



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

RURAL AFFAIRS AND ENVIRONMENT COMMITTEE

Wednesday 12 May 2010

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RURAL AFFAIRS AND ENVIRONMENT COMMITTEE

12th Meeting 2010, Session 3

CONVENER

*Maureen Watt (North East Scotland) (SNP)

DEPUTY CONVENER

*John Scott (Ayr) (Con)

COMMITTEE MEMBERS

Karen Gillon (Clydesdale) (Lab)

*Liam McArthur (Orkney) (LD)

*Alasdair Morgan (South of Scotland) (SNP)

*Elaine Murray (Dumfries) (Lab)

*Peter Peacock (Highlands and Islands) (Lab)

*Bill Wilson (West of Scotland) (SNP)

COMMITTEE SUBSTITUTES

Rhona Brankin (Midlothian) (Lab)

Jim Hume (South of Scotland) (LD)

Nanette Milne (North East Scotland) (Con)

Sandra White (Glasgow) (SNP)

*attended

THE FOLLOWING GAVE EVIDENCE:

Jonathan Hall (NFU Scotland)

Professor Jeff Maxwell OBE FRSE (Royal Society of Edinburgh)

Dr Marc Rands (Royal Society of Edinburgh)

Dr Karen Smyth (Scottish Rural Property and Business Association)

Vicki Swales (Scottish Environment LINK and RSPB Scotland)

CLERK TO THE COMMITTEE

Peter McGrath

LOCATION

Committee Room 2

Scottish Parliament

Rural Affairs and Environment Committee

Wednesday 12 May 2010

[The Convener opened the meeting at 10:00]

Decisions on Taking Business in Private

The Convener (Maureen Watt): Good morning. I welcome everyone to the committee's 12th meeting of the year. I ask everyone please to remember to switch off their mobile phones and BlackBerrys, as they impact on the broadcasting system. The main purpose of today's meeting is to take evidence on the Royal Society of Edinburgh's report on Scotland's hills and islands. We will hear first from representatives of the RSE and then from a panel of stakeholders. Before we move to evidence taking, we have some subordinate legislation to consider.

The first item of business is consideration of whether to take in private agenda item 5, which is consideration of the themes arising from the evidence that we take today. Is that agreed?

Members indicated agreement.

The Convener: Does the committee also agree to consider in private the themes arising from future evidence sessions, along with any draft committee report or correspondence arising from consideration of the RSE's report?

Members indicated agreement.

Subordinate Legislation

Beet Seed (Scotland) (No 2) Regulations 2010 (SSI 2010/148)

Poultry Compartments (Fees) (Scotland) Order 2010 (SSI 2010/151)

10:01

The Convener: Agenda item 2 is consideration of two negative Scottish statutory instruments: the Beet Seed (Scotland) (No 2) Regulations 2010 and the Poultry Compartments (Fees) (Scotland) Order 2010.

The Subordinate Legislation Committee has reported on the Beet Seed (Scotland) (No 2) Regulations 2010, and the relevant extract of that committee's report has been circulated to members as paper RAE/S3/10/12/3. The regulations replace SSI 2010/67, which we considered at our meeting on 24 March, when a motion to annul was agreed to following a division. This time round, no member has raised any concerns in advance on either of the instruments and no motions to annul have been lodged. Do members have any comments on the instruments?

John Scott (Ayr) (Con): I very much welcome the redrafting of the regulations and the fact that the Subordinate Legislation Committee had no comments to make on them.

Elaine Murray (Dumfries) (Lab): The point was made to us when we agreed to the motion to annul SSI 2010/67 that the process would be difficult because the whole set of regulations would have to be redrafted and would take a long time to come back. In fact, they have come back within a few weeks. That shows that the committee took the right course of action in annulling SSI 2010/67, rather than allowing a defective SSI to stand and trying to amend it in future legislation.

The Convener: Does the committee agree not to make any recommendation in relation to the SSIs as detailed on the agenda?

Members indicated agreement.

Scotland's Hills and Islands Inquiry

10:03

The Convener: Item 3 is evidence taking on the Royal Society of Edinburgh's 2008 report on Scotland's hills and islands. I welcome Professor Jeff Maxwell from the RSE. Unfortunately, Professor Gavin McCrone is unable to join us today, but I welcome Dr Marc Rands, evidence and advice manager from the RSE, who has stepped into the breach. That is greatly appreciated.

We move straight to questions. Are there any recommendations in the report that have not been acted on and which the RSE thought were of particular importance? For example, is the land use strategy being developed in the way that the inquiry envisaged?

Professor Jeff Maxwell OBE FRSE (Royal Society of Edinburgh): We welcome the Government's intimated preparation of a land use strategy, in particular in relation to the Climate Change (Scotland) Act 2009. The strategy must be produced by 2011. We believe that the Government is attempting to take on board many things that we were concerned about in our report, but we do not want the strategy to be so narrowly focused on climate change that it does not have wider implications and is unable to deal with conflicting land uses that arise as a consequence of, for example, the need to increase forestry cover and the need to embark on a renewable energy plan involving natural resources. We hope that such matters will be taken on board as the strategy evolves. It is important that the strategy addresses matters that specifically relate to communities in hill and island areas, as they are fragile, and that, however it evolves, it recognises that those communities are under threat as a consequence of the economic difficulties that they face.

Elaine Murray: The inquiry report highlighted that

"The Hills and Islands ... are disadvantaged compared to lowland and more densely populated areas. But they provide vital environmental goods and services".

Will you expand a bit more on what environmental goods and services are particularly relevant to the hills and islands? Everybody acknowledges that we are moving into a time of financial and economic constraint. How can the argument be made for those areas possibly receiving increased support at this time because of the public benefit that they provide?

Professor Maxwell: When we were writing our report and going around the country, we became very aware that a set of benefits was being produced in those areas, some of which directly related to food production through agriculture. One must recognise that sheep and cattle are, in effect, the only means by which food can be produced in those areas. To the extent that there may be an argument for food security, they are the basis on which one would wish to continue to support those areas from an agricultural point of view.

The areas are an intimate part of the sheep production cycle in Scotland. They produce the basic breeding resource for the rest of the sheep industry in Scotland and further afield. As such, there is important agricultural activity in them. Losing that activity would be quite detrimental not just to those areas alone, but to the sheep industry as a whole.

We took evidence from a number of people who argued that the types of vegetation in and the landscapes of the areas would be drastically altered without the presence of livestock. We were persuaded by that argument. The areas are sensitive to agricultural and land use change. Landscape changes could affect people's interest in them from a recreational point of view. There is an intimate connection between the areas and potential in relation to the tourism industry. If their habitats and environmental attributes are significantly altered, it is possible that people will not be interested in them and will not visit them. The evidence for that is sketchy and anecdotal, but our presumption was that dramatic change in the areas would have a negative impact on them.

Elaine Murray: When we were considering the Public Services Reform (Scotland) Bill, I think, the argument was put to us that deer could substitute for sheep and cattle in some of those areas to provide food. What is your answer to that suggestion?

Professor Maxwell: As a grazing animal, deer clearly do a not dissimilar job to sheep. On the other hand, deer are uncontrolled and need to be managed with an effective culling policy to stop overgrazing. We know well that some areas of Scotland are now heavily grazed by deer. To achieve the environmental condition that we are obliged to achieve under many regulations that arise under European legislation, we would need very strict control—probably stricter than is currently in place—over deer. In one section of our report, we comment on the need for legislation to stiffen up the control of deer in those environments. However, it is perfectly true to say that deer are the predominant grazing animal in many areas, including many areas that no longer have any agricultural activity.

