

RURAL DEVELOPMENT COMMITTEE

Tuesday 16 April 2002
(*Afternoon*)

Session 1

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RURAL DEVELOPMENT COMMITTEE

10th Meeting 2002, Session 1

CONVENER

*Alex Fergusson (South of Scotland) (Con)

DEPUTY CONVENER

Fergus Ewing (Inverness East, Nairn and Lochaber) (SNP)

COMMITTEE MEMBERS

*Rhoda Grant (Highlands and Islands) (Lab)

*Richard Lochhead (North-East Scotland) (SNP)

Mr Jamie McGrigor (Highlands and Islands) (Con)

*Mr Alasdair Morrison (Western Isles) (Lab)

*John Farquhar Munro (Ross, Skye and Inverness West) (LD)

Irene Oldfather (Cunninghame South) (Lab)

*Mr Mike Rumbles (West Aberdeenshire and Kincardine) (LD)

*Elaine Smith (Coatbridge and Chryston) (Lab)

Stewart Stevenson (Banff and Buchan) (SNP)

*attended

WITNESSES

Ross Finnie (Minister for Environment and Rural Development)

Douglas Greig (Scottish Executive Environment and Rural Affairs Department)

David Henderson-Howat (Forestry Commission)

Hamish Morrison (Scottish Fishermen's Federation)

Peter Stewart (National Farmers Union of Scotland)

James Withers (National Farmers Union of Scotland)

CLERK TO THE COMMITTEE

Richard Davies

SENIOR ASSISTANT CLERK

Mark Brough

ASSISTANT CLERK

Jake Thomas

LOCATION

Committee Room 2

Scottish Parliament

Rural Development Committee

Tuesday 16 April 2002

(Afternoon)

[THE CONVENER *opened the meeting at 14:03*]

The Convener (Alex Fergusson): Good afternoon. I start with the usual warning that all mobile phones should be turned off. I welcome everybody to the meeting. We have apologies from Irene Oldfather, Jamie McGrigor and Fergus Ewing. I am sure that I speak for all committee members in offering my sympathy and best wishes to Fergus's wife, Margaret, who was a member of the committee, in her battle against breast cancer. Fergus is not here today for that reason. We all wish Margaret and Fergus Ewing the very best and our thoughts will be with them.

Budget Process 2003-04

The Convener: Stage 1 consideration of the budget process 2003-04 is our first and main agenda item. Stage 1 involves broad strategic consideration of the Scottish Executive's budget plans, as announced in the recently published annual expenditure report.

The committee's task is to consider whether the budget plans for rural affairs, forestry and fisheries are acceptable. The committee may recommend changes to the balance of priorities. In addition, as a comprehensive spending review occurs this summer, the committee may wish to consider the priorities to which it would give any additional resources that are secured for the Scottish Executive environment and rural affairs department as a result of that review.

The committee has agreed that, among other topics, it will focus on the composition of spending on rural development and the Executive's options for enhancing the funding and the range of schemes and for altering the implementation of modulation.

We will take witnesses in three stages today. We will have separate sessions with representatives of two major industry bodies, after which we will hear from the Minister for Environment and Rural Development, Ross Finnie, who will arrive at 3 o'clock.

I am sorry to say that, at short notice, the Scottish Crofting Foundation has withdrawn from giving evidence. We will communicate with the foundation about that and try to put right any misunderstanding that may have occurred.

I am pleased to welcome Peter Stewart, who is the vice-president of the National Farmers Union of Scotland and is accompanied by James Withers. I invite Peter to give an introduction. After that, I will invite members to ask questions.

Peter Stewart (National Farmers Union of Scotland): I thank the committee for the chance to give evidence, perhaps to help to bridge a gap between our ideas and your understanding of the policies that we have developed. I am sure that the committee realises that this is a time of great pressure on the agricultural industry. We need co-operation to lift agriculture out of that.

Members will see right away that 50 per cent of spending on matters in the committee's remit is on the less favoured areas support scheme. The Executive used to commit £40 million to that and the figure has increased to £60 million. We thank the Scottish Executive for that commitment. Much work remains to refine the system and to ensure a fair spread of payments and we are working together on that.

The common agricultural policy spend is fixed at present and will face greater demands in the future because of enlargement of the European Union. Incomes in agriculture are under huge pressure. In many instances, income levels are unsustainable. Given the present predictions on prices and likely market growth, many farmers and other people who make a living in the countryside may have no future.

Given that background, it is crucial that we develop together alternatives to modulation. There is no place for the views that the Curry report expressed. It flagged up the role that modulation can play and talked about extending the amount that is removed from direct payments through modulation.

We have positive alternatives to modulation. We are working up our own alternatives, which we think make far more sense. The first expression of that is in the use of national envelopes, which were used in the sheep annual premium system. They would allow us to develop various schemes. If that principle were extended to other sectors so that we could develop schemes that we thought made sense in the countryside, far more people would become involved in schemes. Through the application of subsidiarity, that would make a difference, so that Scotland could say what it wanted to do with the moneys. It would mean that devolution made a real impact through innovative policies that could show Europe the way in which it should go.

Members may wonder why I oppose modulation. Modulation directly affects payments to 17,000 farmers and only 380 farmers have benefited from rural stewardship schemes. Modulation has created only 266 environmentally sensitive areas. It is clear that that is a poor strike rate. Money has been taken from everybody and given to only two or three schemes. They may be high profile schemes or schemes in remote areas, but they do not provide the opportunity for everybody to do something to enhance or protect the environment.

We are also looking at the impact of the mid-term review. I fly out tonight for a series of meetings tomorrow in Brussels on that mid-term review. We have strong views on all the topics to be covered and we hope to influence the decision-making process. We want to be positive and to highlight things that we think will benefit Scottish agriculture.

If, in this short address, I were to highlight one concern about the detail of the spending, it would be to do with the organic aid scheme. A number of people say that the scheme is the future of agriculture and should be strengthened. Members would agree that any organic initiatives must be market led. There is a huge danger if we continue to presume that anybody who applies to the

organic aid scheme will be accepted. There is a limit to what the market will stand and to the demands that will be renewable in future. There should be no presumption in favour of organics.

I think that I may have given the committee something to go on, convener, and I welcome the opportunity to answer questions.

The Convener: Thank you—the more questions we can ask and the more discussion we can engage in, the more we will achieve.

Mr Alasdair Morrison (Western Isles) (Lab): Correct me if I am wrong, Mr Stewart, but do we not import something like 95 per cent of the organic produce consumed in Scotland?

Peter Stewart: We have to bear two things in mind. Many products can never be produced in this country. A lot of fruit, for example, has to be imported, because we simply cannot grow it in this country. —

Mr Morrison: With respect, I am obviously not talking about products that we do not or cannot produce in this country.

Peter Stewart: No, but let me finish the point. There are also restrictions in western and northern Scotland, where it is difficult to grow sufficient clover to allow us to fatten and grow organic livestock.

The other thing to bear in mind is the fact that we have very high standards for organics, which are strictly enforced, whereas a fair amount of evidence indicates that the same is not true in other countries. When contacts of mine have been short of organic produce, they have found it remarkably easy to source it overseas. When they say to the supplier, "Watch, because it has to be properly certificated," the reply is, "Sure—what would you like the certificate to say?" Rules can be broken a lot easier in other countries than they can here.

With organics, agriculture can fill a very important niche. However, everything must be market led. We have already seen the example of organic milk, which is produced at a far higher cost, going into the ordinary milk pool because there was simply no demand for it. We would welcome the opportunity to meet a genuine demand and many farmers are keen to go down that route. However, as with everything in agriculture, it must be increasingly market led.

Elaine Smith (Coatbridge and Chryston) (Lab): Organics seem to be becoming more popular because of concerns about food safety, but are you saying that organics might be a fad? You spoke about the organic aid scheme and about the need for initiatives to be market led. Are you saying that there should not be an organic aid scheme?

Peter Stewart: I do not believe that organics are a fad. Demand for organic produce will continue to increase. However, the percentage of Scottish agriculture going down that route is not as high as some MSPs would like it to be. Those who want to take advantage of the organic aid scheme will have to accept that they will have to sort out their markets first. We would like organic producers to have a properly organised marketing system so that one organic producer is not trying to undercut the others.

We must ensure continuity of supply—which would help to meet Mr Morrison's concerns on imported produce. Continuity happens in the normal sector just now. The supermarkets do not give out contracts unless things can be organised to allow them to get supplies for 12 months of the year.

A lot of organisation, market research and targeting of what organic producers are doing is needed. That should take priority over others' wish to say that an arbitrary level of 20 per cent or 30 per cent should go down the organic route. That would clearly be wrong. Organics are not a fad but are here to stay.

Elaine Smith: Are you saying that the criteria of the organic aid scheme must be reviewed?

14:15

Peter Stewart: Yes. The Executive must consider what it aims to deliver through the scheme. At the moment, it delivers the financial support of the conversion scheme, under which farmers stop using sprays, fertilisers and so on, their yields drop and they do not have the organic status to let them gain the premium. Premiums are necessary because organic farmers do not produce as much per acre or per unit as with normal production.

Do not let that put you off. In many cases, the premium that is paid to the farmer is not even a big percentage of the final sale price. There is a lot of expense between the farmer producing produce and it getting to the consumer's doorstep. The premium should not be an issue. My industry should evaluate the scheme rather than presume that anyone who applies should get aid to go down the organic route.

The Convener: Are you suggesting that, as there is no limit to the number of people who apply for the organic aid scheme or to the funding that is available to it in Scotland and as there is not much of a premium for some organic products, people are applying to go organic because of the grant aid that is available to do so rather than any great desire to go organic?

Peter Stewart: No. I would not go so far as to say that. However, the scheme will have to give a

far greater priority to how applicants are going to market their produce. We should think about what we aim to spend the budget on and where the biggest gains are. Many of those who applied for countryside premium schemes were turned down, and yet those who applied for organic aid were not turned down. It is a question of matching supply and demand.

James Withers (National Farmers Union of Scotland): There is also an issue of consistency in how the organic aid scheme operates in comparison with other agri-environment schemes. As has been implied, the organic aid scheme is non-discretionary—if someone applies for it, they get the grant. That takes money out of a very small pot for a number of schemes and the more money that comes out of the pot for organic aid schemes, the less money is left for other, just as valuable environmental schemes.

