BRITISH-IRISH
INTER-PARLIAMENTARY BODY

COMHLACHT IDIR-PHARLAIMINTEACH
NA BREATAINE AGUS NA hÉIREANN

REPORT

from

COMMITTEE B (European & International Affairs)

on

REFORM OF THE COMMON AGRICULTURAL POLICY (AGENDA 2000)

Doc No. 67 **July 1999**

Introduction

1. A principal focus of European Union policy-making over the past two years has been the package of proposals for reform known as Agenda 2000. This package was originally put forward as a discussion document in July 1997, and was formally adopted by the European Commission in March 1998 as a basis for consultation with member states. Agenda 2000 included proposals for major reform of the Common Agricultural Policy (CAP). These seemed likely to have a significant impact on the rural economies of Ireland, both North and South. We therefore decided, in September 1998, to conduct an inquiry into the likely impact of the CAP reform package on the rural economies of the island of Ireland.

2. In the course of the inquiry we received written evidence from the European Commission, the EU Committee of the Regions, the Irish and British Governments, the Irish Farmers' Association, the National Farmers' Union, the Northern Ireland Agricultural Producers' Association, the Ulster Farmers' Union, the European Landowners' Association, the National Consumer Council, the Consumers' Association and the General Consumer Council for Northern Ireland. A selection of the memoranda received from these bodies is appended to this report.

3. We took oral evidence in London on 5 March 1999, from Mr Tom Stainer, Chief Economist, and Mr Ivan Hunter, Principal Economist, of the Northern Ireland Department of Agriculture. On 21 May we held meetings in Belfast with representatives of the Ulster Farmers' Union and the General Consumer Council for Northern Ireland, and with Lord Dubs, Minister for the Environment and Agriculture in Northern Ireland. On 18 June we held discussions in Brussels with civil servants at the European Commission; and on 28 June we met in Dublin, where we took evidence from representatives of the Irish Farmers' Association, the Irish Creamery Milk Suppliers Association, Teagasc (Ireland's national Agriculture and Food Development Authority), and the Department of Agriculture. We are very grateful to all those who submitted written and oral evidence to us during the inquiry.

History of the Common Agricultural Policy

4. The European Commission describes the Common Agricultural Policy as having been "since the 1960s ... one of the most important, expensive, and controversial of European policies".[1] The aims of the CAP are set out in Article 39 of the Treaty of Rome as being to increase agricultural productivity by means of "technical progress and ... the rational development of agricultural production', 'a fair standard of living for the agricultural community', stable markets, guaranteed supplies, and reasonable prices for consumers. The policy provides for harmonised prices and rules between EU member states. In its early years the CAP operated almost entirely by means of price mechanisms, guaranteeing prices by market intervention, with produce being taken off the market and into storage as necessary.

5. By the early 1980s the greater efficiency of modern agriculture, operating within the framework of the CAP, was generating enormous unsellable surpluses, at great

cost to the European taxpayer. Meanwhile, the food shortages of the inter-war years had become a distant memory, and the EU had become self-sufficient in most commodities. Reforms were introduced to reduce the level of intervention; these included capping production through quotas (introduced in the milk sector in 1984, later extended to other products), financial incentives for farmers to "set aside" productive land as fallow, and increased use of direct income support to farmers.

6. The so-called "MacSharry reforms" (named after Mr Ray MacSharry, the then Agriculture Commissioner) were agreed in May 1992. These provided for a further shift away from price support towards direct income support, combined with reductions in guaranteed prices, and compensation schemes aimed at reimbursing farmers for the consequential loss of short-term income.

The Need for Further Reform

7. Despite these reforms, the CAP as currently operated remains the subject of severe criticism from a variety of quarters. The European Commission itself has listed the principal criticisms:

Expense

8. Even after recent reforms, the CAP still takes up nearly half of EU expenditure—40,920 million euros out of a total planned EU budget for the year 2000 of 91,995 million euros—with intervention buying the largest single element in that budget.[2] Meanwhile, consumers' organisations complain that a system based on guaranteed prices for farmers means unnecessarily high prices in the shops.

