman:** That helps us turn to the CAP, I think.

**Q7 Lord Renton of Mount Harry:** I declare an interest as a partner in a vineyard in England. Vineyards are not yet in the Common Agricultural Policy, which is doubtless a good thing. I imagine that you groan a bit about the CAP but I would very much like to know, as
your department has always been extremely good at keeping us informed about the progress or non-progress of discussions about the reform of the CAP, how you think it is going at the moment. Could you tell us what you see as the key outstanding issues in the CAP reform negotiation following these first trilogue meetings between the Council, the Commission and the European Parliament? Is that beginning to take matters forward?

**Owen Paterson MP:** I will just pick up on your opening comments on vine production. I was astonished to find, when I had my first Council meeting, that there are huge EU programmes to grub up vines and there are very strict conditions on who can grow. That seems to be the antithesis of everything that McSharry and Fischler were trying to do. The scheme to grub up vines costs €1.1 billion, and then they tell people who can and cannot grow them. That is totally counter to the direction that McSharry and Fischler were going. As I touched on my opening comments, our mantra is, “We should like keep the CAP moving in the direction set by McSharry and Fischler”. Without a trade round, there are significant and powerful elements, in the Council and in the Parliament, that would like to push reform backwards towards more state intervention and more subsidy of unwanted products. We in the UK have, in fairness, stopped a lot of regressive policy being imposed. We had to swallow quite a lot in the compromise that Simon Coveney skilfully got through, but we did so because ultimately we believe that what will emerge if the Council compromise is adopted as the final revised CAP is better, albeit not enormously so, than where we are at the moment, and keeps us gently in the right direction and does not slip back.

Where we are now, though, is that this is the first time ever that we have had a trilogue process where the Parliament is concerned, and the Parliament has some very regressive elements. I think that coupling, for example, is completely dotty. There was a very good article in *Farmers Weekly* last week showing that the impact of coupling is that it tends to
lead to the production of unwanted stock, and if the stock is unwanted then the value crashes. At the moment, for instance, demand for beef is very strong. I do not think you actually need coupling. So we were not in favour of coupling at all, but we reluctantly accepted as our position that we would accept 5% across Europe. However, there are elements in the Parliament that want 15% and, in three cases, 18%. The current compromise, which we were not happy about—I will be quite open about this; everyone in the Council knew that I was not happy about it—is 7% in established countries and 12% in new countries.

I do not know where that is going in the trilogue. I think that Simon Coveney is going to dig in on this as it is one of the areas where he is also uncomfortable. It has gone to the trilogue—that is, the Commission, the Parliament and the Presidency representing us on the Council. As I said, we had a fairly quiet meeting of the Council on Monday and it is early stages. I have suggested that it is like the Sistine Chapel—there is not a lot of smoke coming out of the chimney at the moment. We do not really know where the sticking points are going to be, but I am loath to give in much more. The UK has gone a long way on this and, if you think what Peter Mandelson did when he was Commissioner, I think that it is pretty well an all-party position. We all agree pretty well where we are heading for. I am very loath to see much change from the Council position. I honestly do not know where it is going. As I said, we are heading for a four-day session in Luxembourg in June.

What we do have is a time pressure, which is political. We have the Irish Presidency, which is very much driving this. We have an informal meeting in Dublin the weekend after next for a couple of days. Then we have this big session before the Irish handover in June. If you look beyond that, first of all everyone disappears on their summer holidays, but then you have Bavarian elections in September and Ilse Aigner, my German counterpart, is of course a very senior figure in the CSU in Bavaria. Then you have the federal elections in October. So that
pretty well takes Germany out of it, and Germany is obviously of massive importance and, on many issues in this area, a very positive influence. By the time a German Government is formed, it will be tough on the then Presidency, which will be Lithuania, to get a lot done into the autumn. Then you are over the hump into December and you are looking down the road to the European elections and a new Commission. So if we are going to get it done, we really want to get it done in the coming few weeks, with Simon Coveney in charge in Dublin and, obviously, Commissioner Cioloș very much pushing to get it done while he is the Commissioner.

**Lord Renton of Mount Harry:** Is there really any possibility of that?

**Owen Paterson MP:** Yes. As a betting person who, sadly, is not going to York for the Dante tomorrow, I would take a punt that we will get a deal, but I am not totally *au fait* with the Parliament—that is my problem. We have had meetings with some of our own MEPs but not with the opposing ones with regressive ideas. However, I am an optimist.