The Convener: On the issue of the landscape changing, there has been a great increase in the number of reeds and rushes on the hills and islands over the past number of years. Is that a direct result of the taking away of the lime subsidy? Does such subsidy have an important part to play in agriculture in those areas?

Professor Maxwell: During the period of land improvement that took place in the 1960s and 1970s, quite a lot of hill area was converted to improved land. Whether that was a good or bad thing remains a matter of debate, but the productivity of hill farms in many of those areas was improved very considerably. However, the status of those improved areas was retained only because it was possible to use lime and phosphorous in them. The withdrawal of that subsidy—and, indeed, the withdrawal of drainage grants—meant that those areas became less and less viable. As a consequence, there was an ingress of rushes and the areas became less productive as improved land. Undoubtedly, removing some of those inputs has led to some deterioration of the improved land that was created during those years.

John Scott: In that regard, such deterioration is like the neglect that we have recently discussed in the context of crofting. Under environmental enhancement policies, drains that were created in the 1960s and 1970s are nowadays being blocked up.

Professor Maxwell: The huge increase in ewe numbers during that period was driven largely by the headage payment that existed in those times. However, the extent to which that was a positive benefit remains extremely questionable, because it was not always the case that land productivity increased with the increase in ewe numbers. We are now seeing a return to the ewe numbers that existed on the hills during perhaps the 1950s and 1960s. The productivity of those ewes at that time was extremely poor. That changed radically only as a consequence of the research work that was done to enhance the nutrition of the ewes at particular times of the year.

Since then, we have seen greater interest—or perhaps greater value—placed on the environment than on the production of lamb in those areas. Consequently, we have seen a reversal of some of the land improvement that took place during those years because of an increased focus on environmental enhancement—as you rightly say, drains have been blocked and we have stopped draining huge areas of peat. To that extent, that is a positive thing for the environment and is certainly positive for dealing with climate change.

The Convener: Is there a contradiction if we have a land use strategy that aims to increase the

amount of food that is grown locally rather than imported?

10:15

Professor Maxwell: It is a matter of choice and balance. We have to decide the value that is placed on having food that is produced from those areas but within the context of an environmentally sensible approach. It could be said that the areas of land improvement that were created in some parts of Scotland—although not all, by any means—probably went beyond what might now be regarded as environmentally sensible. In particular, I am thinking of the conversion of peatland into improved land, which is extremely difficult to maintain. It would require a huge number of inputs to maintain it and, in the context of an agricultural production system, that would not be viable.

It is now a matter of choice between, on the one hand, the extent to which society values its environment and the kind of environment that it chooses and, on the other hand, the ability to produce food from that resource. Based on what we saw, the view of the society is that the balance can be struck, but it ultimately requires direct support to achieve that.

I might as well say this now: we continue to be greatly concerned about the potential effects of the United Kingdom view in relation to removing direct support and how damaging that would be to Scotland. I have no idea what the new UK Government will determine, but from Scotland's point of view we believe that that approach should be resisted.

John Scott: I want to explore the concept of economic viability. You said that drained peatland would not be viable, but the best arable land in Scotland would not be viable—even land that is not part of the less favoured area support scheme—if support were withdrawn from it. Will you expand on your definition of viable? There was a dash for food production in the 1960s and 1970s when land was properly improved to meet the growing fear that Europe would not be able to feed itself. As you said, there are changing priorities now, but I am interested in your definition of what is currently viable, given the existing support regime that is in place, which is absolutely necessary.

Professor Maxwell: When we talk about viability in economic terms, part of the problem that arises is how we determine what we call the income streams. We have continued to describe all the public funding as subsidy, and yet we are now tying that subsidy to the production of particular outcomes. We do that through the GAEC—good agricultural and environmental

condition—policy and increasingly we try to do it through LFASS.

It is my view—and the view of others in the society—that if we are producing public benefit and public goods, subsidy is a legitimate income stream, to the extent to which the public is prepared to fund it. You are right that, in order to be viable, most farms in Scotland require the support that comes through the single farm payment, but that is given to those farmers to achieve specific things. We may have a view that the funding ought to be more critically applied and provided on the basis of the costs involved in achieving the value of particular outcomes. Nevertheless, if we accept subsidy as a legitimate income stream, it is reasonable to talk about viability.

Most of the farms in the hills and uplands would not be viable under any circumstances without that measure of support, and the difficulty that arises—it is clearly faced by the Pack review—is how we redistribute the single farm payment on an area basis to sustain viability. From what we saw and have since said, our view is that there needs to be a redistribution, probably towards maintaining our more vulnerable agricultural activities rather than putting a greater amount into activities that are relatively more successful in the context of an agricultural output.

John Scott: Thank you. I should have declared an interest as a hill farmer at the outset.

Liam McArthur (Orkney) (LD): I was interested in Professor Maxwell's comments about the requirements that are attached to GAEC and, increasingly, LFASS. Do we need to find a better, more transparent way of valuing those benefits? In the past, they were valued in relation to income forgone, or something equivalent to that. Is that an acceptable way of attaching a value to such benefits, or do we need to come up with another way of monetarising or valuing them?

Professor Maxwell: We favour the latter approach. Part of the problem is that, under pillar 2 arrangements, the income that farmers get for producing specific things from an environmental point of view is compensation for income forgone. That is not satisfactory. Specifically managing a unit to produce a particular environmental good may require some reduction in agricultural activity, but that may not necessarily be the case. The environmental benefit can be achieved by specifying the cost of producing it. That is how we would prefer money to go into a farm.

In our report, we make the point that there is a strong case for moving towards whole-farm planning, in which a contract to produce a specific set of outcomes—including both agricultural and environmental outcomes—is agreed between the

Government and the farmer. More research is required to establish the costs and benefits of producing some of those outcomes. Being specific about that would be a much more legitimate and transparent way of achieving the outcomes that we desire.

We saw such a system in Ireland, where it seemed to work reasonably well. Ireland is much better funded under pillar 2 than we are. Members will have noted that in our report we drew attention to the fact that Scotland receives the lowest pillar 2 payments of any country in Europe. That puts us in an uncompetitive position in relation to producing the environmental outcomes that we want to achieve. We think that direct payments should be allied specifically to the outcomes that we require.

The Convener: Should we try to find a way of measuring the beneficial effects, in relation to climate change reduction, of sheep and cattle grazing, which soaks up carbon?

Professor Maxwell: We need to do the calculations that are necessary in relation to the contribution to mitigation. At the moment, sheep and cattle are regarded as producers of methane and nitrogen oxide and as adding to climate change problems. We suggested that, in light of the fact that there is a target to increase forestry cover to 25 per cent within a 50-year period, a carbon offsetting scheme would make it possible for farmers to transfer from livestock production at least some of the land that is suitable for forestry. Such a scheme would produce not only a climate change benefit but a monetary benefit for farmers that maintained their ability to continue their activities, but with a different mix of activity between livestock production and forestry.

On climate change, we acknowledge that a great deal more information is required, as the impact on vegetation of livestock, different cropping regimes and the maintenance of cover needs to be much more clearly defined and understood.

The Convener: Are you saying that there is no real agreement about whether livestock contribute to greenhouse gases or whether they soak up carbon by grazing on land? Is there no definitive result on that point?

Professor Maxwell: The general conclusion at present is that they are net producers of greenhouse gases.

John Scott: But is it not fair to say that they produce much less than was at first suggested? Professor Phil Thomas certainly argues that.

Professor Maxwell: Yes, but nevertheless if we are considering whether livestock contribute to mitigation rather than increasing greenhouse

gases, the balance of the argument suggests that they produce greenhouse gases. The consequences of that have to be set against the benefits that arise from producing food in those areas.