The Convener: I agree with what you have said, but some would argue forcefully that the way to counteract that is to increase modulation. It can go as high as 20 per cent. What is your comment on that?

Peter Stewart: The problem with that is that, in a period of virtually nil incomes across many sectors, modulation takes something off everybody to benefit two or three. We have pressure to direct money from pillar 1—the direct support system—to pillar 2, which uses modulated money and other drivers. The difficulty is that there is a huge pot of money for pillar 1 and the delivery mechanism does not exist under pillory—that might be a good way of putting it; but I mean pillar—2. A huge amount of bureaucracy is involved in working up pillar 2.

We could achieve more if we said that we want every one of the 17,000 producers to have some access to, for example, environmental schemes or marketing and processing schemes. I farm next to Dunfermline. There is a huge population there who would enjoy the countryside and the environment on my farm. If the drivers were suitable, I could link the set-aside strips along the side of the river, mow them regularly, so that the population could walk along there to gain access to the countryside, and create habitats for wildlife by changing set-aside management.

In other words, if farmers did an environmental audit on their own farms and figured out where the gains could come from, that could be part and parcel of how they got the aid that they get just now, instead of modulation taking from them willy-nilly and going into only two or three little pots for two or three schemes. There is a bigger gain if everybody is involved. Because of the way in which the system is organised just now, few can be involved. We have seen the numbers who were rejected from countryside premium schemes. That

is clearly not satisfactory.

We are flagging up the fact that the cross-compliance route offers more than the modulation route. We are also concerned about the fact that, although modulation is match funded at the moment, it might not be in the future, depending on pressures on Government spending. A further danger is that, if we were to have higher modulation rates in the UK than exist in other European countries, we would be made even more uncompetitive than we have already been made by the huge strength of sterling. Tomorrow, I will be pushing for uniformity across Europe in the application of modulation.

Mr Mike Rumbles (West Aberdeenshire and Kincardine) (LD): I would like to have a better grasp of the size of the organic farming industry in Scotland. What proportion of the members of the NFUS are involved in organic farming? You mentioned a figure of 17,000 producers.

Peter Stewart: As a percentage, it is somewhere in the low single figures. A problem is that, if someone in the Western Isles produces organic lamb or suckler calves, for example, they must find someone who is committed to organic farming to finish the animals. The farmer does not have complete control over the process.

An increasing number of people are looking for niches that they can supply. Farmers markets are an ideal first step in that regard. However, the sector must be better organised. There is pressure on supermarket shelf space that means that some supermarkets pay only lip service to organic food. If several producers could get together to supply the complete range of vegetables and fruit that can be grown in this country, we could get around that problem and get the food to the consumers. We cannot rely on supermarkets to organise the system; producers must do so.

There is a danger that we and MSPs will fall into the trap of thinking of organics as the big growth sector in agriculture. Organics represent a percentage of agriculture, but I have to keep in mind the fact that they will not deal with the income pressure that exists across the agriculture sector. Organics will not fill that income gap. They will fill the same percentage of farming production as there are consumers for the products.

James Withers: To answer your initial question, Mr Rumbles, the last figure that I saw, which was for March 2001, was that just more than 3 per cent of Scottish farm land was in organic production or was being converted to organic production. That figure, which works out at about double the UK average, was contained in a Scottish Parliament information centre paper last year.

Mr Rumbles: Let me get this clear. The NFUS feels that the organic sector should be market led

and market oriented. Do you see no role for the Executive in trying to ensure that a greater proportion of Scottish produce is organic?

Peter Stewart: I feel that if there is a demand, it should be filled. The clear danger in going too far down the route of promoting organic food is that you would give the impression that there is something wrong with the rest of production. As a conventional farmer, I know that we have had a strong commitment to quality assurance and I am aware of the things that I do to ensure that my product is safe. I will never allow a question mark to be put over the 97 per cent of agricultural production in Scotland that is conventionally farmed. There is nothing wrong with it. We have been spectacularly successful in reducing the real cost of the food and commodities that we produce and I do not want that to be overshadowed by some esoteric thinking that organic produce is better.

The Convener: This debate is one that we will have shortly, as the organic targets bill is coming closer all the time. You do not need to come back to the committee at that time, of course, as you have already given us your views.

Richard Lochhead (North-East Scotland) (SNP): The purpose of subsidies and Government support for the industry is to increase profitability and to help when there has been market failure and so on. Is there anything else that the minister can do to help farmers which we can speak to him about today? I noticed that, last week, Tesco announced £1.2 billion of profits. The top four supermarkets now take up 62 per cent of the Scottish market. That means that they wield a lot of power over farmers. When Donald MacRae gave evidence to the committee a few months ago, he said that the farmers now get only 15 pence in the pound. Should we go down the route of looking for ways to increase that margin? Are you concerned about the supermarkets' power over the food chain and the margin that they take, which perhaps comes at the expense of the farmers? How can the minister intervene to help farmers' profitability in that context?

Peter Stewart: We are lucky in Scotland that we have a minister who is remarkably switched on to the problems that we have. That is borne out by SEERAD's "A Forward Strategy for Scottish Agriculture", which is very positive about what Scottish agriculture has provided. It is also positive about finding solutions for the future to allow the industry to perform at its best and market its best. The report flags up what is done through support for bodies such as Quality Meat Scotland, which is a prime example. The Executive's report is clearly different from the Curry report, which is critical of agriculture and of the common agricultural policy—we might want to join Curry in criticising

the CAP, but his report is very critical. We are glad that the minister is switched on to what we are doing.

On the supermarkets' profits, at the root of many of our agriculture problems is the fact that almost every commodity displays a trend of 80 per cent of sales being through supermarkets. That has made things easier for consumers, who can buy prepared meals as an easy choice and is simply a matter of demographics. People now cook less and buy more ready meals. However, that creates a huge problem for the likes of a potato producer such as me. Each year, the amount sold to the fresh market declines while the amount sold for process increases.

We need a system in place that allows us to supply whatever the supermarkets require 365 days a year. The problem is that processing takes up so much of the end price. The processors in the middle are efficient at what they do and, because of their strength, they can protect their margins. The supermarkets, too, protect their margins. At the end of the day, our 17,000 farmers must sell to five big customers, which are the supermarkets.

In the forward strategy, we have worked with SEERAD to consider how we can get our act together and improve. We need to flag up what we produce in Scotland and market it better. We have highlighted the clear requirement for more quality beef but, in order to produce for the quality end of the market, we require a higher suckler cow quota. We have been making a case for an increase in that quota, but that will be a hard battle to fight in Europe. That is what I will push for tomorrow.

On support for agriculture generally, the World Trade Organisation rules that make necessary the decoupling of support from production have created a huge strain. We have had support from animal welfare organisations for our clear position that the WTO talks must also recognise welfare standards. Last week's well-publicised report showed that, no matter how much promotion we do, it can be knocked off the rails if there is a perception that Scotland is not welfare friendly. Scotland must commit itself to high standards of animal welfare, but we will look for support for our inherently higher cost base. In the EU discussions, we must try to get support for welfare considerations, instead of just straight economic concerns.

Richard Lochhead: My second question, which has been asked in Parliament several times, concerns the disproportionate amount of subsidy that goes to big farmers, and whether we should spread that support more thinly across many more farmers. Out of that debate, the idea has arisen that we should link subsidies to job creation to ensure that Government support creates the

maximum number of jobs in the rural community. Do you have any views on that? If you support that, how can we achieve that aim?

Peter Stewart: We have looked at land management contracts and particularly at what happens on the continent, where a farm's employment characteristics are taken into account first. That can benefit someone who has not moved on, who is employing more people in the business and who has invested in the infrastructure of the farm.

We are required to be efficient producers in the world market; we are no longer trading in a situation where our prices are substantially higher than those in the world's free market economies. Our grain, milk and so on are sold at world prices. As in the past 20 years, our efficiency will mean that businesses will develop, expand and become more efficient producers. It would be wrong to limit the size of farms and try to stagnate the situation at a level that is not as efficient as it should be. I agree that we have a perception problem about open-ended support, but we still do not see any advantage in setting arbitrary limits on the amount that a producer gets.

14:30

We must be efficient producers. Over the past 30 or 40 years, that process has meant that we have bigger farms than many of our European competitors. Our farms are not as big as those of many global producers, but they are substantially bigger than those of French and German producers.

We have difficulty with the idea of capping the level of support that a producer gets.

Rhoda Grant (Highlands and Islands) (Lab): You said that organic farming will not solve the problems of agriculture in Scotland. My perception of the problem is that the moment that a single solution is sought, we end up in a situation such as that which we are in now, in which a lot of producers fight for small contracts from supermarkets. If we look for one solution, we will end up back in the same place. Would it be better to consider different solutions for different sectors of the market and for niche markets? The organic market is one niche market—there are many others. That has been done successfully in places such as Orkney, where there is a good industry. Would it be better to consider several other solutions than it would to look for one that cuts across the board?

Peter Stewart: I made that point against going too far down the organic route. It is only one solution.

This morning, I was in a meeting with the milk industry, in which we have clearly failed to

produce high-quality added-value products. A foreign company is making a lot of money out of the British milk market because that company is producing high-quality added-value products. We have failed to invest in added-value products; we seem to lack that entrepreneurial skill.

The difficulty is that a business must be big and efficient to get a supermarket contract. In defence of the supermarkets, many of them have realised that they can make a difference. At least two supermarket companies in Scotland are flagging up regional initiatives in which they seek to increase their supplier base and in which products have a clear point of difference or individual selling point. We have a long way to go on added value. It is a solution on which we must work with middlemen to develop such products rather than leave it to the producers. The situation is the same as it would be in any other company; we must commit to the principle of the right product in the right place at the right price.

One of the failings of agriculture is that we have not been good at co-operating. In the budget document, you will see that there is nil support for the Scottish Agricultural Organisation Society. That organisation is committed to bringing together farmers who have good business plans to supply products and market them properly. I could propose improvements for the marketing of every commodity.