Rural Development and the Environment

9. One of the purposes of the CAP has been to sustain rural communities. In practice, financial support for farmers has had limited success in halting rural depopulation. The CAP has also been criticised for its encouragement of intensive agriculture, and for neglecting the importance of food safety and animal welfare. The European Commission acknowledges that

"all these factors combine to create a bad image of the CAP in the minds of the public. An agriculture which pollutes, which contributes inadequately to spatial development and protection of the environment, and which, because of its undesirable practices, must take its share of responsibility in the spread of animal diseases, has no chance of long-term survival and cannot justify what it is costing."[3]

World trade issues

10. The CAP has been unpopular with Europe's trading partners because of what they regard as its protectionist nature. Duties on agricultural imports ensure that these enjoy no price advantage over EU-produced foods, and exports are subsidised by the system of "export refunds" (producers are entitled to a refund of the

difference between the price which they can obtain for exported produce and the EU agreed price). The World Trading Organisation (WTO)[4] agreement reached in 1996 commits the EU to reducing the level of exports made with the help of export refunds, and the next round of the WTO, on which negotiations commence in Seattle in November 1999, is expected to require further reductions, and a decoupling of income aid to farmers from production.

Diversity and Enlargement

11. Since the 1960s the number of member states of the EU has expanded from six to 15, and there is a prospect of further expansion to take in some or all of the countries of Central and Eastern Europe. A potential consequence of this enlargement of the Union is a 50% increase in agricultural land and a doubling of the farm labour force.[5] The European Commission comments on the need to incorporate these "heavily agricultural and relatively poor" economies without destabilising agriculture either in the existing member states or in the new members. Enlargement in conjunction with an unreformed CAP raises the prospect of massive increase in the cost of the CAP to European taxpayers. Mr John Bensted-Smith, Member of Cabinet to the Agriculture Commissioner, Mr Franz Fischler, told us that the candidate EU members would be potential suppliers of low-priced raw materials in bulk, although their low efficiency would make them uncompetitive in all other respects. It would not be realistic to pay them direct aids in full from the day of accession, even if the EU could afford to do so, because that would treble or quadruple farmers' income and completely unbalance the relationship between rural and urban settlement.

Projected Future Demand

12. The European Commission anticipates that EU production of cereals, beef and dairy products will outstrip rises in internal EU demand over the next few years.[6] The Commission argues that this will make maintenance of the status quo increasingly untenable:

"In theory, a growing world market could offer a solution to overproduction. But the current price support mechanisms keep EU prices well above world prices, so this option is closed. The EU would be left with the unpalatable choice between a return to the vast 'grain mountains' of the past, or production controls like leaving land 'set aside' on an unacceptable scale."[7]

The Agenda 2000 Proposals

13. The "Agenda 2000" proposals in relation to agriculture were the Commission's attempt to reform the CAP to take into account these various criticisms. The proposals, approved by the Commission in March 1998, were intended to make EU agriculture more competitive globally and to address the needs of rural development and the environment. In outline, the proposals were to:

(1) cut support prices for cereals, beef and dairy products:

cereals: a 20% cut in the intervention price in 2000 would be coupled with an area payment to avoid a heavy potential increase in cereals surpluses;

beef: a 30% cut in the intervention price between 2000 and 2002;

dairy: the present milk quota system would be retained until 2006, but with 10% cuts in average support prices by that year;[8]

(2) increase direct support to farmers by hectare or head of livestock in order to compensate them for loss of income. (Some of this compensation would take the form of "national envelopes", distributed according to the size of national production; each member state would be able to allocate this money as it chooses, subject to certain limitations aimed at preventing "distortions of competition".)
(3) give member states powers to set conditions on the payment of direct support, such as environmental requirements, limits on intensive farming, or employment levels; savings arising from farmers' failure to comply with such conditions, thus forfeiting direct payments, would be kept by member states and spent on agri-environmental measures;
(4) apply reductions to CAP receipts over certain ceilings, large farms being deemed to need less support than smaller farms;
(5) make "set aside" voluntary; and
(6) rationalise and simplify policy on rural development, which would become "the second pillar of the CAP".

Initial Response by the British and Irish Governments

14. The initial response by the British and Irish Governments to the CAP reform proposals in Agenda 2000 reflected significant differences in the agricultural economies of Ireland and the UK. Britain is a net contributor to the EU, its agricultural sector is less important in comparison to other sectors of the economy and it has a special relationship with Commonwealth countries. Ireland, on the other hand, is a net beneficiary from the EU budget and has a large agricultural sector. The British Government's view is that CAP reform is necessary to reduce food prices for consumers and that direct support should be more targeted. The Irish Government, however, has tended to be less comfortable with CAP reform, while recognising its inevitability.

15. The Irish Government estimated that the original Agenda 2000 proposals would have cost Irish farmers up to I£233 million in the first year after all the changes were phased in (year 2003), and that the total cost to farmers would have been I£1,386 over the seven-year period 2000 to 2006.[9] The Irish Minister for Agriculture and Food, Mr Joe Walsh, argued within the Council of Ministers that the proposals did not provide for equity between member states and between different types of production, and that they "would seriously damage Irish agriculture and the Irish

economy".[10] We comment later in this report on the extent to which agriculture in Northern Ireland resembles that in the Republic more than it does that in Great Britain; a consequence of this is that the original CAP proposals would have had a disproportionately severe impact on Northern Ireland farmers by comparison with those in the rest of the UK.