Bill Wilson (West of Scotland) (SNP): I want to clarify something on the same topic. I was under the impression that there is a difference between extensive grazing and intensively raised livestock, in terms of the level of carbon held in the soil and the effects of diet on methane production, but perhaps I am incorrect. Will you clarify that?

Professor Maxwell: In general terms, you are not incorrect. However, the extent of the difference is dependent on the inputs that go into the different resources. Piling on nitrogen on a dairy farm is different from the light dressing of phosphorous and nitrogen that might be put on an upland pasture. Nothing is put on the huge areas of natural grassland that we have. It is true that the gases from animals involved in intensive livestock production will be greater, but that is simply because of the relative intensification and the inputs that are applied.

Bill Wilson: One of the RSE inquiry's recommendations was that the Government should have explicit policies to achieve and maintain "community viability". For the record, will you define what you mean by community viability and give us an idea of what you think is needed to create viable communities?

Professor Maxwell: You are touching on an area in which I am not necessarily an expert. Probably the best thing for us to do is to take note of the question and give you an answer later. I can give a brief analysis of our conclusions. Most of the communities that we visited are dependent on a multitude of activities taking place within them. Not least of those is agriculture, which is important, but there are many other activities, one of which is tourism. In many places that we went to, tourism was undoubtedly significant to the economy.

We want to emphasise that the ability of those communities to survive and grow requires a mixture of economic activity in the area, with sufficient resources to develop that activity and, equally, a system whereby the young people can be retained in the area. The demographics of the areas are somewhat odd in the sense that young people stay until they are educated to university stage and then leave. Some of them might then come back, but the majority of them leave and do not come back until later. If those communities are to become more viable and perhaps more demographically stable, in that there is even representation of age groups, something must be done. That must be to do with the economic activity that can be developed in those areas.

Bill Wilson: Given that you are providing a more detailed answer later, I am curious to know whether you are considering parallel approaches to maintaining community viability that other European countries have adopted.

Professor Maxwell: Some of my colleagues have visited Scandinavia, but I would prefer to get back to you on that.

Bill Wilson: That would be excellent—thank you.

Dr Marc Rands (Royal Society of Edinburgh): During our trip to Ireland, we visited the agriculture ministry there. Because of Ireland's high levels of pillar 2 funding, the Government can offer more schemes and funding to communities than we can do here in Scotland, with our proportionately lower levels of funding. Money is one way in which countries can achieve that viability.

John Scott: In essence, all the arguments come back to a lack of adequate funding through pillar 2, do they not?

Professor Maxwell: Yes. We cannot emphasise that enough. I do not know whether members have our full report, but the figures on page 74 show that Austria gets about £121 per hectare per year, compared with £7.40 in Scotland. There are major differences in funding.

Money is important, but another issue that we experienced was to do with the differences between communities in their ability to initiate things themselves. That is variable. It rather depends on the cultural background of the community. We found that there were undoubtedly differences between the islands and between the north and the west. A lot of those who were initiating change were people who had come into those communities from outside.

10:30

Bill Wilson: You say that there were cultural differences between communities in the north and those in the west, meaning that one or the other was more likely to take the initiative. Could you summarise those cultural differences? Is the extent to which people have come in from outside one of the main differences? Are there other major differences?

Professor Maxwell: That is not necessarily one of the major ones. It is not possible to generalise—we can reflect only on how people were received, what they were told and what level of initiative they could gauge from the discussions that they had.

Anybody who knows the islands will know that there are differences in their cultural backgrounds and in how people there develop their lives around their communities. I am not in a position to say

that one is better than another, but those differences nevertheless give rise to issues relating to economic development in those areas. We cannot help but notice the very significant measure of employment in the service industries in some parts of the islands, as compared with elsewhere in Scotland.

Peter Peacock (Highlands and Islands) (Lab):

I will pursue the points that Bill Wilson was developing about your recommendation that Government ought to make community viability an explicit part of policy, rather than an implicit one. What did you mean by that? Should the Government simply elevate that in policy statements? Do you mean that community viability ought to become a specific policy in a statutory sense? It could be argued that all the efforts of the Highlands and Islands Development Board, now Highlands and Islands Enterprise, have been about population retention and community viability. That has been implicit, rather than explicit. Is it your recommendation that it should be expressed as an explicit purpose in future statute? In considering the role of the Crofters Commission, we have heard a lot of evidence that the impact of crofting has been to keep the population in particular areas. However, that is not an explicit purpose of the commission. How might we make that purpose explicit?

Professor Maxwell: What you are saying is very much what was in our minds. We felt that there needs to be an essential, underlying principle around which the whole of rural policy is determined to retain population. We were struck by the extent to which policies are fragmented and unintegrated. There is an agricultural policy, an environmental policy, a health policy and so on, but each of those needs to be thought through in terms of what will retain population and encourage and develop economic activity in these areas. In any part of Scotland that we might mention, there are so many interlinkages and interconnections between those policies, but they tend to be more fragile in rural areas. The sustaining of a population immediately brings up questions of how to retain health provision, or what transport provision is required to service the area. The challenge is to formulate a major target around which to develop all those policies together, rather than separately.

Peter Peacock: Do you have a view about the long-term sustainability of using pillar 1 and pillar 2 funding to support community viability, as opposed to or in combination with funding from HIE? Should there be a movement of funds, over time, out of the agricultural programmes into a broader rural development programme, possibly administered by others? Do you regard the agricultural programmes as an efficient way of delivering resources into rural communities?

Professor Maxwell: Those resources are applied to land management. If you have any concern at all about the land management of these areas, that is the way in which to direct those funds. You can do that through agriculture and you can do that through forestry. To my mind, that is clearly one way in which we can ensure that populations remain viable, bearing in mind what I said earlier about the assumed link between the attractiveness of landscape and tourism. However, we have to face the fact that, after 2013, the funding might be less and we need to ensure that the competitiveness of Scotland is on a par with that of everyone else in Europe, which it currently is not, regardless of the position with regard to direct payments, which are quite common, and pillar 2 payments, which certainly are not. That has got to be put right.

You cannot simply consider the development and the retention of populations in these areas solely on the basis of those two inputs, however. Clearly, you have to think about the way in which Highlands and Islands Enterprise and the local enterprise companies operate. To go back to your previous question, one of the things that need to be done is to ensure that those two streams of funding are complementary and add value to each other, which they will not do if their approaches are separate.

Liam McArthur: You have talked about your concerns around pillar 2 payments, and you have pointed us to the quite stark comparisons in the report. In your response to Brian Pack's interim report, you say:

"Until the level of the UK allocation from this part of the CAP is based on some assessment of need, rather than history, reliance on funding from this Pillar alone would not provide a fair competitive basis for agriculture policy between EU member states".

Might we have missed a trick in the way that Brian Pack's inquiry has been set up, as we are rushing straight towards a consideration of how we redistribute within the current envelope rather than marshalling arguments for a more equitable distribution of the funding between member states, which would address some of the issues that you raise in your submission? Is there a way of marshalling those arguments that will be successful at an EU level?

Professor Maxwell: We should not underestimate the difficulties that Brian Pack has been under. We have said that if you were starting with a clean slate, you would go about things differently, and, as Brian Pack suggests in his interim report, you might not want to make a distinction between pillar 1 and pillar 2 payments. However, the fact that those payments come from different sources means that they have to be addressed separately.

It is difficult to come to any conclusions about how we can redistribute the single farm payment without knowing, for example, what area is going to legitimately qualify for LFASS—that is particularly true in relation to hills and islands. We do not know what the budget will be after 2013, and we are not entirely certain what the common agricultural policy will look like. There are real difficulties in that regard.

