



Northern Ireland
Assembly

Committee for Agriculture and Rural
Development

OFFICIAL REPORT (Hansard)

Common Agricultural Policy Reform:
Pillar 1 Direct Payments

4 March 2014

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 Thomas Buchanan
Mrs Judith Cochrane
Mrs Jo-Anne Dobson
Mr Declan McAleer
Miss Michelle McIlveen
Mr Oliver McMullan
Mr Ian Milne
Mr Robin Swann

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: From the Department of Agriculture and Rural Development (DARD), I welcome Norman Fulton, the chief agricultural economist; Rosemary Agnew, an assistant secretary; and Mark McLean, the senior agricultural economist. You are no strangers to the Committee. Members have had a chance to read the summary of consultation responses, so I ask you to take up to 10 minutes to address the Committee.

Mr Norman Fulton (Department of Agriculture and Rural Development): Thank you, Mr Chairman. I aim to keep my comments brief because I know that the Committee will want to ask questions. We are also keen to hear the views of the Committee on these important issues.

As you said, members have a summary of the responses to the consultation. It is a substantial document that reflects the number of questions that we had to pose during the consultation and the scale of the response that we received from stakeholders. We had a large response: in total, there were over 850 responses. There were responses from 43 organisations and 808 individuals, of which some 740 were on the basis of a template response.

As you know, we tried to focus the debate as much as possible by setting out a suggested support framework within the available flexibilities in the common agricultural policy (CAP) reform agreement. With the questions that we posed and the suggestions and proposals that we made, there was a high level of agreement. I will highlight the main areas of disagreement, with the suggestions that have been made.

With minimum claim size, 36% of organisations and 16% of individuals did not agree with our suggestion of a 5-hectare minimum claim size. Various suggestions and comments were made in response to that.

There has been significant debate about the number of subregions. We proposed operating Northern Ireland as a single region. Sixty-three per cent of organisations and 99% of individuals agreed with a single-region model, but the issue has sparked significant debate in the industry.

On the very important issue of progression towards a flat rate and the pace of progression, we suggested a 50% target to be achieved by 2019 for progression from a starting point to a fully flat-rate regime. We posed a number of questions on that. Seventy-eight per cent of organisations and 26% of individuals did not agree with the idea of going to a flat rate immediately, so there was a fair degree of agreement in the organisations that we should not progress immediately to a flat rate.

On the question of whether we should try to achieve a flat rate by 2019, 62% of organisations and 3% of individuals did not agree with that target. In respect of the 50% transition, 64% of organisations and 24% of individuals agreed with the target of a 50% transition by 2019. There are, therefore, a range of views on that issue.

With regard to educational qualifications, we suggested a minimum level as one of the qualifying criteria for the young farmers' scheme and allocations to young farmers and new entrants from the regional reserve. Around 41% of organisations and 15% of individuals agreed with that when it came to the national reserve allocations. Forty-seven per cent of organisations and 22% of individuals agreed with it when it came to the allocation for the young farmers' scheme.

In respect of areas of natural constraint (ANC) support via pillar 1, we suggested that, as ANC support is an income support payment, it may be more appropriate for it to come from pillar 1. Thirty-eight per cent of organisations and 11% of individuals agreed with that, so there is a fair degree of disagreement on that point.

Finally, on the issue of coupled support, we left that as an open-ended issue in the consultation. Thirty-four per cent of organisations and only 1% of individuals agreed that there should be some form of coupled support, so there was not really a strong groundswell of support for coupled payment.

All the individual responses to the consultation have been published on the DARD website and are available to view. The summary that you have received will go on the website this afternoon, so that will also be available for people to read through. It is in a slightly more accessible format than having to wade through over 850 individual responses. I will finish and invite the views of the Committee.

The Chairperson: Thank you very much for that. We will go straight into questions. I remind members to keep their questions and supplementaries concise. If we have time, we will go round the table again.

As Chair, the headline question that I must ask is that, although we have a report that refers to the consultation and the percentages in favour of whatever issues you tried to encourage debate on, we are still no further forward or no clearer as to what DARD will bring forward to the Executive. Can you shed any light at all on where DARD is at present and when it will go to the Executive?

Mr Fulton: We have completed our analysis of the consultation responses, and we are pulling together an overall analysis not only of this but of the detailed figures on the impact on different sectors, and so on. We are pulling that together into an overall package that we will then take forward to the Minister. We want to be able to do that before the end of the month. From there, it is an issue for the Minister to take forward, and, at that stage, it will enter a political process. That is our timeline.

The Chairperson: One of your issues is the payment for young farmers and setting the qualification at level 3. Have the consultation findings changed your view on that?

Mr Fulton: There was a reasonable degree of support for the principle. There were concerns around whether it should be level 3 or level 2. To clarify: level 3 does not mean a third-level degree qualification. That caused a bit of confusion in the consultation. Others suggested a minimum level of practical experience, so valid comments came forward. The principle was broadly accepted, so the question was about the right level to pitch it at.

If we set a minimum standard, we also need mechanisms in place whereby those who do not have that level of qualification are given an opportunity to achieve it through locally available provision. We would have to respond to that if we were to proceed with a minimum criterion on qualification. The consultation response was very useful.

Mrs Dobson: Thank you for your briefing, Norman. The Chair touched on what I want to ask about, so I will expand on it. On the eligibility requirement of level 3 for young farmers, covered in question 26 of your consultation, my office received a considerable amount of lobbying. In a written answer to me, the Minister said that she would review the situation. Will you outline the views of those who responded, especially individual farmers?