**Lord Renton of Mount Harry:** Good luck. I shall just answer what you said about vines right at the beginning. I think that English vintners are extremely grateful that at the moment we are not covered or looked at by any part of the CAP or the European Commission, and I very much hope that stays the way it is. It is a new industry, it is not that easy to do and it does not make that much money, so I hope we do not change it.

**Owen Paterson MP:** I think it is a splendid industry. We know that in world terms we have a tiny number of producers but they consistently win prizes around the world, and it wants promoting. What was fascinating about New Zealand was seeing that once they stopped subsidising their sheep population, where they had been producing valueless animals on what was redundant and very poor ground for raising sheep, they reduced the population from 70 million to 30 million, according to one of my sources, and now they have built an absolutely world-class wine industry.
Q8 Lord Plumb: Could I just ask: does your optimism include voluntary modulation?

Owen Paterson MP: I am very clear that, to look the British taxpayer in the eye, there has to be a clear return. There is a public good, for which there is no clear market mechanism, to recompense the landowner when he does environmental work. This is where I do veer away from what I have seen in New Zealand. There is a clear role for taxpayers’ money to be spent on environmental work. Also, you know better than I that there are parts of the UK where you cannot survive on food production alone. If we look at the hill areas—the Lake District, the Peak District, wherever—significant public good is provided by farmers who do not generate enough income from food production but keep the walls maintained, keep the magpies and crows down and keep the bracken down. On top of that, we ride a £30 billion tourism industry, which is not to be underestimated. There is a very clear role for our Pillar 2 schemes that deliver on that front. I am completely clear that there will be significant funds in Pillar 1, but it is right that you modulate from Pillar 1 to Pillar 2 to ensure that we keep our environmental schemes going.

Lord Plumb: It is just all a question of fair play. That is the crux of it at the end of the day.

Owen Paterson MP: Fair play within the UK?

Lord Plumb: No, fair play across borders.

Owen Paterson MP: Within the UK or internationally?

Lord Plumb: No, within the EU.

Owen Paterson MP: I had a spirited discussion with farmers in Northumberland on Friday about this.

Lord Plumb: I am sure you did.

Owen Paterson MP: Interestingly, wherever I go, the questions are very similar, so people are well briefed on what to ask me. We should not get too hung up on the actual cash sum spent in each country. Very crudely, CAP payments represent about 20% of farming costs.
Obviously it is much higher in some sectors than in others but, to keep it simple, on average it is 20%. Say that a neighbouring Member State gets 10% more—that is only 22%. What really matters, and this comes back to Lord Carter’s opening question, is that we produce products that the markets want to buy, we are on top of the technology and we have good management and accounting systems. I had a summit last week with senior members of the NFU, the CLA, the banks and farming charities, and one of the things that came out of that was training on management practices. We must not get hung up on the CAP as being about net cash sums; there is much more to it. We can spend this money and get much more long-term value out of it if in our Pillar 2 schemes we do proper training and help to build a really long-term, resilient industry, do research and all that. That for me is more important. I know that that goes down very badly with many members, particularly of the NFU. I have had very robust conversations with the current president; we agree on an awful lot of things but on this I am afraid we simply do not. You have to remember who pays this. Taxpayers are under a lot of pressure, paying their food and fuel bills. I think you have to look them in the eye—I am very happy to look taxpayers in the eye—and say, “Our environmental schemes, partly funded by funds from Pillar 1 into Pillar 2, guarantee the countryside on which we ride a tourism industry in areas where we cannot justify food alone, and will guarantee that we have a more resilient, long-term, advanced industry”.

Q9 Earl of Caithness: I declare my interest as a trustee of a charity that benefits from CAP finance. May I ask you to update us on where the budget for the CAP will be in future?

Owen Paterson MP: The budget has been set by the heads of state, but the division of the budget has not yet been resolved. The MFF sets the actual numbers, which I am sure you have got, and if I whizz through my briefing I can probably give them to you. How it all breaks down, going back to Lord Plumb’s question about Pillar 1 and Pillar 2, has yet to be resolved. There are elements in some Member States, which I see as very regressive—I
think this is exactly the opposite of what I have just been talking about and it is very unhelpful—that are pushing for modulation from Pillar 2 back to Pillar 1, which I think is completely wrong. That to me is like spending the family capital on Weetabix.