In relation to the Pack inquiry, we observed that, if you are intent on using the single farm payment to deliver not only agricultural productivity but an environmentally sensitive way of managing the land, you must address the issues that will achieve that, and whatever is paid must reflect the differences that might arise from the efforts to achieve that across the broad spectrum of Scottish agriculture. That will not necessarily be done simply by using the land capability maps for Scotland. Further research must be done to determine what the environmental costs of delivering the environmental goods are likely to be for various areas. It is not straightforward because you need to understand the consequences of doing that on the one hand and, on the other, addressing the issue of remoteness and the difficulties that hill and upland farmers face. There is no doubt in our minds that what you decide to do with the single farm payment and LFASS will be crucial to the long-term sustainability of hill and island agriculture in Scotland.

Dr Rands: We went to Brussels and spoke to the Commission. Of course, come 2013 all the Commission budgets will be renegotiated. That perhaps provides an opportunity to address some of these inequalities. Secondly, the Commission argued that the distribution of pillar 1 funding should not be on an historical basis. It should therefore take the same argument to the distribution of pillar 2 funding.

Liam McArthur: That is a fascinating insight. I took it from what Professor Maxwell said that there is an argument to be made, notwithstanding the difficulties that Brian Pack and his team have encountered—there is probably some conjecture about whether he is now regretting having answered the phone when the cabinet secretary called all those months ago—that it would make his job slightly easier if there were a reassurance that a job of work was being done to marshal the arguments for how pillar 2 funding, tied up with pillar 1 funding, should be redistributed among member states post-2013. Do you agree with that assessment?

Professor Maxwell: Yes. Without that information, it is extremely difficult to plan for a period when change will take place. We have no doubt that we should go for the area-based arrangements. We also have no doubt that the

payments should be made to those who are managing the land and are delivering the outcomes. To that extent, we are wholly supportive of what is being done. The difficulty is being clear about what we are providing the single farm payment for.

The arguments that Brian Pack has put forward are that we have to retain productivity in agriculture because, if we do not do that, we cannot deliver anything else. That is true but, at this stage, we must become much more specific about what public funding is delivering over and above the agricultural component, because, as budgets become tighter, it will not be surprising if the public at large begin to ask very serious questions about what the money is for. The figures in table 16 in our report show, for example, the funding that is being derived from the public purse to sustain LFA sheep farms. Something of the order of 250 per cent of net farm income is coming from the public purse. Neither I nor any of my colleagues has any objection to that, but what we are less satisfied about is not knowing what outcomes that is delivering. That needs to be addressed before 2013.

Liam McArthur: From your experience, whether in Ireland or perhaps in Scandinavia, is there any evidence that the value being derived for the significantly higher proportions of money going in through pillar 2 in those member states is deriving greater benefits, or fewer benefits, than have been achieved here?

Professor Maxwell: No, I could not provide you with that kind of evidence, but you should bear it in mind that what I have just said was not the initial rationale for these payments being made. We have continued to fund agriculture but, ever since we broke the link with agricultural output, we have fudged it and have not said specifically what the money is for, nor have we been clear about putting a value on the outcomes that we have assumed the funding is meant to achieve. GAEC, which is good agricultural practice, has a range of things that must be delivered for someone to get the SFP. However, we were critical of the extent to which that is monitored and the extent to which it is a real imposition on the farmer to deliver. It is our view that, by 2013, we must be more explicit about what the payments from the public purse are for.

10:45

Peter Peacock: I was going to pick up this issue later, but it fits with this part of the discussion. Given the tightening economic situation, to which Professor Maxwell and committee members have referred, the possibility of there being more cash in the pot is limited—in fact, the opposite might be the case. That implies

redistribution within the existing envelope if you want to meet some of your objectives, however unpalatable that may be. A map of Scotland shows that 85 per cent of agricultural land has less favoured area status, with a small part of that classed as disadvantaged. The map that I have in front of me shows that there is less favoured area a couple of miles from where I live on the shores of the Moray Firth, but there is no comparison between that land and land that the committee has seen recently in Shetland, the Uists or Lewis. The land in parts of Shetland and Lewis, or in Sutherland in the north-west Highlands is clearly substantially less advantaged than land in other parts of Scotland that is in the same category of disadvantaged land. Is it the RSE's view that too much land is designated as really less favoured? Is there not enough differentiation in the mapping to allow us to say what is really disadvantaged and what is slightly less disadvantaged? Is there too stark a distinction at present?

Professor Maxwell: It is true that it would be difficult to justify the less favoured area status of some areas; certainly, in terms of the criteria that are being discussed in Europe, it would be very difficult indeed. The committee has in its briefing notes suggestions of alternative criteria from a Westminster committee that I think are very relevant. They would be helpful in determining the baseline against which it is decided whether an area is less favoured or otherwise in its agricultural potential. Equally, however, Mr Peacock's comment that there is huge variation within LFA is true, too. That is why some responses to the LFASS consultation and Brian Pack's consultation had suggestions about, for example, different stocking rates and different criteria being used, particularly in livestock production—all that is relevant. We must have a transparent, evidence-based approach to determine what goes on where and how much should go into such areas. Undoubtedly, the £15 million that the cabinet secretary has put into the LFASS areas over the past two years—or at least in 2009-10—has been extremely beneficial, but it is a very crude way of doing things.

It is easy for me to say this, but if we took a much more evidence-based approach to determining what areas are classified, which equated with what goes on in the rest of Europe, we would be much nearer the mark. However, that would undoubtedly lead to some areas no longer having LFA classification. That would require us to have the opportunity of addressing such a switch with the single farm payment, but from a legitimate and transparent point of view. Basically, that is what concerned us about the example in the Pack report. I imagine that Brian Pack wishes that he had never put that example in. It looked like an effort to minimise redistribution, against the

background of a not-very-clear understanding of what the SFP is meant to do. We return to the point that the SFP cannot be determined independently of what we agree for LFASS if we have a real concern to direct and target the support, particularly in the light of the fact that the sum that is available might be a lot lower.

Peter Peacock: To ask whether you are anxious about that might be the wrong way of putting it, but do you think that it will be possible to tie those things together, as ministers will have to do in due course? Will it be possible to do that satisfactorily or are the processes too far apart for that to happen?

Professor Maxwell: I cannot comment on that because I do not know what state each is in. Brian Pack is supposed to produce his report in June. As I understand it, he hopes that the LFASS group will have determined what should happen with LFASS before he writes his final report. I hope that that will be the case, because any subsequent consultation will be meaningful only if the two components can be seen together.

Peter Peacock: Thank you. That is helpful.

John Scott: I would not want my colleagues on the committee to get the impression that there are not different types of LFASS payments and different payment levels. It was suggested that the Moray Firth areas are similar to Shetland in terms of the payments that they receive from LFASS. Could you put the record straight on that? They do not receive comparable payments. Is it not also important to note that, in a European context, the qualification of areas such as the Moray Firth for LFASS reflects distance from markets, or communities' ability to access European markets? That is the reason why they are LFAs. Do you agree?

Professor Maxwell: Absolutely. Ever since LFASS was introduced, there have been different payment rates to recognise the relative disadvantage of areas.

John Scott: You talk about defining environmental benefits more clearly, but you acknowledge that pillar 2 funding is the poorest environmental pot, so to speak, in Europe. Do you agree that, if we added an extra burden of environmental enhancement to farms that are not viable or are on the edge of viability, as shown by their decline and the removal of people from them, we would make them even less viable and drive even more people out of them?