Mr Fulton: For the young farmers' scheme, 47% of organisations agreed with the proposal, as did 22% of individuals, so there was a reasonable underpinning for the level 3 proposal. Environmental organisations raised valid and reasonable points about the environmental aspect and whether the qualifications should cover environmental stewardship.

Organisations such as the Castlewellan Blackface Sheep Breeders' Society and 11 individuals referred to the importance of previous experience. The Horticulture Forum and the Ulster Arable Society agreed with the proposal but suggested that the definition be widened to reflect the diverse nature of farm businesses. They mentioned farm business management and environmental stewardship. Ballymena Borough Council referred to a level 2 qualification, as did a number of other individuals and organisations. There was a fair range of responses on the issue.

Mrs Dobson: In a written answer to me, the Minister said that her rationale was to encourage young farmers and new entrants to invest in their skills and to reward those who have already done so. By placing this requirement in front of a reward, is the Minister not penalising those farmers who have the skills and experience but not the qualifications?

Mr Fulton: Qualifications will always pay off in their own right. That is certainly the research evidence. We should always try to encourage individuals to acquire qualifications and attend courses. That is the right thing to do in principle, and for those who have already invested in themselves by going through courses, the requirement sends out a very strong message that gaining qualifications will benefit your business skills and your ability to run a business and will also have a financial reward through the support mechanism. It reinforces the concept of trying to drive forward a professional, well-skilled and well-qualified industry, so it is worth pursuing.

Mrs Dobson: Are you concerned that that could lead to a demand for education and training that cannot be met by the College of Agriculture, Food and Rural Enterprise (CAFRE)? Essentially, the rush would be based on requiring a certificate for eligibility rather than on learning agricultural skills. If we say, "Learn or we will withhold money from you", is that the wrong way to go about educating young farmers?

Mr Fulton: As for responding to demand, we have had discussions with CAFRE. As I said, if we introduce this criterion, we will need to ensure that individuals who do not have the qualifications could acquire them and that provision for them to do so would be available locally and at a time and place to suit them. We recognise that many of them will be working on farms and will have on-farm commitments, so the provision has to slot in with that.

We have been talking through the possibilities with CAFRE. This is part of the overall decision-making process and will eventually feed into the recommendations that we make to the Minister.

Mrs Dobson: It is crucial to get the balance right between young farmers acquiring skills because they want to rather than because their money will be withheld if they do not.

Mr Fulton: That is true. You want to ensure that people who come along to courses want to be there and leave having acquired something rather than having simply ticked a box. Certainly, we want to ensure that that is one of the outcomes.

Mrs Dobson: They will want to be seen to be there because they will lose their money if they are not. The balance must be addressed.

Mr McAleer: I want to move on to the topic of the definition of an active farmer, which was mentioned in the consultation and was a topic of discussion. We talked about that last week. We welcome the fact that the deadline for farmers to make decisions about their entitlement has been extended until the beginning of May. However, the so-called clarification that we are looking at from the EU Commission is very vague. When will the Department be able to make it clear to farmers whether they will qualify as an active farmer to help them to make that decision? Lots of farmers are in a very precarious situation and do not know what to do because the advice from the Commission is very vague.

Mr Fulton: By the end of next week, the delegated Act should be adopted by the Commission. Technically, after that, the European Parliament and the European Council have two months within which they could challenge the delegated Act. Having got it to this stage, we would not expect a challenge on the delegated Act. That more or less sets the position at this time.

Within the delegated Act, the wording makes it fairly clear that it is very unlikely that someone who is renting land in conacre will be in a position to establish entitlement in 2015. That is the advice that we have received from our Departmental Solicitor's Office (DSO). Things are as clear as they can be on that topic.

Mr McAleer: Wales has given an outline of what it considers to be an active farmer. Take someone whom I would loosely term an "active landowner", who takes on the decision-making power, benefits and financial risks and uses his single farm payment to keep his land in good agricultural and environmental condition (GAEC). Would that person not qualify as an active farmer under the delegated Act?

Mr Fulton: It comes back to agricultural activity in the business. Although a landowner who is renting out his land may be undertaking activities such as cutting hedges, maintaining drainage, and so on, the agricultural activity is being undertaken by a tenant. Livestock production or cropping is clearly being undertaken by the tenant farmer. In those circumstances, it seems very clear as to who should be awarded the entitlement for that activity.

You refer to the Welsh position. That also applies here, but it is a specific issue relating primarily to the so-called negative list, whereby operators such as airports, railway companies, waterworks, permanent sports grounds or recreational grounds have to be on a negative list. It is only if they show themselves as having significant agricultural activities above certain thresholds that they could proceed to receiving support. If those operations are simply renting out land, they would not. It is a particular aspect of the active farmer issue that the Welsh have highlighted in the document that they published some time ago. The issue that we are looking at is much wider than that. It refers only to a small number of so-called negative list operations.

Mr McAleer: You mentioned cropping. Would people qualify as active farmers if they use their single farm payment to keep their land in good agricultural and environmental condition and maintain good pastures and crop?

Mr Fulton: Yes. If such individuals are not renting out their land and the only agricultural activity that is going on or activity of any description on that land is under the control and risk of the owner, those individuals would qualify. When the land has been rented out and somebody else is undertaking activity, or even if land is being offered to somebody free of charge but somebody else is undertaking agricultural activity on that land, the person undertaking the activity would be awarded the entitlement. If nobody else is involved on the land, and the landlord is simply maintaining the land in GAEC, in those specific circumstances, the landlord could qualify for the entitlement.

The Chairperson: It is very complicated. Let us take the scenario of a potato farmer who needs different land every year. How will the entitlements operate for that man, who has to rely on conacre on a yearly basis for different land and so has to deal with different landowners?