**Lord Cameron of Dillington:** I am sure you will agree with me. I do a lot of work with developing agriculture in developing countries. The EU is committed to abolishing all subsidies for dumping food, for exporting food, yet there seems to be a move within the Council and particularly the Parliament not to get rid of the last remaining subsidies for exports and indeed to increase them. I hope that you will make a strong case for abolishing all those.

**Owen Paterson MP:** I hope that you will have picked up from my comments so far that that is complete anathema. That is exactly where we should not be going. Spending taxpayers’ money on producing products that people do not want to buy locally and then dumping them, giving a real problem to third world farmers, is exactly what this should not be about.

**Q10 Lord Whitty:** You have said enough to give an indication that you may not enjoy too much your four days in Luxembourg and what may come out of them. What is your view of the likely totality to come out? From the way that you are talking, it is as if you are spending all your time defending a position where people are trying to push it backwards from a market-oriented and rural development and environmentally oriented CAP, which was partly achieved through McSharry and Fischler rounds, to something more traditional. You are in a bit of difficulty because during those rounds we had WTO pressure that, as you rightly say, was forcing people to take it seriously. That was external pressure but you also have internal pressure through the engagement of the Parliament. I would like to hear your assessment. At one point, when the Agriculture and Rural Development Committee was setting the agenda, it looked as if it was going very heavily back to coupling and was very snippy about anything happening to Pillar 2 and, as you say, some transfer back to Pillar 1. Is the final
outcome therefore likely to be a defence of the current position as far as possible, with a few compromises at the edges, or are there bits of it that take us forward to your vision of a more market-oriented agriculture where taxpayers’ money is used for development and environmental outcomes?

Owen Paterson MP: That is the key question. I honestly do not know. The MEPs that I have talked to are very much onside. I saw Martin Callanan, the leader of our group, when I was in Northumberland last Friday. He and the Liberal Democrats are very much working with us on our agenda but, as you rightly say, there are significant elements in the Parliament that are going absolutely the wrong way. You have touched on coupling, and I repeat again that our ideal is zero coupling. Look at New Zealand: 70 million subsidised animals, of no great worth, down to 30 million but exporting more meat because the animals are more valuable. That is the lesson. These subsidies ultimately do not work. They do down the poor old taxpayer by crashing prices, and that is not the way to go ahead. However, we did not win. We wanted zero coupling but reluctantly bid up to five, and at the moment we have ended up with the Council compromise of 7% and 12%, but there are elements out there in the Parliament hollering for 15% and three. That would be very regressive. It would be really bad if we went back to that. As you mentioned, the Doha round is, sadly, dormant. We badly need an international trade round to keep this thing moving in the right direction. Broadly, trying to answer your question, I hope that we will make some progress in some areas, such as sugar. Getting rid of this thing in 2017 would end it. If that slithers to 2020, that is really bad news because it is guaranteed that it will go into the next round. We have stopped some regressive policy being inserted into our Council compromise, but that regressive policy is still out there in the Parliament. I just do not have a feel for that, because I am not in the trilogues. The trilogues are between the Commission, the Presidency and the Parliament.
Lord Whitty: And it is not just the Parliament; it is certain other Member States that wish to fall back into an era of coupling and shift money back from Pillar 2.

Owen Paterson MP: We are not alone. We do have allies on this too. In fairness to myself, I said on day one that this was an absolute priority for me. Apart from when an aeroplane got stuck because of fog, I have been to every single Council. The key thing, obviously, is not just to go to the Council but to get there early and beaver around, as that is where you get things done. So on Monday I was working with the Belgian Minister and the Spanish Minister, and we do things together like that.

Baroness Byford: My Lord Chairman, I would like to go back to where we started. I wonder if there is anything more on CAP before I revert a little bit further. Excuse me, Secretary of State, I was not in at the start of the meeting. Am I free to start?

The Chairman: Yes, please continue.

