



OFFICIAL REPORT
AITHISG OIFIGEIL

Rural Economy and Connectivity Committee

Wednesday 22 March 2017

Session 5



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CONTENTS

	Col.
IMPLICATIONS OF EUROPEAN UNION REFERENDUM (AGRICULTURE AND FORESTRY)	1
SUBORDINATE LEGISLATION.....	44
Scottish Road Works Register (Prescribed Fees) Regulations 2017 (SSI 2017/49)	44

RURAL ECONOMY AND CONNECTIVITY COMMITTEE
10th Meeting 2017, Session 5

CONVENER

*Edward Mountain (Highlands and Islands) (Con)

DEPUTY CONVENER

*Gail Ross (Caithness, Sutherland and Ross) (SNP)

COMMITTEE MEMBERS

*Peter Chapman (North East Scotland) (Con)
*Mairi Evans (Angus North and Mearns) (SNP)
*John Finnie (Highlands and Islands) (Green)
*Rhoda Grant (Highlands and Islands) (Lab)
*Jamie Greene (West Scotland) (Con)
Richard Lyle (Uddingston and Bellshill) (SNP)
*John Mason (Glasgow Shettleston) (SNP)
*Mike Rumbles (North East Scotland) (LD)
*Stewart Stevenson (Banffshire and Buchan Coast) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Stuart Goodall (Confor)
Jonnie Hall (NFU Scotland)
Tom Hind (Agriculture and Horticulture Development Board)
Andrew Midgley (Scottish Land & Estates)
Pete Ritchie (Scottish Environment LINK)
Steven Thomson (Scotland's Rural College)

CLERK TO THE COMMITTEE

Steve Farrell

LOCATION

The Mary Fairfax Somerville Room (CR2)

Scottish Parliament

Rural Economy and Connectivity Committee

Wednesday 22 March 2017

[The Convener opened the meeting at 10:01]

Implications of European Union Referendum (Agriculture and Forestry)

The Convener (Edward Mountain): Good morning. Welcome to the 10th meeting in 2017 of the Rural Economy and Connectivity Committee. I remind everyone present to put their mobile phones on silent. Apologies have been received from Richard Lyle, who has been called away on urgent constituency business.

Agenda item 1 is a round-table discussion on the implications of the outcome of the European Union referendum for Scotland in agriculture and forestry. I ask everyone to introduce themselves; we will work round the table. I also ask MSPs to declare any interests that they have in relation to the subject under discussion.

I am a regional representative for the Highlands and Islands and the convener of the committee. I declare an interest as a member of a farming partnership.

Gail Ross (Caithness, Sutherland and Ross) (SNP): I am the constituency MSP for Caithness, Sutherland and Ross and the deputy convener of the committee. I am interested, but I have no interests.

John Mason (Glasgow Shettleston) (SNP): I am the MSP for Glasgow Shettleston.

Jonnie Hall (NFU Scotland): Good morning. I am director of policy and member services with NFU Scotland and am currently on secondment with the Scottish Government, which I am assisting with its consideration of the implications for Scottish agriculture of leaving the EU.

Rhoda Grant (Highlands and Islands) (Lab): I am an MSP for the Highlands and Islands.

Andrew Midgley (Scottish Land & Estates): I am projects and research manager at Scottish Land & Estates.

Stewart Stevenson (Banffshire and Buchan Coast) (SNP): I am the MSP for Banffshire and Buchan Coast, which is home of the best beef in the world.

Tom Hind (Agriculture and Horticulture Development Board): I am chief strategy officer at the Agriculture and Horticulture Development Board.

Mike Rumbles (North East Scotland) (LD): I am an MSP for North East Scotland.

Pete Ritchie (Scottish Environment LINK): I am director of Nourish Scotland and I am a small farmer.

John Finnie (Highlands and Islands) (Green): Madainn mhath. Good morning. I am a regional MSP for the Highlands and Islands.

Steven Thomson (Scotland's Rural College): Good morning. I am an agricultural economist at Scotland's Rural College and am part of the centre for knowledge exchange and impact team. The centre is part of the strategic research programme.

Jamie Greene (West Scotland) (Con): I am a regional member for West Scotland. I have no interests to declare.

Stuart Goodall (Confor): Good morning. I am chief executive of Confor, which promotes the forestry and timber sector.

Mairi Evans (Angus North and Mearns) (SNP): I am the MSP for Angus North and Mearns.

Peter Chapman (North East Scotland) (Con): I am a regional MSP for North East Scotland. I declare an interest as a farmer in the north-east. I am also shadow cabinet secretary for rural economy and connectivity.

The Convener: Our clerking team and the official report are also here.

I want to conduct the discussion around a series of themes. Each committee member will lead off with a theme; I will then look round and try to bring everyone into the discussion. People should try to catch my eye if they would like to speak. Do not look away when you are speaking, because I will have to rein you back slightly if you go on for too long—I hope that I will not need to do that. You can also catch the eye of any of the clerking team or the eye of the deputy convener, Gail Ross. They will ensure that we bring you in.

We will move straight on to the first theme, which John Finnie will introduce.

John Finnie: Thank you, convener, and thank you, panel members, for your written submissions. Our first theme is the provision of financial support to farming and forestry via the common agricultural policy. A total of €4.6 billion will be available between 2014 and 2020. I am keen to hear what you think the benefits of the CAP are. Many submissions said that, whatever changes take place, the same level of funding should be

made available. Will you say why public money should be used to support farmers, foresters and estates?

Jonnie Hall: I am happy to kick off. Support payments that come into Scottish agriculture under the CAP have been vital for a number of decades, and they undoubtedly remain so. The simple fact is that many farms and crofts in Scotland would not be economically viable without that continuing support.

The question for the future is whether we continue to utilise the same level of support in the same way. Our position is that we do not; we absolutely need the same level of support, but as we go into a non-CAP, non-European Union world, in which there will be new trading and market opportunities, there is an opportunity to recast agriculture and rural support in Scotland.

We should take that opportunity. We need to focus on the needs of Scottish agriculture, rather than necessarily the wants of individual agricultural businesses. Having said all that, direct support payments, which make up the bulk of the payments, are critical to many agricultural businesses. We would not want the pendulum to swing too fast away from direct support payments, which would threaten some businesses, particularly beef and sheep producers on more marginal and upland land, who will continue to struggle to make an adequate return purely from the marketplace.

Nevertheless, we need to start to refocus support payments, so that more agricultural businesses in Scotland are more competitive, more efficient and more market focused, and so that their reliance on support payments diminishes in the long term. It is not about reducing the quantum of support; it is about how we spend the money. That will be critical to the future of Scottish agriculture.

We are going into a very new operating environment as far as our trading opportunities and so on are concerned, and how we manage that change is critical. The last thing that the agricultural industry needs is chaos in any form, rather than managed change. There will be a difficult and, arguably, turbulent period for Scottish agriculture as we develop new market opportunities, so the role of support will remain critical, but how the support is used is key, rather than the quantum of money.

Andrew Midgley: John Finnie asked about the benefits of the CAP. There have been considerable benefits; the CAP has supported our farming industries over a long term and has been quite successful in doing so over the period of its existence.

When we start to think ahead about maintaining the same amount of support, we get into more difficult territory, because we have to start asking questions about why we would do that and so on. We should probably maintain support for farms and rural land management businesses. We would not want to see radical change, because there is a level of dependence on public support at the moment across farming and land management, and radical, quick change could have a negative impact on businesses.

There is a need for change, but we need to be relatively cautious about how we go about it. That gets us into questions about why we should continue to support farmers and rural land management businesses. Scottish Land & Estates thinks that although support should continue, there is the potential to move to a different rationale for support. Support could, in the longer term, move towards rewarding people for the delivery of public goods. We are talking about public money that is spent on land management, so a clearer demonstration of what the public gets in return for its money could be a good thing.

In order to get there, though, we need a transition. At the moment, we have a food-producing industry that is vital and which we must not damage, so we have to set out a longer-term process for changing the regime and creating a more robust rationale for maintaining support for farming and land management.

The Convener: Just before I bring John Finnie back in, I would like to hear from Pete Ritchie.

Pete Ritchie: Briefly, I think that the benefits of the CAP have probably been to slow down the period of consolidation in Scottish farming and to keep more people on the land, which has benefits in itself. However, I agree with Jonnie Hall that it has tended to reduce innovation and market orientation in farming.

I am speaking today on behalf of Scottish Environment LINK, which brings together a lot of the different environmental organisations. In the submission that we have put together, we argue for the level of investment to be retained, partly because, as Andrew Midgley has said, we want to shift the focus towards public money for public goods.

We want the money to go in a couple of directions. First of all, it should go towards supporting our farmers to be competitive and market-oriented. In that respect, it should invest in change, skills and improving performance. The figures show that the top quarter of farms are doing okay, but bringing others up to the same level is the challenge that faces Scottish farming, and we need a lot of investment in advice and

support and, if necessary, loans and grants in order to facilitate change.

We are also seeing a transition to agroecology and a more integrated approach to land management across the piece, with more money going into public goods. That might take the form of integrating trees with farming, putting some land aside for trees—as long as they are the right trees in the right place—or engaging in more generic rural development, particularly in those areas of Scotland that have an underdeveloped rural economy, where rural development money, which is where this comes from, could be used effectively. We see a transition taking place, but as the other representatives have said, we recognise that the industry needs time to adapt, and we want there to be a planned transition towards some clear public goals, not a shambles.

The Convener: Do you want to come back in, John? A few people are queueing up, but I am not sure that you got all the answers that you wanted.

John Finnie: Perhaps I can add in another strand, convener.

The Convener: Absolutely.

John Finnie: At the moment, Scotland gets 17 per cent of the money that the UK gets; post-Brexit, under the ordinary formula, it would get 8 per cent. Everyone has quite rightly talked about transition, but I wonder how well equipped the agriculture and forestry sector is to meet the inevitable transition that is coming, however it ends up.

The Convener: Steven, did you want to come in here? I will then bring in a couple of committee members.

Steven Thomson: On John Finnie's point about the budget, everyone understands that we punch above our weight on the CAP budget, in relation to our population. If the allocation was based on, say, the value of agricultural output, our share would work out at about 11.5 per cent. There are many different ways of cutting this up, and we need to think about them going forward.