On efficient producers, there are also such producers in Scotland who are farming on the periphery. We must consider what else those farmers produce. They not only market best-value produce at the lowest price, but deliver something to the environment and to the economy in terms of employment. Those farmers go down a different route in what they add to the rural economy. We talked previously about the big spend of the LFASS, which is a factor that keeps those farmers going.

Different sectors of the industry go down different routes. I agree that there is no single solution. If I could come up with one solution that would improve our incomes by 10 per cent, I would be a hero. We have a long hard slog in relation to all the commodities in finding weaknesses and pressure points and deciding what we can change. Agriculture has done a tremendous job in changing to deal with the nub of the problem, which is that our currency is 30 per cent adrift of our European competitors' currency.

Rhoda Grant: Is not it part of our problem that the industry seems to be driven and supported by subsidies? Competing supermarket chains are forcing down prices, because we produce too much of one commodity instead of looking for niche markets. We have almost removed the producers from the buyers, because the subsidies

and the supermarkets come between them. We have lost the link that allows the agriculture industry to produce only what is wanted.

Peter Stewart: That might appear to be the case. However, the cost of producing our products within constraints means that there is a gap that can be bridged only by supports. People might consider the supports to be subsidies to an inefficient industry, but if a product is being produced and sold to the market at less than the true cost of production, that is a consumer subsidy rather than a subsidy to an inefficient industry.

I grow grain and it is difficult to compete with the big prairies, but I would not like to see the east of Scotland turned into an area of prairie farming, which has no hedges and scant regard for water courses. We have a higher operating cost that is bridged now by supports, but those are declining and we have to find our own solutions for efficient production. The fact that we get subsidies does not indicate inefficiency, but reflects the operating circumstances in our country.

Rhoda Grant: What I am saying is that the subsidies guide the industry down one track rather than create diversity. That leads me to my next point about land management contracts. Would not such contracts allow for diversity, because each farm would be seen as a different unit that was producing for a different market? Each farm would have a business plan that fitted round that and there would be environmental benefits.

Peter Stewart: I will make two points. We are seeing much of the support being de-coupled from headage or from one commodity. That process has taken away many of the drivers that Rhoda Grant is worried about. However, we still have a huge amount to do to work up land management contracts into something that will work and that will deliver for the taxpayers and the people who work in the countryside—those who are prepared to go down that route. We should pick up that ball and run with it. We must come up with ideas. There is a chance for people who have clear ideas on where the organisation of the countryside should be going to work up those ideas and decide how we want the countryside to be organised and managed. We went to France for an initial look at how the countryside was organised and managed on the continent. However, it would be difficult to transfer their practices to here.

The big challenge for us in the next year or two is to come up with ideas. We have thrown down the challenge to our farmers to come up with ideas on how they could lock into the new method of supporting the countryside. Land management contracts will make a difference but we, as farmers, will have to work up our ideas.

John Farquhar Munro (Ross, Skye and Inverness West) (LD): You mentioned the

LFASS. There is no doubt that its introduction in place of direct subsidies was contentious. Now that the LFASS has been introduced, do you find that your members are prepared to move away from direct subsidies for producing large numbers and to go for quality? Do you encourage your members to go down that route?

Peter Stewart: That is how we have promoted the new system, a big gain of which is that it will take pressure away from producing large numbers, which might allow quality to be rewarded. The difficulty is that the move toward quality requires investment. To hit the top end of the market requires investment in stock and management systems, but it is a difficult time to find sufficient money for that. The move to quality will be gained from the new system, but much distraction has been caused by the fact that the system as introduced was flawed, which meant that for every winner, there were many losers. Naturally, people were worried about that. I have attended many meetings at which one had only to listen to the concerns that were expressed to know that the speakers were at their wits' end as to how they would survive, never mind how they would go down the quality route.

The new system provides an opportunity for us to go down the quality route. We have gone down that route in the production and the promotion sides of the industry through QMS and the backing of the Scottish Executive environment and rural affairs department. We think that the quality route will make a difference in farms' incomes by affecting sale prices and profits.

I have been at store sales at which there was a difference of £200 between the bullocks that I could not afford to take home and those I would not want to take home. We want to close that gap, because it is too big. We send as many signals as we can that people should go down the quality route of fewer, but better. That would produce an immediate effect. We certainly need an increase in the suckler cow quota, perhaps at the expense of some of the sheep that are produced.

John Farquhar Munro: I have a question on organic farming. I heard a programme this morning that suggested that, in the UK, the organic commodities that are bought in shops and supermarkets amount to about 2 per cent of the produce that is bought. I think that that has been mentioned. Unfortunately, three quarters of that organic produce is imported. How will you encourage your members who are interested in producing organic food to be more active and to take advantage of the opportunities that exist for niche products? There is more and more demand for organic products, but the Scottish Executive has approved genetically modified crop trials throughout the country, which is in direct

opposition to organic farming.

Peter Stewart: With respect, I have devoted a fair amount of time to how organic farming should be balanced. Our view on GM crop trials is clear. A huge acreage of GM crops is grown throughout the world. The UK and the EU face a great challenge over what to do on the GM front. It is to the credit of the Scottish Executive that it wants to be in command of the situation. If there is a problem with GM crops, the Executive and Scottish farmers want to find out about it so that we can make an issue of the fact that Scotland is GM free. Definitive information is required. I have complete confidence in the ability of Scottish scientists to carry out trials to discover whether there is a problem. I am neither in favour of, nor against, GM crops. We should find an answer in Scotland, rather than relying on third-hand information from America or China.

The acreage of GM crops in the world is growing consistently and we cannot duck the issue. Where there is demand for non-GM protein to be fed to animals, it is already difficult to give guarantees. GM crops are moving into new countries. Such feed used to come only from Brazil, but that is not the case now. We have had cases of boatloads of stuff coming out of Japan that has had GM material in it, although it was not supposed to. There is absolutely no premium for somebody who has insisted on a complete guarantee of GM-free protein going into his animals. It is taken for granted that that guarantee will be given, but it is becoming more and more difficult to give it.

There is a lot of hype and nonsense about GM crops, but people also have genuine concerns. The only way that we will solve the problems is by concluding the trials. We have reached the point at which we must have answers. As to whether that would damage an organic farmer, I would be very careful where I sited such trials, in order to ensure that any potential damage was limited. It is up to people to apply and put their ground forward, and the Scottish Executive must weed the sites out carefully. I have listened to the presentation from the scientists and I have confidence in the system that you have backed. The Scottish Executive has drawn up the rules and has experts working on the matter. Perhaps I am on a hobby-horse, but you are—

14:45

The Convener: That matter is nothing to do with this committee. It is the Transport and the Environment Committee's business, although that is not entirely true, because we were right to touch on the issue. I cannot pursue it further however, because we are cutting into another committee's business.

Time is slightly against us. I want to wind up the

questioning by asking Peter Stewart to clarify the basis of his objection to modulation. You said that your objection is that all farmers give and very few receive, as the system is operated now. I recently read an article about the way in which modulation is operated in France. It is applied in a way that takes money only from some of the largest farmers—about 10 per cent of farmers—and spreads it much more widely. Is your objection to modulation one of principle, or do you object to it as it is applied in this country?

Peter Stewart: We could accept a basic level of modulation. What we are really scared of are the proposals that are highlighted in the Curry report, which says that the contributions should be increased to what we consider to be a frightening level. That would wipe out a huge amount of the support that agriculture gets now. We are keen to develop alternatives, but we do not have them sitting there, ready to go. We are keen to get the committee to consider the broader picture, including alternatives. You are right to say that the main difficulty is that modulation comes from everybody. That is leading to a wholesale transfer of funds from the east coast to the west coast—from efficient producers in one sector to other people. I said that at a meeting and a chap came up and said—unfortunately, he also used the expressions “tree huggers” and “pond dredgers”—“You should not insult your members.” He turned out to be a professor of aquaculture who had a nice little project going for which he was getting support. The money was not coming from him, but from other producers and going into one little scheme. That is the effect that modulation is having at the moment—money is coming from everybody and going to two or three high-profile projects. We could gain more by getting everybody involved in schemes that would, ultimately, benefit the taxpayer.

James Withers: There should also be consistency in the application of modulation. At the moment, only the UK and France use modulation. In a single market, that will work to best effect only if everybody plays by the same rules.

The Convener: We could go on about the subject for a long time, but time is against us and I must draw this part of the meeting to a close. I thank the witnesses very much for their time and trouble and for giving the committee some good material to put to the minister when he comes. Although I must ask you to leave the table, you are welcome to stay and listen to the rest of the afternoon's proceedings if you so wish.

I ask Hamish Morrison to take the floor. Hamish is no stranger to the committee. He is the chief executive of the Scottish Fishermen's Federation. Thank you for giving us your time again, Hamish. I invite you to give us a short introduction, after

which I shall open up the debate for members' questions.

Hamish Morrison (Scottish Fishermen's Federation): I shall not take long with introductory remarks, because the committee has received a statement that I prepared earlier, which I hope is helpful.

The fishing industry is very much a bit player in the rural affairs budget. Of the £70 million or so that is committed to fisheries, £60 million is allocated to regulating rather than to supporting the industry in a way that any fisherman would recognise. Additionally, the overwhelming majority of the £11 million of capital grants to the industry goes to aquaculture, processing and harbour improvements. The amount that goes to the fleet is less than £1 million.

The Convener: Sorry—less than how much?

Hamish Morrison: Less than £1 million. However, I am not here to girm about that. Most fishermen would prefer not to be dependent on anyone, including the Government. That said, there is considerable appreciation in the industry of the £25 million that has been found in the past year for the current round of licence buy-outs through the decommissioning scheme. That will improve the average profitability of vessels in the fleet over the coming period.

Nonetheless, a problem may arise. In both the common fisheries policy reform and the cod and hake recovery plans, there is a phase 2 that holds out the prospect of some form of effort limitation being placed on the fleet. I doubt whether that will amount to very much for the Scottish fleet, bearing in mind the fact that, in addition to the 20 per cent capacity that we are currently removing, by the end of 1999 we were already 15 per cent inside our capacity targets. Although it remains to be seen whether there would be a case for assisting any such days-at-sea scheme through tie-up grants, I have to be realistic and say that that does not seem very likely. However, the case can and should be made again, if for no other reason than that such assistance is routinely given in southern European countries—in particular, the financial instrument for fisheries guidance provides for it. I mention that not as a matter for the budgetary process that the committee is debating, but as a contingency that might yet become an issue. As I say, I think that we have done enough, but the calculations might prove otherwise.