Q11 Baroness Byford: I was delighted when you opened up by talking about rural economy growth and the growth of individual businesses, because that is really what we are in business for. I have one or two questions on that. In the debate that we had on Monday, it was clear that rural broadband clearly is key for many rural areas. It is still not there. A lot of the returns that farmers are giving to you are online but they cannot get access. I would like some comment on that. I have two others. You mentioned regulation, and I am delighted at the stance you are taking on that in trying to free up the amount of regulation there is and giving earned recognition to farmers, which was slightly touched on earlier. There is a third aspect. I am a great believer that farming and agriculture is a business and we should be in business to make a profit and move without looking to subsidies, to be quite frank. I should declare the fact that our family has a farm. So the other question is about being able to diversify on the farm. I know that at the moment in the press there is a great worry about diversity in the countryside, but it is hugely important that where old buildings are not used
they can be modernised and then used in a wider general economy, bringing other business to rural areas. However, a lot of that will not happen until we get better broadband, or at least better connectivity—it need not be broadband; it could be fibre-optic.

**Owen Paterson MP**: I see broadband as being absolutely monster. I think it is bigger than tarmacad, the stagecoach, canals, railways and the telephone all put together. Within days of taking over Defra, I went up to an old barn in a very remote part of the Lake District, up a very bumpy track, and saw architects designing golfing villas in Nasiriyah in Iraq. That was a glorious example of how broadband, in one extraordinary technological jump, dissolves the centuries-old disadvantage of doing anything in a remote rural area. There are entire activities that were never ever dreamt of as being rural that are now possible. That is the first thing. You are quite right; all the stuff is already there. There we were in the Lake District and there were RPA payments, people with bed and breakfasts and hospitality businesses. But then your third point, diversification, is absolutely critical. If you have a honey business in the Lake District, you can be on the world market from your house. It just has enormous impacts. Diversification, your third point, is delivered by broadband.

So, as a Government, we are putting a huge amount of money, £1.2 billion, into broadband, we have very ambitious targets to get into every corner of the United Kingdom and we are connecting up 100,000 properties a week—and it is driving us absolutely mad, because it is just not going fast enough. It is an enormous technical exercise. Obviously BT is the main deliverer. It is one of the biggest physical logistical operations that this country has ever seen, but wherever I go people are being driven by frustration that it does not go fast enough. We have regular meetings between Maria Miller and myself, the Prime Minister is taking a personal interest in it and I have had the chief executive of BT in my office. There are Defra funds as well to help with some of the more remote areas. All I can do is try to
reassure you: this is a massive priority. With regard to the opening comment about growing the rural economy, this is the one area where we can really help—as well as mobile phones. Our mobile phone system in this country is beyond dire. In my opinion it is completely unacceptable, and we work the whole time with other ministries on that. It affects everyone. Coming out of the tunnel, I regretted that I had not made more phone calls in Belgium and France because once you come out at Dover it is hopeless. We are all involved in this: railways come under the Department for Transport, we talk to DCMS and obviously there is planning. We are working on this. Partly, our system is just being swamped with data; it was never designed to take such a huge volume of information. I see broadband and mobile as the two things that we just have to hammer away at, and it is our job in Defra to represent rural interests. It is very much my job to shout about this. On my own patch I have five market towns, but I cannot maintain a signal on the mobile between any two of them. That is just unacceptable. Why should someone come and invest in our country if they cannot keep a mobile phone signal? We are at this the whole time.

On regulation, I touched on this earlier. My expression is “getting out of people’s hair”. We really want to follow on from the MacDonald work, which has delivered a lot. The really big one is animal movements. If we can sort out livestock movements, that is the thing that really bugs people. That is massive. The problem we have got, and it is a very simple one, is that we are looking at a huge investment in IT systems for the new CAP. We are looking very hard—we had a meeting about it yesterday—at whether it is sensible to spend money on what might just be a short-term fix. We discussed this very issue yesterday, and it is the one that would be most symbolic of the Government getting out of people’s hair if we could get livestock movements approved.

On diversification, as I have said, broadband and mobiles are essential. On buildings, I am very clear about this. We are seeing the consolidation of farms. I am completely relaxed
about what are effectively the plinths of unused farm buildings being used. You have the
drains, the power and the driveways. I have absolutely no hang-ups in seeing well designed
conversions for both business and residential use. Rather than seeing a big old 1950s’ shed
with asbestos sheets flapping in the wind, I would happily see it redeveloped into a proper
business site, using broadband, or into a residential site. You keep it on the plinth, you do
not use up agricultural land and you keep people living and working in the countryside. I
wholly object to this idea that the countryside is a playground and that people should not
carry on living and working there.