As for the benefits of the CAP, I am not coming at the issue from a lobby group perspective, so I have no qualms about saying—this is not a position statement—that, as Pete Ritchie said, we have reduced innovation. The CAP has led to people being more relaxed with regard to driving forward innovation and business developments, but it has also ensured continuous food production, animal welfare standards that are probably second to none and environmental conditions that are probably the same—although the Scandinavians might have better conditions. With the CAP as a carrot, we have managed to deliver a lot of things.

Under pillar 2, for example, we have support for less favoured areas. Of course, the definition of “less favoured area” is very broad, but we are maintaining farming activity in the hill and mountain areas that Jonnie Hall referred to. Without those, we would not have grazing regimes, and without the grazing regimes, we would not have the environmental benefits that are derived from land management. There is a whole host of aspects to consider; indeed, people probably do not realise that the CAP has made food in this country cheaper. By supporting agriculture through the taxpayer, we are taking some of the burden away from the consumer; in other words, the rich are paying more, proportionately, for food production in this country.

10:15

Another aspect of what the CAP has delivered is that people have probably been hanging on for longer and longer—that is negative from the point of view of intergenerational change and new blood coming into the industry. Land values are constantly going up, although that is not all down to the CAP. We read a lot about the CAP being capitalised into land values, but there are many other factors at play, including capital gains tax rollover relief. That kind of thing is driving land price inflation, which has stymied intergenerational transfer of farms, and that is something that we need to look at.

Finally, I agree that we need to move to a much more outcomes-based approach, rather than letting the past dictate the future. To an extent, we are path dependent in all of this, so the past is dictating what we do in the future. We have a once-in-a-lifetime opportunity to make a change.

The Convener: I am interested in the comment that the CAP has made farmers relaxed—I am not sure that some would agree with that.

Mairi Evans wants to make a comment.

Mairi Evans: I do—unless others have points specifically on the CAP; mine is on a slightly separate issue.

The Convener: As others have points to make on the CAP, I will bring you back in later.

Stewart Stevenson: I have a process point, which picks up on what Jonnie Hall said about wanting to avoid turbulence. I want to be clear that we have an idea of how the process is going to work. I am hearing that we are in what I would describe as a preparatory phase—in other words, the phase that will end on the day that Brexit happens. Until we see what Brexit looks like, we cannot commit to anything, but we can prepare. At the point of Brexit, we will enter a review phase in which we will check back on all the preparatory

work to see what we can implement. After that, we will move to the implementation phase.

Is that a reasonable characterisation of the process that we want to take place? We cannot eliminate the uncertainty until we get to Brexit because there will be changes, but we can prepare for a range of outcomes. If we look at the process in that way, without engaging in the policy issues, is that the way that Jonnie Hall envisages that we should do things?

Jonnie Hall: A number of factors will influence how the process pans out. At this stage, we cannot say that we will have a certain preparatory phase, a certain review phase and a certain implementation phase—there are too many variables at play.

I am straying off the CAP here, but the outcome of other big negotiations—what sort of trade deals are negotiated beyond our withdrawal from the single market—will be fundamental for Scottish agricultural and rural support in the future. Theresa May has set out a course and the Scottish Government has set out a different course, but the discussions—particularly those on free-trade agreements—will take a very uncertain length of time. Therefore, the agricultural industry will require some sort of certainty. In my opinion, there is absolutely no guarantee that on day 1 of Brexit we will have a market situation that will allow us to shape a new agricultural support package to make us more competitive in that new market situation.

There will be an on-going need for support through whatever transition or review phase we have—as Mr Stevenson set out—and we will have to be very light on our feet with regard to how we approach that. We should not fix ourselves, here and now, to what we want by way of an agricultural support package, because that will be determined largely by what sort of trade deal the United Kingdom, and therefore Scotland, gets.

The Convener: I take that point. I will move on to Tom Hind, who might like to clarify the position with regard to future issues.

Tom Hind: Like Steven Thomson, I am not here for a representative organisation, so I will avoid making the case around the money.

I think that three points are worth bearing in mind. The first relates to what the CAP originally set out to do. Measured against the treaty objectives that underpinned the common agricultural policy, you could argue that it has been tremendously successful. Of course, the debate is whether those objectives under a future UK or Scottish agricultural policy are the right ones—that is one for you guys to discuss.

Secondly, one of the key benefits that we tend to ignore is the fact that the CAP at least provides a common framework that is linked very closely to the EU's external commercial policy—that is, trade policy—as well as its competition policy. Once we remove ourselves from that common framework, there is a debate not only about the common framework for direct support payments—which, of course, farmers are very close to because they see it and feel it—but about some important issues that we tend to ignore in the debate such as price and market support policy, the presence of intervention at the European level, and some of the competition law exemptions that exist under the CAP.

My final point is on what I think is the really big question, which Jonnie Hall hinted at: the relationship between a future British and Scottish agricultural policy and the UK's ultimate trading relationship not only with the rest of the European Union—which is fundamental in terms of our existing markets—but with other markets. We can only speculate about what the scenarios for that might be but, under most scenarios, we can expect to see an industry that will be at risk of more global exposure, which will potentially have to compete with some of the best and most competitive industries in the world and which will probably be exposed to greater volatility. Therefore, we have to think not only about the benefits of the CAP in the past and now but about what kind of policy instruments we need to help the industry deal with the scenarios that we will see in the future.

The Convener: Stuart Goodall has kept very quiet and below the radar, and I would like to hear his views on forestry, as I am sure the committee would, after we have heard a question from Peter Chapman.

Peter Chapman: It is more a statement than a question, and it reflects some of what we have already heard. We have been discussing the idea that money from the CAP is public money that has to deliver public goods. I want to reinforce what Steven Thomson had to say about that—it is a subsidy on food. There is no question in my mind that without that support for agriculture, the high-quality food that Scottish agriculture produces could not be produced at the price that it is. It is only the fact that that money is supporting agriculture that allows us to trade in a very difficult marketplace, where food has never been so cheap. You could argue that that subsidy is a subsidy for the general public, in that because of it, food is cheaper than it would otherwise be. That is my first point.

I would also like to say that 16 per cent of the CAP money comes north of the border at the moment. If we went to the Barnett formula, as

John Finnie suggested, it would come back at 8 per cent. That is not a way forward for supporting agriculture in Scotland. We need to keep that rough figure of 16 per cent coming north of the border, and the Barnett formula cannot deliver that.

I think that there are opportunities ahead. Obviously there are opportunities to do this in a different way, and the agriculture industry is up for that, but it has to be a gradual process—it cannot happen overnight. Otherwise the fallout in the industry will be horrendous.

The Convener: Before I bring in Stuart Goodall, I noticed that John Finnie disagreed with your definition of the 8 per cent.

John Finnie: No. Just for the avoidance of doubt, I was quoting some figures. I am not commending the Barnett formula, for obvious reasons.

The Convener: Okay—you are not supporting the Barnett formula.

Mike Rumbles: Could I ask—

The Convener: Sorry—I will bring Stuart Goodall in and then come to you, Mike. I am trying to work through the list in the order that people have come up. It is quite difficult, but you will definitely get in.

Stuart Goodall: If you are looking for reasons why 17 per cent of the funding should come north of the border as opposed to 8 per cent, the Scottish forestry sector is 50 per cent of the forestry sector across the UK and therefore justifies significant additional support.

The thing to address is why CAP funds tree planting rather than forestry—it does not put funding into mature forests. Very little funding goes into forestry generally; only tree planting uses CAP funding. In effect, that funding is seeking to tackle market failure. We would argue that, if CAP did not exist and if there were not a funding regime that supported agriculture, there would be an awful lot more forestry in Scotland.

To answer the why question, it is not just because of the benefits to do with climate change mitigation and flooding mitigation. In terms of the contribution to the rural economy, we know from studies that have been carried out by Scotland's Rural College that, compared with upland sheep farming, forestry delivers three times as much economic return to the sheep farmer and puts twice as much money into the local economy, so there are a lot of good reasons for supporting it.

When payments are made, part of each payment is for establishing the forest but part of it is to incentivise a farmer to move out of agriculture on that land. That flags up an opportunity for us,

as we move to a post-CAP situation in Scotland, to come up with an integrated rural policy that allows landowners to look at forestry as an integrated opportunity with farming. I am happy to say more about that but at the moment, I would just like to say that there is a huge opportunity there that we need to consider as part of this discussion.

Mike Rumbles: The key issue, from what I can see of this whole theme, is about money and structures, and the structures come first rather than the money. Under the Scotland Act 1998, as we are all aware, agriculture and forestry are not reserved; they are devolved. Under the current legal regime, when the mechanisms are repatriated from the EU, they will come to Scotland. If it happens in that way, it will come under the Barnett formula. However, I am aware that the UK Government is in discussions with the devolved Administrations about whether there should be an agreement among the devolved Administrations and the UK Government that there will be a separate overarching function in this area.

Which option do the witnesses prefer? Do they prefer a structure under which the devolved Administrations and the UK Government can work together on a new scheme for the repatriated funds, or do they feel that, under the 1998 act, the repatriated funds should simply come back to Scotland so that we receive funds in the normal way? I am interested to find out what our witnesses' views are.

The Convener: I will start with Steven Thomson and then I will try to work round the table, because I see hands going up everywhere.

Steven Thomson: The real issue here is whether we want to create internal UK trade issues. The current CAP framework is decided at EU level and we then buy into it. There is quite a lot of flexibility in the current framework. If we had four individual schemes or operations of CAP that were not particularly related—if Scotland had its own CAP mechanisms and England had its own and so on—we could quickly end up with a trade distortion with our biggest trade partner, which is south of the border. We are already seeing a partial distortion with the existing CAP in that the payment rates per hectare for uplands in England are much higher than in Scotland, but of course we have a headage payment on cattle and there is a headage payment on new hogs in some of the rough grazing areas.

If we controlled our own destiny, we would face some real difficulties around saying where CAP moneys should go. A framework where all the devolved Administrations and the Westminster Government come together and come up with a flexible enough package to allow us to do our own things within that package is probably the best

solution. Otherwise, we will end up with internal trade issues.

Jonnie Hall: I will follow up on the question that has been asked and then respond to one or two of Steven Thomson's points. The funding settlement is critical in many ways. We see it relatively simply, though, through the other question of how you devolve or otherwise the settlement on support. The funding settlement is all about the renationalisation of the CAP funding that the UK would have got, and that will go back to the UK Government. The budget responsibility will still rest with the UK Government, in my view. Therefore, it is vital that Scotland makes the case to retain at least the same share of that existing budget, not the same share of a declining budget if the UK Treasury seeks to reduce the amount that it spends on agriculture compared to what the UK currently receives from the CAP.