16. The British Government was considerably more supportive of the original package. It welcomed the general thrust of the Commission's proposals, involving a significant movement away from market price-support. It regarded the additional expenditure as more than outweighed by the savings for consumers arising from the support price cuts.

17. The British Government's main criticism of the proposals was that they did not go far enough in reducing market distortions. It wished to see progress towards the complete removal of milk quotas by 2006, and a principle of "degressivity" introduced, whereby direct farm payments would be scaled down over time to the benefit of taxpayers. The Government opposed the proposal to introduce an EU-wide ceiling on direct payments to larger farms, on the grounds that this would discriminate against British agriculture's more efficient farm structure. Finally, it pressed for compulsory set-aside to be abolished altogether, rather than set at zero, and for greater flexibility for voluntary set-aside.

The Berlin Agreement

17. Modified CAP reform proposals were agreed by the EU Agriculture Council on 11 March 1999. A final version, with some further changes, was agreed by the EU Heads of Government at their summit meeting in Berlin on 24 and 25 March 1999 to approve the overall EU budget. The Berlin decisions represent the end of the Agenda 2000 negotiation process in respect of agriculture.

18. The principal changes from the earlier Agenda 2000 proposals were as follows:

cereals: a 15% cut (reduced from 20%) in the intervention price, to be introduced in two equal steps in 2000 and 2001 (rather than being introduced in one go in 2000)**,** coupled with an area payment; the base rate for compulsory set-aside was fixed at 10% for the whole period 2000-06;

beef: a 20% cut (reduced from 30%) in the intervention price between 2000 and 2002, and a restructured compensation package including a new slaughter premium on all animals;

dairy: the present milk quota system would be retained until 2007 (instead of 2006), but with 15% cuts (replacing 10%) in average support prices by that year; the UK received a quota increase of 1.5% (with Northern Ireland receiving an additional 1.3% over and above this) and Ireland an increase of 2.86%.[11]

The proposal to apply reductions to CAP receipts over certain ceilings on a Europe-wide basis was removed from the package.

19. The Berlin summit fixed the total EU budget for the next seven years, 2000-06. It decided that the CAP reform decisions must be implemented within the annual average ceiling of 40.5 billion euros (plus 2% per year for inflation) for 2000-06, together with an additional 14 billion euros over that period for rural development.

Government Responses to the Berlin Agreement

20. Both Governments welcomed the agreement reached on 31 March, though the British Government acknowledged there were several areas in which its negotiating objectives had not been met. The Irish Minister for Agriculture and Food, Mr Joe Walsh TD, described the final settlement as

"A major negotiating achievement ¼ Not only has a major cost to the sector been avoided but a large and welcome increase in support and in milk quota has been achieved and our customers will also gain from lower prices. Over the next seven years premium payments to farmers will increase by about 70% from £583 million to £970 million."[12]

21. The Irish Government states that the whereas the original proposals would have been fully effective from 2003, giving a loss of I£233 each year thereafter, and a total loss of I£1,386 million, the final agreement will not be fully effective until 2007, when it will result in a loss of I£14 million, following significant gains in the previous seven years. Total transfers to Ireland from market supports, premia and accompanying measures will be effectively I£10 billion over the period 2000-2006.[13]

22. The British Minister of Agriculture, Fisheries and Food, the Rt Hon Nick Brown MP, called the deal agreed at the Agriculture Council on 11 March "a very good outcome from British consumers, for our farmers and for the environment". He stated that once fully implemented, the cuts in price support would benefit British consumers by UK£1 billion a year: "that is equivalent to a saving of up to £70 a year for a family of four if the effect of the price cuts feeds through fully". He welcomed the cereals and beef price cuts, taking prices of both products closer to world market levels, and said he was "extremely pleased" that the proposal for an EU-wide ceiling on individual farmers' direct payments had been removed from the package.