Mr Fulton: The same principles apply. In 2015, if the potato farmer is renting land and undertaking activity on that land, he will be the only individual in a position to establish entitlements on that land — assuming, of course, that he wants to; he does not have to. It may be that potato producers feel that they do not want to partake in the scheme. Say, for example, somebody is an out-and-out specialist potato grower; that is all that they do. If they are part of the regime, they will have to abide by the greening requirements under the regime, which includes crop diversification. That will take them into growing other crops as well as potatoes — assuming that they are above the thresholds — and having

to meet ecological focus area (EFA) requirements — again assuming that they are above the thresholds. It may be that that does not suit individual potato producers, so it depends on their circumstances. However, the same principles apply. If land is being rented, the activity is being undertaken by the potato producer, and he is the one in a position to activate or establish entitlements on that land.

The Chairperson: Would that work on a different parcel of land every year?

Mr Fulton: Yes. It really is judged on the parcel of land.

Mr Mark McLean (Department of Agriculture and Rural Development): I think that it is important to clarify that entitlements do not belong to particular land parcels; they belong to the business that establishes them. From 2015, if entitlements are reallocated, the business that applies to establish them will use all the land that they are farming. That means both land that they own that they are farming and land that they take in conacre that they are farming. They will use that to establish their entitlements. In future years, if they are farming different land, or whatever land they are farming in the following years, that is fine, and they will use it to activate their entitlements. That is land that they own that they are farming and land that they rent that they are farming. If they are renting land out in future years, they do not use it to activate their entitlements; the person to whom they rent it would use it to activate their entitlements.

The Chairperson: Thank you very much.

Mr Buchanan: In looking through the responses to the consultation, I can see that the majority of the respondents go against a number of the Department's proposals. How does the Department propose to move forward on those proposals?

Mr Fulton: That is all part of the analysis that we will put forward to the Minister. It will all be clearly set out for the Minister, and she will decide how to progress. We will simply present the analysis and the recommendations, and the Minister will take it forward from there.

Mr Buchanan: Fair enough. Do you not think that it will be quite a difficult situation if, on some of those subjects, the Minister went against the majority of the respondents to the consultation?

Mr Fulton: The Minister will have to take on board a range of issues, so yes. Part of the decision-making process is to balance all those matters. A consultation is not a referendum; you are seeking stakeholders' views, and they are taken on board and given proper and due consideration before a final decision is taken.

Mr Buchanan: I would hope that the stakeholders' responses will be taken seriously in this instance.

Mr Fulton: Absolutely. That is why we did the consultation.

Mr Byrne: I congratulate the Department on its consultation exercise. I read the report and the submissions, and I noted that there was a wide variety of views and expressions of concern and interest. I was going to say that it was a fairly strong cocktail, but I will resist using the word "Molotov".

I have a question about the three designations that we currently have — lowland, DA and SDA. I appreciate that the officials might not have the figures to hand, but let us have a go at it. Do we have the numbers of farmers in each of those categories — lowland, DA and SDA — the average farm size in each of those areas and the average single farm payment for those areas?

Mr Fulton: We do not have those figures with us, but yes, we could provide them.

Mr Byrne: I appreciate that. At the end of the day, this discussion is about winners and losers and what is best for the overall development of agriculture.

Is the five hectares an arbitrary chosen figure, or has Europe thrown it out? Where has the figure of five hectares come from?

Mr Fulton: Five hectares is the maximum that we are allowed in the regulation. So, in the case of the UK, five hectares is the maximum threshold that we can establish.

Mr Byrne: Could you establish 2.5 hectares or 2 hectares?

Mr Fulton: Yes. That is right.

Mr McMullan: Thank you for your presentation. You were talking about entitlements. Has that been sorted out? Are we going to do away with them and start afresh? What is the position?

Mr Fulton: That is one of the questions that we posed in the consultation. One of the suggestions that we made in the consultation was that existing single farm payment entitlements should be extinguished at the end of this year and that we would reallocate entitlements in 2015 based on the area of land that farmers declared in that first year. That is question 4 of the consultation. We received very strong support for that suggestion. I think that 86% of responding organisations supported it and that 98% of responding individuals agreed with it. So, there is a strong level of support for that approach.

Mr McMullan: Entitlements are such an important part of the whole programme, Chair. I propose that the Committee writes to the Minister and asks her to move on that as soon as she can.

The Chairperson: Sorry, move on what?

Mr McMullan: Entitlements.

The Chairperson: You are asking the Committee —

Mr McMullan: — to write to the Minister and ask her to move on the issue of entitlements as soon as possible.

The Chairperson: Sorry, I am a wee bit confused. Is that not basically the SR that we dealt with earlier?

Mr Fulton: Maybe I can explain. We suggested in the consultation that we extinguish all existing single farm payment entitlements at the end of this year and start afresh, effectively in 2015 by reallocating entitlements to farmers based on the area of land that they declare in that year. It is a suggestion that received very strong stakeholder support through the consultation process. I think that it is very relevant at this time, because it is one of the important issues in the potential trading and transfer of entitlements. I think that that is possibly why the suggestion is being made to move earlier on the issue.

The Chairperson: I have certainly no problems moving forward on Oliver's point and proposal. One question that I have is this: if you cancel entitlements at the end of 2014 and reallocate based on the area of eligible land declared in 2015, rather than have a snapshot of the industry on an historical date, could you not skew the whole market?

