



Northern Ireland
Assembly

Committee for Agriculture and Rural
Development

OFFICIAL REPORT (Hansard)

CAP Reform: Pillar 1 Consultation
(DARD Briefing)

1 October 2013

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:

Mr Paul Frew (Chairperson)
Mr Joe Byrne (Deputy Chairperson)
Mr William Irwin
Mr Declan McAleer
Miss Michelle McIlveen

Witnesses:

Ms Rosemary Agnew	Department of Agriculture and Rural Development
Mr Norman Fulton	Department of Agriculture and Rural Development
Mr Mark McLean	Department of Agriculture and Rural Development

The Chairperson: I welcome Norman Fulton, chief agricultural economist; Rosemary Agnew, principal officer; and Mark McLean, senior agricultural economist. As always, you are very welcome to the Committee. We were pushed for time earlier on, but we are in a more relaxed mode now, which gives you a wee bit more than the five minutes we were going to afford you, Norman — not that that means that you can take advantage. It also means, members, that we will allow you to ask as many questions as you want, because we realise that this is a very important issue for us, for the Department of Agriculture and Rural Development (DARD) and, of course, for the wider community out there. So, without further ado, Norman, will you lead off for us?

Mr Norman Fulton (Department of Agriculture and Rural Development): Yes; will do.

Committee members will have received a copy of the consultation document, and I think that you will recognise that this is a complex area and a complex consultation. I suppose that that arises from the very nature of the reform agreement itself, which provides us with a significant number of options and implementation decisions, with full regional flexibility around those decisions, many of which will impinge upon each other. So it is a complex area, and we very much recognise that. It is really because of that that we have tried to present a suggested framework from the Department to try to focus the consultation and the debate. We have also presented evidence and analysis around our suggestions for that framework. We did that because we thought that if we simply left the consultation open-ended, there would have been a significant risk that we would have got to the end of the process with no real convergence towards a consensus position on how we should implement CAP reform. Having said that, I stress that no decisions have been taken. We very much want to hear what stakeholders have to say, and we are very keen to have an active stakeholder engagement process.

There are a few issues that I need to update the Committee on since providing the draft consultation document to you last week. There were a few outstanding issues relating to the multi-annual financial framework where the EU Parliament had not yet given its consent in the trilogue agreement at the end

of June on the CAP reform deal. Last Monday, the Council made some small modifications to its negotiating mandate, and those were sufficient to secure final agreement with the Parliament in the final trilogue last Tuesday. As a consequence, the Agriculture Committee of the European Parliament formally agreed the deal yesterday. We expect to see final legal texts for the basic Acts presented to the Special Committee on Agriculture next Monday. That will then go forward for a full vote in Parliament at the end of this month or the start of next month, and will hopefully get formal Council agreement in November. That is the process that will run out from here.

The small changes agreed by the Council in the trilogue last week do not affect us. However, one issue emerged that I need to draw the Committee's attention to. There was a misunderstanding of the agreement in June relating to the degressivity and capping of support. It had been generally understood that degressivity and optional capping would apply to amounts in excess of €150,000 when totalled across all direct payments. It was clarified at the Council that, in fact, that applies only to payments under the direct payment scheme. Therefore, payments on greening, young farmers or other optional elements are not subject to degressivity and optional capping. We have reflected that in the final version of the consultation document. We have also applied some minor editing and tidying up of the document just to improve presentation and readability. That document is now going live on our website, and we will send it out to stakeholders later today and tomorrow. So, we are effectively launching the consultation.

I realise that you probably have a lot of questions about the content of the document, so I propose to pause there rather than take you through the elements. I am sure that you have probably already read it, anyway. I am happy to take questions and comments at this stage.