10:30

Mr Finnie referred earlier to about £4.5 billion coming into Scottish agriculture and the rural sector between 2014 and 2020. In effect, we want the UK Treasury to make the same commitment. The question is the choices about how we spend that money. The issue is whether we take a UK approach or have different Scottish, Northern Irish, English and Welsh agriculture and rural policies. That is an important issue and we discuss it all the time.

As Mr Rumbles rightly said, we have had devolved agricultural responsibility since 1998. By and large, that has worked well in Scotland's interests and it does so today. Under the CAP, what Scotland does is different from what England, Wales and Northern Ireland do. In fact, all four corners of the UK do things differently under the common agricultural policy but operate to the same standards in animal welfare, the environment and plant protection products, for example. Those common standards allow the intra-UK trade to which Steven Thomson referred and intra-EU trade.

It is clear that the devolution settlement gives the Scottish ministers discretion to set a policy that is appropriate for Scotland's needs, which are different from those of the rest of the UK. The profile of Scottish agriculture is significantly different from the profile in other parts of the United Kingdom. Our agriculture is very diverse: soft fruit, seed potatoes, cereals, fattening beef, lamb and milk—we do everything that you could possibly think of, moving up the hill to extensive hill sheep grazing. Fitting an agricultural policy to that and ensuring that each sector and business has an opportunity to move forward is extremely difficult. Therefore, a one-size-fits-all UK policy would not work and would not be in Scotland's

interests. We want each of the devolved Administrations to develop its own approach but, within that, to have some sort of common framework that would allow us to address the intra-UK issues—animal health and welfare standards, pesticides and all the other bits and pieces that allow the broad-brush baseline standards to enable trade to continue.

I think that, in our written submission, I referred to a Department for Environment, Food and Rural Affairs-centric, one-size-fits-all approach. That would not be in the interests of Scottish agriculture and you will find that similar views are held in Wales and Northern Ireland. However, it is also vital that we do not do something that is so perpendicular to the rest of the United Kingdom—or, indeed, the rest of Europe or anywhere else—that it thwarts our efforts to trade.

The Convener: I will stop you there, Jonnie. I gently remind you to look this way occasionally.

Jonnie Hall: I assure you, convener, that I deliberately looked at the questioner to avoid your eye.

The Convener: You will not escape in future.

Rhoda Grant: Our trade agreements will obviously create the overall parameters for how we operate after Brexit so there will be an overarching UK policy to an extent, because it will be framed by our trade agreements, especially those with the EU. In a way, that continues the process that Jonnie Hall mentioned. Surely the devolved Administrations can make the decisions that support their circumstances within the parameters of the trade deals that are agreed.

Andrew Midgley: That is right. To answer the original question, our starting point was to ask where we are at the moment. We have the overarching CAP envelope that provides the context for the decisions that we make and the power to tailor decisions within that overarching envelope. That gives us the benefits of being able to trade within the EU and the EU's trade relationships with other countries. We also get the benefit of the support that comes through the common agricultural policy.

The CAP works in a such a way that there is an overarching framework and we can tailor policy under that. Our starting point was that we would support a UK framework that replicated that arrangement, because the overarching envelope would provide the stability that would allow and facilitate trade within the UK, so there would not be any distortions in that way. A key part of that is that Scotland's powers would stay the same, in terms of being able to tailor the policy as it does now, and we would not see a huge difference. The difficulty arises in that, if powers in that overarching envelope were to move from Brussels

to London, we would hit the devolution problem about the degree to which Westminster determines that envelope. We would consider it an absolute requirement that any overarching policy had to be jointly and equally developed, so that we did not have a situation where the overarching envelope of policy was determined for us; we would have to be at the table.

That speaks to other points that were made earlier about preparation and where we are at the moment. We need to know what we want so that we can help to develop that policy now. It will be taking shape, because people are starting to think now about future support structures and the degree to which we should have direct support, so the Scottish Government needs to be collectively developing some quite sophisticated ideas about what our future should look like, because that will determine the sorts of arguments that we make as we develop policy today.

The Convener: Before I bring Pete Ritchie in, Stewart Stevenson has a relevant question. I hope that it is a quick one.

Stewart Stevenson: It is a quick question. Whether the answer is quick remains to be seen.

There are bodies already in existence, such as British Waterways and the Committee on Climate Change, that involve all the Administrations—the UK Government and the devolved Administrations—and require unanimity of view. If there were an overarching framework, would it be thought reasonable to require a unanimity of view as to what the overarching framework might be? What are the pros and cons of that approach, rather than the approach whereby the framework is ultimately something that Westminster decides regardless of the views of the devolved Administrations?

The Convener: You are asking about a shared approach. If Andrew Midgley could answer that quickly, as he developed the point, we will then move on to Pete Ritchie.

Andrew Midgley: We would probably need something like that in order to be able to sign up to it. At the moment, the CAP sets out the broad principles that the policy is trying to achieve. Those are overarching objectives that I suspect we would have a great deal of agreement about, such as supporting food production and land management and enhancing environmental outcomes. We would probably be moving in a direction where we had the same objectives. We might start to get into more difficult conversations about the structures that should be put in place to deliver those objectives, but that is where the devolved power comes in, as it give you the ability to tailor. There could be more agreement than we might think on the overarching objectives.

The Convener: I point out that there are nine themes and we are still on the first one. I have let this one run on a wee bit, because it is the lynchpin for the whole discussion, but I have to ask everyone to give shorter answers, without diluting what they are saying.

Pete Ritchie: We agree that you need a consensual framework, and we would probably argue that the Republic of Ireland should be involved in some of those conversations too, because the Irish industry is so integrated in many ways. On a more general point, there has been a lot of criticism of the common agricultural policy, not just in its operation but as a policy framework. People have said that what we need is not just an agricultural policy but a land use policy for Europe and a food policy for Europe, the argument being that agriculture is too narrow a container for a policy.

If we look at the national performance framework and our existing policy architecture in Scotland, we can see that we have a policy on land use—a land use strategy—and policies on climate change. We have implicit policies on rural development in that we subsidise some essential services in rural areas. We also have a food policy, as expressed in “Recipe for Success—Scotland’s National Food and Drink Policy” and “Becoming a Good Food Nation”. In a sense, agricultural policy is not a domain on its own. We should make sure that it is understood as an integral part of those other policy frameworks and not separate from them. Our concern would not be that we do not develop an autonomous approach to this in Scotland. We need to develop our policy goals for integrated land use, food and rural development and—

The Convener: I will stop you there, because we will come on to integrated land use as a specific theme, and I am sure that you will develop that point then. I think that the committee understands what you are saying, but I would like to save for later the bit that you are, rightly, going to bring up.

Pete Ritchie: Briefly, let us not transpose the architecture of the CAP into Scottish agricultural policy.

The Convener: Stuart Goodall wants to say something briefly before we move on.

Stuart Goodall: On forestry, my feeling is that, the more detail is agreed at a UK level, the less opportunity there will be for devolved Administrations to operate flexibly, to be inclusive and to look at such matters. It is better to have a high level of detail. Also, to speak practically, we lack confidence in the UK Government’s ability to deliver on forestry. Yesterday, the UK Parliament’s Environment, Food and Rural Affairs Committee

published a report that is pretty damning of the UK Government's performance on forestry, whereas, in Scotland, with cross-party support, it has been a far more successful area.

The Convener: We will not dwell on targets at this stage. I am going to ask John Mason to move on to the next theme.

Mairi Evans: I have a question, convener, as I intimated earlier, and it is on a separate point from what has been discussed. I will ask it quickly, because we have just talked about financial support for farming and forestry, but it is also relevant to financial support for the wider rural economy of Scotland.

In my constituency, LEADER funding is of huge importance to us. It is worth £2.8 million to south Aberdeenshire and £2.7 million to Angus. I would like to hear the panel's opinions on what sort of funding they think should be available to wider rural communities, because that is a vital aspect of what we will look at here.

The Convener: Gosh. That is a whole different theme.

Mairi Evans: I did not really tie it in with anyone else's questions, but I wanted to bring it in.

The Convener: You are right; it does not slip in, but it is an important issue. Jonnie, would you like to comment?

Jonnie Hall: I will be as brief as I can be, convener. Mairi Evans makes an important point. It is a question of not just where the money is spent but what then happens to that money.

I will make a clear point about the direct support payments from pillar 1 of the CAP that come into Scotland. Right now, Scottish agriculture and crofting receive in the order of £500 million per year in CAP payments, but farming and crofting in Scotland incur £2.7 billion per year in all sorts of costs relating to activities that are concerned with farming the land. We might well receive £0.5 billion, but we spend £2.7 billion—five and a half times that amount—in driving the rural economy, which is a very important point.

The same is true of other funding. Mairi Evans referred to LEADER, but there are lots of other elements of pillar 2 funding that generate income, jobs and all sorts of other things downstream and upstream and underpin much of what goes on in our rural communities. We should look at not just the headline figure but what happens to that funding.

The Convener: I do not think that anyone is going to dispute the importance of rural funding. We could take that theme on, as there are people waiting to come in. I apologise to them, but I want to move on to the next theme.

John Mason: Even though we have not decided where we are going, we need to decide how we are going to get there. The theme is headed "Untangling domestic policy from EU legislation", but I am particularly interested in the great repeal bill that we have been promised. As I understand it, the bill will repeal the European Communities Act 1972 and the idea is to incorporate or transpose European law into domestic law. We need to think about how we are actually going to get there, because, if I heard Pete Ritchie correctly, he just said that we did not want to transpose the CAP straight away. The question is whether we need new legislation. If so, I presume that it would have to be in place for 1 April 2019. That is two years from next weekend, so we really need to start work on that legislation now. Is that what you are saying?

In the last paragraph of the NFUS submission, there seems to be a suggestion that, in many cases, we might want to stick with the EU standards and regulations, as that would allow us to export more easily. If that were the case, it could be said that, even though we were out of the EU, we would still have to do everything that the European Commission told us to do, although that is another extreme argument. It would be a nice and simple solution, but I am not sure that everyone would want it. Can we explore that area?

10:45

The Convener: Would you like to respond to that, Pete?

Pete Ritchie: Yes, briefly. I think that everyone agrees that, if we want to trade with the EU, we will have to mirror to a large extent all the EU regulations that govern trade. Any trade agreement will involve regulatory compatibility; to that extent, not much will change.