Mr Fulton: It allows farmers to establish a bank of entitlements in 2015 that reflects their farming operation in 2015. There are almost inbuilt checks and balances in this, because it is over that area in 2015 that farmers would effectively spread the pot of single farm payment that they would take out of 2014. So, obviously, if they do not need that land, there is no point in trying to acquire additional land in 2015. That is because you dilute your support across that land, which determines the number of entitlements that you are awarded. Therefore, if you wish to be able to continue to claim those entitlements in future years, you have to continue to rent that area of additional land. So, it is really an opportunity to match your entitlements with your farming business. It is also, however, the opportunity for landowners to exit the system and to allow their tenants to establish entitlements on the area of land, which they are, effectively, freeing up by exiting the system in this year. So, there is a lot to commend in that approach. That is what we set out in the consultation, and that is the response that we got from consultees to the suggestion.

The Chairperson: The last time that this was done was 2005. Is that right?

Mr Fulton: Yes.

The Chairperson: I suppose that it is something that is needed, but I am asking whether it is right to do it in advance, or whether it should not just be a snapshot. I am confused about its actual operation and the potential threats or changes that it could bring to the market. That could then revert into something completely different the following year that could hurt production.

Mr Fulton: At one stage, quite early on there was talk about a potential land grab, with people going out to try to rent additional land in 2015. However, when people start to think through the implications of that, they will see that that does not seem to be a risk at this time. Indeed, the school of thought among some farmers is that they are not keen to spread their pot across land on which they do not have security of tenure. So, that is countervailing pressure.

I think that the best advice in all this is that farmers should think about their farm business's needs going forward and the size of landholding that they require to operate that business. They should base their decisions on that in 2015, rather than try to play the game in that year. At one stage, very early on, there was that concern, but I think that it has dropped away as people have thought their way through all the issues.

The Chairperson: Oliver, I know that you made a proposal, but I will come back to you at the end of this session, if that is OK. That is because members have some more questions to ask.

Mr McMullan: I will be going to Question Time at 2.30 pm.

The Chairperson: OK, I will try to get you in. Oliver is very much of a mind to propose one aspect of the basic payment system that you fronted up in the consultation period. What is to stop you moving forward on all those aspects? Why would we cherry-pick one and leave the rest?

Mr Fulton: It comes back to the Executive's involvement in all this. I suppose that we could split the issues into technical and more significant decisions. It is for the Minister to decide how she wants to package the overall system going forward.

Mr Milne: I want to ask about the status of an active farm number. If a farmer is not active, does the farm number stay with the farmer?

Mr Fulton: Is this to do with the case of somebody who is currently a single farm payment claimant but would not qualify for the payment next year?

Mr Milne: Yes.

Mr Fulton: I think that there are options for those numbers to be extinguished.

Mr McLean: At the moment, I think that the focus for 2015 is to ensure that the application forms will be targeted at those who will meet the active farmer requirements. At the moment, my understanding is that those business IDs, who, for one reason or another, do not claim single farm payment or any subsidy scheme, will remain dormant in DARD. However, except in a few cases, they more or less become meaningless, because the person does not have any correspondence with DARD.

Mr Fulton: There is provision in the trading of entitlements document, where someone is trading all their entitlements, to tick a box to declare whether they want to have the business ID extinguished or suppressed. If you were, effectively, stopping or quitting, as a farmer, you would have that option to request that.

Mr Milne: I ask that because, in planning terms, if a farmer wishes to have a home for his family or for a son or a daughter on the farm, he has to show his active farm number as part of the criteria. This is a very serious issue, because it ties in DOE and DARD. So, something has to be worked out to facilitate the farmer who owns the land and rents it out so that he does not lose his active farm number.

Mr Fulton: Yes. This goes back to planning policy and issues in the planning system. There is that linkage for those who wish to have single dwellings in the countryside. We have made the Minister of

the Environment aware of that, and he has written recently to the Agriculture Minister on the matter. So, that has been drawn to his attention.

Mr Milne: OK. I have a question about outstanding single farm payments for last year. I contacted Orchard House last Friday to make enquiries on behalf of two applicants, and I was told that the remote sensing had not come to them yet. If that is the case, given that the sensing operations were done in the middle of last year, is it not a bit ridiculous that they have not even come into the Department that will deal with them? The information that I have is that there is no change at all on the two farms in question, yet Orchard House has not received that remote sensing. That is what the girl told me on the phone last Friday, so, if that is the case, is it not a bit ridiculous?

Mr Fulton: Unfortunately, it is not an area that I can comment on.

Mr Milne: It is maybe something that you can make enquiries about. Quite often, when you phone Orchard House, you are given excuses that it is with the private company that did the remote sensing.

Mr Fulton: OK. I can certainly take that message away.

Mrs Dobson: I will refer you to question 29, which relates to ANCs. It appears from reading the responses that there is massive opposition, especially from farmers. I previously urged the Minister to hold a separate consultation on the designation of ANCs. Are you aware whether that is being worked on? If it is, will the responses help to shape the questions that the consultation may ask?

Mr Fulton: The particular question was about the nature of the scheme and the support. There is a separate issue about the designation. Obviously, the two are linked, in that, if you wish to have a pillar 1 measure, you have to have the designation in place to enable that to happen, and it would have to be from 2015.

The designation is very much a work in progress. We put information on to our website in December to expose the work that we have done to date to a wider audience. However, we have been talking to the stakeholder organisations on the project, and that has been ongoing since about 2009. So, it is quite a long-standing work stream, and the Commission has driven its pace.

At this point in time, we have quite a few questions and queries about the detailed application of the designation criteria. We are waiting for responses from the Commission to the specific questions that we have posed but also to further fine-tuning guidance that the Commission is expected to produce on 19 March. So, as I said, it is very much a work in progress at this point in time, and we will try to make that clear. However, we will nevertheless keep people up to date with where we are on the project.

Mrs Dobson: So, are you concerned that the designation of ANCs may not be completed in time for the pillar 1 scheme in 2015, or are you feeling confident that it will be?