Baroness Byford: Secretary of State, if I may say so, sometimes it depends on local
government. Some council areas are better at giving planning permission than others.

Owen Paterson MP: Well, I am very careful not to tread on local councils’ toes. I do not
do planning.

Baroness Byford: I appreciate that, but it is part of your overall responsibilities.

Owen Paterson MP: I talk to Eric Pickles and Nick Boles about this, and we are in
agreement.

Q12 Baroness Howarth of Breckland: There is just another side to this, which I
should like to hear your opinion on. When this Committee had an inquiry into water, one of
the issues was that planning in local government and other areas did not ensure that water
was properly cared for, and of course flooding ensues if you do not get measures in place. It
was interesting that Lord Sainsbury was on the radio this morning talking about his book,
which is about the balance between regulation and the development of capitalism, and how
regulation has to protect the state. I just wondered, as you see yourself as protecting rural
England, how you see that balance.

Owen Paterson MP: Water is a brilliant example to raise on that. When water was
privatised, we were suffering from a hopelessly clapped-out Victorian infrastructure and
extraordinary waste of probably not brilliantly processed material. What has happened since privatisation is that we have brought £108 billion into the industry which, whoever was in charge, would never have come from the taxpayer, as there was always going to be a bigger priority. Going back to my visit to Northumbria Water, the first thing that I was shown at that amazing new plant was a picture of one of the guys working there with a colossal salmon that had been caught in the Tyne. We have delivered improved water to our consumers, and we massively improved the environment. However, it is obvious that, by the nature of the industry, there are static installations, and the creation of a powerful Ofwat was always very important to act as the quasi-adjudicator on price and everything else. We are bringing a Water Bill through, which your Lordships will have a chance to scrutinise in detail quite soon. I am hoping that we are going to extend the work that was originally done when privatisation began, so we will be opening it up to more competition, but I hope that we will also be bringing new entrants. Given your particular interest in farming, for example, I am very keen that we give farmers the ability to collect and sell another product.

You touched on floods, and this partly goes right back to the first question about growing the economy. One of the services that we perform at Defra is that we deliver flood defence. Again, in the first week that I was here, I went to Nottingham and saw a £45 billion scheme, started by the previous Government, which freed up 16,000 houses from the threat of flood. That was a straight eight-to-one payback. There was something that nobody told me till I went there: I was there with Chris Smith, chairman of the Environment Agency, and we looked across the river and found that there was 500 acres of land that had previously been blighted. On the issue of growing the economy, these flood schemes do not just have a direct payback on saving homes from all the ghastly private trauma of floods—when we had floods in the south-west, I went down there and it was awful; children having to be carried out in the dark through filthy water at 9 o’clock at night—and the misery and cost of
businesses being damaged, though that is a straight gain, but there is a real impact on the economy of freeing up land that was previously blighted. By opening this up to partnership we have got more schemes through, so the lead scheme was always not quite there but is now going to go ahead. There will be significant gains in Leeds on land that is currently under threat. That is an area where we will definitely grow the economy. My take on water, which I think you touched on, is that 95% of it ends up in the sea, and the trick is to hold it back. I would like to see more reservoirs built by water companies and by landowners, and there are real merits in allowing water companies to use SUDS—sustainable urban drainage systems—and hold water back so that we do not get these horrific floods that are very costly.

**The Chairman:** I think we have probably got you for another 10 or 15 minutes, Secretary of State. We will allow a bit of time for Common Fisheries Policy, though you might prefer to avoid that.

**Owen Paterson MP:** No, I am very happy to talk about it.

**Q13 Lord Plumb:** I think it would almost be an insult to ask you the question written here, which says, “It seems unlikely that the UK will achieve all of its desired outcomes in negotiations”. To say to a Minister that it is unlikely that he is going to achieve whatever he seeks at the beginning may appear to be a bit of an insult, but it is not intended that way; it is intended to find out what is going on. You have referred several times, quite rightly and to my pleasure in particular, to the growth of the economy and the importance of innovation. You know as well as anyone that all the colleges are bulging at the seams with young people who have a passion and want to get out there and work in the countryside. In the debate yesterday on the Queen’s Speech, I referred to the fact that we require 50,000 to 60,000 young people, particularly in horticulture and many of those industries, to operate.
However, they need not come if they do not have the skills because it is skills that matter, not just education, as far as they are concerned.