Today I want to refer directly to what is proposed in the common fisheries policy review, which I understand will not now be published tomorrow. The speculation in my paper is, therefore, just speculation, although I hope that it is reasonably well informed. I suggest three issues for the committee's consideration. The first issue is the

commitment—which I understand is unaffected by the present difficulties—to improve the quality and timeliness of fisheries science and management and to create, as part of that work, a new European institution for fisheries research and management. We should set our cap at that positively and create such an institution as soon as possible. I can think of no better candidate country in Europe than Scotland to host such an institution.

The second issue is the successful joint venture that was undertaken by the SFF and the scientists last year in sponsoring new research work. That had the dual advantage of keeping some vessels from fishing by using them for research. The Scottish Fishermen's Federation undertakes a lot of that type of work—not always with the Government—and it is a useful conservation tool. I would like a bigger, or renewed, commitment to the joint venture research programme.

Thirdly, we are reaching the point at which management of inshore fisheries requires a much more energetic and vigorous response because of competition for access and the dislocation that is evident between the economic prospects of certain coastal communities and the relative bounty of their adjacent fisheries.

Richard Lochhead: It is a pity that we have to wait another week for the common fisheries policy, but I suppose that, having waited 20 years to get a decent policy, we can wait another week.

My question relates to our questions to the minister this afternoon. We must examine his budget and ascertain whether he is spending it to the benefit of rural Scotland and the Scottish economy as a whole. In that context, we must consider the competitiveness of the Scottish fishing industry against that of other nations. Being a bit of an anorak, I was reading the *Fishing News* over the last couple of weeks. I saw that the Irish Government has just announced a multimillion pound deal for its fish processors which, compared to the £1 million that we got as part of the £27 million package last year, is quite a lot of money. It seems to be a regular occurrence to read that other member states of the European Union are giving a lot of financial support to their industries. What is the competitive position of our fleet compared to that of member-state fleets elsewhere in Europe?

Hamish Morrison: I have one or two difficulties with replying directly on processing. I am not as familiar with that as perhaps I might be.

As far as that kind of state-aided competition goes, it is the sort of bidding war that I would rather not get into. The Irish have expended vast amounts of money on building up a brand new white-fish fleet, but that fleet has no fishing

entitlement. Either the Irish will have to be given a quota that they do not currently have, or those vessels will go bust before they even start fishing. The situation is very worrying. As I think Richard Lochhead is aware, that concern is being focused sharply in the deepwater species debate that is going on at the moment. There is always new Irish tonnage, which is presumably built to exploit non-quota species—that is, the deepwater species. There is a big worry about that. I can only imagine that the new investment or support for investment in processing might have something to do with that aggressive catching policy. That is a worry to us because it does not seem to be based on a well-founded fishing entitlement. It is a fairly complex situation. I have some worries about it.

Richard Lochhead: The figure of £70 million for this year and next year that we have in front of us and to which you referred is only a couple of million pounds more than the fisheries budgets in previous years. What is your view of that £2 million increase in the light of the investment requirements that the industry has with the new CFP and the various issues that you mentioned?

Hamish Morrison: That depends very much on how seriously the Government wants to take the undoubted opportunities that exist in the marine ecosystem generally. I would like straightforward investment in fisheries science. Obviously, that investment should be targeted and it should offer value for money. There is no doubt that fisheries science is an approximate business. Fisheries scientists do not live beside the creatures that they study. It costs a great deal of money to get the information about what goes on in the submarine world.

Anything that can make the science more precise than it is currently is good. The committee should bear it in mind that we are often dealing with scientific advice that is no more accurate than plus or minus 30 per cent. On that advice, people must construct fairly substantial business decisions for the year ahead. In the end, the advice, as we have seen several times in recent years, turns out to be wrong. Anything that can be done to improve the quality of the advice is welcome. That is why I am keen to see a European institution for fisheries research being set up in Scotland. That would raise the game across the board.

15:00

Mr Rumbles: On the way down to Edinburgh today, I heard your dulcet tones on a local radio station in the north-east of Scotland telling listeners that you were going to tell Parliament that the European centre for fisheries research and management should be situated in Aberdeen. I was interested in your comments because I agree

that that would be an appropriate site. How likely do you think it is that the centre will come to Scotland and that, if it does, it will be situated in the north-east?

You raised the issue of research and information gathering. The Scottish Executive gave £1 million to fund a programme of research expeditions. I am sure that you would welcome that funding being a regular occurrence rather than a one-off event, but how necessary do you think that that would be? I am sure that the minister envisages the funding as a one-off investment.

Hamish Morrison: I believe that the broadcaster this morning was guilty of a little judicious editing. I am the chief executive of the Scottish Fishermen's Federation—I hold no brief for any specific area and I want to make that clear. I believe that the European centre for fisheries research and management should come to Scotland. It would be up to you splendid people to decide where in Scotland it should be located.

I make the point about the joint research programme because the project that we conducted was worth while. We were able to say to the scientists that there was no point in doing certain things and that they would find out a great deal more if they did certain other things. The mutual respect was excellent. Work was done on selectivity of gear and so on, and I believe that, at the moment, some crews are examining offshore scallop beds that have never been fished because they are too deep but which have become more attractive because of amnesic shellfish poisoning in other beds.

It would be useful to know whether there is a divergent fishery that we can use in the summer. Monkfish is one of our most valuable species—third only to cod and nephrops—but hardly any science is known about it. Its breeding cycle, for instance, is a complete mystery. Because of that, a cruise examined the known monkfish nursery grounds. That was the first time that that has ever been done, because research is usually driven by the interests of the scientific community in marine science. I am not complaining about that, but I believe that the process is enriched by the inclusion of the opinions of working fishermen. The ecosystem approach that scientists talk about will require a huge amount of research into the reference points before it can be applied sensibly.

Mr Rumbles: So you do not think that the recent Executive funding should be a one-off investment.

Hamish Morrison: I want it to be a continuing feature. Everyone was terribly frightened at the time that the investment set a precedent. I think that it should.

Rhoda Grant: You mentioned that you would like more investment in the science that lies

behind some projects. What projects are research priorities and which would be the main one?

Hamish Morrison: Monkfish are an important priority. The huge puzzle is that we cannot find breeding-age females in Scottish waters and our colleagues in Canada and America cannot find breeding-age males. I do not believe that they are swimming across the Atlantic. However, that is our level of knowledge about monkfish, which is our third most valuable fishery.

The most valuable species that we catch is nephrops, but little is known about them and we have only a small programme that deals with them. The marine lab has a monitoring programme, but in terms of understanding the biology of the creatures and how they live, there is only a small project in Millport, which is not big enough, given our dependence on nephrops.

There are other fisheries as well, such as the big mackerel fishery. That is in rude health, which is wonderful. However, the mackerel fishery is assessed only by a biennial egg survey of the number of eggs. That is not good enough. We must have deeper investigations of such fisheries.

Many additional projects could be undertaken, and I am talking only of the fish that have commercial value. The Commission wants a management system that protects all kinds of other creatures as well, which is fine. However, we cannot go down that road with the budget that we have.

Rhoda Grant: Do you feel that your organisation has input into current research? Does your members' experience guide that research? Your members flag up areas in which they feel that more research is needed. Is that taken on board?

Hamish Morrison: Yes. Our relationship with the scientific community has much improved recently and we are building on that.

The committee might be interested in a project that we started last year. We used a template that the scientists gave us and converted it into a separate annual survey in which fishermen analyse their catch. That adds to the information that the regular scientific community gets from its surveys and, interestingly, raises many challenges—at least, it did so last year—to the conventional wisdom on various species. I will not trouble you with the detail. The scientists would tell you that the relationship is good and improving. However, to realise the relationship's potential, we must back it with more projects.

Rhoda Grant: You also mentioned inshore fishery management as a priority. What support would you like from the Executive for that priority?

Hamish Morrison: The situation is complex, as

members who represent coastal communities will know. There are problems of competing access, notably between inshore fish farming and shell fishing. That issue is awkward to deal with. On some parts of the coast, people want to use regulating orders to deal with the issue, but others are opposed to those orders. Both points of view are valid. There is the economic issue, which arose in the licence review, of communities whose quota has been sold, for several reasons. There is a conflict between private individuals' interests and the community's interests. The question is how that conflict is to be squared away.

There are, therefore, three areas to consider: conventional fisheries management; the new impetus to connect up the economics with local communities; and the question of fair access for all. There are many models that could be imagined to solve one or other of those problems, but it will require a lot of careful thought to create a body that would make sense of all three. Perhaps there could be another local enterprise company within Highlands and Islands Enterprise to deal solely with the coastal communities—something like a horizontal local enterprise company rather than a regional one. That is not SFF policy—I am just trying to illustrate what I am talking about.

I do not know about the access point. Would it be possible for the land court's jurisdiction to be moved out to 12 miles from the coast? The land court is a well-respected Scottish innovation. We should think about such possibilities. However, if we leave the inshore fisheries to their own devices, the local communities will get less benefit than they deserve and there will be the potential for some fairly unpleasant difficulties if we do not take a grip of the matter soon.

The Convener: I am aware that the minister has been waiting for a long time, but we have time for a short question from Alasdair Morrison.

Mr Alasdair Morrison: My question is on the last point that Hamish Morrison raised. Every inch of the outer perimeter of my constituency is coastal community. You talked about the need to move quickly to get a grip of the management of the inshore fishery, and in your opening remarks you said that we need a more energetic response from fisheries management. What time scale and targets should we—the communities and the Executive—set ourselves?