Mr Fulton: If we were to go down a pillar 1 route, part of our consideration has to be whether we can get a designation in place in time. I think that it is also important for farmers that, if we were to introduce that from 2015, we notify them by October, particularly if people are in the conacre market. They would need to know the status of the land and whether it would qualify. So, the question of whether we could deliver it in the time frame would very much have to feature in our thinking.

Mrs Dobson: You do not know at this stage whether it is achievable.

Mr Fulton: As I said, we are waiting on further clarification from the Commission on the matter. We will see where we progress from there.

Mrs Dobson: Maybe you can keep us updated on that.

Mr Fulton: Certainly. That is not a problem.

The Chairperson: On that very important point about the ANC, that will be a massive amount of money, regardless of whether it is pillar 1 or pillar 2, and it will have a massive impact on a pot of money. How can the Minister and the Department ever have their plans and bids in place for additional moneys if they have not resolved the ANC issue?

Mr Fulton: I think that €16,250,000 per annum is the maximum that we could deploy under pillar 1. Under pillar 2, we pay about £25 million per annum under the LFA scheme. In the context of a £325 million pillar 1 support, that is the situation. If we are to have an ANC support measure in pillar 2, that is a significant chunk of money to come out of pillar 2 and to be financed from that. As we know, the available resources in pillar 2 are very constrained. So, this is all part of the overall package that has to be considered in the round and the prioritisation of support and where it best fits in that overall package.

I suppose that ANC is one of the most complex areas, because it could fit in either pillar 1 or pillar 2. It has different characteristics, depending on how it is taken forward. They are not precisely the same, and they are certainly not exactly the same in the level of support that could be directed through the measure. The resourcing issues are obviously very different. If we have an ANC scheme in pillar 2, it would not simply be a roll forward of the current LFA scheme. That is because the provisions in the LFA scheme would not fit with the new ANC requirements, so it would have to be a different scheme. It is probably the most complex aspect of the overall CAP reform package, and the designation issue is also right in the middle of it.

Mr Byrne: In the context of the historic situation of 2005 having been the base that determines the single farm payment even in 2014, and given that we want to see new entrants and young farmers enter active farming, will they have to establish entitlements on the 2014 form, or can they still wait and establish entitlements in 2015?

Mr Fulton: You raised quite a complex issue. It very much depends on circumstances, but, yes, there are provisions.

Mr Byrne: What are they?

Mr Fulton: There are provisions to bring young farmers in through this mechanism. For example, we can do that through the regional reserve. For young farmers starting up afresh, that is the only compulsory component of the regional reserve in not only 2015 but going beyond 2015. So, there certainly are mechanisms to bring young farmers in through that approach.

One issue that we consulted on — this is in the document — was a mechanism to bring in individuals who may have started farming after 2005 and who have no single farm payment entitlements. There is a mechanism to bring them into the system. That is one of the things that we recommended.

Mr Byrne: Will they have to make that application in 2014, or can they wait until 2015?

Mr Fulton: It is 2015. For that mechanism, they have to have been in production on 15 May 2013 and to never have held single farm payment entitlements. Therefore, they would not be making claims to the system at this point in time. If this option is adopted, they would come into the system in 2015.

Mr Buchanan: In Europe, minimal activity is an option in the delegated acts. If that was to happen here, how would the Department implement it?

Mr Fulton: This is for areas that are not really kept in a state that is suitable for agriculture. It is commonly referred to as the "Scottish clause", because it has particular relevance in Scotland, where there are one million hectares on which very little agricultural activity occurs. Indeed, the areas may be maintained through wild deer grazing. It is a particular issue in Scotland for those areas to define a minimum level of activity to prevent those areas from coming into the regime, saving support, with absolutely nothing going on. So, it was brought in to address that situation.

I do not think that we in Northern Ireland really have any land of similar character. Indeed, we asked some questions about that in the consultation document. It is not of particular relevance to Northern Ireland; it is really focused on the Scottish situation.

Mr Buchanan: So, do you think that the Department will not have any difficulty implementing it, as it will not be part of the Northern Ireland context?

Mr Fulton: Yes. If you were to go down that route, effectively, you would have to map such land, define it and define the minimum activity in that area. As I said, it is not really relevant to the nature of agriculture and the environment in which we farm here.

The Chairperson: OK. Ian, do you want to come in?

Mr Milne: I have to go, and I would not mind asking a question first.

Norman, thanks for your presentation. I want to ask about entitlements. A farmer's entitlement could be worth £2,000 a year now and £10,000 by 2019. You could tell farmers to sell their entitlements before May, and if you told them that they should go ahead and work it out with their accountant and sell those entitlements, you would be washing your hands of any transaction. If a flat rate is brought in next year, how will that affect the money for the person who bought the entitlements? Would there be a loss?

Mr Fulton: We cannot advise farmers whether to sell. It very much depends on their individual circumstances and what they wish to do. We are trying to put out as much information as possible to enable them to take informed decisions.

If we were to move to an immediate flat rate in 2015, the value of support that you would get in that year and in subsequent years would depend totally on the area of land that you declared in 2015. There would be no read-back to what you previously claimed in 2014. Therefore, if you purchased entitlements in 2014 for use, you could claim this year, but they would have no further value to you if we were to move to an immediate flat rate in 2015.

Mr Milne: So, that would be a loss.

Mr Fulton: Yes.

Mr Milne: Who would want to buy entitlements if the threat of a flat rate is there? You would not buy a business unless you saw the books and felt that it was viable. It is the same in this situation.

Mr Fulton: That is right, and, unfortunately, that is part of the uncertainty that farmers face. To clarify and to have certainty on the issue, you would have to address the whole package of support.