Professor Maxwell: Not necessarily. It depends on how we construct the legislation and the requirements that determine the outcomes that we wish to achieve. As we state in our report, the current arrangements are heavy handed and

terribly bureaucratic. The outcomes could be achieved much more simply.

The Convener: We need to move on.

Elaine Murray: I return to the issue of forestry, which we have touched on once or twice in our discussion. You support the Government target of 25 per cent forestry cover by the end of the century, but you say that that will be a major challenge for the Forestry Commission. The answer to a written question from my colleague Sarah Boyack suggests that you are correct, because the most recent figures show that the rate of planting is the lowest since 1945. That is somewhat worrying.

Your report makes a couple of recommendations about implementation of the 25 per cent target. You want the Government and the Forestry Commission to develop detailed proposals and to conduct a consultation on them, and you also want the Forestry Commission to examine the potential of short-rotation forestry as an integral part of farming. Do you know whether those recommendations are being taken forward? Do you have any further recommendations on the issue?

Professor Maxwell: I do not know whether those recommendations are being dealt with. I know that the Forestry Commission continues to address the issue of how the targets will be reached, but I do not know the detail, I am afraid.

Elaine Murray: There has been no further discussion with you on those matters.

Professor Maxwell: No. Once we have produced a report, we present it to the various stakeholders. However, we do not normally go beyond that. We recognise that achieving the land use target is extremely difficult, particularly if you are seeking to ensure that forestry does not go into areas where climate change problems might be exacerbated. That means keeping off the heavy peats which, as far as Scottish agriculture is concerned, very much limits where you can go. That is as much as I would wish to say at this stage.

Elaine Murray: On a totally different subject arising from questions from Peter Peacock and Bill Wilson about differences in different parts of the country, did you detect any differences with regard to population retention and what you might call community initiatives between the areas covered by Highlands and Islands Enterprise, which has a specific remit in that respect, and remote and rural areas in, for example, the south of Scotland, the southern uplands and so on? Are there any policy implications for economic development in other parts of Scotland?

Professor Maxwell: Originally, the board of Highlands and Islands Enterprise had a wider remit than other enterprise boards and was able to use it to help in a rural context. That contrasted markedly with what we found when we went to Dumfries, where there were quite serious limitations on how funding could be used to develop an integrated approach to rural development. There are certainly lessons to be learned in that respect.

It also became very apparent that many of the funding streams are still controlled centrally. If we are trying to create communities that take more responsibility for themselves, we need to find ways in which people on the ground can make decisions on what happens in their communities and within their land areas. That is why in our report we conclude in relation to the Scotland rural development programme that the local regional committees have not tended to work as originally envisaged with hands-on experience at the grass-roots level in communities, decision making or taking responsibility for what happens in those areas.

Some of the groups that have been dealing with catchment management are good examples of what can be done at the community level if people are given responsibility. Unless you thrust responsibility on to those at a local level, there will always be a feeling that everything will come from above without any difficulty—which, of course, will not be the case.

Alasdair Morgan (South of Scotland) (SNP): I will go back to forestry. Did I pick up the suggestion that once you leave aside the areas that should not be planted with forests because of environmental reasons; the parts of countryside whose look you might not want to change because of all the attractions for tourism that you mentioned earlier; the areas where we want agricultural production to take place—again, for all the reasons that you highlighted and other issues to do with funding, it might physically not be possible to get 25 per cent of land suitable for forestry?

Professor Maxwell: That is our view. That will be extremely difficult to achieve unless there is some other economic incentive or it is market driven.

Alasdair Morgan: If it were market driven, that might be to the detriment of some of your other objectives.

Professor Maxwell: That would depend on how the land use strategy was put together. Those are exactly the issues that any such strategy would need to address. It is necessary to find some means of striking the balance between retaining agricultural activity and forestry activity and

ensuring that there is environmental sense about biodiversity and landscape.

That is exactly why we need a strategy and some basic thinking about how we handle land in Scotland. Because of the qualities of the land that we have, land for agricultural production is a scarce resource. Only about 15 per cent of our land qualifies for arable and horticultural production and the rest is of the least favoured types, with relatively harsh climates and difficult, acidic soils. It is ideal for producing the vegetation that can be harvested by sheep and cattle, which is what we find there, but that is all. The strategy must take account of those rather big issues and provide a framework around which we can decide whether it is sensible to plant forests in certain areas instead of retaining the land in agriculture or using it for sport.

11:00

Dr Rands: We also point out that there may be opportunities for more combinations of farming and forestry, which may be a means of offsetting emissions of climate change gases. For example, there could be farm forestry whereby animals could graze around trees—there may be opportunities to combine farming and forestry more where, currently, they operate discretely.

Alasdair Morgan: You would not be surprised if a dispassionate land use study came up with the conclusion that the 25 per cent target was not based on reality but was just a figure that had been plucked out of the air.

Professor Maxwell: No. To be fair, the Forestry Commission undertook an analysis of the land that was available and the types of land that would be suitable for forestry. It said not unreasonably, "We know that this land exists, so can we plant it?" The land is physically suitable for growing trees.

Alasdair Morgan: The fact that it is suitable for forestry does not mean that it is not more suitable for something else.

Professor Maxwell: Precisely. That is where an overlying strategy is required.

That takes us back to your question about communities. We cannot and should not determine a policy for forestry without recognising that it will impact on other economic activities in rural areas. That is the nature of the beast. We have continued to operate within silos, which is a failing that is encouraged partly by the way in which Europe has developed its policies on the environment, forestry and agriculture. We are talking about land use: if we had a sensible strategy there would be huge opportunities to add value to the outputs from land use in Scotland

through appropriate integration of activity. That would include energy renewal.

John Scott: Let me wind back a bit to the reason for your inquiry, which was the decline of hill farming in Scotland. What do you regard as being the causes of that decline? Has the decline in hill farming stopped? Is it likely to stop? How do you see the likely fall in the value of the pound against the euro impacting on the viability of hill farming?

Professor Maxwell: The statement that we made at the outset about the rationale for support still holds. It is true that incomes have increased marginally; however, increases in input costs have probably overtaken the increases in income. Therefore, I do not think that the position that we face is any different from that which we faced in 2008. As I said earlier, if we value the different activities that are delivered through hill farming, we must support it, and we must find the means of doing that through the statutory mechanisms that are available to us.

John Scott: Regrettably—and notwithstanding the increase in the LFASS payments—nothing that has been done thus far will stop the decline as you see it. Nothing has changed sufficiently.

Professor Maxwell: No. Progressively, over the past 20 to 25 years, most units have become one-man units. If the income that is derived from the activity is not and cannot be sustained, even on a part-time basis, we will have to face the consequences of land abandonment in some areas. Undoubtedly, that has happened and is happening.

Dr Rands: One reason why sheep are coming off the hills is the way in which the CAP is currently structured. There is no longer a headage payment, so farmers do not have to have animals in order to be paid. If we changed the system to require them to deliver certain public goods, that would provide a rationale for people to stay in the areas concerned and to deliver such goods for the future.

John Scott: The thrust and subtext of Brian Pack's report is that headage payments should be reinstated. Given the food security issues that are in the offing—if they do not already exist—and the need to retain land's agricultural production capability, does not that suggestion make sense?

Professor Maxwell: The suggestion does not make sense. It is far better to have an activity that sensibly uses the number of animals that will utilise the resource. During the period of headage payments, farms increased stock rates well above what could be sustained by the resource that was available to them. I visited areas of Scotland where it was clear that overutilisation was taking place and where, as a consequence, there was a

serious deterioration in the land. Equally, it became apparent that the productivity of some ewes was extremely poor. We need to examine more closely the fact that, although there has been a reduction in ewe numbers, lamb output has not fallen in direct proportion to that. That suggests that, although there are fewer ewes, their productivity has improved.