The Chairperson: OK, Norman. Thank you very much for that. I am sure that we will glean information through our questioning. I have read parts of it; I have not read it all. It is a substantial document, and, as you say, it is a very complicated area, which has been complicated, not least, by Europe and the way in which the deal was struck and has been organised. I will go back to your summary, where you have the key points. One of the things you state is that the minimum size of holding that can be claimed on is five hectares, which is different from 0.3 hectares, which is the case currently. Have you any estimate as to how many farm holdings that will affect?

Mr Fulton: Yes. Within the document we provide some analysis around that. On page 22 of the document, we have given a full breakdown of the number of businesses, the type of business, the number of entitlements they hold and the total amounts that they have across five, four, three, two and one hectares. So we have a fairly substantial piece of information there. Just under 4,700 claimants fall below the five-hectare threshold. Of those, almost 2,300 are fairly easily identifiable as non-farming landowners. That is the scale. Quite a number fall within that bracket.

The Chairperson: Was that a deliberate attempt by the Department to try to take out the landowners, as opposed to the farmers?

Mr Fulton: There are really two issues. First, yes, there are a substantial number of non-farming landowners making small claims. That certainly is a factor. The other factor is that a number of holdings of that scale do not have a commercial undertaking. Therefore, we were trying to keep with the spirit of the support regime, which is that it should be focused on active commercial farmers. That was part of our rationale around why we suggested a five-hectare threshold. Of course, that is a matter for consultation, and we will very much welcome the views of stakeholders on that issue.

The Chairperson: Is there any other mechanism or device? I know that you have the new entrants and young farmer aspect to it. Is there any other device or mechanism within that through which you could be picked up, if you fall out of the ground size scale? We all have to start somewhere. A new entrant might start with one field, as opposed to 10. Is there any way that that could be caught?

Mr Fulton: In practical terms, if there is an active farmer who has less than five hectares at this time, and we were to apply that limit, the easiest way for him to work around that would be to rent an additional area of land to take him over the threshold. That would probably be the easiest route through on that. But yes, there are other options as well.

The Chairperson: With regard to the convergence argument and not moving to a flat rate from 2015, we can all appreciate the pressures that that would place and the amount of change that would occur out of that. You also say here that you would not move to a flat rate, even by 2019, but, instead, increase the unit value of those entitlements below the regional average by one half of the difference.

I could go on with regard to that formula. It seems very complicated. Can you tell us what that means in layman's terms?

Mr Fulton: Yes. The position we established during the negotiations over a year ago is that we would like to see an orderly and smooth transition towards flat rates. We suggested that that should happen over a 10-year period. To come back to what we are able to do in this final agreement, 2019 is halfway; it is five years down the pathway. Our suggestion is that, in keeping with that position, we should aim to have halfway convergence towards a full flat-rate regime by the end of this period. That is why we are suggesting the model that you have before you.

If someone was currently below the regional average, they would transit halfway towards that regional average by 2019, and so close the gap by 50%. Those who are above the regional average would converge on a linear basis towards the average as well, and they would also go roughly halfway.

The Chairperson: I understand that it is nearly like balancing or equalising the effect. Who would stand to be the big gainers and who would stand to be the big losers in that?

Mr Fulton: In general terms, those who have less intensive production systems — or did in the past — would tend to benefit. Those under more intensive production systems would tend to lose out. Again, we have a full analysis in the consultation document on farm type and farm size, which looks at the impacts of the various options in moving towards flat rate. That is set out to try to bring some clarity around this for our stakeholders. Tables 2a and 2b on page 24 give further details on that.

The Chairperson: The arguments and winners and losers will invariably come into this debate; we have no choice but to have the debate, because it is real life and it is going to happen. What are your feelings around coupled support? Could we go back to that and implement that in a secure way that would benefit Northern Ireland? What are your thoughts on that?

Mr Fulton: Coupled support is one where, actually, we are leaving the question open. We recognise that, for example, the Agri-Food Strategy Board has a particular view on coupling, so we want to test the view of stakeholders and what they think of it. Again, we have offered the evidence around it. We have presented information on the practical experience that has happened here and in England, Scotland and Wales since 2005 and what has happened, because each of the regions has done different things. Scotland, for example, has retained coupled support for the beef sector; other regions have not. England has gone towards a flat-rate regime and others have not, so we have those practical experiences to draw on.