I honestly do not know whether we need new legislation to administer elements of a devolved policy. I am not sure that we do. After all, the agriculture acts from 1947 onwards, which permit ministers to do lots of things to support agriculture if they so choose, are still on the statute book, and I am not sure what status the treaty of Rome, which governs the common agricultural policy, will have after the great repeal bill is passed.

John Mason: Perhaps I can press you on that. One option would be to give Government ministers, be they Scottish or UK ministers, huge powers to do anything they wanted. Given that the regulations from Europe will not automatically come through into UK law, I presume that we will either have to say that they will do so or give ministers the power to introduce equivalent regulations.

Pete Ritchie: My understanding is that four regulations define the common agricultural policy, and my guess is that they might be transposed. However, any transposition would not include all the detail of administration, and, by April 2019, we will be in no position to know what administrative detail we want. Jonnie Hall probably has more detail on that.

Stewart Stevenson: I have another process point to make. It is estimated—perhaps I should say “speculated”—that as many as 10,000 pieces of secondary legislation will be required to be produced at Westminster across all the policy areas that relate to Brexit. Quite a lot of them will touch on this policy, and I am concerned that, at Westminster, there is no scrutiny process of any kind for negative instruments—those that do not require Parliament’s direct approval—as my colleague Alison Thewliss found out this week. I will not go into the details, as they are well known. At Holyrood, however, even negative instruments go before a minimum of two committees and there is at least an opportunity—which, to be fair, is taken only occasionally—for proper scrutiny.

I wonder whether the people in this room would care to express an opinion about that issue. I am open to any answer. If Westminster were to say that, under the circumstances, it was going to put in place a formal process that was similar to ours or that was based on whatever might be learned from our experience, we might be safe from the effects of an inadequately drafted negative instrument with enormous consequences that had escaped parliamentary scrutiny. How do people feel about that? It seems to me that we are in quite difficult process territory.

The Convener: Do you want to respond to that short question, Tom?

Tom Hind: I would love to say that I have an answer to Mr Stevenson’s question but, first, I am not a lawyer and, secondly, I am not an expert on parliamentary process either in Scotland or at Westminster.

However, I will make two points, the first of which is about the status of agriculture in the proposed great repeal bill. Jonnie Hall might or might not be able to confirm this, but my initial understanding of the bill is that it will not seek to transpose the CAP into domestic legislation. Hence, agricultural policy remains in a bit of a void with regard to how that will be handled and how the policy will be transposed into domestic legislation.

My second point is a more practical one about capacity. We know that, both in Scotland and at Westminster, the capacity for Government to make policy under a business-as-usual scenario has been reduced significantly as a consequence

of Government austerity, reductions in resource expenditure and so on. However, the potential for Brexit to compound the requirement to deal with business as usual, in making and setting policy and in developing legislation, is vast. It strikes me not only that it is desirable to maintain the same legislative and regulatory framework after Brexit as exists now in areas such as those that Jonnie Hall has hinted at—animal welfare, food standards, crop protection and so on—but that our doing so might well be a practical necessity from the point of view of our making new policy and legislation.

Jonnie Hall: I will try to be brief. As Pete Ritchie said, four main EU regulations govern the CAP. Behind those, there are delegated acts and implementing acts, and behind those there are Scottish statutory instruments that enable the Scottish Government to make payments and carry out inspections and various other processes. There are layers of legislation that will have to be teased out very carefully indeed.

Although that is a primary concern, there is also a host of other possible pieces of legislation, as has been said. In my view, there will have to be a cut-and-paste approach on day 1. Only over time, with the right capacity, can we start to see whether pieces of legislation are fit for purpose in Scottish or UK circumstances. We have the nitrates directive, the birds directive, the habitats directive, all the animal health and welfare legislation, the traceability legislation and the food and feed hygiene regulations—the list is endless, and they all have an impact on agriculture, crofting, land management and various other things.

On day 1, we will have to draw a line in the sand and accept that we have this EU legislation and that we will continue to operate under it. Then, slowly but surely, we can try to modify it, removing things that are inappropriate or changing things while still operating to the standards that allow us to trade.

John Mason: Are you saying that we will stop the EU input on 1 April 2019 and, from then on, do anything new ourselves, changing the existing system over time? Or are you saying that, even after 1 April 2019, we will continue to accept feed-in from the Europe level?

Jonnie Hall: That question is unanswerable at the moment, because we still do not know what sort of trading arrangements we might negotiate with Europe or anywhere else. For example, one of the terms and conditions of the trading agreement might be that we maintain a standard that Europe wants on the use of plant protection products—pesticides. In some ways, the influence of Europe will not go away if we want to trade with Europe. However, there is an opportunity under CAP regulation and all the rules that surround it to say that we can still meet a standard on, for

example, traceability, inspection, verification and so on without necessarily being tied up in what many people consider to be overbureaucratic red tape.

The Convener: Is Andrew Midgley going to suggest that we cut and paste European regulations?

Andrew Midgley: It will not quite be a matter of cutting and pasting. However, it is almost impossible to overstate the size of the task that we face in relation to regulation and legislation. That task alone is huge. For the purposes of stability across land-based businesses, it is really important that people know where they stand. We have suggested that we roll over lots of legislation and subsequently tweak, tailor or remove the bits that we think need to be changed, much as Jonnie Hall suggested.

I reinforce Tom Hind's point about capacity, because the size of the task and the resource that will be required to go through the legislation are so great. We have already started talking about future policy, and that, in itself, requires input and Government resources—staff time and so on. It is not at all clear to me that the Scottish Government has the resources to manage the task.

Steven Thomson: I agree with what has been said, and particularly with Jonnie Hall's point about the wider regulatory rules that exist in the EU. I spent about two and a half years of my life, with Brian Pack, examining red tape in agriculture. At times, looking at all the regulations drove me insane. The approaches were concerning. For example, the directorate-general for agriculture and rural development's interpretation of tagging, which is a directorate-general for health and food safety rule, drives the penalties that we get. However, they are also driven by the Scottish Government's interpretation of directorate-general for agriculture and rural development's rules. There is a real mix in play, and I think that we are going to have to take on all those regulations. As Andrew Midgley and Jonnie Hall said, we do not have the capacity to implement rules in all the areas that are covered in two or three years—we cannot conceivably do that within that timeframe. Therefore, we will have to adopt all the rules and then weed out the ones that we think are unfit for purpose.

We must also consider how we are implementing those rules internally. In the review, we found that, when we started reading the regulations, we would end up asking why we were doing things in a certain way, and we would decide that it was because of someone's interpretation. That is driven by the culture of fear of audit. That is what has driven us into the implementation of some of the rules that farmers and land managers are faced with.

On Andrew Midgley's point, there is a series of activities that need to be undertaken before we can even start to consider our next agriculture policy.

The Convener: That is probably the perfect point at which to move on to the next theme, which Rhoda Grant will address.

Rhoda Grant: My questions concern future policy. People have big shopping lists with regard to what the future Scottish agricultural policy should be. Rather than ask for a shopping list, I ask the witnesses to say what basic principles should underpin the policy and what areas it is most important to replicate or get rid of in order to make a big difference.

The Convener: Everyone is desperately making notes. Stuart Goodall has avoided answering first at any stage, so I turn to him now.

Stuart Goodall: Going last gives me time to collect my thoughts.

I will quickly address the previous point. There is a huge issue around the interpretation of legislation in that there is a big grey area. For example, in the sawmilling sector, tens of thousands of pounds are being spent to meet a new requirement in EU licensing legislation that is to do with wood treatment. However, when we look across the EU, we see that virtually no other country is doing anything, even though they all operate exactly the same systems. The Scottish Environment Protection Agency tells us that that is because those countries are not interpreting the legislation correctly. That is a huge issue.

On the shape of future policy, I could encapsulate our position by saying that we would like a common countryside policy rather than a common agriculture policy. When we leave the EU and the common agriculture policy, whatever the arrangement for that is, there will be no need for us to carry on folding everything forward, as has been said.

The Scottish forestry sector has grown hugely over the past 30 years and, in many ways, it is now another fundamental part of the rural economy. To pick up Jonnie Hall's point about support and contribution, the forestry sector receives about £36 million, almost all of which is for planting; none of it is for managed forestry. However, the sector contributes about £1 billion and rising to the economy. There are opportunities to develop that—I refer to the point about the LEADER programme and support for diversification. We need to consider how we can create sustainable and successful rural areas that deliver for the economy, for the environment and for society as a whole. Therefore, we would like the policy approach to be based around sustainable development, with people truly trying

to balance all the different interests of the economy, the environment and society.

In forestry, we went through that process 20 or 25 years ago in response to huge pressure relating to the forestry that was planted in the previous century and questions about how we were managing our forests. We have developed detailed standards with environmental, societal and access organisations, and we would like to see that principle shared more widely. We recognise, however, that, as Jonnie Hall and others have said, it does not make sense to say that everything will suddenly change in 2019-20 and that there will be a completely new landscape. We would like to see a process of transformation in which we move as quickly as we can from a very narrow approach to supporting rural areas that is focused principally on agriculture to a wider approach that is based on sustainable development principles.

11:00

Jonnie Hall: As I have mentioned, we would like to see a policy that leaves farming and crofting less reliant on direct support payments and more focused on returns from the market, whatever their market might be. We would want them to deliver a number of environmental objectives as well.

Moving the supertanker of the CAP and turning it round is a difficult task, and the change will need to be managed. If we suddenly switched off the CAP as we currently know it and moved to where we might be at some point in the future, there might be such upheaval that it would be extremely damaging not only to agriculture and food production but to many rural areas.

In broad principles, my shopping list would be some sort of income stabilisation tool for many sectors in Scottish agriculture, particularly the red meat sector, to cushion them against market volatility and to provide some sort of basic income support where we know that the market returns are still not covering costs.

There is still a strong case for retaining a less-favoured area support element in Scotland. In significant areas of Scotland, agriculture will always struggle to generate enough income from the land to cover the costs. However, as Steven Thomson said earlier, the benefits of retaining those grazing systems are not just about food production; they are about keeping people in more remote communities and delivering grazing management, with all the benefits that come with that.

We need to turn the focus deliberately to more support for investment and innovation in order to build business resilience, allowing businesses to become more competitive and embrace new

trading and market opportunities. The switch from farming for support payments, which a lot of individual businesses have done for far too long, to farming for the market is vital.