Hamish Morrison: We ought to work out what we are doing in the course of this year and look to implement our plans as soon as possible thereafter. In a couple of weeks' time, there will be a meeting of the inshore fisheries advisory group, which I feel could, and should, have done more in this area than it has. The federation will push for a fundamental review of the inshore fishery at that meeting. The difficulty is that, although there is an

inshore fisheries branch in the Executive, there is no champion and the inshore fisheries desperately need a champion in the bureaucracy. Those fisheries are different from the big-volume fisheries, because they have lots of other social and economic overlays that, although they exist in the big-volume fisheries, do not exist in the same way.

The Convener: Thank you again, Hamish. We must draw this discussion to a close. I noted your answer to Mike Rumbles, on the possible location of a European research centre. It must be nice to know that, if fishing ever leaves you behind—or vice versa—you will have a great future in diplomacy. If you have time to stay and listen to the minister, you are welcome to do so.

I suspend the meeting for a brief comfort break while the minister takes his place.

15:13

Meeting suspended.

15:16

On resuming—

The Convener: We will make haste. Rhoda Grant will forgive us. I am sure that she will be with us shortly.

I welcome the Minister for Environment and Rural Development. He has with him David Dalgetty, David Henderson-Howat of the Forestry Commission and Douglas Greig. I invite the minister to make opening remarks, but before he does so, he might want to address questions that we discussed in correspondence, which were left over from the 2002-03 budget. However, you will be aware, minister, that we are principally concerned with the strategic direction of the 2003-04 budget and the plans and priorities that you will pursue through the summer's comprehensive spending review.

The committee formally agreed that, among other topics, it would like to focus on the composition of spending on rural development and the minister's options for enhancing the funding and the range of schemes and on any alterations in the implementation of modulation. I am pleased to offer the minister the floor, after which we will open up to members' questions.

The Minister for Environment and Rural Development (Ross Finnie): Thank you, convener. I am grateful to the committee for the opportunity to discuss my spending plans for 2003-04, which were published on 2 April. Before dealing with those plans, I want to say a few words of introduction. I will concentrate first on the essentials of the spending plans and will turn later to the wider questions that the convener suggested in correspondence that the committee

might want to discuss.

In its comments on last year's budget, the committee acknowledged improvements that had been made, in response to committee members' views, to the presentation of budget material. However, the committee also noted that the underlying mechanisms of the budget remained "extremely complex"—I think that I quote accurately. I am bound to say that I share that view. I regret that the significant interaction between domestic and European funding, which forms a key element of my budget, is an added problem and one that is complicated by how we have to account for modulation. I share the desire for the figures to be presented simply, but the elements to which I refer do not help in reaching that goal.

We tried to make the presentation of this year's budget more helpful. I hope that it is. For example, we noted which elements of expenditure are classified as annually managed expenditure—AME—as opposed to departmental expenditure limits, which is the well-known DEL. We tried also to provide more meaningful output measures for the spending. We propose to use a new set of outputs for our common agricultural policy market support and agricultural and biological science spending. I believe those outputs are an improvement on what we had previously.

The committee's more substantive concern was its inability to assess, from a scrutiny of the budget plans, the impact of Executive policies in rural areas. I will return to that point in a moment.

The spending plans total about £648 million. The original figure from the spending review 2000 plan was £631 million. My CAP market support spending in 2003-04 is estimated to be about £21 million higher than the plans that were announced in 2000. The main changes are as follows.

We have assumed increases in the sterling value of arable aid, suckler cow, beef special and slaughter premium payments, which are partly offset by assumed reductions in the sterling value of sheep annual premium payments. All those numbers are volatile and the actual spending under the schemes in 2003-04 will depend on European Union decisions, on 2003 scheme rates and on the euro-sterling exchange rate at the relevant time.

As a contribution towards the costs of implementing the McCrone and Sutherland reports, I surrendered about £1.5 million of estimated savings arising from rural development measures. That small reduction is offset by a transfer from the UK Treasury to fund payments under the pig ongoers scheme.

Also as part of the contribution towards the implementation costs of the McCrone and

Sutherland reports, I have surrendered £1 million of my baseline provision for capital expenditure by the Scottish agricultural and biological research institutes—the SABRIs. As the convener will recall, I was also able to provide an extra capital allocation of £2 million to the SABRIs in 2001-02 from end-year flexibility resources.

The plans for fisheries in 2003-04 now exclude the £3.4 million provided under spending review 2000 for the replacement fishery protection vessel. My baseline no longer contains the provision that was originally planned, but the replacement project is under way and we expect to be able to meet the costs through the usual EYF.

All those changes sum to the net increase of £17 million in the plans for 2003-04.

I turn now to the wider issues in which the committee has an interest and to which you directed my attention, convener. The committee has expressed its continuing frustration over the issue of spending in rural areas. The Executive has adopted a policy of mainstreaming rural issues to ensure full integration with wider Executive policies and priorities. It follows that rural spending is spread over the range of departments and ministerial portfolios. In many cases it is simply not possible to isolate the amount of money spent in rural areas or on the people who live in such areas and benefit from such spending.

Rural areas clearly benefit significantly from a number of formulas for the local distribution of Executive resources, including the Arbutnott health funding formula, which takes into account the extra costs of delivering health services in remote communities as well as discrete funding packages such as the rural transport fund, which totals £18 million between 2001 and 2004.

As I have indicated in previous discussions, I am convinced that it is more important to focus on impact and outcomes than on the input of resources. For example, if we are interested in alleviating rural poverty, we should improve our measurement of that condition and ensure that there is not an opportunity gap between rural areas and urban areas.

I readily acknowledge that it is difficult to measure outcomes over the short term, but work is under way to improve the rural evidence base and the amount and quality of relevant data.

We have taken forward work through the neighbourhood statistics strategy to ensure that social justice milestones can be disaggregated on a rural and urban basis as part of a commitment to improving the measurement of rural poverty and social inclusion.

Enterprise network outcome targets are to be

disaggregated into rural and urban targets and will be monitored to ensure that the Executive and the networks are working together successfully to support rural economic development. I hope that that is another helpful development.

Consolidation and augmentation of our geographical information systems data on rural services, which will not only allow us to map access to services throughout rural Scotland but provide a base of evidence on which to monitor the impact on rural Scotland of the policies and the spending on key services, should also help.

Over the longer term, the spatial development of small areas statistics as part of the Executive's neighbourhood statistics project will help enormously in providing an additional evidential base with which to measure the outcome of rural policies and spending over a range of policy areas.

I reiterate that I share the committee's frustration in being unable to get an immediate handle on all that spending. However, we started from a low base of available evidence and information when my department was created and a great deal of work is under way. I wish that it could be completed more quickly, but the level of resources makes that difficult. We are working together to reach the same objective: a greater transparency and clarity in the total amount of spending.

On the wider policy environment of my spending in support of agriculture, we are in the midst of the mid-term review of the CAP, on which we expect the European Commission to present draft proposals in the summer and which we expect to be concluded by late 2003. The Commission's separate proposals on enlargement may have a bearing on CAP reform in the longer term rather than the shorter term.

My first task will be to agree the United Kingdom negotiating position for those discussions. My officials and I are already heavily engaged in exchanges with our counterparts. My priority, as ever, is to prosecute Scottish interests and, in particular, to protect the interests of Scotland's specialist beef producers and to seek greater flexibility in the use of CAP support, particularly possibilities for greater freedom in the use of so-called pillar 2 funds.

Of course, that is all about negotiation. I have developed a constructive relationship with my counterparts in the Department for Environment, Food and Rural Affairs and the other devolved ministries. We must also consider the other EU member states, which are bound to have different views on all the subjects. Those will all need to be brought together and that is a real challenge. I flag up the prospect of changes under those budget heads, as they are a huge part of my expenditure.

The committee invited me to comment on the Curry report on the future of farming and food. As the report did not relate to Scotland, I am not sure how fruitful any discussion would be. We have our own strategy, which was published last year and which sets out our plan and vision for Scotland, based on economic, social, environmental and agricultural development. In the approaching CAP review, that will be the document that influences and shapes our thinking on the specific needs of Scotland.

The Curry report has attracted much attention. No doubt people have been exercised by its commitment to modulation. Although I note that and take an interest in it—I have read it with some care—I am more concerned to recognise the representations from the Scottish industry and share its view on the potential inefficiencies that occur in higher rates of modulation. It is not sensible to consider modulation alone. It is one facet of the CAP and should not be considered in isolation.

Although the Curry report is valuable—I am not dismissing it—it reflects a totally different agricultural structure and set of circumstances. Although I would be foolish to ignore what it says, I stand by my strategy, which shapes our thinking on spending priorities in Scotland.

15:30

The Convener: Thank you very much, minister.

Mr Rumbles: You commented on spending in rural Scotland and flagged up the Arbuthnott formula. I am one of the Scottish Parliament's fiercest critics of that formula. Aberdeenshire is the most rural county in Scotland and has the largest number of people living in small communities. You said that the Arbuthnott formula is a plus for rural Scotland. However, Grampian, where most of the people live in rural communities, has 10 per cent of Scotland's population and 10 per cent of the health outputs, but only 9 per cent of the spending. The Arbuthnott formula takes out £50 million a year from the health budget of people in the north-east of Scotland.

I am astounded that you have raised the Arbuthnott formula as a good example of how we are spending in rural Scotland. It might be a good example of how we are spending in rural areas of the Highlands and Islands and the Borders, but I am a representative of West Aberdeenshire and Kincardine and the Arbuthnott formula penalises people who live in rural communities in my area. I am not at all impressed that the Arbuthnott formula has been flagged up as a positive measure. Will you respond to that, please?

Ross Finnie: I am not here to defend the absolutes of the Arbuthnott formula. The fact that

Aberdeenshire has 9 per cent of the population does not mean that the same 9 per cent requires the acute services of the national health service.

Mr Rumbles: Aberdeenshire has 10 per cent of the health service's activities and 9 per cent of the funding. Those are the statistics.

Ross Finnie: I am sorry, Mike, but you should not get too excited about the Arbuthnott formula, which was the first attempt to recognise changes in population. I did not say that the Arbuthnott formula was perfect; I said that it was an interesting first attempt. Without the Arbuthnott formula, the radical proportion of spending in Edinburgh and other city centres would have continued.