It is inappropriate to think about going back to headage payments, which did not help. The environmentally sensitive areas scheme was paying farmers to take stock off the land, because it was clear that the land was being overutilised. We do not want to return to that situation.

Dr Rands: Instead of reintroducing headage payments, which might lead farmers to put as many sheep as possible on a piece of ground, we could determine stocking levels as one of the public goods to be delivered in an area.

John Scott: I will stop, because we could debate the subject all day.

The Convener: We have covered a fair amount in asking the vast majority of questions that we wanted to ask. Thank you for your attendance. A number of issues on which Professor Maxwell wished to provide further written evidence have cropped up. It would be helpful if you could forward that evidence to the committee as soon as possible.

Professor Maxwell: Thank you for having us here. I convey Gavin McCrone's apologies. Unfortunately, as has been explained, he had a medical emergency this morning, although he had every intention of being here. Regrettably, the committee did not have the pleasure of listening to him rather than to me.

The Convener: The meeting has been enlightening, in any case. We will have a short break while there is a change of witnesses.

11:09

Meeting suspended.

11:14

On resuming—

The Convener: I welcome the next panel of witnesses. Jonathan Hall is head of rural policy at NFU Scotland, Dr Karen Smyth is rural development manager with the Scottish Rural Property and Business Association, and Vicki Swales is convener of the sustainable land use task force for Scottish Environment LINK and head of land use policy for RSPB Scotland.

Elaine Murray: The principal motivation for the committee's short inquiry is to examine the reduction in livestock numbers on Scotland's hills and islands. What are the principal factors that

have led to the decline? Do you feel that it is a matter of concern? Do you agree with the issues that the Royal Society of Edinburgh raised in its report?

Jonathan Hall (NFU Scotland): Yes—the decline is of extreme concern. NFUS concurs fully with the findings of the RSE's inquiry. At the same time as that report was published back in September 2008, we published a document called, "Manifesto for the Hills" that addressed exactly the same issues. The Scottish Agricultural College also published a report called, "Farming's Retreat from the Hills". The evidence was clear. The RSE inquiry, the SAC report and other documents provided the evidence base, but did not suggest solutions to the problem or a way forward.

There are clear and wide-ranging economic, social and environmental consequences of the decline in sheep and cattle numbers on Scotland's hills and islands. They affect local economies and communities and a lot of other interests. All the reports documented that, but no one got to grips with how to resolve it.

We live in a policy-driven era, and farmers respond to policy signals. The effect of economic downturn on livestock production and marketplace returns is one thing. However, if that is compounded with a decoupled direct support payment under pillar 1—the single farm payment—and a decoupled LFA support payment that is based on an historic reference point at 2006, it is easy for an individual to conclude that the best way to make a living is to do less and less. That is where we are now, and that issue needs to be addressed quickly.

The abandonment issues that some areas face are very real and have consequences that go way beyond agriculture. It is not just an agricultural issue—it is about how agriculture fits in with rural development. It is not about production per se, but about agricultural activity and its co-products such as economic multipliers, environmental management and the underpinning of rural communities.

Dr Karen Smyth (Scottish Rural Property and Business Association): In our view, the significant driver of the decline in the upland sheep and cattle population is the decoupling of payments. The numbers were probably artificially high, but now they are teetering below the level that we would like. I concur with Jonathan Hall: that is probably the main factor in the reduction in numbers.

Vicki Swales (Scottish Environment LINK and RSPB Scotland): Many Scottish Environment LINK members are concerned about the decline in hill farming, which is critical for delivery of a wide range of environmental services and public goods.

We must remember that some of the numbers have declined from historically high levels. As Professor Maxwell outlined, there were substantial increases from the 1950s to the 1990s in livestock production on the hills. The rapid decline has taken place in the past 10 years. We are concerned about the speed and unplanned nature of the decline.

As Jonathan Hall said, we live in a policy-driven and subsidy-driven world, which has undoubtedly influenced farmers' day-to-day decisions. The significant changes in the subsidy system, the change from headage to area payments and now the decoupled payments have led some farmers to decide to reduce stock levels. We do not advocate a return to headage payments, but a move to a different system in the future.

Market factors are driving what is happening and there are also demographic changes taking place in rural areas, particularly in the hills and islands, that underlie some of the changes that we are seeing. We have an ageing farming and crofting population, and we have out-migration of young people and in-migration of retirees. On top of that, there are issues about whether the active population wants to undertake such activities. Young people might be more attracted to moving to urban areas in search of better jobs and better incomes; they might not want the kind of lifestyle that their fathers and grandfathers had.

Elaine Murray: Has the situation changed since the report was published in 2008?

Jonathan Hall: The situation has got progressively worse. The report is now almost two years old, and the decline has been continuous. That is probably because of the degree of uncertainty that farmers and crofters operate under. We all know that change is going to happen—the only certainty is the uncertainty about that change. At best, a lot of people are sitting on their hands and not really thinking about the future of the business. At worst, they are thinking that because the price of store stock is not too bad at the moment, perversely it might be the time to get out. The slight uplift in market values has been driven mainly by the euro-pound issue. Ironically, when prices are a wee bit up, that is the time for people—especially those in the hill tenanted sector—to think that if they are going to get out, now would be a good time to do it.

The phase that we are in at the moment, which involves lots of discussion, argument and debate about where we ought to be in 2013-14, is necessary, but it is not exactly helpful. The degree of uncertainty is probably accelerating the rates of decline. There is a lot of disguised de-stocking. It is easy to talk about whole flocks and whole farms being abandoned because that is evident—there is a lot of data on that—but there is also disguised

de-stocking. In recent weeks, the Scottish Government has produced an awful lot of data on the back of the LFA support scheme rebasing exercise that it conducted in November of last year, whereby it reassessed stocking numbers on all the potential LFA claimant farms. The Government received some 10,000 returns out of a total of about 12,000 or 13,000 claimants. In parts of the north-west, more than 75 per cent of LFA claimants have decreased their stock by more than 25 per cent. A lot of them have decreased it by more than 50 per cent and a lot of them have de-stocked altogether and are now out of farming.

Peter Peacock: I want to pick up on your point about abandonment. How big a phenomenon is that becoming? Can you give us a feel for what is happening and what it means? How many occurrences of abandonment has the NFUS seen?

Jonathan Hall: I am acutely aware of abandonment. There is no doubt that it is felt most sharply at a local level. One can see that on particular islands, for example the Isle of Mull, where a lot of stock has come off the land. The impacts are felt not just by the local economy or the people who have got out of farming; in many ways, they are felt by those who are left behind, for whom life becomes harder.

There are no march fences in the hills of Scotland for one reason: hefted sheep know where to come home to—they create their own march fences. With flocks going on one side of a glen or a hill, the sheep are going further and further away, which means that management control, shepherding, the logistics of gathering and all the aspects of husbandry that are expected on an extensive hill unit are becoming harder and harder. Plus, as Vicki Swales said, the labour is not available.

Abandonment is felt most acutely in a local context, but there are bigger issues, which probably relate to food production in particular. We are not talking just about the finished product—of which very little is produced in such areas—but the effect on store animals, which has a consequence for critical mass in all the ancillary industries of hauliers, vets, agricultural suppliers, livestock marts, abattoirs and so on.

That ripple effect on the rest of the rural economy has an impact on the communities that agriculture underpins. Agriculture plays a pivotal role, so once there is a certain amount of abandonment—this is perhaps a well-used cliché—an area can reach a tipping point. I think that we are certainly at a tipping point in some parts of Scotland just now.