Mr Milne: Sorry if I am going on a wee bit, Chair; I really have to go to the debate. Is that not putting the cart before the horse a bit? Could a situation not be worked out so that we get a clear direction about when the flat rate will come into play and then give farmers the choice about whether they wish to purchase the entitlements?

Mr McLean: We are a bit constrained by what the EU regulations permit. The regulations state that the historical value of entitlements that will be used to work out the value of your entitlements in 2015 will apply to the entitlements that were held or activated in 2014. That would not, however, apply if there is a flat rate.

To hold an entitlement for the purposes of 2014, you have to be held it on 15 May 2014. Therefore, if you want to get more, you would have to buy entitlements or have them gifted to you. So, that has to be done by 2 May 2014, and it constrains the flexibility that we have in the timetable. Unless decisions are made before 2 May, it will not be possible to say, "Here are the decisions, now you can decide what you can do". You would be buying entitlements after 15 May 2014, but they would not count. Going back to your earlier point —

Mr Milne: I have to go off to ask a topical question in the Chamber.

The Chairperson: Go ahead.

Mr McLean: If there is a flat rate in 2015, it will mean that the person buying the entitlements in 2014 will get for those approximately 0.9 times their face value, because a scale-back of 9.25% approximately will be applied to entitlements in 2014. However, there are other scenarios where they could be worth considerably more. If we move halfway towards a flat rate by 2019, as the Department suggested in the consultation, they could be worth up to 3.6 times their face value to the person buying them. So, clearly, they have to weigh all of that up and look at how much they are prepared to pay for it, given the uncertainty around the policy decisions and the risk that they are prepared to take. A landowner might decide to claim them in 2014, when they are 0.9 times their face value, and they can weigh up what they can get for them and decide whether it is beneficial to trade or not. As has

already been pointed out, the Department is not offering anybody any advice on what they should do about buying or selling or trading entitlements.

Mr Fulton: It is very much "Here is as much information as we can possibly feed into the public domain on all of this". It is on our website, and it is then for individuals to take their decisions in the knowledge that it is imperfect information. Unfortunately, that is where we are at this time.

Mr Buchanan: You are leaving the farmers in a situation where they have to take a gamble where they either buy or do not buy. They could buy and stand to make a huge loss. I would have thought that the Department could come out and be a bit clearer so that the farming community knows exactly where it stands on this issue.

Mr Fulton: The only way that clarity can be given is for a decision to be taken on the package and to be announced, because that is the only way that those issues can finally be nailed down.

The Chairperson: I want to bring Oliver back in with his proposal. Can you repeat that for the members?

Mr McMullan: It is just a proposal to write to the Minister to deal with this issue of entitlements ASAP.

The Chairperson: My issue with that is that it seems to pluck or cherry-pick one aspect of the whole gamut of pillar 1 payments. That worries me. I support the principle of your suggestion, Oliver, but I could also add that we write to the Minister to ask that she support a two-region model. I could also write to say that I would rather she did not move to a flat rate 50% but to a 38% flat rate. I am worried that the Committee will end up writing to the Minister concentrating on one tiny aspect — albeit an important one, and one that I support. I want other members' thoughts on that before I proceed.

Mr McMullan: Do you see the importance of the entitlement issue, based on what you have heard today from Norman?

Mr McAleer: The decision around entitlements is the one that is right in front of us right now. I support Oliver in what he is saying. Those other issues can be dealt with, and we want them to be dealt with, but right here and right now that has to be sorted. It is critical.

Mr Byrne: I think that it is fair to say that there is great confusion among farmers about how they should approach the 2014 form. That is where there is an added degree of urgency to the situation. The ideal thing would have been if the Minister had made a policy decision on whether there should be one or two zones and on the entitlements all at the one time, as has been done in other regions and other national states. That has not happened here. It looks to me as if we need some clarity very quickly on the entitlements to afford farmers an opportunity to make a proper decision before they make their 2014 application. On that basis, I support the confinement that this issue be dealt with immediately by the Minister to provide some clarity to farmers who are making their current application. The issue of entitlements seems to be a crucial one and is uppermost in farmers' minds. There is so much uncertainty here that confusion is reigning supreme. That is the problem.

The Chairperson: There is the issue of entitlements and what we do for 2 May. Oliver, your issue is slightly different in that it forms part of what was in the consultation: the cancellation of entitlements at the end of 2014 and the re-evaluation or redistribution in 2015. That is different. Is that not right, Norman? There are two different issues here.

Mr Fulton: Yes, but there obviously is a linkage between the two.

The Chairperson: Yes. I do not know whether any other members want to speak. However, I propose — I know that you proposed this, Oliver — that we write to the Minister asking for clarification on what her intent is on the existing entitlements and whether she is minded to cancel the entitlements at the end of 2014 and reallocate them based on land declared in 2015. If we got that back for next week, we could make a decision either to support her or to support doing that, whether she says it or not.

Mr McMullan: That is similar to what I proposed already, Chair.

The Chairperson: Other than seeking further —

Mr McMullan: That is really an amendment to my proposal.

The Chairperson: I am just asking that you withdraw your proposal until we get more clarification and seek more guidance, so that we can make a more informed decision next week.

Mr McMullan: We are not going to get any more guidance next week than we have this week. We know what is in front of us with the entitlements. That is what I am asking to do now, because that will give clarity out there. Once we ask the Minister to come back to us about what she is going to do, that will give — as Joe said, there is confusion, but that would give clarity out there. What you are saying is that we write to her to ask what she is going to do. We should write to her to tell her that we want this thing on entitlements sorted.