We are also looking at research that we commissioned from the Agri-Food and Biosciences Institute (AFBI) on the Food and Agricultural Policy Research Institute (FAPRI) project. From that, we have been trying to distil the particular effect of coupled support. That evidence is presented in the document. The evidence suggests that, if coupling were to have an impact, it would be marginal at best. Also, the conditions that apply around it within the regulation make it clear that you cannot use coupling as a means of expanding production in a sector, so you would have to have not only budgetary limits but quantitative limits applied. Therefore, it is not a mechanism that you could use, for example, to pursue a growth agenda. We have left that issue more open than some of the other ones because we recognise that there are divergent views on it, but we have presented the evidence and we allow people to come to their own conclusions.

The Chairperson: One of the other big talking points or pivotal arguments around this debate will be pillar 1 versus pillar 2, and the fact that that will all come at a cost no matter what moves are made. I understand that that is a very complicated debate that has to be had to make sure that it suits Northern Ireland, but with that flexibility comes responsibility. A decision has to be made by December this year. Will you have had time from this consultation to have a position before that period? Have you allowed sufficient time to do that?

Mr Fulton: Yes. There are two critical dates for the decision for pillar 1 to pillar 2 transfer. If you were intent on making a transfer that would be effective in 2014 — in other words, making a transfer of moneys in that year — you have to notify your decision to the Commission by 31 December 2013. That decision covers you all the way through to the end of the programming period. However, if you do not require a transfer to be made in respect of 2014, you can defer that decision through to the end of July next year. You can notify your decision, again out to the end of the programming period, to the Commission. Effectively, you have another bite of the cherry at that stage. We will need to clarify a few issues around that to make sure that that notification can be done at a regional level rather than

member state level. If we do not need a transfer in respect of 2014, we will have time to make all the decisions around that. If we have to make a decision by the end of this calendar year, it will obviously be a difficult decision to take. We will not necessarily have all the information that we ideally would like to have around that.

We are not asking in the consultation about the transfer from pillar 1 to pillar 2. That is an issue for the pillar 2 consultation, which will close at the end of this month. The one issue in this consultation that would impinge on that decision is the future of support for areas of natural constraint (ANC) and whether that is taken through pillar 1 or pillar 2. That would have a very significant impact on the amount of funding that you would require in pillar 2. We recognise that connection. We have raised that issue in our pillar 2 consultation, but we are moving it on a little bit further in this consultation and firming up with our suggestion that ANC support be dealt with in pillar 1. Again, that is not a decision that we have taken. We are looking for the views of stakeholders on that issue.

Mr Irwin: Have you had any feedback from the Commission on how it sees what an active farmer is in its definition?

Mr Fulton: As I am sure that you are probably aware, there was a meeting two weeks ago between a delegation led by Jim Nicholson and the Commissioner. As a follow-up to that, we met the Commission services last Tuesday. That was a very positive meeting, and we had full representation from the Commission services; we had policy, legal and audit representatives at that meeting. We had a very good meeting. We went through our particular issues in Northern Ireland and the circumstances that the whole conacre system gives rise to. We clarified the issues. We made it clear also that, if we were to try to solve the problem, there needed to be a firm basis in EU regulation to enable us to do something. This is not a problem that we can solve by ourselves. It was useful to make that clear to the Commission.

At the end of that meeting, the Commission gave us a commitment that it would look at possible solutions. We expect that it will come back to us soon on that. We talked about the possibility of having something within the delegated Act. If it is to be within that, it will be weeks, rather than probably months. Whether we get a solution remains to be seen, but it is looking fairly positive at this point. I have to caution that it is certainly not a done deal. We really have to wait to see what the Commission comes back with. At the end of the day, we need something that we can implement and not leave ourselves exposed to legal challenge. That is the key issue with all of this. So it is looking pretty good at this stage; it is as positive as we could hope for, but with no guarantees.