23. On the other hand, Mr Brown said that the package held "two major disappointments" for the UK. One was the failure to make direct farm payments degressive over time. The other was the continuation for the foreseeable future of milk quotas, although the UK would receive a "very welcome" increase of nearly 240,000 tonnes, some of which was specifically earmarked for Northern Ireland.[14]

24. Commenting on the eventual Berlin Agreement two weeks later, Prime Minister Blair pointed out the limited gains that had been made, and noted in particular that EU agricultural spending in 2006 was planned to be less than 2% in real terms above its 2000 level (as compared to the increase of 9% agreed at the Edinburgh European

Council in 1992), but accepted that the UK would have liked the reforms to have gone further.[15]

The Impact on Northern Ireland

25. The Department of Agriculture in Northern Ireland (DANI) supplied us with projections of the impact on Northern Ireland both of the original Agenda 2000 proposals,[16] and the revised arrangements agreed at Berlin.[17]

Beef sector

26. DANI calculates that under a "pessimistic scenario", market prices might fall by 20% against a 1998 baseline, and under an "optimistic scenario" by a more moderate 16%. Under both scenarios, the reduction in market returns is more than offset by the increased compensation payments. Under the optimistic scenario, the overall value of cattle output increases by UK£25 million per annum, with a UK£7 million gain under the pessimistic scenario.

Dairy sector

27. Similar calculations for the dairy sector show the 15% reduction in dairy product support prices leading either to a fall of 17% in raw milk prices (pessimistic) or a fall of 13% (optimistic). In both cases, the new compensation measures and the extra income from the additional quota fail to offset the lower market returns. In the optimistic scenario, the value of output falls by UK£7 million per annum, with the loss rising to UK£20 million under the pessimistic scenario. However, DANI states that there is strong case for discounting most of the dairy reform measures, because the main implementation period does not commence till 2005, "by which time budgetary and WTO pressures may have prompted a re-examination of the dairy regime or even the entire CAP". If this approach is followed, the only medium-term impact in Northern Ireland will arise from the additional quota allocation, which will generate extra gross income of UK£2.7 million per annum under both scenarios.

Arable sector

28. Under a pessimistic scenario, the 15% support price cut in the arable sector will be fully transmitted, leading to a fall in the overall output value of cereals (plus other aided arable crops) or UK£1.8 million. Under an optimistic scenario, the equivalent figures are 13% and UK£1.4 million. However, lower cereal prices will have a beneficial effect on the input costs of animal feedstuffs, with net gains of between UK£4.2 million and UK£4.8million per annum.

DANI's conclusions

29. DANI estimates that the mid-point of the range of aggregate income effects between the optimistic and pessimistic scenarios across all sectors, against a 1998 baseline, indicates a "small but positive" impact of UK£4.5 million per annum from the final Agenda 2000 agreement. If the deferred dairy measures are discounted, the

projected overall impact is a gain of almost UK£21 million per annum for Northern Ireland agriculture.

Other Witnesses' Views of CAP Reform

Farmers' and Landowners' Views

30. The Irish Farmers' Association (IFA) welcomed the Berlin Agreement as an improvement on the original Agenda 2000 proposals, which they regarded as potentially very damaging to Irish Agriculture. The President of IFA, Mr Tom Parlon, commented that the Berlin decisions were "all that could have been achieved in the circumstances". He welcomed the reduction in cereal price cuts, the deferral of dairy reform by two years, and the successful resistance to the introduction of degressivity. The IFA's Chief Economist, Mr Con Lucey, said that IFA's campaigning had "been effective in rolling back the severity of the ... CAP Reform proposals".[18] Mr Lucey told us that Irish farmers now knew the parameters of EU policy for the next seven years and could plan with greater confidence—although he added that the pressures of WTO negotiations and EU enlargement might force the subject of CAP reform back onto the EU agenda earlier than planned. Mr Ciaran Dolan of the Irish Creamery Milk Supplies Association told us that the Berlin agreement was likely to stabilise Irish farmers' income in real terms over the next seven years, although that had to be seen in a context of an anticipated rise in Irish non-farm incomes of 30% during that period and of a continuing reduction in the numbers employed in farming.

31. British farmers' representatives took a similar approach to their Irish counterparts on most aspects of the CAP reform proposals, but with some significant differences, particularly with regard to the eventual outcome on milk quotas. The National Farmers' Union of England and Wales (NFU) described the original Agenda 2000 proposals to us as "a basis for discussion". They supported the principle of reducing prices towards world levels in order to make European farming competitive, provided that compensation were payable to avoid "highly damaging" effects on farm incomes. However, they opposed several of the specific measures proposed by the Commission. They particularly resisted the creation of "national envelopes", on the grounds that (a) they questioned whether the British Government would pay out the national envelope in full, (b) they thought the Government might modulate the funds towards certain producers or areas, creating further distortions of competition, and (c) they feared that once the concept of national envelopes was established, the European Commission might gradually withdraw funding, leaving members states to decide whether to continue to make payments. The NFU also opposed labour unit modulation which would penalise efficient farmers, degressivity in regard to direct payments, and the proposals on cross-compliance.[19]

32. The President of the NFU, Mr Ben Gill, described the revised package of proposals agreed at the Agriculture Council on 11 March as a "mixed bag". He said there had been "major victories" on points the NFU had pushed for, including the

absence of degressivity and of capping of support payments to farms above a certain size. However, he expressed concern at the extra milk quota given to four member states and to Northern Ireland, and said "we are desperately worried about the impact of the extra milk quota in Ireland on the English and Welsh market—the NFU has consistently stressed that any quota increases should be market-led and pro-rata among member states".[20]

33. Mr Gill described the results of the Berlin Summit as "deeply disappointing". He said that

"the original agreement made by farm ministers has been partially unpicked and in now considerably worse. ... British farmers will pay a heavy price for a deal which seems to have been made to allow some Governments to claim a symbolic victory".