There are certain areas around that. Let us come back home for a minute, not just to make the comparison with other countries, which one is always dying to do to see how we compare in different directions. You may not wish to answer this now but I would like your views, looking to the future. If we are to see an independent Scotland, how do we then operate the envelope between England, Scotland and the other parts of the United Kingdom, which may see things somewhat differently from now? Is this going to cause a lot of anxiety in the not too distant future? The question is the big “if”, of course, and we can all speculate, but we know very well that at this moment certain things are being said in the depths of Scotland that appear to be an offer that would not be available to English farmers. If you have animals leaving Scotland and landing up in my county of Warwickshire, for instance, where does this all leave us if they are subsidised and then they come down and the change is there? That is very much an issue.

You have touched on some of the other practices and recommendations. I am so pleased that you referred to the importance, following MacDonald, of simplification. That is really what matters and the more that you can press for that simplification, the more that we can show clearly with actions that things are happening and we are simplifying, with particular regard to the movement of animals. I find it horrifying, if you go into a market, to see the amount of red tape that you have to go through—the checking and the double-checking of ear numbers, which are then checked again by someone in a white coat sitting at a table waiting for the result to come in. It is infuriating. Those are the areas of great importance. There is a lot of internal operation to take place there to get rid of some of these regulations that apply at the moment, and the more you can simplify that, the more that you will find that some of your other proposals of a general nature regarding the marketplace,
which everyone wants, such as getting rid of some of the internal costs and the operation of those as they stand at the moment, succeed. There are thousands of questions that we need to examine and go further with.

Time is passing and I am not asking any more questions. I just want you to know that the more we hear from you, the better, because this is more of a matter of co-operation in the way forward than it has ever been before.

**Q14 Lord Whitty:** We are all in favour of simplified regulation but I would counsel the Minister, when dealing with animal movement regulations, that I came to Defra in the middle of foot and mouth, and we need to be very careful what we do.

**Lord Plumb:** I would expect you to, but you do not know the marketplace like some of us.

**Owen Paterson MP:** I will try to sort through some of that. On regionalisation, bluntly, as someone who has a Scottish grandfather, a Welsh grandfather and two English grannies, I believe very strongly in the Union, and I have absolute confidence that when the referendum comes we will see a majority of sensible Scots voting that way as well. We work closely with devolved Ministers. Every time we have a Council, we have a pre-meeting with the devolved Ministers, who are pretty assiduous in attending. I have regular meetings with them; I have another one next Monday. We do not agree on absolutely everything, but one thing that we have got through in the current Council compromise is a clear statement that Member States can choose at what level CAP decisions are made. I am very conscious—I visited to Scotland quite recently, I am going to the Royal Highland Show and I am going to speak to the Scottish Parliament committee—that there are big differences in certain areas between Scottish farming and English farming, and it is quite appropriate that those decisions are made locally. So I am very much defending this right for the Scots, the Welsh and the Northern Irish to decide their own manner in which they deliver the CAP.
What I think the SNP has to be a bit aware of is that when I talk to some of my colleagues from other countries, the SNP is not popular. We go a very long way to accommodate our regional Ministers. I certainly would not embarrass my colleagues on the Council by naming countries, but they are pretty brutal with their devolved Ministers and make it very clear who is boss. We are very respectful of our devolveds; as I said, we have meetings with them and there is always an exchange with our officials beforehand, and we try as much as we can to work with them—although obviously I always take the seat in the Council. The SNP should wake up that its campaign is not popular in certain quarters in Europe, and Scotland would be very well advised, from the agricultural point of view, to stay firmly rooted in the United Kingdom, which has a very powerful voice.

I think we have done couple payments. Should coupling go through, should a devolved Administration do it? Personally, I think that that will be a mistake because they will end up subsidising unwanted products, and it will be damaging to your neighbours in Warwickshire. It will not be helpful in Oswestry for me, nor for the people I saw in Northumberland last week. Ultimately it will fail, because the market will always win. I hope that the devolveds will reflect on that and will not go overboard on coupling, should it be allowed.