Mr Irwin: OK. That is positive. I know we have to move towards a flat-rate payment; however, there are some dangers with that. In Northern Ireland, we have an agrifood strategy, Going for Growth. Under a flat-rate payment, those who go for growth will probably be the ones most affected. That is vitally important. What can you do to ensure the least impact on the more progressive farmer who is going for growth? We all accept that the agrifood sector is a big player in Northern Ireland. My fear is that, under flat-rate payment, you actually take away from that. In one regard, we have part of Northern Ireland's agriculture and agrifood strategy wanting to move one way, but, under a flat-rate payment, we are holding them back. You understand?

Mr Fulton: Sure. Obviously, we very much appreciate that this will be a challenge for businesses. We have always taken the position that, in principle, we are not anti-flat rate. We do not believe that, in the long term, you can defend a purely historic system. However, this is really about transition and allowing businesses sufficient time to adjust to the challenges that moving towards flat rates will bring. So you need to have a smooth, gradual transition, well signposted, so that businesses have the time to adjust. We must recognise that there is a balance to be struck here. Some businesses will gain from the move towards flat rate; others will lose support under the transition. Obviously, there is a balance to be struck between their competing interests.

Mr Irwin: I understand that. However, CAP now has food security at the head of its agenda. You said in answer to an earlier question — I am not sure which one; was it the Deputy Chair? — that the big winners would probably be those who produce the least in Northern Ireland. It looks to me that that is the way it is going to be.

Mr Fulton: It is more about the intensity of production, rather than necessarily the absolute scale of business. The other thing that I would add is that we have looked at the experience of other regions. We have looked, for example, at what has happened in England, which has moved to a flat-rate regime, and you have not had sectors going through extreme difficulty. We have that experience to

draw on. Also, we have commissioned research, again from AFBI, using the FAPRI model, which is the best model that we can possibly get our hands on. We have invested significantly in that model over the years. It is telling us that, in a move to a flat-rate regime, the impacts on production are very muted, and the one sector where it has the biggest impact is beef. Even there, it is not a huge impact. Again, we quote that evidence in the consultation documents.

Mr Irwin: I hope you are right.

Mr Fulton: We give references, so that people can download the document and look at the research reports from the FAPRI team. We are making all that available to stakeholders.

Mr Mark McLean (Department of Agriculture and Rural Development): Within the EU CAP reform agreement, the minimum that we are required to do is to move 39% towards a flat rate. Obviously, the maximum is a full flat rate. So that is the window in which we operate.

Mr Irwin: Is that before 2019?

Mr McLean: By 2019.

Mr McAleer: The document referred to an assumption of a €325 million regional saving. I am wondering how certain you are about that. Where are we in the negotiations?

Mr Fulton: That is our working assumption at this point —

Mr McAleer: How was that calculated? Sorry to interrupt.

Mr Fulton: It is really about seeing what we currently have and adjusting it through the EU budget reductions that we know are there. It is a working assumption at this point. The allocation of the budget within the UK has not been finalised, but hopefully we will have a final decision on the allocation of pillar 1 and pillar 2 in the next month.

Mr McAleer: The document referred to the fact that each 1% transfer from pillar 1 to pillar 2 could mean an extra €19.5 million for the rural development programme over six years. Can you explain how that came about?

Mr Fulton: That figure was in the pillar 2 consultation document. If you were to take 1% of the assumed pillar 1 budget and add that up over the seven-year programme, you would come to that figure of €19.8 million — over the six years of the programme.

Mr McLean: It is 1% of €325 million, which is €3.25 million, multiplied by six. The first year is actually the 2013 scheme year, but it is paid out of the 2014 budget year. The Minister decided that for 2013 there would be no voluntary modulation — that is, no transfers to pillar 2. So, with six years to go, 1% is €3.25 million, times six, and that is how you come up with €19.5 million.