Above all, we must build in better delivery of the environmental and other public good aspects of what farming and crofting are all about. If we do not put those front and centre, the case for public support will be significantly diminished. Scottish agriculture as a primary land use has significant responsibilities for delivering biodiversity, water quality and climate change. We do not want those to be a bolt-on that becomes a bureaucratic responsibility, as has been the case with the CAP's greening rules, which were dropped on to Scotland, do not fit Scottish circumstances and have become another cross-compliance issue or tripwire. We have the opportunity to build in environmental delivery as part of what we do and as a reason why farmers and crofters continue to get support.

The Convener: As convener, I do not always get the chance to ask all the questions that I would like to. Here is my chance. Before I bring in the next witnesses, I ask them to cover in their answers how we are going to convince farmers that they will be paid value for money for what they produce and that they will not have to rely on subsidies to make up the difference and shortfall in what they receive at the farm gate from those who are buying the produce. For example, barley farmers may produce barley at £130 per tonne, knowing that it costs £130 per tonne. The maltsters will offer them £130 per tonne, knowing that the subsidy will make up the difference. That does not seem right. When we change agricultural policy, how will we convince people to pay a proper price?

Tom Hind: That is not the question that I prepared for, but I will have a stab at answering it in a moment. First, I will point out that we are not a trade association, so I do not come with an exhaustive shopping list. However, the only sure way of enabling farmers and growers to unlock global opportunities and—this perhaps links into the convener's question—to compete in a marketplace that can be brutal at times is to grow productivity: that is, their ability to convert inputs into outputs. Unfortunately, we have a systemic challenge across UK and Scottish agriculture because productivity growth is flat at best. We must therefore focus our future policy on growing agricultural productivity.

We can spend a lot of time trying to diagnose the reasons for that flat productivity growth, and it is important to understand the productivity challenge and why we have such a big problem. However, to my mind, it is down to three things:

the rate of innovation in farming; knowledge exchange and knowledge transfer; and skills.

Andrew Midgley: With regard to the original question, I broadly echo what Stuart Goodall said about integrated land management. The land as a resource delivers a great deal to society. It is primarily important for producing food, but it also produces timber and many services, including environmental services such as climate change mitigation and water quality. As an organisation, we are keen that any future policy takes an integrated approach to land management.

What is important to Scottish Land & Estates is that we come up with the strongest justification for supporting land managers, given the current context of austerity, with threatened budgets and pressure on public services. We have to come up with the strongest possible justification as to why the public should invest money in land management. From our point of view, the strongest argument is around delivering things that society needs and the strongest argument there is around public goods.

That is our long-term objective, but we believe that we must address the current challenges, which have already been referred to. The first such challenge is around profitability and productivity problems, but there are also challenges with, for example, innovation, knowledge exchange and diversification.

On the question of farmers getting value, what immediately comes to mind is that there should be co-operation to try to get greater power in the marketplace. That is not easy. People already co-operate but there could be a role for the Government to help with not only enhancing profitability and productivity but getting farmers into a better place so that they can operate in the market.

There will be an on-going requirement to prevent land abandonment in places where that is a potential challenge. The LFA support scheme currently provides funding for that but there are question marks around the area that it covers and the nature of its support. That probably needs to be looked at again. There are large areas where farming, in particular, is quite challenging, but we need that farming to continue because it delivers a wide range of things for not only society but rural communities and the environment.

Pete Ritchie: I do not want to repeat what others have said about productivity, but it seems to us in the red meat sector that we could do a lot more with the supply chain—the convener referred to malting barley in that regard. We need to look at where we can improve synergy in the supply chain and ensure a fair return for farmers. However, there is not much knowledge transfer in the red

meat supply chain. There is also a huge range of performance, which we must address. The top performers are doing okay—in fact, they are doing very well in global terms. We should celebrate that, but recognise that there is also a very long tail to deal with.

We want to see support for the food industry as part of a broader good food nation approach to food production and consumption. In our approach to food and drink, we need to look at the whole issue of how to produce premium-quality food with provenance and make it affordable to people across Scotland, including those on low incomes.

If one of the essential public goods of our farming system is food production, we need a food policy that ensures that that public good is shared among everyone in Scotland. Therefore, we need a more sophisticated approach to food policy that looks at not only consumption but production and in which support is built in.

At the moment, we do not need support for the horticulture and soft fruit sectors—they are doing well without CAP support—but we need to recognise that they can make a major contribution to Scotland's health, because we need to eat more soft fruit and vegetables. It is arguable that we need to eat and drink much more of the wonderful things that we produce.

A cross-cutting food policy is important. I entirely agree with Andrew Midgley: we need an integrated land use approach. We want more regionalised land use frameworks, with democratic engagement in deciding which public goods in a region or a catchment area are the most important.

The Convener: You have moved on to integrated land use. That big topic will come up separately.

Pete Ritchie: Okay—in relation to the shopping list, other people have talked about integrated land use; the only point that I am adding is that we want to see democratic engagement in that to identify the local and regional priorities for public goods, because they will differ in different areas.

To pick up on Mairi Evans's point, we also want to see a strong rural development approach that is targeted at the more deprived rural areas and which recognises that although population maintenance in those areas is important, it is not all down to farming. We have seen population increases in remote Scotland not as a result of new farming enterprises, but as a result of a lot of other different industries.

The Convener: Before I bring in Steven Thomson, Peter wishes to make a point.

Peter Chapman: I want to emphasise the point that you made, convener, about how we get the

marketplace to work better for food producers. Scotland's food and drink industry, which is worth £14.5 billion, is a huge success story, but the primary producers—the guys at the end of the chain—do not seem to get much benefit from that. How can we get the marketplace to work better? Do we need a stronger supermarket ombudsman? Producers are all small businesses and we trade with large and powerful businesses. How can we get a bit more fairness into the marketplace, so that we—the primary producers—can get a better share of that £14.5 billion?

Steven Thomson: I will try to be as brief as possible. In our most recent rural Scotland in focus report, we suggested that we need to think about what our overall rural policy or development objectives are that agriculture ties into. Agriculture is not all rural development—an awful lot of other business takes place—and we need an overarching rural policy before we consider what we do with ag policy. As Jonnie Hall says, the amount that farmers spend is incredibly important not only to the rural economy, but to the wider economy. They spend an awful lot.

On the basic principles, no matter how you read the EU situation, CAP will become much more outcomes focused to deliver for the environment and for climate change. It looks as though smallholders will be given a bigger chunk of money because of their role in maintaining the countryside and populations in remote areas.

Moving to that outcomes-based approach to make the farming sector or ag policy more justifiable to the taxpayer presents a fundamental challenge to us here in the UK. That is because the EU currently dictates where the money goes and decides how much CAP money comes into all the countries; it dictates that agriculture is important. Under Brexit, we will have to justify to the taxpayer why we should continue to support agriculture, so it will be essential to ensure that those outcomes are explicit in our policy.

It is important that we have a more resilient sector. Some of the stuff that we have been doing shows that there are a lot of non-viable businesses in the farming sector. An awful lot of evidence suggests that hill farmers are not reinvesting in their businesses, so the condition of their buildings is becoming poorer.

11:15

Pete Ritchie is absolutely right that we have some real champions of agriculture in this country. Some of the top producers are real go-getters. They are agribusiness. I am not convinced that we are ever going to shorten this tail that everybody keeps talking about. The statistics show that 20 per cent of the people with sheep in Scotland

control 80 per cent of the sheep, 20 per cent of the holdings with beef control 80 per cent of the beef, and 20 per cent of those who have cereal holdings control 80 per cent of the cereals. If we are talking about food production, we are therefore largely talking about 20 per cent of the holdings. If we are talking about a wider agricultural policy that supports farmers, crofters and smallholders, we have to think about different objectives. Perhaps we need to start thinking about what we actually want out of an agricultural policy.

On getting more of the retail value for the farmer, working with organisations such as the Scottish Agricultural Organisation Society is essential. We need more co-operation. Some of the co-operatives at work in Scotland have shown that, through co-operation, our sector can make significant gains in profitability.

Everyone talks about the value of Scottish food and drink to the economy, and most of that is to do with whisky. Why is there no concordat of agreement between the barley producers and the whisky sector that the sector will, where possible, make sure that it sources Scottish barley? Such an approach would not be hugely innovative, but we need collective action. Getting such action is difficult because, as a sector, agriculture—particularly mainstream agriculture—has been pretty poor at coming together. In the pig sector, the poultry sector and the fruit or horticulture sector, which have historically not been supported, we have seen much more co-operation.

The Convener: Thank you. I will let Tom Hind come in—briefly, please, because we are still on theme three and we have a long way to go, although it is all interesting.

Tom Hind: I will do my best to be brief, convener.

I have experience of working for a farming organisation and for a major retailer, so I have seen the different ends of the supply chain.

We cannot buck the market. If you are supplying a relatively undifferentiated, commodified raw material, you have to accept that you are competing on the basis of cost. There are two elements to that. Can you compete on cost? In some sectors of British and Scottish agriculture, we can. Dairy is one example of that, because we have some of the most efficient dairy farmers in the EU. We talked about fruit and vegetables earlier. In other sectors, the opportunity lies in differentiating and creating value.

There will always be an existential challenge about getting the value from one end of the supply chain to the other. I will not go over the arguments about co-operation but I will mention Pete Ritchie's earlier point about value chains. How can we ensure that we have the best value chains that

eliminate waste and strip out transaction costs? That represents a real opportunity for Scottish agriculture and food and drink to excel more than we do elsewhere in the world.

My final point is about extracting value from other parts of the world. In our experience of working with pig meat processors across the UK to grow export markets for the fifth quarter of a pig carcass, we have been able to increase the value that goes back to the pig processing industry and which goes back to producers. The increase is estimated at £35 per pig in 10 years.

The Convener: We will leave it there and move on to the next theme, which is—well, Jamie Greene will tell us. [*Laughter.*]

I am sorry; that is a committee in-joke. I cut across Jamie's bows last week so that is my way of apologising for that.

Jamie Greene: Not at all.

Given the longevity of the first three themes, we might have covered quite a bit of my theme, but I would like to focus on trade. I do not mean that we should hypothesise about what deals might or might not look like; I want to look at some of the logistics of export and import deals.

To set the scene from the written evidence that we have been given, we export about £105 million of agricultural products to the EU. There seems to be general consensus among the written submissions that we should protect as much of that as possible. The other figures with which we have been presented are quite interesting: we export £245 million of products to the rest of the world and more than £625 million of products to the rest of the UK.