He condemned the 10% set-aside rate, and the two-year delay in milk reform: "English and Welsh farmers will now have to wait six years for any quota increase, while some of their competitors will get very large increases next year. This means we will have to deal with Irish milk, for example, coming into our market and depressing domestic prices."[21]

34. The Ulster Farmers' Union (UFU) noted the DANI calculations showing a small gain in Northern Ireland agricultural income arising from the final settlement. However, they pointed out that the overall figure masked significant variation between sectors, and that the baseline for comparison was 1998, a year in which agricultural incomes were at their lowest in real terms for nearly 20 years. In recent years a number of factors (BSE, the strength of sterling, higher production costs) had led to significantly lower incomes for farmers, and this trend now looked likely to continue for at least another five or six years.

35. The UFU criticised the negotiating stance of the British Government over Agenda 2000. They argued that there had been many concessions to other member states, but because the British Government had signalled its desire for reforms even more radical than those proposed by the Commission, the German Presidency had seen no need to "buy off" the British. Like the NFU, they expressed disquiet about the use of national envelopes, urging that payment of funds available within the envelopes should be mandatory, and that the distribution of funds from the UK's envelope should be based on the importance of agriculture to the economy of each region rather than on the region's share of the UK's output within each sector. The UFU opposed modulation and felt the Agenda 2000 cross-compliance measures were ill-conceived. Finally, they emphasised the importance of recognising the links between the agricultural economies of Northern Ireland and the Republic of Ireland—we deal with this issue in a later section of this report.

36. The Northern Ireland Agricultural Producers' Association (NIAPA) also voiced scepticism about the use of national envelopes, arguing that funding should be provided on a regional not a national basis, and that any funds so provided should be specifically targeted at addressing disadvantage among farmers. NIAPA supported

the concept of modulation on the grounds that very few farmers in Northern Ireland would be adversely affected by this proposal, and that it would help to secure the equitable distribution of funds. They urged that any savings accruing from modulation should be returned to the mainstream agricultural budget.[22]

Consumers' Views

37. The Consumers in Europe Group (CEG), in written evidence supported also by the (British) National Consumer Council and Consumers' Association, criticised the Agenda 2000 proposals, even in their earlier, more far-reaching state, as a missed opportunity. They argued that CAP price policies encourage intensive farming, the overuse of antibiotics, pesticides and nitrides, damage to the environment, and (by subsidising dairy products) unhealthy diets; and they claimed that high support prices do not increase either food safety or quality. While welcoming the overall thrust of the Agenda 2000 proposals, that of bringing EU agricultural prices down towards world levels, the CEG regarded the proposals as not going far enough, and called for support prices to be reduced further, and for import levies and export subsidies to be phased out. The decision to continue the use of quotas for milk was particularly criticised, and the proposal for a 10% decrease in dairy support prices was regarded as inadequate to bring them into line with world prices, which would require a decrease of between 20% and 35%.

38. The consumers' bodies recommended that the European Commission should provide clearer information on the costs of the CAP to consumers, in the form of an annual consumer impact assessment showing how much extra the CAP adds to food prices throughout Europe. They also urged that the objectives of the CAP be widened to include consideration of health and nutritional needs. They welcomed the agri-environmental measures in Agenda 2000 but argued that direct income support to farmers to achieve environmental goals should be completely decoupled from production.[23]

39. We received both written[24] and oral evidence from the General Consumer Council of Northern Ireland. Their comments were in line with those of the Consumers in Europe Group. From a Northern Ireland perspective, they welcomed any fall in food prices which *might* result from the reforms, pointing out that the household income of Northern Ireland consumers was 17% below that for Great Britain, while food prices were currently 8% higher. However, they expressed concern that falling farmgate prices would not be reflected in lower shop prices. They were disappointed with the final outcome of the reform negotiations, which in their view fell significantly short of the original proposals and amounted to no more than a "tweaking of CAP", with no evidence that the Northern Ireland consumer would actually benefit.