Mr Byrne: I welcome the delegation. We are going to be allowed some regional flexibility or variation, and it is welcome that we have advanced that case. You have also managed to secure a stronger indication on active farming, which again is welcome. We then have our Agri-food Strategy Board laying production targets for the future. What policy objectives are we setting at the outset? Do we want to grow the farm production sector, and do we want to have instruments that will enable that to happen?

In particular, where does that leave us with respect to the suckler cow herd and the sheep meat sector in less-favoured areas currently? What are the implications for the dairy sector, and where it is going? Lastly, do we want to maintain the type of farming structure that we have had here, which is family farm-based production?

Mr Fulton: The growth agenda is probably best addressed, in practice, through the design of pillar 2 rather than pillar 1. Effectively, pillar 1 is about income support and the distribution of support moneys among the population of farmers. What you can do within pillar 1 is tightly constrained, whereas with pillar 2 you can pursue policy agendas around upskilling, education, improving competitiveness and

capital investment. So, there are a range of things you can do to drive a growth agenda, and you have more scope to do that in pillar 2 than you have in pillar 1.

You mentioned suckler cows and sheep. It really comes back to my earlier comments about, for example, the use of coupled support for those sectors. First, a maximum of 8% of the budget could be used, so it is a very modest sum of money overall. You cannot —

Mr Byrne: That could amount to £80 for a suckler cow and £24 for a breeding ewe.

Mr Fulton: Yes. As regards what you can do with that money, you cannot use it to drive a growth agenda. You would have to put in for that headage limit. So, as well as that budgetary limit, you would also have to constrain the number of animals that qualify.

Mr Byrne: Is it a headage limit or a stocking rate?

Mr Fulton: It is a headage limit. So, you are very tightly constrained when it comes to directing support towards any particular sector. Even guidance that has come out on ANC support, which is the successor to less favoured areas (LFA) support, is very tightly constrained when you are talking about stocking densities, for example. It is also very tightly constrained around targeting that type of support towards any particular livestock category. The Commission is very concerned that we do not end up putting the CAP in the World Trade Organization's (WTO) direct line of fire and receiving a challenge to what we are doing from WTO. So, overall, the growth agenda and pillar 2 is the way to go. Pillar 1 is really about income support and the distribution of it. It is not really designed to drive a competitiveness agenda or a growth agenda. The two pillars do different things.

Mr Byrne: Therefore, pillar 2 is the best option to try to maximise the Going for Growth objective that the Agri-Food Strategy Board is setting?

Mr Fulton: Yes.

Mr Byrne: And that is being couched in the context of improving the business-improvement avenue?

Mr Fulton: That is right.

Mr Byrne: Where are we with regard to the family farm sustainability agenda? Is it a priority?

Mr Fulton: In European terms —

Mr Byrne: Next year is supposed to be the year of family farming.

Mr Fulton: In pillar 1, you have the young farmer top-up payment. That is mandatory. So, you could possibly link that to a family farm agenda. I suppose that you might also link in the ability to cap support that goes to individual holdings. So, potentially, you could say that that partly targets support towards family farms. Other than that, there is, probably, relatively little in the pillar 1 framework that you could point your finger towards and say that it very much supports a family farm agenda. However, that is the framework that we have. It is the framework that is set down. We have to work within it.

Mr Byrne: Lastly, are subregions on the agenda or not?

Mr Fulton: Again, that is something that we are consulting on. We have presented the evidence and some of the options around that. We suggest that, looking at the evidence, information and analysis in the round, it is, probably, better to go with Northern Ireland as a single region rather than split it up into a number of subregions. However, again, it is out for consultation. We very much want to hear what stakeholders have to say about that. The evidence is all presented for people to consider.

The Chairperson: On Joe's point and a number of others, the first one being the regional area; if you contrast that with the dual application for LFAs and the fact that two people can apply, basically, for the same land, albeit for different reasons, is any mechanism in place by which you could use regionality to solve that issue now that Europe is coming down hard on the Department over dual applications?