I think that we all completely agree about simplification. I never go to any business or farm that does not agree. We have a chance to do this, as we are being radical in bringing in new IT systems, which we have to do to implement the new reform. Do not forget—I do not want to be boringly party-political—that the last reform was an absolute disaster in terms of complication. It has got us to area payments and we are not going to have to do all this stuff about internal convergence that other countries are wrestling with, but there has been an awful cost. We have handed back €590 million in what, in Commission-speak, are politely called disallowances. Those are straightforward fines for not adhering to what were very complex rules. This is very important. I am absolutely driven—I keep repeating this, as it is
important to get it on the record—to make sure that the new regime, when it comes in, is as simple as possible for our farmers to respect and as simple as possible for our RPA to administer. Huge sums of money are being thrown away on this.

Having said that and looking at you, Lord Whitty, I think that you might get a slightly warmer feeling with my next comment. I entirely agree with you that, having gone through all the horrors of foot and mouth and BSE, it is a real advantage for us to look foreign markets in the eye and say, “We have traceability systems that are second to none”. We have had this horsemeat scandal, which we have not yet got to the bottom of, but we had Peter Kendall going out there on television right from the beginning, quite rightly stressing the real difficulties that we had been through in setting up these systems, which do have value. When I went to China, we were talking about this. The Prime Minister has just come back from Russia, where we are beginning to get exports going again. A huge part of our selling pitch is that we have really rigorous traceability systems and, obviously, very rigorous and accountable systems of production. We must not underestimate that.

Where I would entirely agree with Lord Plumb is that we have to make this as simple as possible. With new technology, we can do that. When I went to Australia, on day one—we were straight off the aeroplane—we saw some very interesting electronic scanning equipment. What was interesting was that the state required fairly simple data, but the electronic scanning and instant information were of huge use to the farmer. If you have just put in an ear tag with a transponder in it and you are going through a crush, you can shove cattle around and weigh them so that the heavy ones go one way and so on. That was pretty basic stuff, but you can go a lot further. The farm that I went to was getting data back from the abattoir all on the same electronic system, which goes back to what I was saying to Lord Whitty. That really goes straight to traceability. People there were then looking at bloodlines and breeding. What I am trying to get across is that it is not just about the advantages of
delivering reassurance on traceability; there is a real chance to improve our stock and the speed at which we develop good livestock lines. That gets right back to what I was saying about using Pillar 2 to get into technology and improvement to build an industry that is world-class for the future.

Q15 Lord Cameron of Dillington: Moving on to the Common Fisheries Policy, I realise that, as the Lord Chairman said, this is a sensitive area at the moment because of the discussions, but could you outline what you are trying to achieve and where the sticking points are, as you see them, and perhaps comment on the stalled progress in relation to the European Maritime Fisheries Fund?

Owen Paterson MP: I have personal form on this, in that I wrote the Conservative Green Paper on which we fought the 2005 election, the opening sentence of which said that the Common Fisheries Policy was a “biological, environmental, economic and social disaster”. That set the tone. Having been to the Falklands, I then spent a couple of years—it was absolutely fascinating for someone coming from Shropshire, which is landlocked—going all round the coast of the UK, from Kent, all round the south-west and then right up to Shetland and Whalsay. Also, very importantly, I went—going from east to west—to Norway, the Faroes, Iceland, Newfoundland and Nova Scotia and then down the east coast of America. I wrote a paper in which an absolutely fundamental plank—there were about eight or 10 points; I have forgotten now—was the necessity of having accurate data. Because of this crazy discarding of over-quota stock, the Common Fisheries Policy is absolutely guaranteed to operate on data that is completely inaccurate and probably six months out of date. There are enlightened fishing regimes. When I was in the Falklands, they were sending reports back nightly to London; the catch was being assessed and people were being told to steam on for a couple days when they had too much bycatch. In Iceland, they were at two hours’ notice of being told to move on if they had too much bycatch. In the Faroes, it was
really dinned in that it was absolutely mandatory to land everything so that there was accurate data.

There are two advantages to that. First, you stop the hideous waste of a natural resource—quite frankly, it is disgusting, as it turns what is good, valuable food into a pollutant—and, secondly, you have the massive bonus of getting accurate data. Richard Benyon has done fantastic work on this. He was texting me all last night—I was at a big dinner in the City—and he rang me at 5 o’clock this morning to say that, although he had had a pretty sticky night and had really had to dig in, we had made major progress. I met him very briefly just before I came here, when he had just come off the train, but as I understand it we have made major progress on discards.