Peter Peacock: By abandonment, do you mean the abandoning of production rather than the

abandoning of the farm unit per se? The term “abandonment” perhaps conjures up the image of an empty house with no care or attention whatever being paid to the land, but I think that you mean not that sort of abandonment but reductions in stock. Is that the case?

Jonathan Hall: I will let Vicki Swales answer—perhaps I have said enough—before I respond.

Vicki Swales: I agree that we need to be careful about using the term “abandonment” too widely, as it could cover land abandonment and outright abandonment of whole crofting townships. I do not think that we have reached that stage. The trends are concerning, but there is no clear evidence—perhaps this is where we need more data—of outright land abandonment. Undoubtedly, stocking numbers have been reduced and systems and practices have changed, but the large majority of agricultural land in Scotland continues to be managed in one form or another. Fewer farmers and increasingly larger farms may now be involved in that management, but we are seeing that agricultural trend across the whole of the UK and, indeed, across the whole of Europe. I think that we need to be a little careful about using some of those terms too loosely.

Jonathan Hall: I tend to agree, but I would also throw in the issue of what constitutes LFA, which was discussed with Professor Maxwell earlier. Obviously, there is a huge range of types of land with differing capabilities across the area in Scotland that is defined as LFA. To my way of thinking, true LFA is land on which there is no agricultural choice other than extensive hill sheep and suckler cow production. However, in many places within the LFA boundary in Scotland, there are enterprise choices such as dairy farming, barley production and all sorts of other things. Ultimately, the real problems arise where the only agricultural choice is extensive livestock grazing.

That takes us into the issue of land use, which was also raised with Professor Maxwell. If that land is not to have an agricultural use, what else will be done with it? Is it suitable for forestry, for renewable energy generation or for recreational purposes? Quite often, the land will be suitable for all those things, but a huge conservation interest might also be laid on top. Our primary concern is that, without some degree of land management that is driven by economic activity—albeit subsidised to some extent by the public purse—we will lose the tractor that pulls along that trailer of all those other things that go with land use in Scotland.

John Scott: Vicki Swales is perhaps best placed to answer my question. What is the environmental impact of the significant decline in stock numbers?

Vicki Swales: The general answer is that the impact will vary across the country. Livestock grazing is incredibly important for maintaining vegetation and habitats in a condition that is important for a wide range of species, many of which we are under national and international obligations to protect. In some places, a decline in grazing will be positive for some species because, where the level of grazing was previously too high, those species and habitats will be able to recover. In other places, conversely, undergrazing may be a significant problem for a different range of species with different ecological requirements and niches. It is quite difficult to generalise.

The RSPB has done some work on the issue. We are particularly concerned that some of the more extreme declines in the north and west of Scotland are in areas where there is a high biodiversity value that is very dependent on grazing systems. If there are further declines, there could begin to be a negative impact on a wide range of species.

John Scott: What will be the effect of the decline in cattle numbers?

11:30

Vicki Swales: Cattle are especially important. It is important that we have a mixed grazing system. Cattle and sheep graze in different ways and prefer different vegetation, so it is of particular concern that there has been quite a distinct decline in cattle numbers as well as sheep numbers. Maintaining mixed grazing systems is in many cases beneficial to a wide range of habitats and species.

Jonathan Hall: Cattle and sheep are not the only herbivores in Scotland's hills and islands—there are also deer and mountain hare. Where livestock come off, deer numbers are likely to increase if uncontrolled and unchecked. Creating the right habitats through managing the numbers of deer and mountain hare so that they graze in the right sort of way is far harder than through agricultural practices.

Liam McArthur: It will not surprise Jonny Hall to hear that I am slightly concerned that his view of LFA land is that it is land suitable only for extensive hill farming. He will be aware that in my constituency there are issues not about the quality of land but about distance from market. My fear is that the definition that he has just provided means that we can look forward to Orkney finding itself outwith a redesignated LFA. Perhaps he would reassure me and my constituents that that is not his intention.

Jonathan Hall: I will reassure an awful lot of NFUS members on Orkney at the same time. It is not our intention to go in that direction but, within

Scotland's current LFA boundary, there is clearly a range of land quality. Orkney, Caithness and the Kintyre peninsula are the stand-out cases: they have good agricultural land that is capable of a number of productive enterprises that are important to those areas and are not naturally handicapped, to use the European Commission's phrase, to that degree.

Our position is clear. We need to be able to underpin production systems and the related activity that goes hand in hand with those production systems. We do that through LFA support payments, so we need to retain a socioeconomic dimension to those payments. The danger is that, from 2014, the European Commission is intent on defining an LFA using only biophysical criteria. We all know that the current biophysical criteria set out by the Commission do not suit Scotland, or the UK or Ireland in any sense whatever. We are pressing for the logical idea of field capacity days, which would embrace the likes of Caithness and Orkney. That is about the workability of the ground and combinations of factors such as rainfall, soils and evapotranspiration rates—because Orkney is that far north—and so on. We need to get that idea into the equation. If we cannot do that—and we have discussed this with Scottish Government—there is a definite case, particularly in a Scottish context, for using other articles in the European regulations that would allow us to define as less favoured areas that have specific handicaps, such as being an island. We do not want to go there, but we could use that ace up the sleeve if we absolutely had to. Socioeconomic criteria must be built into the LFA system; it cannot be based purely on physical capability. Physical capability could be used to differentiate payments, but a permanent disadvantage is being on an island, as you are dislocated from markets and there is a high cost to getting inputs in and outputs out.

Liam McArthur: Is Vicki Swales's view along similar lines, or are there points of difference between LINK and NFUS?

Vicki Swales: Your question raises some interesting issues about future policy. We tend to get quite hung up on the current situation with LFASS and the rebasing and so on, but there is huge uncertainty about the common agricultural policy. Indeed, there are discussions in Europe about whether LFA payments should stay within pillar 2, or move into pillar 1 and be seen as an additional kind of income support. I am not saying that we support that, but that is the discussion that is taking place in Europe.

Many LINK members see LFA in a different context. Historically, it has been about agricultural disadvantage and we have talked about less favoured areas. We would like to talk about more

favoured areas and environmental advantage. Many areas currently designated as less favoured are delivering a huge range of environmental and other public goods and that is why we should support them alongside agricultural production. We need agricultural production in order to deliver those public goods—we cannot deliver them without agricultural and land management systems in place. We often talk about high nature value farming systems and farmland—the north-west and the islands are exactly the sort of areas about which we are talking. They are dominated by extensive farming systems that are environmentally important. In the longer term, under a reformed CAP, we would like to see a different kind of payment that moves us away from agricultural disadvantage towards environmental advantage to reward and support the public goods that those systems produce.

Dr Smyth: We agree with that. The less favoured areas approach is a negative way of depicting an area that is high in public good delivery. Finances have to be directed towards supporting public goods. Our vision is to move to some type of contract-based scheme for the delivery of finances, perhaps based on a five-year rolling programme that would give security to the land manager. In that way, they would know that they would have a secure income coming in during that period and what they would have to deliver in exchange for the contract.

John Scott: Do you agree with Jonathan Hall that socioeconomic benefits should be regarded as a public good?

Dr Smyth: The current system is based on income forgone, but it does not adequately compensate farmers and keep them in an area. Therefore, we need to raise the financial level to ensure that it is attractive enough to keep farmers managing the land to the highest standard to deliver the public goods that we expect of them. That would be a social component.

Elaine Murray: How do you respond to Professor Maxwell's earlier points that, for example, the outcome of environmental benefit payments, with reference to cross-compliance, is not sufficiently well defined? What further needs to be done? Have you any views on how that could be strengthened if we were to move towards a system that recognised more explicitly the environmental benefits in some of those areas?