Mr Fulton: No. You cannot use regionality to solve that particular problem. We highlight that issue in the consultation document. We point out that it is causing us problems. When it comes to greening, it has the potential to cause us significantly greater problems because greening applies to the entire holding, not just the area for which you are claiming support.

At this point, we effectively have overlapping holdings, and, therefore, it could create significant difficulties with who exactly is responsible for what. That issue still has to play out. It comes back to the active farmer issue, and if we were able to find a solution to that issue, a lot of those problems with dual claims and overlapping holdings would go away because each land parcel would be assigned to one business only.

The Chairperson: I hear your answer about targeted spend, trying to make things different, trying to push an agenda and trying to make things better. Going for Growth is also in there. However, as I said earlier, moving money from pillar 1 to pillar 2 will always have a cost. Does it not need to be match-funded? That will be an additional cost, not least because of the consequence of losing the money from pillar 1. Any decision to move will have to come with the caveat that the Government will also have to invest.

Mr Fulton: The pillar 1 to pillar 2 transfer was one issue about which there was significant debate in Europe, and it was not really finalised until last week. There is no requirement to co-fund transfers from pillar 1 to pillar 2. You can if you wish, but there is no requirement to do so. That has now been settled in the overall deal.

The Chairperson: So, can you move it without a consequence for budget lines in any Department?

Mr Fulton: You can, yes.

The Chairperson: We talked about moving to a flat rate and taking that over a 10-year period. How concerned is the Department about the transition from one system of payment to the other, no matter what that looks like? We do not want to realise in 10 years' time that we did something wrong in 2014, 2015 or 2016. How sure are you that we will make a smooth transition from one spending system to the other?

Mr Fulton: We should not underestimate the challenge of that. We have options. For example, we have the option to roll forward the existing entitlements from the current single farm payment into the new basic payments scheme. They would change in value, but the number of entitlements and who holds them could be held constant. Or we can start the system all over again in 2015, and we discuss the pros and cons of that in the consultation document. On balance, we think that it is probably better to start the system over again, as we are suggesting that. However, we want to hear the views of stakeholders on that. The actual transit from the single farm payment to basic payments will be a challenge. We have a constrained window in which to do that. We have no option but to be ready for 2015, and, therefore, we will simply have to make the investment and do whatever it takes to get us there and to make sure that we are ready to run in 2015.

The Chairperson: I could be reading this wrong, but is using 2014 as the measurement year or entitlement year mentioned in the document? Am I reading that right?

Mr Fulton: Yes, there is an issue with what you, as an individual farmer, carry forward from your current system to the new system. Is your new allocation based on the entitlements that you hold in 2014 or on those that you have claimed in 2014? We have options for that, and we are suggesting that it should be based on the entitlements that you hold in 2014.

The Chairperson: Is there a concern that that could skew the market somewhat, especially if we go to an area-based plan?

Mr Fulton: Yes, there is always the possibility for distortions in the conacre market, for example, if that is what you are referring to. We refer to that in the document and highlight that potential risk. In all these things, it is about getting a balance and focusing on what you want to achieve.

The Chairperson: You are maybe not the experts in the land parcel identification system (LPIS) maps system. I do not know whether we have any experts in LPIS.

Mr Byrne: It is costing plenty of money, Chair.

The Chairperson: It is, and it is a big issue. We have not yet go to grips with it, and here we are in the mouth of another major change. How confident are you that systems that we are installing are fit for purpose for the new regime?

Mr Fulton: As you say, I am not the expert on LPIS. It is hugely important that we have an accurate and stable mapping system as we move into the new regime, because if we do not, we are carrying a lot of problems into the new regime. Everything that I saw and am aware of would indicate that we will be there and will have that system in place. We really do need that stability if we are to start afresh with allocating new entitlements based on area of eligible land declared in 2015. We really do need to have that stabilised and in place. Everything I saw and am aware of would suggest that we will have that.