Clearly, there is a huge export market. On the other side of that, there is also an import market. Being part of the EU naturally allows for importation from other EU countries. Outside the EU, there are certain low or zero-tariff countries that we trade with, too.

I seek the witnesses' views on what an ideal solution might look like in a post-Brexit environment. For example, in its submission, SLE said that if we restrict exports but open up the import market, it could be devastating. The NFUS, on the other hand, said that we should be prioritising deals with certain target markets such as Canada, the US and the United Arab Emirates. I am keen to develop that theme a little bit more.

The Convener: That question concerns each of the witnesses. I will start with you, Tom, and we will work round the table. If you do not want to say anything, that is fine, but if you want to add something, please do.

Tom Hind: We have quite an important interest in export markets, given the role that we play working with food companies, particularly in the meat sector, to develop market opportunities. As a plug, if anybody wants to know more about it, the report that we produced in September 2016, "What might Brexit mean for UK trade in agricultural products?" documents key trade opportunities and threats across the whole of agriculture and horticulture.

There are undoubtedly tremendous opportunities, and one of the biggest opportunities of moving out of the European Union and the customs union in particular is the ability to establish and strike up new trading relationships with third countries. There are big opportunities, including not only those listed in the NFU Scotland paper, which are very true, but in China, as we see through the trade missions that we undertake to China and through the agriculture councillor posting in Beijing, which the AHDB funds.

We have been able to exploit and unlock those opportunities, which are significant and tremendous, but we cannot overstate the importance of intra-UK trade to Scottish agriculture and, especially for the red meat sectors, the importance of EU trade. The EU has tariff levels in excess of 50 per cent for meat products. There is a prospect of us facing a cliff edge after 2019 and having to pay the common external tariff to export the 90 per cent-plus of sheep meat that goes to the rest of the European Union and of which the UK is the single biggest exporter in the European Union. The risks are cataclysmic for certain sectors of Scottish agriculture.

Andrew Midgley: I will be brief, because Tom Hind has touched on the potential challenges and opportunities. I will add that trade is potentially the linchpin. We have already talked about our future agricultural policy, regulation, rolling arrangements over and whether or not there should be a UK framework. Future trade deals could be really important and could have an impact on all those things, which could slot into place or fall apart, depending on the future of these relationships.

Jonnie Hall: Since day 1—since the outcome of the referendum—we have made clear our position that we want continued, unfettered free trade with both EU and non-EU countries. We realise that that has become more difficult to attain, given that we are not going to be members of the single market or the customs union, and we are going to go through a process of negotiating free-trade agreements. If those agreements are true to what they say, they should allow agricultural produce to be tariff free and distant from other regulatory barriers that might be put in place. That is not just with the EU, but with non-EU countries, too. As

has been mentioned, we refer to different potential export markets in our written submission.

Over the past year or so, especially during the referendum campaign, a number of individuals made an issue of the fact that coming out of the EU would allow the UK to suck in cheap food imports, which they said would be good for consumers. However, that would mean exporting the jobs and incomes that are associated with farming and food processing. More significantly—this is an important point—it would also mean exporting the responsibility for animal health and welfare standards and environmental standards. Steven Thomson referred to the exceptionally high standards under which we currently operate in the UK and Scotland; nobody wants to see those rolled back.

As Tom Hind said, we in Scottish agriculture will never compete in massive-volume markets with very tight margins. We have to maximise our value based on the provenance of and the story behind the product, the standards under which it has been produced and so on. It is extremely dangerous for us to contemplate anything that might threaten Scottish export capacity. Equally, we have to work hard to create new opportunities as we go forward.

The Convener: Thank you, Jonnie. I keep looking at you, and—

Jonnie Hall: And I keep ignoring you.

The Convener: That will come with consequences. [*Laughter.*]

I will bring in Stuart Goodall, followed by Jamie Greene.

Stuart Goodall: I cannot add a great deal from the forestry sector perspective. We export very little of our production outside the UK, although exports are slightly higher in panel boards than in sawmill material. Principally, what we produce is exported from Scotland to the rest of the UK, which is a significant market. We produce far more than we consume in Scotland, so trade with the rest of the UK is the big issue for us.

Jamie Greene: I would like Jonnie Hall to clarify one point so that we can understand some potential outcomes. In your written submission, you state:

“Moving to a EEA – EFTA model similar to that ... held by Norway, would exclude most agricultural products”.

I want—

Jonnie Hall: Norway has an existing deal.

Jamie Greene: Right. Is your preference, therefore, for us to have complete and unfettered access to the EU in the way that we currently do?

Jonnie Hall: That has been our preference from day 1.

Jamie Greene: Okay. Thank you for clarifying that.

Steven Thomson: There are a number of issues. It is right to say that the UK is a net importer, to the value of something like £20 billion. Our biggest trade partners are within the European Union—approximately £7 billion or £8 billion of our imports come from Ireland and the Netherlands, and I am sure that those countries will not just try to cast us aside in any trade deals.

There is an awful lot in play here. There are member states with a vested interest in making sure that they still have free access to the UK market, and how we get round that is an entirely different matter. We will certainly not be going into EFTA, or taking an EFTA or EEA type approach, given that the UK Government does not want to sign up to the four freedoms, and the free movement of people in particular. That approach appears to be out, which means that we are negotiating our own deal and trying to negotiate free access to those things.

Quality Meat Scotland estimates that approximately 10 per cent of our red meat is exported, while a quarter of the sheep meat sector is exports, of which half go to France and another 27 per cent go to the Benelux countries. To come back to Tom Hind’s point, if we are faced with the tariffs that exist under World Trade Organization rules, the sheep meat sector and the beef sector are in for a very torrid time. That is partly also to do with the exchange rate. There is a relatively small percentage tariff, but quite a chunky euro-per-tonne tariff. With the euro to sterling exchange rate as it is just now, that means, in essence, that the tariff has gone up quite significantly in the past while.

11:30

Pete Ritchie: The Scottish sheep sector is a vanishingly small part of the UK economy and will not feature highly in the trade negotiations. Tom Hind is much better than I am at expressing this: it is potentially cataclysmic for our landscape, as well for as our industry. We have to be prepared for the worst, as well as hoping for the best.

The Convener: We will move on to the next theme.

Stewart Stevenson: I have a factual point to make.

The Convener: Stewart, I think that we have to move on.

Stewart Stevenson: It will only be 12 words.

The Convener: I am going to move on to Mairi Evans.

Mairi Evans: The next theme is access to labour and to scientific and research expertise. What are the implications for labour in agriculture and forestry from leaving the EU?

Stuart Goodall: In forestry, we use seasonal labour and migrant labour. Seasonal labour is primarily used when we establish new forests, which is a winter activity that involves people doing planting and fencing. It is an activity that is driven by grant, which has been up and down for some time, so everybody who works in that sector has built their business on the basis of having flexibility with labour.

We also have a lot of migrant labour for harvesting. We now harvest an awful lot more forestry than we did in the past, but we have not organically grown the same number of Scottish-based harvest operators and we have relied on bringing people in from overseas. There has already been some impact on that, because those people work here in order to send money back home and, as sterling is 17 or 18 per cent weaker than it was, that is 17 or 18 per cent less money to send back.

We are keen for the forestry sector to be included in any seasonal or migrant labour scheme that is put in in the future, whatever form that takes. There will be a need for labour, because we expect forestry activity to increase in the coming years.

Forest Research, the Forestry Commission's research agency, accesses significant sums of money—hundreds of thousands of pounds—every year in EU co-operative projects. As a relatively immature sector—we operate on 40-year cycles and we have grown hugely over the past 30 years—having the opportunity to access common research programmes is important for our understanding of forestry practices and of how to breed trees, to be more successful and to deliver more for the environment. There is a big issue about having access to those EU-wide projects, as well as to the funding itself.

Steven Thomson: As a matter of interest, the Scottish Government has issued a call in the past couple of days for a study into migrant labour in agriculture, so some work is being undertaken on that.

I pulled out some statistics for the rural Scotland in focus report and I was flabbergasted that 500,000 work hours were from migrant labour. I put a figure in of 2,000 or 2,500 full time equivalents, but those people are not working full time. If we make it one or two months and multiply that by nine or 10 people, that equals quite a lot of people. We forget that that is just in agriculture. In the meat processing sector, we are pretty heavily reliant on foreign labour.

With regard to research, access to EU funds is incredibly important. Horizon 2020 and the old framework programmes add significant value to our knowledge base. The main research providers for agriculture, food and the environment use quite a lot of foreign or overseas researchers, and an incredible knowledge base has been built on the expertise of migrants and people who have relocated to Scotland. It is incredibly important to be able to access not only the EU funding base but that skills base and research knowledge.

The Convener: We want to hear some opinions about how important these people are. Do you wish to comment, Tom?

Tom Hind: Perhaps I can provide a couple of numbers just to give you some context with regard to labour. According to the Office for National Statistics, there were 22,517 EU nationals permanently employed in UK agriculture and horticulture in 2015. Given that across the UK there are about 115,000 full-time employees in the industry, it is probably not unreasonable to assume that 20 per cent are EU nationals. However, that might mask the scale of their importance to horticulture and, in particular, the fresh produce sector, where there is much greater demand for seasonal labour. It is also probably not unreasonable to assume that somewhere between 50 and 90 per cent of the workforce in the fresh produce sector, particularly in pack houses and picking, are also EU nationals.

I also note that, in food manufacturing, 38 per cent of the workforce are migrants, as they are termed. As the issue is particularly significant for that sector, uncertainty around the availability of and access to labour will have an impact on the decisions that companies make.

The Convener: That was pretty comprehensive. Do you have anything to add, Andrew?

Andrew Midgley: Migrant labour is important, but the question is: what do you do about it? Certainty is required, but I note that seasonal worker schemes were stopped when freedom of movement restrictions were removed. There is potential to recreate mechanisms that provide migrant labour, but they need to be developed.

Jonnie Hall: There are six key strands to labour issues, and they are vital not only to Scottish agriculture on its own but to the whole food processing and supply chain. The strands are seasonal and permanent labour, on-farm and off-farm labour and skilled and unskilled labour, and we must ensure that we cover each and every element. In any one year in Scotland, there are about 15,000 seasonal workers, and about 8,000 full-time equivalents in our agriculture and food processing sectors. In the abattoirs and cutting

plants in the red meat sector, that labour plays a really important role.

However, we must also remember the importance of skill levels. An awful lot of Scotland's veterinary services are provided by European vets, and we cannot overestimate their importance in ensuring that the wheels of agriculture—if you like—keep on turning.