40. The Consumers' Association of Ireland Ltd told us that they wished to be associated with the comments on CAP reform made by the European Commission's Consumer Committee (a consultative committee, whose opinions are independent of those of the Commission). That Committee described the Berlin Agreement as

"most disappointing for consumers ... [It] reduces price cuts and delays key reforms. It will further extend milk quotas. It is likely to lead to larger surpluses. It does nothing to address consumer concerns with intensification, food safety, quality and choice. Nor is it adequate to prepare the EU for further enlargement, or for the forthcoming round of negotiations within the World Trade Organisation. The nominal savings to consumers are small, and there is little evidence to suggest that they will be passed on in full at the check out, if at all. The agreement increases, in the short term, the cost of the CAP to consumers as taxpayers."[25]

The Special Status of Northern Ireland Agriculture

41. Various witnesses pointed out the extent to which Northern Ireland agriculture can be regarded as a "special case" within UK agriculture. Agriculture and food production is the largest single industry in Northern Ireland, amounting to 8% of GDP (the same as the figure for the Republic of Ireland) and providing 10% of civil employment. The corresponding figures for the UK as a whole are 3% of GDP and 1.8% of civil employment.

42. The size of the agricultural sector within Northern Ireland's economy means that it is important for Northern Ireland interests to be taken fully into account when British Ministers negotiate on behalf of the UK within the EU. This is especially so given that the Republic of Ireland is generally acknowledged to be very effective at representing its agricultural interests at Brussels. The Northern Ireland Minister for Agriculture, Lord Dubs, told us that his Government thought a continuation of current arrangements with regard to Northern Ireland would be satisfactory, with Northern Ireland officials and in due course the relevant Minister having an input into the MAFF negotiating position, and, where appropriate, accompanying the UK Minister to meetings of the Agriculture Council. He also told us that these arrangements were not set in concrete and could be adapted in the light of experience of working relationships between Westminster and the new devolved bodies.

43. Any future Northern Ireland Minister of Agriculture, of whatever political affiliation, is likely to wish to establish some form of independence from the UK Ministry of Agriculture. This may lead to friction between Belfast and London over the question of representation within EU decision-making (as may be the case with the other devolved Executives).

44. Another factor which the British Government must take into account is the close links between agriculture in Northern Ireland and in the Republic of Ireland. A recent study of the CAP concludes that "in both portions of the island, similar climatic conditions have produced a grassland-based agriculture which is economically significant and has to be export oriented to succeed". However, the study argues that since the UK and the Republic of Ireland joined the EU, agriculture in Northern Ireland has lagged behind that in the South, in part due to the development of more successful agricultural and rural policies by the Government of the Republic.[26]

45. In 1995 the IFA and the UFU submitted a joint memorandum on agriculture and rural development to the Forum on Peace and Reconciliation, emphasising structural similarities between the northern and southern parts of Ireland and making proposals in relation to CAP commodity policy, animal health, and agricultural structures policy.[27]

46. The close relationship between the rural economies on each side of the Border was shown by the impact of the disastrous fire at the Lovell and Christmas plant at Ballymoney, Co. Antrim, in June 1998. This destroyed 40% of Northern Ireland's pig processing capacity but also affected the Republic, from which one-third of the pigs slaughtered at Ballymoney had come. Pig processing is an all-Ireland industry, and the UFU told us that decisions about replacement processing capacity should take into account the needs of the whole island. They said that the pig industry across the EU had been in crisis over recent years, but producers in Ireland had been particularly hard hit. They also added that new UK stall and tether regulations had imposed extra costs on Northern Ireland producers by comparison with those in the Republic.

47. The UFU emphasised that it was important for implementation of the 'Berlin package' to be harmonised north and south of the Border. For instance, they argued, if the British national 'envelope' went entirely on suckler cow production, this would lead to enormous anomalies between Northern Ireland and the Republic. The Irish Department of Agriculture, the IFA and Teagasc all stressed the need to avoid market distortions such as might arise if a slaughter premium on heifers were to be paid in the Republic but not in Northern Ireland, leading to a large flow of heifers south.