The Chairperson: A very defensive answer right to the very last sentence, Norman. You pulled it around.

Mr Irwin: Do you accept that most farmers will not be too happy at the possibility of moving moneys from pillar 1 to pillar 2?

Mr Fulton: Absolutely. I can understand that.

Mr Irwin: Can you understand why? Of course, I can declare an interest: I have been receiving a single farm payment and was also a member of the Southern Organisation for Action in Rural areas (SOAR). When we look at the how the money was spent on rural development, some could not be spent, and moneys went on strategic projects all over the place. That did not represent good management in most people's eyes, so you can understand why there would be some resistance to moving more moneys from pillar 1 to pillar 2.

Mr Fulton: You are taking me into an area that is really —

Mr Irwin: You do not want to go into there. I understand.

Mr Fulton: That is not really what I am here to talk about. My only comment is that this is all looking forward, and it is about how we can deploy the resources at our disposal to give the best outcome for 2020. There are some big decisions around that, and that is as much as I can say at this point.

Mr Irwin: OK.

Mr McAleer: I hope that my question is not too much of a deviation. What is the difference between the proposed ANC's and current LFAs? Is there much coterminosity there? What is the precise difference?

Mr Fulton: We are working on mapping the ANC areas on the criteria that are now set by the commission. We hope to be going to consultation in November.

Ms Rosemary Agnew (Department of Agriculture and Rural Development): I think that we are scheduled to present to the Committee on 14 November. We will bring forward maps at that stage and talk to you about the detail of what the new maps will look like compared with what they are currently. We are still working on the maps.

Mr McAleer: The consultation opened today. When does it close?

Mr Fulton: On 17 January 2014. During the consultation, which is slightly longer than 13 weeks, we would want to feed in any additional information or clarification that may emerge during the autumn as the work continues in Brussels on developing delegated acts and implementing acts. They may come forward with additional relevant information that can help to inform the position of stakeholders, so we will be feeding that out through the process.

Mr Byrne: I want return to the dairy sector, given that the quotas are going and there are likely to be transitional arrangements, which I think the industry is looking for. Where is the dairy sector going to go if there is to be no quota system?

My second point relates to pillar 2 being beefed up with money from pillar 1. I take it that the priority objectives of Going for Growth and the Agri-Food Strategy Board will have to be determined in some way so that they can be achieved via pillar 2 and business improvement on farms.

Mr Fulton: It is now a given that quotas will end in 2015; that will happen. We got the Food and Agricultural Policy Research Institute (FAPRI) project to look at that for us three years ago or thereabouts, when it was clear that quotas would end. At that stage, the suggested figure from the modelling work was, I think, a 3% or 4% reduction. I am trawling my memory. Obviously, the market has moved on significantly since that work was done. If that were looked at again, a more positive response or outcome might be produced. The opportunities in the marketplace are significant. The impact of the removal of quotas per se will be a key issue in how the industry responds to those opportunities.

On your point about Going for Growth and the objectives, it is really about the balance that will exist in the new programme. That is part of what the consultation on pillar 2 is around. There are significant numbers of areas in which we could invest. The key issue is what balance do we strike across those areas? That is a set of decisions that will have to be made later this year. Going for Growth is one area that will feature in that overall picture and position.

Mr Irwin: What is your position on the active farmer study? I am aware, even in my local area, of active farmers who, immediately on receipt of the single farm payment, quit farming. They took payment snugly for the last five or six years without producing anything. Do you believe that, as well as past activity, the farm's activity going forward should be a requirement for receipt of single farm payment? Currently, there is just a past activity requirement, and you can then sit back and produce nothing for the next five years.

Mr Fulton: We need to see the options that the Commission presents to us. We would like a focus on ensuring that we allocate the entitlements to the correct people at the outset. The core question is this: when those entitlements are being allocated, who is the active farmer on that land? We would like clarity in being able to apply that test.