In every conversation that we have had with the UK Government on this, the big issue was always the free movement of people. Now, however, it is talking about controlled movement of people, but we cannot get out of it an answer to what that means. As Andrew Midgley has said, we used to have the seasonal agricultural workers schemes—or SAWS—which obviously was about temporary work, but what about those who are already here as permanent employees and so on? We need some pretty quick answers from the Home Office, in particular; we keep writing to Amber Rudd, but she never responds.

Finally, the research issue is essential. Research underpins innovation; a lot of comments have already been made about the need for innovation, but if we do not have the research drive that we have had for many years in Scotland and which Scottish agriculture can utilise in the form of new technology, say, to change practice, we will never be able to compete. Investment in research is just as important as on-farm investment to ensure that the agricultural industry keeps moving forward.

Mairi Evans: I have a quick supplementary on this issue, which is obviously vital not only for my constituency but for Graeme Dey's constituency of Angus South. There is a lot of soft fruit production in that area, and EU migrant labour is particularly important in that respect. Last week, I met a company that is closing down part of the business because of the uncertainty about access to EU migrant labour. Are you seeing impacts of that uncertainty elsewhere across the sector?

Jonnie Hall: Can I come in on that?

The Convener: No. I am sorry, but you have had quite an input. I want to bring in Steven Thomson.

Steven Thomson: I have a point of clarification; it relates to what Stewart Stevenson wanted to say. I should have made it clear that the Netherlands acts as a major hub for imports into the EU, some of which then come into the UK. Not all of the imported product is from the Netherlands, but it still plays a vitally important role.

The Convener: I take that point. I am sure that Stewart Stevenson could have made that point in the 12 words that he said that it would take him to do so.

Tom Hind: From his members, Jonnie Hall will have a better sense of whether businesses are experiencing a practical impact. I am certainly aware of a short-term impact, but that is partly related to exchange rates and the salary differential that workers are experiencing.

Andrew Midgley is right. We need to look to the future rather than just talk about the risks and the threats. We need to think about potential solutions. The solution of looking at controlled migration in the form of some kind of seasonal and permanent worker scheme has already been flagged. That would impose some capacity challenges on the Home Office, but it is an important idea, the case for which has been made by the farming unions.

There is an opportunity to improve labour productivity in agriculture, which is not as high as it is in some other industries. We need to think about what we can do to improve the skills and the training of the workforce that might improve productivity. Increasing automation is another possibility. That goes back to the point about investing in innovation. What can we do to reduce long-term dependency by increasing automation in farming and the supply chain? We also need to think about what we can do to get more of the underutilised or the unemployed into the workforce.

The Convener: We must move on to the next theme, which is theme 6.

Peter Chapman: We can probably go through this theme fairly quickly, because it is about regulations and standards—in other words, red tape—which we have already touched on.

Some regulations originate from international agreements, but many are from the EU. Steven Thomson mentioned the red tape review. In the report of that review, "Doing Better Initiative to Reduce Red Tape for Farmers & Rural Land Managers: Final Report & Recommendations to Scottish Ministers", Brian Pack said:

"there must be an easier, more efficient, less costly way to regulate Scottish farming and land management."

I think that we could all agree with that, but is that a practical proposition? Will leaving the EU enable a change to be made in industry standards? Given that we have touched on the issue already, we might be able to make quick progress.

Andrew Midgley: Yes—in the longer term, it might.

Peter Chapman: There was a long thought process involved in that answer.

Andrew Midgley: Yes—sorry.

As I said earlier, our broad position is that we need to acknowledge the challenge of changing from one regime to another, which creates quite a

significant capacity problem. Our view is that we should take a phased or transitional approach to regulation as well as future policy. We need to roll over where we are and then look at what we can change.

Unfortunately, there are limits to the extent to which we can change industry standards, which will be related to trade. Ultimately, in order to be able to trade, we probably need to be able to satisfy the requirements of our trading partners. Given that our biggest trading partner outside the UK is the EU, we will probably end up having to do something similar, but it must be possible for us to meet the EU's broad requirements without having to follow the letter of its rules. That is where the opportunities will lie.

Mike Rumbles: I am curious about that response. The question was whether leaving the EU will enable a change to be made in industry standards. The implication is that we will be able to drop standards and remove red tape, but surely we cannot drop standards if we are aiming to maintain our market share in the rest of the EU. If anything, we might need to do quite the reverse. If we want to get into other areas, we will have to maintain and improve standards, so far from reducing the amount of red tape, leaving the EU could lead to an increase in the amount of red tape. I do not understand how we could be in the business of reducing red tape.

11:45

The Convener: I will bring in Pete Ritchie and then Jonnie Hall.

Pete Ritchie: I make it clear on behalf of Scottish Environment LINK that we think that the EU environmental acquis has been entirely or almost entirely progressive. It has helped us in the UK to have cleaner water, cleaner air and protected species. It has been a good thing. We are certainly not saying, "We can't wait to leave" or "Stop so we can get off the bus". We want to stay on the bus, and we want our regulations not always to follow things slavishly but basically to follow the process of better regulation while raising standards.

We also believe that improved regulation or tighter regulation—regulatory stringency, if you like—drives technical efficiency. We only have to look at the building industry to see how much better our buildings are, and they are not better because builders are better people than farmers; they are better because regulations have driven efficiency in our buildings. Better regulation drives efficiency, so we do not believe that regulation equals red tape—quite the contrary.

Jonnie Hall: I tend to echo the point that Pete Ritchie has just made. We are absolutely not in

the business of trying to bring the standard down. We must be clear that we are meeting standards in all sorts of aspects but, coming out of the EU, we definitely have an opportunity to unpick some of the bureaucratic things that are not fit for purpose—I think that Steven Thomson mentioned them earlier. They are not adding to the standard but are adding complication and compliance risk and ultimately, therefore, business cost while not adding value in terms of the public interest. A whole range of those things are riddled throughout the CAP regulations in terms of validation, verification, audit, inspection and all the rest of it, but also in lots of other spheres that we have touched on under various directives.

We are definitely not in the business of wanting to erode or reduce standards. That would be to our detriment. We need to be seen to be producing very high standards—the highest standards—in order to capture markets, but, at the same time, we can unpick some things that really do not add value but which we have to comply with because we are currently part of the EU.

Tom Hind: We should probably distinguish between red tape, regulation and standards. That is the first point. Secondly, when we look into the future, not only do we have the capacity challenge that we highlighted earlier from a regulatory perspective but, if we want to be able to access and open up new market opportunities overseas in places such as China and the US, it will be important that we can demonstrate the high quality, traceability, safety and integrity of the products that we provide, and it strikes me that we are likely to continue to want to trade on the back of having high standards as opposed to low standards. If think about red tape separately from that, that does not mean to say that there is not the opportunity to make things a bit simpler and easier for people.

The Convener: I think that we will leave that there, because there seems to be a general theme about not letting standards—

Mike Rumbles: Can I ask members of the panel who feel that there are red-tape regulations to write to the convener with a list of things that they think are red tape? I do not know what they are.

The Convener: I think that it would be helpful to have some examples of red tape, if that is possible.

Peter Chapman: On the point that Mike Rumbles makes, we need to look at Brian Pack's report, which came out a year or 18 months ago. He identified many, many areas where we could cut back on red tape. That is the document that we should be looking at, and I hope that the Scottish Government is looking at it, because there are

issues that could and should be addressed. As Jonnie Hall says, they do not add anything. They just add grief and grievance and paperwork for the farming industry that we can do without.

The Convener: I am sure that the clerks will direct the committee to where to find that report. I will let Steven Thomson in, but it must be very brief.

Steven Thomson: I have hard copies of the Pack report that I can give to people if they want a hard copy.

On the point about the regulatory burden, we might see regulations for external trade increase, because we will have to deal with rules of origin and new labelling requirements, so it is not all about the existing system. However, there are some crazy rules in the existing system regarding mapping, which we might be able to drop. I remember from doing the review that the largest field in Scotland is 44,000 hectares and we are looking for combined features that add up to half the size of a tennis court. That is ridiculous, and if we can drop such requirements, that will be good.

The Convener: The deputy convener wants to go on to the next theme.

Gail Ross: Pete Ritchie will be delighted to know that it is about integrated land use policy. Scottish Land & Estates is calling for that, and all of you have mentioned it in your submissions. I am just going to let Pete talk.

Pete Ritchie: It is in our submission, and I do not think that there will be much dissent here about the fact that we are building on an existing land use strategy—the Land Reform (Scotland) Act 2016 set a framework for land use in Scotland. We can take credit for the fact that people are getting together and talking about that. Our concern is that, at the moment, we have fairly high-level principles when it comes to our land use strategy, and it would be helpful to bring that down to a regional level and to improve the governance of that, so that more and different actors are involved in it.

We can and must find ways of using our land to produce multiple objectives. Everybody has said that. We have a climate change imperative, and I pick up Stuart Goodall's point that the CAP disincentivises tree planting, which it would be very sensible to have.

A regional land use framework, or even looking at things at a catchment level, can allow not just landowners, land managers, the environment agencies and Government but communities to have a say in what the local priorities are and what the communities can do. It can engage communities in that conversation, rather than allowing what has happened in parts of Scotland

where people feel that the forest came in and displaced the farms and they say, "Isn't that terrible?" It allows us to ask how we can, as Stuart Goodall says, get some benefit out of it for everybody. How can we plan it so that the communities gain, houses can get built and the whole thing can improve, rather than having land use decisions made by certain people and everyone else having to live with it? An integrated framework seems sensible to us.

The Convener: The next logical person to come to is Stuart Goodall, who can talk about how to integrate forestry within the agricultural schemes, because I am sure that he will have views on how integration with livestock farming could work but is currently restricted.

Stuart Goodall: Yes. In reflecting back, as we say in our submission, we feel that the existence of the common agricultural policy sucks all the oxygen out of the room. We talked to politicians, civil servants and commentators and, over the past 20 years, even though forestry was included in 1992 as an activity, everybody thinks about agriculture—how do we make agricultural systems work, how do we get the payments out, how do we structure everything around agriculture? It does not leave any opportunity for thought time and for us to step back and say, "How do we have successful rural areas?" Agriculture might have been the dominant part of rural communities at the beginning of the 20th century, but it is not at the beginning of the 21st century. We need to look at how we have successful, green rural areas.