Conclusions

48. The outcome of the Agenda 2000 negotiations highlights a number of issues. Firstly, **there are significant differences between the overall agricultural economies of the Republic of Ireland and the United Kingdom.** These were reflected in the different negotiating stances of the two governments, and in the response within each country to the Berlin agreement. The Irish Government expressed relief that a much worse outcome had been averted and farmers' incomes stabilised for another five to seven years; this view was shared by our other witnesses from the Republic. The British Government, by contrast, though putting a brave face on the outcome, had to acknowledge that its hopes for radical reform had not been fulfilled; other British witnesses were more critical, echoing the view of the House of Commons Agriculture Committee that the agreement is "sadly wanting" and "a bad deal".[28]

49. Secondly, **the agricultural economy of Northern Ireland, both in its emphasis on dairy and pig production and in its importance within the wider economy, more closely resembles that of the Republic than that of the rest of the UK.** The decision at a late stage in the CAP negotiations to grant Northern Ireland a milk quota increase in line with that given to the Republic, rather than the smaller increase given to the rest of the UK, indicates recognition by the EU of the need to treat agriculture in the North of Ireland on all fours with agriculture in the South. (It also

represents a significant negotiating success by the British Government.) The recent Ballymoney fire demonstrated the integrated nature of pig production within Ireland, and how vulnerable producers on one side of the border can be to economic events on the other side.

50. **This commonality of interest between farmers in the Republic and in Northern Ireland has implications both for policy and for the way in which policy is developed.** With regard to the former, we draw attention to the strong representations we received from witnesses on both sides of the border that the two Governments must co-ordinate their decisions on discretionary allocations from the 'national envelopes', in order to prevent undesirable market distortions—such as those which would arise if, for example, heifer slaughter premiums were to be payable in the South but not in the North. Co-ordination would be difficult to achieve if the British Government is not given the flexibility it is currently seeking to adopt different policies towards use of the national envelopes in England, Scotland, Wales and Northern Ireland. **We strongly support the principle of 'regional envelopes' within national envelopes, and urge the two Governments to use their best efforts to persuade the European Commission to allow some degree of regional flexibility.**

51. **We believe that the policy-making process itself does not at present take sufficient account of the interests of Northern Ireland agriculture.** To say this is not to belittle the good work done by Ministers and civil servants in DANI in persuading their counterparts at UK level to advance Northern Ireland's case at Brussels. The increased milk quota for Northern Ireland is testimony to their effectiveness. However, it remains the case that Northern Ireland interests tend to be represented in Brussels at one remove, with Northern Ireland Ministers attending Agriculture Council meetings exceptionally rather than routinely. Republic of Ireland agricultural interests, by contrast, are by common consent very well represented in EU decision-making. **The new Northern Ireland Executive may well wish to establish some form of direct representation in Brussels. Similar decisions may be taken by the Scottish and Welsh Executives. The question of direct Ministerial representation at Agriculture Council meetings is likely also to arise. It will be a challenge for the British and Irish Governments, together with the Northern Ireland Assembly and the relevant cross-border bodies, to work out a *modus operandi* for participation in EU decision-making which would be consistent with effective functioning of the Council of Ministers.**

52. At the time of writing, we do not yet know whether and to what timetable the cross-border bodies envisaged under the Good Friday Agreement will be set up. In March 1999 the Irish and British Governments reached a formal agreement making provision for six such bodies, dealing with food safety, trade and business development, inland waterways, special EU programmes, language, and aquaculture and marine matters. There is no doubt that the body dealing with food safety, in particular, will have a significant role to play in relation to agriculture and the rural economy.

53. **We have identified a number of areas where greater co-operation across the border would be mutually beneficial.** These are:

(1) the pooling of expertise in relation to research into animal health;

(2) co-ordination of systems relating to food safety: DANI was the first regional body to develop a total traceability system for its cattle, and joint action with the Irish Department of Agriculture is needed further to develop databases on the movement of cattle;

(3) the collection and analysis of other agricultural statistics on a common basis;

(4) joint promotional activity with emphasis on the superior quality of Irish products, and on improving the perceived value of the rural environment to the rest of the community North and South (in terms of tourism, sport, access to the countryside, etc.);

(5) restoring and strengthening links between rural communities on each side of the border; and

(6) enhancing the capabilities of people in the agricultural economy, through training and capital provision.

53. **Whether or not cross-border bodies with some responsibility for agricultural issues come into existence in the near future, we hope that action will be taken by the relevant authorities to develop cross-border co-operation in these and other areas.**

Draft Resolution

That the Body notes the Report of the Committee on European and International Affairs on Reform of the Common Agricultural Policy (Agenda 2000), and agrees with the conclusions and recommendations of the Report which should be forwarded to both Governments for their observations.

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1 EC United Kingdom Representation, background briefing No. 2.
2 EU *Presidency Conclusions-Berlin, 24 and 25 March 1999*, Table A.
3 CAP 7, p 2.
4 Formerly known as GATT (General Agreement on Tariffs and Trade).
5 European Commission, United Kingdom representation, background briefing on Agenda 2000.
6 CAP 7, para 1.
7 EC United Kingdom Representation, background briefing No. 2.