The Chairperson: Again, my point is that those are two separate issues. What farmers do at the minute up to 2 May and the entitlements issue within the whole pillar 1 payment scheme are different issues.

Mr McMullan: That is why I proposed writing to her to ask her to move on entitlements now.

The Chairperson: OK.

Mr Byrne: Chair, maybe between Oliver, you and the Clerk, you could sort out the wording of the text of a letter before the end of the meeting. Let us agree, in principle, that we will write a letter.

Mr McMullan: Did you say "today" or "May"?

Mr Byrne: The end of the day.

Mr Buchanan: If I am reading the situation right, I think that the Committee is looking for the Minister to provide clarity on the issue. All that we are doing is writing to the Minister to ask her to provide clarity on the issue. Is that not right, Chair?

The Chairperson: That is basically what I am proposing, so that we can see what the Minister is prepared to do. We as a Committee can either support that or not, or urge her to do it. That is the only difference.

Mr McMullan: Will you come back to me with the draft this afternoon so that we can see it, because we cannot make two proposals in one day?

The Chairperson: I understand that.

Mr Buchanan: We can make as many proposals —

The Chairperson: It would mean that you have to remove your proposal before that can happen.

Mr McMullan: But if we want clarity on something —

Mr Buchanan: It is unfortunate that we have a Minister who has not provided clarity on the issue. I would have thought that she would have provided clarity for the Committee, seeing that this issue is causing so much confusion in the farming community.

Mr McMullan: We have a chance now —

The Chairperson: Again, I stress that I support your call, but it is just a case of making sure that the Committee keeps itself right and informs itself with all the information.

Mr Byrne: I think that it is important that the Committee has a united voice in the letter that it sends. At this point in time, I do not think that farmers want to hear of a squabble in here about this.

The Chairperson: We will work on a letter, if that is OK, Oliver, and address that before the end of the meeting.

Mr McMullan: Thank you. Sorry that I have to run.

The Chairperson: You are OK; I understand.

I had to deal with Oliver, because I was mindful that he had to go. However, I am still not finished with you, Norman, so you cannot relax just yet. The issue I brought up there to exemplify the Committee's position is the one region/two region debate. Some of us suggested looking at the three-region model with regard to moorland in the same way that Wales did. Why was the Department not able to look at moorland?

Mr Fulton: OK. I will deal with that particular issue. In the consultation, we constructed an analysis based on a very preliminary estimate of what moorland might look like. That construction was based on countryside survey data, so it would not in any way represent a robust moorland map. You would have to ground-truth it. Effectively, you would have to have people out on the ground confirming the vegetation cover. Of course, that is where you get into great difficulties in practical terms, because effectively you are saying to farmers: "If you fall on that side of the line, you will get a significantly lower level of support than if you fall on this side." Therefore, there is great difficulty in brokering that type of arrangement.

Also, you have to look at what Wales has done. Its definition of "moorland" is moorland above 400 metres, and that accounts for about 15% of Wales or thereabouts, if memory serves me correctly. If we were to apply that definition here, we would be looking at 1.5% of Northern Ireland and, in those circumstances, the worth of a moorland region — where you have 98.5% in one region and 1.5% in another — does not really make much sense. So the model that was introduced in Wales suits Wales. It simply would not translate into a sensible proposal here. How we define "moorland" is very different to how Wales defines it. They are very different animals.

The Chairperson: Let us move to the two-region model. That is backed, despite the consultation responses — the personal responses and the organisational responses — by influential bodies such as the Ulster Farmers' Union and the Agri-Food Strategy Board. Both say that it is the best model to help achieve production, advance industry and move the Agri-Food Strategy Board forward. How do you counter those arguments when, from the very word go, you had angled towards a one-region strategy?

Mr Fulton: If you take it back to the very basics of what pillar 1 support is all about, you find that it is not about supporting production or enhancing productivity. It is fundamentally an income support payment. You cannot really link the distribution of support to production or productivity issues. You should also look at the evidence base. We have had this modelled with the food and agricultural policy research institute team at Newforge. Moving to flat-rate support has absolutely minimal impact on production, so therefore it is not a production issue — certainly not in the longer term. When it comes to the redistribution of support, the more important issue is giving time for businesses to adjust. That is the key issue.

Look at the detail of the union's proposal. Effectively it recognises that an SDA region creates real difficulties within that region for the cattle sector. The only way that you can overcome that is to introduce a headage payment to offset the two-region model. Headage payment is pillar 1, so really you are looking at coupled support. Because you are dealing within pillar 1 and another redistribution of pillar 1 funds to create the budget to provide that headage payment, when you model it through, the net benefit of all that to lowland agriculture is absolutely minimal. The difference between the single-region model and the two-region model as regards lowland agriculture is between 0.2% and 0.4%, so it makes virtually no difference for lowland agriculture. Perversely, where it makes a difference is in SDA agriculture, where it leads to a redistribution of support in favour of the cattle sector and away from the sheep sector.

So it has impacts that are completely outside those intended. In terms of the intended impact — the retention of support to lowland agriculture — it has minimal benefit. However, you end up with a very complex support regime, because farms that straddle the boundary have a set of entitlements that can only be claimed for one part of the farm and cannot be used on the other part because the entitlements are ring-fenced. Plus, if you are talking about a headage payment only for animals within the SDA, again, if the holding straddles the boundary then part of the herd qualifies for the support and

part does not, so you end up with a very complex overall support regime without actually achieving what you set out to achieve at the end of the day. Take it back to the very fundamentals: pillar 1 is not to support production or productivity. That is the starting point.

The Chairperson: But what we have to ensure, I am sure you will agree, is that it does not affect production and food security.