The other issue that I put in the paper was the need for local control. It is incredibly important that those who participate in an activity have real ownership. We have made progress on that front, too. It does not go all the way and sadly we are not going to get all the points in my fishing paper, but we started this and we are delighted that high-profile, famous chefs have come on board our campaign, albeit quite recently—I have been at this since 2005. Together, we have got a major result and Richard is to be congratulated, as there have been long, long hours of negotiation, in which what I call regressive elements have tried to stop us.

**Q16 Earl of Caithness:** On the question of fishing, Secretary of State, I think that you are in the unusual position of being congratulated in the Scottish press by the Scottish Fishermen’s Federation and by the SNP Minister, which is a unique position for a Secretary of State in the Westminster Parliament. Can I just ask you one question on fishing and one question going back to Baroness Howarth’s point? Are you happy that there will be the right enforcement of the new policies on fisheries? We are acutely aware that some other fleets do not follow the procedures that we do in this country. My second question is that, while
Owen Paterson MP: Probably very valuably, you have asked Richard to come to the Committee to report back on what he has achieved. We trumpet the value of our cod scheme, for instance, and there is a very accurate appraisal of what is going on. You make a very pertinent point that it is all very well us doing it, but what is important is what all the others are doing. I need to sit down with Richard to see how he has got on over the past couple of days, and to see how this new regime will be enforced. You are absolutely right: this is a pointless exercise if it is just on paper. It has to be enforced properly.

On the water question, as I said, you will see soon that the water Bill will encourage landowners to do two things. We will encourage them to harvest water. We are giving landowners a new product to sell, because they will have an ability to put it into the system. We have also put in that water companies can use these sustainable urban drainage systems, SUDS, in order to hold water back. We also, obviously, want water companies to build reservoirs. Those things together will mitigate some of the problems that we have been seeing recently. The Water Bill was originally written at a time of drought; there is an extraordinary contrast between the White Paper that was written just over a year ago and what we have been through since I have been around, when we have had exactly the opposite problem. I do not think that either of them should divert us from the intention of the Bill, which is to make us more resilient.

Earl of Caithness: Are there provisions in the Bill to pay farmers to set aside land for specific purposes?

Owen Paterson MP: As you hear, I am not a great adherent of subsidy. We are giving them a product to sell.
Q17 Lord Lewis of Newnham: A very small point: you are referring to farmers or water boards building reservoirs and things of that nature. What will the funding of these be? In many instances, Ofwat works in a five-year cycle, but if you are building a reservoir you are more concerned with a 20-year cycle.

Owen Paterson MP: We follow the successful pattern of bringing huge funds—the total so far is £108 billion—into the industry from investors around the world. We have a very good model of how to bring in significant investment from all round the world into very long-term projects.

Lord Lewis of Newnham: Certainly, when we studied the situation in the water industry, one of the features that came through very loud and clear from the various water boards was the difficulty of investment and this interface between themselves and Ofwat on the five-year longer-term position.

Owen Paterson MP: We have a new head of Ofwat, who is a very interesting case because he is from the industry and has worked in it. We are completely clear that we want to deliver the key objective of growing the industry. In the south-east, for instance, we have a significant increase in population, which puts a burden on water demand and of course the sewage treatment downstream. We need to keep significant investment coming in. I was in Hong Kong talking to some investors who are keen to invest more here. They were very taken by the security of the UK regime. We are a model around the world. In fact, one of the investors used a very interesting expression to me: “Our company invests in regulation.” They invest in very long-term projects where the assets are absolutely safe, probably—we hope—for very low levels of return, if we can negotiate a good rate. They are investing in long-term safety and security, so it is very important that our Bill does not destabilise that and that we keep the confidence of international investors, because we need to keep the investment coming.
Baroness Howarth of Breckland: It might be useful if some of that learning could transfer into the energy market, where the failure to have security is affecting investment rather seriously at the moment. There may be some lessons to be learnt from water.

Owen Paterson MP: I think that perhaps Baroness Howarth can have a fruitful discussion with my colleague Mr Davey.

The Chairman: We are looking forward to that. Secretary of State, thank you very much. This has been most helpful, and you have given a very vibrant series of answers to all our questions. We are grateful to you and your officials, and we hope to see you again at some point.

Owen Paterson MP: Thank you.