We would put forward the opportunities that we are starting to see emerge. Convener, you mentioned the ability to integrate forestry with livestock farming. It is a great frustration for us that very few farmers or land managers look at how they could plant trees on part of the land and reap the benefits in terms of shelter for sheep, so the sheep would need to eat less food and would be of better quality. The reduction in meat production, in most cases that we have seen, is nil, and in fact there is higher-quality production. They should have the opportunity to convert the use of that land to something that does not require a long-term subsidy, provides environmental and climate change benefits, mitigates flooding and provides an economic activity that supports rural businesses.

What we really want is the opportunity, as we move forward, for the Scottish Government and this committee to send a signal to everybody who thinks about commenting on rural policy to say to the civil servants in the Scottish Government, "Do not think just about agricultural policy and how we roll it forward". Let us have some cross-thinking among forestry, agricultural and environmental civil servants about how to have a policy

framework in Scotland that will allow us to make a transition from an agricultural policy, as I was saying earlier, to what we see as a countryside policy.

Andrew Midgley: I echo those comments. The land delivers a range of things. To a certain extent, policy is significant in determining land use—given the amount of money that is provided through the common agricultural policy, for example—which can sometimes be a barrier to maximising output. Policy is focused on producing one output, because we as a society have decided that we really need some food right now, so we have designed a policy to support farming and maximise food production if we can. There is now a once-in-a-generation, once-in-40-years opportunity to reframe our approach. However, that is not in any way easy, and there are some challenges, which Pete Ritchie picked up on. There is a governance challenge. Currently, things tend to work through different sectors. The farming sector and the forestry sector have their own policies, although they have come together a little bit since forestry had to be brought within the Scotland rural development programme. There is very much a sectoral approach, and rural development is seen as separate.

How do we deliver integrated land use? Pete Ritchie spoke about a regional approach, but that would raise significant problems for the Scottish Government. How would it go from developing a national policy that it hopes is delivering integrated land use to enabling policy to be developed through a regional approach in which there might be greater participation at regional level? It would be moving from silos to regions, which is an issue. That was tried—to a degree—relatively recently through the previous SRDP, in which regional priorities were created as a mechanism to identify priorities in different places. However, that did not work very well. There are some challenges in how such an approach is delivered, and we would need to come together to assess the mechanisms through which we could take it forward.

The Convener: So simple scoring might not work.

Jonnie Hall: I certainly support—and have always supported—the principles of integrated land use, but we need to be careful about the scale. The principles are spot on, but if we take the approach down to the individual hectare or even the individual business, it becomes almost impossible to do all things all the time and produce any optimal or reasonable outcome. There are trade-offs. There is an opportunity cost from what someone does with their land—as soon as they have planted 100 trees, they can no longer use it for food production, renewables, recreation or whatever else. If we take a step back and look at

the approach on a landscape, or catchment, scale, and think about integrating things such as flood risk management and all the rest, we really can talk about it.

On Stuart Goodall's observations about upland sheep management, I state for the record that NFU Scotland is 100 per cent supportive of that sort of initiative, but there are challenges. The issues in many senses stem not from the objectives of the farmer but from the fact that many hill farms are tenanted. The farmer does not have a choice as to whether he plants trees or not, as that is in the gift of the landowner, so there are issues in that respect.

As a principle, I agree with integrated land use, but we need to be very careful about what we expect from every hectare of land. I take Pete Ritchie's point—which is important—that there are certain areas in which we could ask what the priorities are that we want to achieve. If we have prime agricultural land in Scotland—and we do not have much of it—let us make sure that its prime use is agricultural. In other parts of Scotland, where agricultural value has become more marginal, let us look at alternative uses. That process happens anyway, largely as a result of market drivers as much as anything else. Those have been stifled to a degree by where support payments go, as that has created inertia, but as we move forward under a new policy settlement, that inertia might be broken down. The approach will be not just to occupy land to get an agricultural support payment but to create activity on the land to get a support payment. That is the principle that we should be going for.

The Convener: Does Gail Ross want to follow up on that?

Gail Ross: I have a question to which the answer can be one or two words. Are there any countries where that approach is currently working?

The Convener: A regional approach?

Gail Ross: No—just an integrated land use policy.

Jonnie Hall: It works in Finland and Sweden, which operate under the CAP too.

The Convener: Maybe that is an area to look at. I am afraid that I have to move on to the next point.

Stewart Stevenson: Tom Hind has talked about opportunities that come from developing markets in China, and Andrew Midgley has talked about opportunities that come from the change that we are facing. Do the other witnesses see any opportunities that will come from our no longer being in the EU?

12:00

Andrew Midgley: From our perspective, the biggest opportunity is the one that we have talked about already—the opportunity to redesign policy in a way that suits us. Leaving the EU potentially creates that opportunity in relation to regulation, more targeted support and integrating management. It is a great opportunity—we can redesign policy so that it really delivers for Scottish land managers and Scotland as a whole. The challenge in doing that is also great, but the opportunity is there if we want to grab it.

Stewart Stevenson: I am sorry, but I am going to challenge you to turn that into something specific that I can touch, feel and think about. What would you do first, given that opportunity?

Andrew Midgley: Given the previous arguments, we have to acknowledge that we need to avoid a cliff edge. We are not talking about just turning a switch from one thing to another; we have to be on a trajectory towards changing policy. For example, at the moment we have a structure in which the majority of support to farmers is direct support, with a small proportion going to rural development, agri-environment and so on. There is an opportunity to rethink that structure.

In relation to support, we do not necessarily need the pillars—we could change the way that we deliver it. We could change the degree to which we provide direct support—we could provide a base level of support as a safety net, but then put more support towards enhancing the industry's productivity and profitability. We could focus much more on the agri-environment or public good by putting a greater proportion of the budget towards that, or we could provide a great deal of certainty to the forestry industry, so that it has the stability that it needs. As I said, the opportunities are great, and those are the things that we have to decide on.

Tom Hind: I have already covered the issue, in a sense. The key opportunities that we see concern the ability to develop new trading arrangements in a much more fleet-of-foot fashion than the EU does. The EU has taken seven years to conclude negotiations on the Canadian comprehensive economic and trade agreement, which is not exactly a free-trade agreement. That is a long time. There is the potential, with the right resources, will and skill, for us to do things more quickly. The question is whether we have the resources, will and skill, and also what the trade-offs are. For example, if we go blindly seeking a trade agreement with the United States, what are the potential consequences? There are probably some upside risks, but also some downside risks. The big opportunity for us is the ability to develop new markets for British agriculture and

horticulture, and, specifically, for Scottish products.

Pete Ritchie: The big opportunity is the opportunity to open up the debate, as Andrew Midgley said. We do not have a clean piece of paper, but we can make a fresh start and it will be really important to involve the widest possible set of people in that debate.

There are a lot of things that Scottish Environment LINK would like to see that could be done within the CAP. For example, integrated land use management is not prohibited by the CAP, and we have argued for a move towards agri-ecology—as France has done—which is something that the CAP allows. The CAP has not prevented us from doing those things, but having control over the resource and the structures that we put into place opens up a public debate.

We have also floated the possibility of using some of the money that we currently put into agriculture to support nutrition for people on low incomes. Eighty per cent of the US Farm Bill does not go to farmers; it goes to cities to support people on low incomes. We might not want food stamps or anything like that, but the possibility has opened up to think again about how to support farming. Perhaps we could do that by subsidising consumers to buy veg from Scottish farms, rather than subsidising farmers.

Steven Thomson: Obviously, there are opportunities for trade. We have a very strong brand in whisky, and salmon has a very good reputation. Scotland is seen as organic and natural, even though it is not organic. We have an opportunity to trade on that.

The problem with trade deals is that we cannot cherry pick parts of our sector or our economy to trade, so we would have to go to America with pretty much all our trade—for example, we cannot just have a beef trade deal. There are opportunities, but there are challenges, too.

In the wider policy sphere, we know that farmers and land managers are very quick to react to proper incentives—just look at how successful renewable energy has been in changing our landscape—so, with the right incentives, we can get land management change. With regard to the market driving change, that has happened in the beef sector with the penalties on heavy animals going to abattoirs. If the signals are right—whether from policy or the market—we can drive change in agriculture and land management.

Those are the kind of opportunities that we have. We have to think smart about how we incentivise things and how to get the market signals right.

Jonnie Hall: Signals from the market will lead to changes, and others have covered some of the opportunities. One very quick opportunity is that, by withdrawing from the CAP, we can finally break the hoodoo of spending lots of money on relatively empty—or completely empty—hillsides and focus our support payments on activity. That will be critical: if we have less budget to play with, hitting the target becomes absolutely vital. As an organisation, we do not want money to go to those who simply occupy land; we want money instead to go to those who manage the land, take risks on the land and try to generate a reward from the land. We have a clear opportunity to recast the activity requirements that we currently have to live with, which are a European construction, and to make activity—no matter what it is—rather than inactivity the focus of support spending in the future.

Steven Thomson: Picking up on Jonnie Hall's point, the activity requirement is a European requirement and condition that relates to the agreement on agriculture. The WTO rules for trade deals are important, because we cannot just apply the activity rule. I agree with Jonnie Hall that it is important that we only support active people, but we have to be really careful about how we do that.

Jonnie Hall: I am fully aware of that.

Tom Hind: If Jonnie Hall is fully aware of the WTO blue box, green box and amber box rules—

Jonnie Hall: I would like to say a couple of things—

Tom Hind: There is an issue in terms of blue box, green box—

The Convener: Now we are getting into the debate, but I am sorry—we have come to the end of the session.

We have had a wide-ranging discussion and I thank everyone for their input. If anyone feels that they have not had a chance to raise specific issues during the session—I would be disappointed if there was much that has not been raised—I ask them to write to the committee and to let us know their views. On behalf of the committee, I thank the witnesses for their attendance today.

I briefly suspend the meeting to allow witnesses to leave the room.

12:09

Meeting suspended.

12:13

On resuming—

Subordinate Legislation

Scottish Road Works Register (Prescribed Fees) Regulations 2017 (SSI 2017/49)

The Convener: The second item on the agenda is consideration of a negative instrument, as detailed on the agenda. The committee will consider any issues that it wishes to raise in reporting to the Parliament on the instrument. Members should note that no motion to annul has been received and that there have been no representations to the committee from any outside agency.

As members do not have any comments to make, is the committee agreed that it does not wish to make any recommendation in relation to the instrument?

Members *indicated agreement.*

Meeting closed at 12:13.

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