8 Fuller details of these proposals, by sector, are set out in the technical appendix to CAP 7.
9 Internet: www.irlgov.ie/daff/sum2000.htm.
10 Internet: www.irlgov.ie/daff/keynote.htm.
11 IFA Report and Assessment on CAP Reform II, 9 April 1999.
12 Department of Agriculture and Food press release 52/99, dated 30 March 1999.
13 Ibid.
14 House of Commons *Official Report*, 12 March 1999, cols 626-640.
15 House of Commons *Official Report*, 29 March 1999, cols 731-747.
16 CAP 6.
17 CAP 11.
18 CAP 12.
19 CAP 5.
20 NFU press release, 11 March 1999.
21 NFU press release, 26 March 1999.
22 CAP 14.
23 CAP 1; CAP 4; internet: www.ceg.co.uk/cap.htm.
24 CAP 9.
25 Internet: www.europa.eu.int/comm/dg24/policy/committee/cc12_en.html.
26 Wyn Grant, *The Common Agricultural Policy* (London, 1997), p 41.
27 Ibid.
28 Seventh Report of Session 1998-99, *Outcome of the CAP Reform Negotiations* (HC 442), para 6.

ABBREVIATIONS AND GLOSSARY

CAP — Common Agricultural Policy
CEG — Consumers in Europe Group
cross-compliance — the linking of agricultural subsidies to environmental requirements
DANI — Department of Agriculture, Northern Ireland
degressivity — the progressive scaling down of direct payments to farmers over a period of years
GCC — General Consumers Council of Northern Ireland
IFA — Irish Farmers' Association
modulation — limit at EU level on the total of direct payments received by individual farmers; payments would be reduced to farmers who either did not meet environmental rules (cross-compliance) or who did not employ sufficient labour on their farms
national envelopes — funding packages within which member states will have a degree of discretion over how to allocate additional subsidies to beef and dairy farmers over and above the normal premium schemes
NFU — National Farmers' Union of England and Wales
NIAPA — Northern Ireland Agricultural Producers' Association

set-aside — arable land that has been temporarily removed from production as part of a supply control policy; first introduced in Great Britain in 1988
UFU — Ulster Farmers' Union
WTO — World Trade Organisation

MEMBERSHIP OF THE COMMITTEE

The current membership of Committee B is as follows:

Mr Michael Colvin MP (Chairman)	*Substitute Members:*
Mr Austin Currie TD (Vice-Chairman)	Mr Liam Aylward TD
Mr Harry Barnes MP	Mr John Browne TD
Mr Gerry Bermingham MP	Mr Seán Doherty TD
Ms Mary Coughlan TD	Mr John Grogan MP
Mr Seymour Crawford TD	Lord Lyell
Mr John Ellis TD	Margaret Moran MP
Senator Mary Henry	Mr Gerry Reynolds TD
Mr John Home Robertson MP	Senator Shane Ross
Mr Robert Jackson MP	Mr Robert Walter MP
Senator Paschal Mooney	
Mr Peter Temple-Morris MP	

British Clerk of the Committee: Dr Robin James
Irish Shadow Clerk of the Committee: Mr George Hegerty

MINUTES OF PROCEEDINGS RELATING TO THE REPORT
MONDAY 19TH JULY 1999
THE COMMITTEE MET AT THE HOUSE OF COMMONS, WESTMINSTER

Members present:
Mr Michael Colvin MP (in the Chair)

Mr Austin Currie TD (Vice-Chairman)	Mr Robert Jackson MP
Mr John Ellis TD	Senator Paschal Mooney

The Committee deliberated.

Draft report [Reform of the Common Agricultural Policy (Agenda 2000)], proposed by the Chairman, brought up and read.

Ordered, That the Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 54 read and agreed to.

Resolved, That the Report be made to the Body.

The Committee further deliberated.

[Adjourned to a date and time to be fixed by the Chairman.

LIST OF APPENDICES

1. Consumers' Association (CAP 1)
2. National Consumer Council (CAP 4)
3. National Farmers' Union (CAP 5)
4. Northern Ireland Office (CAP 6)
5. Letter dated March 1999 from Lord Dubs (impact of strong pound; cross-border criminal activities) (CAP 8)
6. General Consumer Council for Northern Ireland (CAP 9)
7. Ulster Farmers' Union (CAP 10)
8. Northern Ireland Office, Supplementary Memorandum (CAP 11)
9. Irish Farmers' Association (Report and Assessment on CAP Reform II, dated 9 April 1999) (CAP 12)
10. Northern Ireland Office: notes requested by the Committee on (1) Objective 1 funding for Northern Ireland, and (2) arrangements for representation of Northern Ireland, Scottish and Welsh interests within EU decision-making
(CAP 13)
11. Northern Ireland Agricultural Producers' Association (CAP 14)