You are the MSP for West Aberdeenshire and Kincardine and I bow to your superior knowledge and understanding of how the Arbuthnott formula affects Aberdeenshire. However, across the piece, the Arbuthnott formula represents the first instance of a redistribution of health expenditure that at least attempts to take account of some rural factors. I am not saying that the formula is perfect and I will not defend it in relation to Aberdeenshire. I know of other examples where Arbuthnott does not work particularly well, but it is important that we have established the principle that, in considering health expenditure, we should take account of the associated factor of rurality. We can argue about whether we need to revisit the Arbuthnott formula to achieve a better or more equitable distribution.

Mr Rumbles: There is nothing wrong with the principle; the outcome is the difficulty. We must agree to disagree on that.

I will focus on fisheries. Hamish Morrison has just given evidence on the usefulness of the £1 million that was made available for fisheries research and we heard the view that that was a one-off. It would be useful to have expenditure on the same scale for future research. Has the minister considered that?

Ross Finnie: There are two elements to that issue. I acknowledge that the fishing industry regarded as helpful the particular expenditure to which you refer. We learned a lot from the research, which engaged with vessels on the ground. We must look at the total line. We spend some £15 million a year on Fisheries Research Services. Research is and will continue to be a fundamental supporting element.

We all acknowledge that a sound evidential base is the only way to persuade the industry to accept changes to conserve stocks. That related to a particular issue and we have learned much from that. However, we have a line of Fisheries Research Services that is directed towards the kind of research that is needed to underpin the

evidential base for what is happening with conservation measures and what new conservation measures should be developed.

The Convener: Is there a feeling that we should continue with that?

Ross Finnie: We have looked at what we get from that and we believe that £15 million in relation to the kind of research and activity that we are required to carry out is adequate. The £1 million in the middle of that is not the big issue. The big issue is that we are not abandoning fisheries research and that we are committing £15 million to the purpose.

Richard Lochhead: I would like to ask a question on fishing followed by a question on agriculture. I agree with Mike Rumbles about Arbuthnott, which is a major issue for rural communities in the north of Scotland. The fishing budget has increased by £2 million or thereabouts and there is a perception that, at a time when other member states in Europe are giving a great deal of help to their industries, it is only by undertaking a massive campaign that the fishing community could get a decent level of investment from the Executive.

What criteria did you use to ascertain by how much the fishing budget should increase, given that the reformed common fisheries policy will be coming out and will set up regional advisory committees—it is to be hoped with some power—that might require financial assistance? Moreover, there is an increasing need for more science, as Hamish Morrison outlined earlier, and the recovery plans will also require investment. The past few years have shown that now is the time in the industry's history when it most needs investment, yet the budget has had only an inflationary increase. What criteria were used to ascertain the level of this year's fishing budget?

Ross Finnie: As with all budgets, it is always possible to spend more. The important factor is what is achieved in outputs rather than regarding money as the sole answer. The activities of the Fisheries Research Services have changed dramatically over the year. We have also improved the efficiency and delivery of some of those services. We must consider the outputs from that investment. The people who deliver those outputs have become acutely aware that improved techniques mean that they can deliver without a dramatic increase in the total volume of expenditure. Those activities fully support the conservation programmes that are under way.

There is no clever formula. I have to take a budget as a whole and allocate it in relative terms to ensure that we are able to provide proper support where Government should be giving that support. We try to do that both in the research and

support to the primary catching sector and through a huge amount of activity—which I wish we could reduce—in relation to fisheries protection. I wish that the need for such activity would lessen, but it has not done so, and we must balance that against other activity. The other side of the equation is the processing sector, which is swept up in other budgets.

There will always be a demand for more, but the test is whether we are able to support the industry with adequate research. The arguments that we have advanced in Europe about the development of conservation measures and the flaws in bases of certain of the total allowable catches demonstrate that our research is producing the goods that are required to support the industry.

Richard Lochhead: I urge the minister to examine investment in other countries to assure himself that he is not placing our industry at a competitive disadvantage, and also to examine the factors that were mentioned earlier that have to be the subject of investment for the industry's future.

I turn now to agriculture. The NFUS gave evidence today, one angle of which was the trend towards bigger, efficient farms, which is due to the power of supermarkets in negotiations and because of the global situation. Minister, you mentioned that you take into account impacts and outcomes when you decide where Government agricultural expenditure should go. What outcome are you looking for for agriculture and farms?

Are you happy with a vision of huge, efficient farms that do not employ many people in Scotland, or would you rather that family farms in Scotland were preserved? Are you confident that by putting expenditure where you are putting it you will achieve the outcome that you want, given that the NFUS spokesperson today said that he did not think that there should be capping of subsidies to big farms because it would not be helpful? There is also the issue of linking subsidies to job creation in the agricultural sector. Are you confident that your investment will produce the outcome that you want? What is your vision for farming?

Ross Finnie: You raised a range of issues. I acknowledge that the average farm size in Scotland is at the upper end of the size of units in the UK and Europe. I am keen to encourage—as is the NFUS—not simply the merging of farms, which leads to their owners losing control, but the valuable work that the Scottish Agricultural Organisation Society does to produce models whereby people do not have to lose control of their bit of land, because they can create co-operatives to do a variety of things, for example, marketing or reducing their inputs.

I support the work of SAOS on that front, because there is a need to retain degrees of

control within some family units, but there are other vital needs, as anyone who read earlier in the week the articles about the lack of efficiencies in elements of the dairy sector will know. In Scotland, 25 per cent of farms across all sectors perform extremely well. The trick is to get the maximum number to perform as well as that top 25 per cent.

There is a dilemma. We have to create not only structures that do not destroy the fabric of rural communities, but structures that enable farms to operate competitively in Europe and internationally. That is the balance that we must strike, and my strategy seeks to ensure that we strike it. I am not in the business of destroying the fabric of rural communities, but we have to understand that if we are not earning income from the marketplace, we are not in the right business. The thrust of the strategy is to assist the industry to get from here to there by delivering goods and services that the market wants, and at a price on which the industry can earn a return.

Richard Lochhead: I appreciate your comment that you do not want to destroy the rural fabric of Scotland, but if there is no link between the size of subsidies and the size of farms—if there is no capping—and there is no link between the size of subsidy and job creation on the farm, what checks and balances do you have to ensure that your expenditure is not destroying the rural fabric by leading to a decline in the numbers of farms and employees?

Ross Finnie: If we hope to preserve the maximum number of farms and the maximum number of people, farms must operate efficiently. If farms lose money year on year on year, there will be no farms of any size, shape or description.

We have to be careful about another argument. Not all farms can be judged on their total contribution in purely economic terms. There are agricultural activities that make a valuable contribution to agriculture, but make an equally valuable contribution to the state of the environment, which attracts tourists. There is also a socioeconomic dimension to farms that are located in more remote and rural areas.

The formula is not simple, but the strategy aims to increase and improve the efficiency of farms. As I have explained, a range of measures are open to farms that do not necessarily require them to give up family ownership, but that enable them to take advantage of reducing their input costs and achieving better market penetration. That is a difficult balance. However, if we start introducing artificial caps across the board, are we suggesting that size is necessarily the marker of the more efficient or the better? That is not even proven. There are successful larger units, but some in the second tier are equally successful.

We also have to acknowledge that subsidy for food production is going to decline in absolute terms over time. We need to help the farming industry. If that period of decline is five or 10 years, as we come under WTO pressures or pressures through enlargement, I do not want to say to farmers, "Tough. You have had these subsidies. Get on with it." That is why we have created a strategy to help farmers get from here to there so that they are in a fit state to resist subsidy reduction pressures if they come in.

15:45

The Convener: I am not aware of any evidence—perhaps you are—that says that larger and supposedly more efficient farms employ fewer people per hundred acres than anybody else.

Ross Finnie: I was not commenting on the basis of the question. There was an inference in Mr Lochhead's question that that might be the case. I did not necessarily agree with that. I simply said that I did not think that trying to make such artificial distinctions would get us the answer to the question of where the strategy is taking us.

The Convener: Thank you for that clarification.

Rhoda Grant: I am glad to hear the acknowledgement that there are social and economic aspects of support for farming. That is very important in areas such as the Highlands and Islands, which I cover.

I was concerned to see in the budget that the funding under the crofting building grants and loans scheme, which helps rural development but is a wee bit further away from farming, will decrease. The grants and loans scheme has not had the uptake that it had previously, but that is bound more by the levels of grants and loans that are available to people.

Housing in rural areas is expensive to build—I know that from speaking to housing associations. The amount that is available under the crofting building grants and loans scheme could be totally taken up by getting electricity, water and sewerage to a plot. That is a big concern. If no houses are built in rural areas, families will not move in and we will not sustain families in rural areas.

Will the minister give more consideration to the scheme and to the levels of funding that are available to individuals who apply? He might want to look at stricter criteria. There are concerns about people building under the scheme and, over time, decrofting the house and selling it off. Those issues can be dealt with, but if the scheme is not there, there will be a decrease in population in rural areas, as people will move away.

Ross Finnie: You make valuable points. The funding available might not be increasing, but it is

certainly not decreasing, as I think your opening comments suggested.

Rhoda Grant: It was £7 million, it will go down to £6 million and is projected to go down to £5 million.

Ross Finnie: Which figures are you referring to?

Rhoda Grant: I am looking at table 4, of which I have a copy. Which figures are you looking at?

Ross Finnie: I am looking at the extract from page 243 of the budget document. I am sorry, convener, I just do not wish to give the wrong answer if we are talking about different numbers.

The Convener: I wonder whether the minister and members would object if, for personal reasons, I had a comfort break while they get themselves together.

Ross Finnie: It will not take us that long to find the numbers.

The Convener: We will have a three-minute break. I am afraid that the deputy convener is not here. I will vacate the chair for as little time as possible.

15:49

Meeting suspended.

15:53

On resuming—

The Convener: I apologise to the minister and to members. Where were we? Have you got your figures together?

Ross Finnie: We are on the same tables, and the euro exchange rate has been worked out. I am sorry, Rhoda.