Mr Fulton: That is correct. I think the issue there is really around the pace of the transition towards a flat rate. That is really the key issue.

The Chairperson: How do you counter the argument that, with a single region, applying your logic, there are still massive winners and losers, which could affect a sector or sectors to the point where we lose production?

Mr Fulton: No matter what way we do it, there are always going to be winners and losers. I will just bring Mark in on that point.

Mr McLean: If the concern is the amount of redistribution that is going on, I know that there are counterarguments. It has been argued that the people who have the highest payments per hectare at the moment are the most productive farmers, but that is not the case right across the board, because some sectors had low historical support. Vegetables did not have any historical support, and so on. Even if you go with that assumption, a single-region model, if you reach a flat rate, will redistribute 30% of moneys, basically from losers to winners. Introducing two regions would change that from 30% to 28%. If you brought in the moorland, it would still be 28%. That is a very small difference. If you were to move halfway towards a flat rate, the 30% would go to 15% or the 28% to 14%, so you could be talking about a difference of between 14% and 15%.

So, increasing the number of regions makes very little difference to the amount of redistribution. The big issue in terms of the amount of redistribution and what individuals are going to get is how far you move towards a flat-rate payment. If you just look at it simplistically, if somebody is getting €600 or €700 per hectare, the big issue is not whether they go to €329 or €379, it is how far they go towards those values that will have the big impact on their support.

One further point is that we have looked at farmers who will stand to lose under the single-region model and under the two-region model. They are different farmers, but the numbers are similar under both. The proportions of dairy cows, suckler cows, ewes, cattle and sheep that they account for are all very similar, whether there is a single region or two regions.

Mr Fulton: We have done a substantial amount of analysis around that issue.

The Chairperson: I understand, and I am glad that you have. With regard to the point about the real factor being the transition and the convergence, is the Department minded to lower the percentage of convergence by 2019 to 30% rather than 50%, in order to allow even more time for business to adapt?

Mr Fulton: The position that we have always taken, right from the very earliest stage of the CAP reform process, is that we are not against the principle of moving towards a flat rate. The issue is really the pace of progression towards a flat rate. We accept the argument that it is very difficult to justify differing levels of support to different farmers based on what happened 20 years ago, and it becomes more and more difficult as time wears on. So, really, it has always been an issue about transition. We suggested in the consultation, in line with a 10-year transition, that, by 2019, in five years, it would be halfway. You have seen the responses that came back from the consultation on that issue. There are a range of views. However, only one stakeholder group asked for a slower rate of transition. All the rest supported either 50% or moving faster. At the extreme was support for an immediate flat rate. That is the range of views that we got back from the consultation process, and those are the issues that the Minister will now need to consider.

The Chairperson: I have one final question. The Ulster Farmers' Union would argue that to implement a one-region model now, after putting so much store into the argument of operating on a regional basis with Scotland, England and Wales, would undermine our argument, which worked very well. Indeed, I congratulate the Department for achieving a result for Northern Ireland, compared with Scotland, England and Wales, which is a historical thing also. To actually argue the case and, then,

when it is successful, immediately implement a single-region model, defeats and undermines our argument.

Mr Fulton: I do not think that that argument stands up to a lot of scrutiny. In practical terms, the debate in the UK this time around was not so much about a move to equalisation across the regions. The core issue was that the UK got a small additional amount of support, and the debate was about the distribution of that support across the regions. There was no substantial argument or debate around the equalisation of support within the UK. If we were to advance to that, I do not think it would put us in any better position to have two regions compared with one. Say, for example, we were to have a two-region model — lowland and DA. The average payment in that area would be €379. In Wales, the payment in the lowland region is £240, and it is similar in England. Therefore, a lowland dairy farmer in Wales or England gets €240, but in Northern Ireland gets €379. Why? I do not think it puts us in any stronger position in that debate.

The other thing to recognise is what has happened in England, in particular. It has a three-region model — this is probably the final year of it — of moorland, other SDA and other. It has gone to a position of combining SDA and other, because it does not see any continuing justification for that split. It has progressed to merging those regions.

The Chairperson: Final, final question: why are we still debating this, talking this through and messing about with this, when it is clear that the other regions and the Republic of Ireland have finalised decisions? Their farming businesses at least know what is happening, good or bad.

Mr Fulton: That goes back to the very first question this afternoon. We aim to have our recommendations, advice and analysis with the Minister by the end of the month. It then effectively enters the political arena. That obviously is not in our gift and is something that has to play itself out. That is all I can really say on the matter.

The Chairperson: But yet, no matter about any other region, there was always going to be a political phase. They have done the administration phase and gone to the political phase, and are now through that, but we have not finished our administrative phase, whereas everyone else has. We have not even got to the political bit yet. Why is that the case?

Mr Fulton: We are, for example, ahead of Scotland, which only launched its consultation not that long ago. It is further behind than us. We have all gone at slightly different paces. The full suite of decisions has not been announced yet for England. It is still debating the level of support for the moorland area. That still has to be resolved. It is not the case that other regions have taken all the decisions and are moving forward. We are not in that position. We are acutely aware that the industry very much wants to know where it stands and what it will face next year. Also, from a departmental perspective, we have to deliver this next year. Therefore, we need to know what it is we are expected to deliver, on time and accurately. For the Department, the sooner a decision is made, the better.

The Chairperson: There are no further questions. Thank you very much for your attendance. It was a bit of a marathon session on a very important issue.

Mr Fulton: If the Committee has any views that it wants to feed to us at this final stage of the consultation process, we are happy to take those.

The Chairperson: If we get a chance to discuss that as a Committee, we certainly will. We will see what comes out of the proposal today. Thank you very much.

Mr Fulton: Thank you.