Mr Irwin: There is absolutely nothing to prevent a farmer from stopping farming once he gets the single farm payment.

Mr Fulton: Yes; farmers retire all the time. It is an industry that is continually —

Mr Irwin: I am not talking specifically about farmers retiring. I am talking about young farmers — men in their forties and fifties who are not at retirement age just yet — playing the system to their advantage. They set their land, take the single farm payment and then do other work and pursue other business.

Mr McLean: The issue that the auditors raised with us, and which we are trying to address, is a situation where a farmer who received a single farm payment is renting out his land. Somebody else is carrying out the agricultural activity on that land, and the farmer is getting the rent plus the single farm payment. The auditors have said that, in that case, the single farm payment should go to the person who is carrying out the agricultural activity on the land. That is a different scenario from that of somebody who is getting the single farm payment and does not rent out their land and, although not engaged in production, keeps the land in good agricultural and environmental condition. There is a distinction between those cases.

Mr Irwin: There are very few of those.

Mr McLean: I accept that, but it is important because, in WTO terms, there can be no production requirement for receiving a single farm payment. The issue that we are trying to address is with farms where there is production but it is being carried out by somebody who is not receiving a single farm payment on that field.

Mr Irwin: Of course, there are also those who keep two animals just to justify that they are active. That is another issue.

Mr Fulton: We would certainly like to get to the situation in which we are able to look at what goes on at a field parcel level. Simply keeping two animals would not qualify you to receive support across 100 or 200 acres.

Mr Irwin: It will be interesting. Ok.

Mr Byrne: There has to be some sensible recognition of factoring environmental considerations into the LFAs. A man who owns 300 acres of LFA will get a single farm payment that is area-based only. If he does nothing with it, the hillside will become an eyesore with rushes, whins and heather. As a result, there will be a deterioration in the countryside.

I think that there is a way of striking a balance between an active farming criterion, the environmental objectives achieved and making an addition to the overall production of the region. I think that some careful thought must be given to that to merge those three objectives. I think that that can be achieved as long as no vested interests have undue influence.

The Chairperson: I want to evolve that question further. I understand William's point and principle about having a set time and date for qualifying for entitlement, whether that is a certain year or a certain time. On receipt of that payment, you can just stop farming. People make choices about what they farm and do. Is there a concern that any of this, complicated as it may be — that may be part of the problem — could lead to monoculture?

Mr Fulton: We certainly had initial concerns about the greening proposals that could have a negative impact on mixed cereal and livestock holdings, which are very prevalent here. I think that the changes that have been secured will greatly diminish that risk. The introduction of higher thresholds before you are required to have crop diversification and ecological focus areas was a great help. Furthermore, being able to monitor permanent grassland at a regional level, rather than imposing individual holding restrictions, is a significant benefit that greatly reduces the risks of a move towards monoculture.

I want to go back to the issue of people who may be in a position to establish entitlement and subsequently cease farming activities. As well as having the option to rent out their land, they will have the option to rent out their entitlements. Therefore, the person who rents the land and the entitlement will take responsibility. That is the best way to regularise that type of situation. The support will still go to the active farmer, who will take responsibility for delivering greening, cross-compliance, etc on that land.

The Chairperson: Do you plan to carry out any public events on the consultation?

Mr Fulton: We plan to hold a major conference for stakeholders in early November. We are also very open to responding to questions or going along and talking to stakeholder groups and other groups. We have had a number of requests and we will certainly try to accommodate as many as we can over the coming months. Now that the consultation has been launched, I expect that more groups will come forward — perhaps me saying that will encourage more groups to come forward. I may regret this in a month or two. We are certainly open, willing and keen to go out and engage with stakeholders because it is a complex area.

The Chairperson: OK, are there any further questions, members? We have been pretty informal and relaxed in this session because we realise how important and complicated it is. There were a lot of questions thrown at you there, so we appreciate your time and effort and your answers here today. Thank you very much.