Rhoda Grant: I apologise—I was looking at a different table. However, I want to make the same point: the amounts are not increasing with inflation, and the costs of getting services to those spots are increasing. For example, when we were in Dalry, we visited a business where we were told about the cost of the electricity that was required for that business to expand. In some remote areas of the Highlands, the situation is worse, given the amount of money that is available to people. I am looking for an increase, albeit that the availability of the scheme might require tighter regulation. Housing associations are not able to build houses in those areas to the same extent as elsewhere. Could we increase the amount of funding in the scheme in order to provide family homes? The cost of a three-bedroom house that would last a family a lifetime could not be met under the existing scheme.

Ross Finnie: Rhoda Grant or Alasdair Morrison raised that point with me before. We may need to discuss the range of the provision of housing in those areas with our housing colleagues. The scheme's regulations have limitations—they are controlled by statute. The social issue is wider than the short-term assistance of the kind that the CBGLS was initially designed to provide. It was to provide the top-up element only, to help people on their way, rather than being a fundamental source of funding. On that basis, I will take the matter away.

Rhoda Grant: One of the problems with the top-up element of the scheme is that incomes from crofts have fallen to such an extent that it is difficult for people to attract a mortgage from a commercial source. That must be looked at.

Ross Finnie: That is linked to the security angle, which sometimes thrusts people down the road to decrofting despite the fact that that is precisely what they do not want to do. I am conscious of the collateral difficulty that people face when arranging loans.

Rhoda Grant: I will move on to a totally different subject: the inshore fisheries that we discussed earlier. I was pleased with the presentation that the Scottish Fishermen's Federation gave us, during which the federation asked for assistance with management and research, which are important to the industry's base. The federation mentioned inshore fisheries and the amount of work that should be done to ensure that the economic impact of an inshore fishery is linked to the community. One of the suggestions that the federation made was that of establishing an enterprise company for coastal areas, which could be run by Highlands and Islands Enterprise or one of the other enterprise companies, with a specific remit for fishing and its impact on small communities that may be dependent on the industry. In some cases, that link has been lost when a fishery has been taken over by a larger organisation or outside company. Will you give that suggestion some thought, minister?

Ross Finnie: I am not unsympathetic to that suggestion—which seems to be a detailed proposal—and I am happy to take it on board. As I do not wish to cause further delay today, it would be helpful if you would put the suggestion to me in a short note, so that we can consider what action is being taken in relation to the economic impact of inshore fisheries and the thread that you identified, which links the industry and local communities.

Mr Morrison: I will begin with a general remark: I welcome Mr Finnie's staunch approval and endorsement of the Arbuthnott formula. I recognise the merits of that formula, which will be revisited. The formula factored in a great number of issues in a way that was warmly welcomed by

many people in urban and, importantly, in rural Scotland. I wholeheartedly agree with the principle that the minister espoused as far as rural expenditure is concerned. We should not go down the line of ghettoising of rural expenditure. In my view, it is vital that the Executive maintains its current thinking on mainstreaming expenditure, as that approach makes sense for rural communities.

I will touch on two issues and make some specific points, two of which Rhoda Grant has already raised. I would appreciate the minister's outlining the importance that he and his department place on organic farming—I am not looking for crude, financial terms. After he has told us where he places the importance of organic farming, will he outline what the Executive could do to work with the Soil Association in order to achieve some movement? Movement would be appreciated, even if it were at snail's pace, because many of my constituents are trying to diversify into organic farming.

I am sure that the minister is well aware of the benefits and merits of the CBGLS, which, by allowing access to funding, has helped to transform the fortunes of many individuals in many communities.

There have been some welcome developments. Rules have been relaxed to allow a crofter living in a council house to access this funding, which previously he or she was debarred from doing. However, I want to reinforce what Rhoda Grant said. It is important that the Executive continues to appraise what is happening in relation to CGBLS and to increase funding at least in line with inflation. Any additional funding would be warmly welcomed.

My last point relates to inshore fisheries. Rhoda Grant reiterated Hamish Morrison's point about the need for a LEC that would deal with inshore fisheries. The obvious place for such an organisation is within Highlands and Islands Enterprise, which has a very successful land unit. The possibility of establishing a marine unit is being discussed actively. I would like the minister to endorse that proposal.

16:00

Ross Finnie: I will deal first with organic farming. I acknowledge the environmental benefits of organic farming. However, if we assist individuals or farms in covering the costs of conversion—as we do at the moment—we need to ensure that we have helped them to move into genuinely organic production. We must look downstream to ensure that the outcome of what the person or farm concerned has done—whether in the livestock or the arable sector—is that they are able to put their product on the market as an organic product. There is not much point in

conversion if we do not increase the output of organic produce.

There are one or two problems. I do not want to go on the record too much about the member's well-chosen remarks about the Soil Association, but there are issues that we need to work our way through in the Highlands and Islands. Those include recognising that on many hills there is not a great deal of conversion to be done. I do not accept the notion that huge artificial inputs are being made to soil in parts of the Highlands and Islands. I also seek improvements in the environment. There ought to be not just conversion to organic farming, but improvements to the structure of agriculture.

The situation is more complicated in the livestock sector. I do not think that the industry or we have thought through that issue enough. There are people who have converted, but who have no output or grass on which to finish livestock. Farms whose conversion we have supported end up finishing livestock on non-organic land, which means that the product has to be sold as non-organic. In Scotland the situation is not as simple as one or two people would like to believe.

I am keen to achieve a higher level of environmental output and to continue to support those who are embarking on conversion to organic farming, but we are trying to get the whole of farming to be more responsive to economic signals—that is the final test. I want to continue to support organic farming, as I can see environmental gain in it. However, the decision to convert must be made by individual farmers, on the basis that they believe that it could make their farm or croft more sustainable in the long run. I will continue to engage both with the industry and with those involved in organic farming to achieve a better outcome.

Alasdair Morrison amplified the point that Rhoda Grant made about inshore fisheries. There are now two aspects to that issue: local management and support and the linkage to local community activity; and the promotion of regulating orders to give management control to certain communities. We have been proactive in trying to develop regulating orders. A number of members have recently raised with me issues relating to those orders. We must re-examine the regulations to see whether they cannot be given more teeth, which would enable them to be sustained.

Rhoda Grant may want to provide me with a more detailed note of the point that she made. I will consider what might be the most effective way of actively promoting inshore fishery organisations, both through regulations and through the provision of support. I would be happy to consider the suggestion that has been made jointly by Rhoda Grant and Alasdair Morrison, if they would like to

put their heads together on that.

What was your third point?

Mr Morrison: It related to CGBLS.

Ross Finnie: The member was again reinforcing a point made by Rhoda Grant. I must re-examine the whole question of housing. We need to consider whether it would require disproportional effort to change CGBLS completely or whether we can adapt and top up the scheme. Alasdair Morrison makes a valid point that I intend to pursue.

Richard Lochhead: I will ask the minister about a couple of agencies, one of which falls within his budget and one of which does not. The first agency is the Scottish Agricultural College. Much concern is being expressed about the difficulties that face the college. There is a question mark over Auchincruive, and, most worryingly, over Craibstone in Aberdeen. Is the minister's department aware of those difficulties and involved in addressing them? If so, does that have implications for the department's budget? I understand that the SAC may be under financial pressure to sell property. It would be reassured if the minister said that his department would not apply such pressure and that he was willing to investigate whether his department could help.

Ross Finnie: The SAC's management is a slightly awkward beast in the sense that we are the major funder, but it has a separate chairman and a chief executive, whose appointments are not all at our hand. That was part of a decision eight, nine or 10 years ago. We are well aware of the SAC's problems and of the need to resolve them satisfactorily.

I am bound to say that there are management issues. In the past five, six or seven years, the SAC has not been short of funding from the Scottish Executive or its predecessor. During those years, substantial sums of money were allocated, not only to support continuing expenditure. At least twice in the past five years, we spent £1 million or more on making what was called a pension provision, but was designed to allow the management to restructure the organisation. It is a grave disappointment that, despite that level of financial and moral support from the Executive and its predecessor, we are in the present position.

I think that Richard Lochhead attended the debate in which I said that I have asked the SAC's new chief executive to pause to produce proposals. The SABRI line always has an element for unforeseen matters, but we have heard nothing that makes us think that we cannot meet what is required. However, we are entitled to be satisfied that the business plans that are produced are soundly based, meet the objectives of our

agricultural strategy and sensibly try to fulfil the three key deliveries of educational provision, services provision and veterinary surveillance provision.

Richard Lochhead: I thank the minister for those comments, because much concern is felt about potential amalgamations and cuts.

The second agency that I will ask about is the European centre for fisheries research and management. Hamish Morrison emphasised to the committee the benefits to Scotland of establishing that centre here. Has the minister made any representations to ensure that that centre is established in Scotland? If the minister intends to make representations, will he take on board any budget implications? That centre would be a huge boost to Scotland.

Ross Finnie: I must consider how a new centre would dovetail with our existing organisations. Scotland has quite substantial research capacity. Although the centre may be of some benefit to Europe as a whole, I am keen to ensure that it would not duplicate a service or create overprovision.

I would have to be careful, in creating or supporting a new body, to ensure that it was not replicating the current research in Scotland, some of which is regarded as being of European or world standard. We are aware of the possible creation of such a centre, but I have no immediate proposal on it and it is certainly not one of my current budget proposals.

The Convener: I have a couple of general issues to raise. The first is on a forestry matter that has increasingly become a problem in the south of Scotland and in other areas where forestry is a major resource. It is the issue of timber transport. We have all been made aware many times over the past two or three years that there has been a large increase in the amount of mature timber, and that that amount will double in the next 10 to 15 years. Local authorities are increasingly taking the view that the transportation of timber from the felling site to the mill is not a normal use of minor roads. In some cases, local authorities are solving the problem by placing weight restrictions on bridges, effectively land-locking timber so that it cannot be extracted.

The problem appears to be increasing and I wonder whether any thought has been given in the budget, or any other forum, to addressing it. The answer that local authorities consistently give is that the roads budget is already strapped, that they have to set priorities and that forestry extraction is not one of those. My view and that of the committee—we have heard evidence to support this—is that timber is a very important primary product in many of our rural areas and

that transportation restrictions are therefore a real problem. What are your views on that?

Ross Finnie: I shall allow David Henderson-Howat to comment on that.

David Henderson-Howat (Forestry Commission): You are right to identify timber transportation as a serious problem. Although roads are the responsibility of local authorities, one must be realistic about their other priorities. We are working hard to bring local authorities and the forestry industry together to work with each other and—we hope—to arrive at productive solutions. We want to move away from people throwing hand grenades at each other and towards working together to identify where the key bottle-necks are and where resources need to be used to improve roads.

There are other ways in which the industry could operate—for example, by considering the movements of timber traffic. It is one thing to send a timber wagon along a road once a day; it is quite another thing to send a convoy of 10 timber wagons along a road in the morning. The industry is working closely with local authorities to develop route maps identifying agreed routes for timber transport, routes that are excluded—with one or two caveats, if that land-locks timber—and routes for consultation, about which a haulier or owner will speak to the local authority before committing to transport timber along those routes.

We have also worked with the industry and local authorities to establish a timber transport forum, which has a steering group that meets from time to time. The next full meeting will be on 7 May, which Mr Wilson, the Deputy Minister for Environment and Rural Development, will address. That will provide an opportunity to bring the different sides together to look for pragmatic solutions.

The Convener: However, despite the recognised timber transport routes that are being established, there are still—in areas where those have been agreed—other areas where mature timber is being land-locked and is not extractable. We were told in evidence that in-forest transportation costs were three times as much as on-road transportation costs, for obvious reasons. Nonetheless, it is to be welcomed that there are schemes to maximise the amount of in-forest transportation that takes place. It seems that, despite the round-table talks to which you refer, the problem is not being solved but is getting worse.

David Henderson-Howat: The only way in which to deal with the specific problems of the areas that have been land-locked is by addressing individual cases and considering the options for solutions. It may be, as you say, that there are options for running timber through neighbouring

properties. There may be alternative routes. However, rather than speak in generalities, one must consider the individual case and try to find an individual solution.

The Convener: Thank you. My second point is on a completely different subject. We all know that the minister has constantly lamented the deficiencies of the evidence base available to assist him in policy formation. Which areas of rural policy are in greatest need of a stronger evidence base and how have you put that right in the budget?

16:15

Ross Finnie: That was the point that I tried to illustrate in my opening remarks. There is a general deficiency because of a historical failure. Local authorities now find themselves under pressure to produce more evidence-based solutions and that is very welcome. If one takes an urban area with a rural hinterland, such as South Lanarkshire, it is not surprising to find that some of the evidence for East Kilbride does not apply to Moffat. Like other authorities, South Lanarkshire is now disaggregating its statistical base. That flows back to us, because we talk to councils through the Convention of Scottish Local Authorities to get a better handle on the real issues and problems.

Douglas Greig (Scottish Executive Environment and Rural Affairs Department): In his opening remarks, the minister highlighted the two key areas that we are looking at—the social justice agenda and economic development—to ensure that the Executive's policies are mainstreamed and are hitting the targets for Scotland as a whole and not just in particular geographic areas. The rural poverty and inclusion working group recommended that all social justice milestone indicators be disaggregated on a rural/urban basis. That work is being taken forward immediately where that is straightforward and the statistics exist. Some of the issues will need to be taken forward in the longer term when neighbourhood statistics—to which £7 million has been devoted over the next few years—come on line. That should provide all the social justice milestones disaggregated on a rural/urban basis.

"Measuring Scotland's Progress Towards a Smart, Successful Scotland", which is the follow-up document to "A Smart, Successful Scotland", contains a commitment to disaggregate all the progress measures for economic development across Scotland on a rural/urban basis. Again, some of that can be done quite quickly, while some will require investment in the data sources, such as geographic information systems, which the minister referred to earlier. The access for services project is up and running and should report later this year. We are bringing a lot of

databases together, showing access and drive times to services in rural Scotland and we hope that that will be mapped by autumn.

Mapping is the first stage. We can then measure changes to that over the years. Each of those stages is directed at measuring outcomes, but will allow us to consider whether the policies are properly mainstreamed or need to be tweaked to fit urban and rural areas.

The Convener: Can I just point out that Moffat is in Dumfries and Galloway and not in South Lanarkshire?

Ross Finnie: I appreciate that. However, the boundary is close to Moffat.

The Convener: I take your point. The NFUS gave us evidence and made clear its concerns about modulation, particularly in reference to the rural support scheme, in which the funding comes from all 17,000 of Scotland's farmers but is delivered to some 350-odd. The NFUS said that in any modulated scheme, everybody gives, but very few receive. Do you share its concerns or do you see modulation as the way forward for agri-environmental schemes?

On a related point, as a devolved Administration, are we able to resist the recommendations of the Curry report, should the Department for Environment, Food and Rural Affairs be hellbent on following them, or would that have to be pursued on a UK-wide basis?

Ross Finnie: There are a number of problems, convener. First, I am not an absolute devotee of modulation—it is a way of getting out of a problem. At a philosophical level, if Europe was genuinely interested in radical reform and in changing from production-based subsidy, my preference—if I had a blank sheet of paper—would be to create new instruments that reflect changing circumstances. In other words, the present beef and sheep regimes were designed to support production. They were designed to deliver on the basis of the ownership and holding of certain levels of stock. Modulation is a rather easy way of saying, "That doesn't work any more. The WTO has put us under pressure, and it is all very difficult, so we will simply modulate the funds elsewhere." That is not the right way to go about it, but I am not exactly in the majority in that view.

The problem is two-fold. At the moment, under pillar 1, the UK has a reasonable and acceptable balance of the funding available to it to support production-based schemes. Members will recall that we were badly done by under pillar 2—the agri-environment and other schemes—because it was based on a country's historical record. Austria, which has an outstanding record, received the best allocation, and the UK, which has the poorest record, received the poorest allocation.

The difficulty for us in the mid-term review is that, because of WTO and other pressures, we may need a higher percentage of our funds in pillar 2. Without a fundamental revision of that balance in total, we must face the reality that the only way to spend money in pillar 2 is to take it out of pillar 1. Regrettably, one of the few mechanisms that is available to enable us to do that is modulation. That has nothing to do with the Curry report. What we in Scotland must recognise is that a number of other member states are considering their dilemma from the same point of view. We recognise that we need to move more funds into the agri-environment element of the budget, but we are bedevilled by the question of how we do that in a simple way.

My concern about that is manifold. I will try to press for a more sensible way of doing it, but what is crucial is that the menu of options that is available under the rural development regulation be expanded. It is the narrow range of those options that gives rise to such a small number of people who are able to access the modulated funds. I do not quite share the NFUS's view. If we are going to use modulation as it currently stands, we cannot do so on a year-on-year basis. We must consider modulating over two to three years. If we use a year-on-year basis there will be a bit of a mismatch.

My key concern is that we do not automatically accept that modulation is the best and most equitable way of moving from pillar 1 to pillar 2. We must be alert that a clear move into pillar 2 throughout Europe and the member states, without any fundamental rejigging of funds, would make it more likely that we would have to accept, with great regret, a possible modulated situation. We must then insist that there is a radical review of the rural development regulation, to give us far more flexibility about what we can use those funds for. That will increase the likelihood that more of our farming community will benefit. It is a complex area, which is grossly oversimplified by people who talk about tipping out pillar 1 into pillar 2. That is just not the case. There are serious problems in Scotland, which we will pursue at a UK and a European level.

The Convener: You say that we need to broaden what modulated funding can be spent on. Will you expand on that a little?

Ross Finnie: If I remember correctly, there are only about four or five prescriptions at the moment. If that is the case, we must ask what we can actually deliver on if we are to make a real difference at that level of funding. I am looking for a wider range of things that we currently fund separately, but not through that means, which allow people to engage to a greater degree in assisting their own diversification. Modulated

funding should support people in farming businesses to make those businesses better and broader-based and so on, but it must be able to do that in a more flexible way than is currently prescribed in the regulation.

Rhoda Grant: Would land management contracts help that to happen, but not in such a difficult way? For example, contracts could be drawn up on an individual basis.

Ross Finnie: Absolutely. It goes back to my more radical solution. I would rip up half the damn thing and move to a more broadly based land management contract. I would put far more of the funding into it so that it could be tailored. That would allow us to take greater account of those in more peripheral areas and of farms that are more able and more likely to generate the majority of their income from pure economic agricultural production. That would also allow us to insert measures that take more account of the environmental and socio-economic benefits of that type of farming. I still hope that we can fit land management contracts into whatever comes through the CAP mid-term review. However, the starting point is where I get the money. I cannot ignore the fact that there are fundamental structural difficulties in ensuring that Scotland is able to get its hands on a fair share. The complication of moving from pillar 1 to pillar 2 and of funding the pillars is at the heart of that argument.

The argument advanced in the Curry report was a different one. It said that, because environmental support is a good thing per se, we should simply move on it. I do not share that view. The issue is far broader and far more complicated than that. We are in the business of ensuring that, if there is support for the agriculture community throughout Europe, Scottish farmers are entitled to their fair share of that support. I do not buy the approach that says, "Forget subsidy. Forget what is going to happen. We will just move into a different kind of support", and I do not think that many people in Europe buy it either.

The Convener: Any further questions?

Ross Finnie: Pillar 1 and pillar 2 usually excite quite a degree of interest—I have noticed that in other forums.

The Convener: I too have seen that effect before, minister, but we do not have time to go into it. I appreciate your answering questions—particularly the latter ones—so honestly and openly. Thank you for your time, and for giving us evidence this afternoon.

On the basis of this afternoon's evidence we will draw up a draft report, which will eventually go to the Finance Committee. We will consider the draft report at future meetings. Members will wish to

note that discussion of the draft stage 1 report on the budget is provisionally on our agenda for 30 April, and again on 7 May if required. Does the committee agree to consider the draft stage 1 report in private at its meetings on 30 April, and on 7 May if required?

Members *indicated agreement.*

Subordinate Legislation

Dairy Produce Quotas (Scotland) Regulations 2002 (SSI 2002/110)

Plant Protection Products Amendment (Scotland) Regulations 2002 (SSI 2002/117)

The Convener: Item 2 is consideration of two statutory instruments. No members have expressed a desire to comment on the regulations, and I assume that the committee is happy to pass them without comment.

Members *indicated agreement.*

Meeting closed at 16:29.

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