Vicki Swales: Our view is that we need a future system of tiered payments that starts with the basic level of support with some environmental conditions attached, rising up through support for high nature value farming systems and then targeted agri-environment support on top of that. We know many of the environmental goods and services that we want to deliver—for example, we

have clearly set out biodiversity action plan targets for species and habitats, we need clean water, carbon storage and to maintain and protect the landscapes that are important to our tourism industry, which brings in visitors.

It gets difficult when you start talking about putting values on some of those public goods and making payments for ecological services, as they are sometimes called. We are a little behind where we would like to be in doing that. I agree that we need to start by looking at the cost of producing some of those things—what does it take to maintain those habitats and deliver those species? What does it cost the farming business and its operation? We need to pay and support farmers to do that.

Some of the payments and subsidies that we currently have are part of the problem. It is unclear what the rationale behind the single farm payment is. The distribution is based on historical yields and production, and it results in skewed distribution in Scotland and throughout Europe. Agricultural and environmental cross-compliance conditions are pretty basic. Essentially, those conditions are the law do not go beyond that. In future, we could see forms of support with strengthened environmental conditions. I agree with Karen Smyth that having a contract for farmers that clearly set out what they are required to do, what they will deliver and what they will get public money for would be much better.

Jonathan Hall: Without doubt, the agricultural industry and individual farmers would be naive if they did not appreciate in this day and age that there must be a public benefit payback for the public support that is driven into the industry and farmers' businesses. Whether we are talking about single farm payments, less favoured area payments or targeted rural priorities payments that buy specific outcomes, we must be a lot more up front about that.

A fundamental thing must be underpinned first of all. Farming structures and livestock must be retained. Outcomes cannot be achieved unless the infrastructure is in place, and that infrastructure continues to rely on a degree of public support, mainly through pillar 1 single farm payments, because the returns from such economic activity do not match the production costs at the moment. There is no doubt that we will need to continue to bridge the funding gap in the immediate future, but we could be much better at ensuring that there is a clearer link between the relevant outputs or outcomes that farming systems deliver and the levels of support that are provided. Vicki Swales is right about that. That is not to say that very high payments should be given to those with the most disadvantaged ground or that there should be low payments for those with arable

ground in East Lothian who can stand on their own two feet. It is about reflecting on exactly what we get from each type of farming system. All those systems produce public benefits of one form or another; it is a matter of differentiating and valuing those public benefits and tailoring single farm payments and LFA payments and targeting rural priorities payments or whatever such payments might be called in future to ensure that we adequately buy benefits in the public interest and, in doing so, reward farmers for their endeavours. A huge range of public benefits, which are not just environmental benefits, is involved.

John Scott: I cannot believe that Scotland is the first country in the world to think about the difficulty of putting a physical value on public goods. Have international comparisons been made of how countries address that matter?

Dr Smyth: There is probably around 20 years of work on public goods. The SAC and the University of Stirling have undertaken a lot of the key research on putting a value on public goods. We are talking about something that is not perfect; it is probably still evolving and developing.

The European Commission commissioned a large piece of research that attempted to put a value on public goods. That research was undertaken by the Institute for European Environmental Policy and has been completed. The RISE Foundation, which has a link to the European Landowners Organisation, has also undertaken a big review. A body of work is being developed.

We think that we should move to a public good payment, but probably over two financial perspectives, as we do not think that the necessary groundwork has been done yet. Perhaps the transition should start now. However, it is important to consider the changes that Brian Pack proposed in his interim report. It is likely that there will be a transition from historical payments to area-based payments. We and the NFUS, I think, feel that that transition will be fairly significant and that it could significantly impact on the farming sector without adding in too many more complications, such as the top-up scheme. That is not to say that we do not agree with it and do not see some such scheme coming online, but our end goal is definitely a contract, as Vicki Swales discussed in more detail.

11:45

The Convener: Bill Wilson has a question on international comparisons.

Bill Wilson: Is it possible for you to draw me a comparison between the trends in Scotland and England—or any other country you might choose—for livestock and LFAs? If there is a

difference, do you think that the support that is offered has been significant in causing it?

Jonathan Hall: There is a huge difference between England and Scotland when it comes to LFAs, both in the physical LFAs and the way in which they are supported. The obvious difference is that 85 per cent of Scotland is defined as LFA; that is the mirror image of England, only 15 per cent of which is defined as LFA.

Thereafter, it is even harder to draw parallels. First, England is approaching the final straight of using an area-based payment. It is undergoing a hybrid transition from historical payment to an area-based payment system, unlike the Scottish situation, in which we will continue with historical single farm payments.

The latest development in England is that there is no LFA support scheme any more. The hill farming allowance, as it was called, has in effect been phased out. In England, they do not use European LFA support regulations. They now have an uplands entry-level stewardship scheme, which is basically an environmental stewardship scheme. Nobody knows how that will bed in, because it is coming in only as we speak. It is therefore difficult to draw comparisons.

It is safe to say that there has been no major upheaval in production south of the border. By and large, English farmers have not experienced the same downward trends in agricultural activity, but that is because of their sheer physical capability and the differences north and south of the border. There are agricultural and land use choices south of the border that, by and large, we do not have north of the border.

As we said right at the start of the session, the historical decoupled nature of single farm payment and LFA support, which is untargeted, has accelerated in Scotland what was already a downward trend in livestock production. The trend was driven by market forces, but the accelerator was put on by operating policies that encourage destocking. That is not the case south of the border. In England, they have slid into an area-based payment, and no longer rely on an LFA support scheme anywhere in England. The vast majority of producers in England have enterprise choices, so they can move between different operations.

Bill Wilson: Is there a similar pattern in Wales? I do not know whether you mean England and Wales when you refer to England.

Jonathan Hall: No, Wales is different again.

Bill Wilson: That is what I was about to ask. I wondered whether we had more similarity with Wales—excluding the islands, obviously.

Jonathan Hall: There is definitely more similarity with Wales. It also has a historical payment-based system and, although Wales has taken a more environmentally driven approach to agricultural policy than has traditionally been the case in Scotland, there are some close similarities.

My view is that, given the devolved nature of agricultural and rural policy decision making, we should be looking not at the UK or anywhere else but more closely at what the European regulations allow us to do. That means looking at the regulation or framework that comes forward for the single farm payment, and the new rural development regulations in the next programming period, and working out what can be done under them that will suit Scotland best.

Bill Wilson: I want to go back to the comparison, just for clarification. In Wales, do the livestock numbers in upland areas show similar trends to Scotland? You have said that the Welsh have a slightly different approach, so I am curious to know about that.

Jonathan Hall: I honestly do not know, but I suspect that Wales does not have some of the socioeconomic aspects that we have, such as remoteness and dislocation from markets. Wales has many physical landscapes that are similar to those in Scotland, but it does not have the same remoteness and physical handicap.

Bill Wilson: On a wider scale, one imagines that, in northern parts of the Scandinavian countries, although the terrain might be different, there must be fairly similar remoteness problems. Do you have an idea of what is happening there?

Jonathan Hall: I suspect that, in the most northern parts of Scandinavia, there are no livestock other than reindeer.

Bill Wilson: Obviously, I did not mean that northern—I am talking about northern parts where livestock are raised.

Jonathan Hall: Sweden and Finland—I exclude Norway as it is not part of the European Union—have similar concerns about the future of LFA support. From speaking to colleagues in our equivalent organisation in Sweden, I know that they are extremely concerned about how their LFAs will be defined in future and on what basis payments will be made. However, the structures are different there. The issue of farming and forestry integration is different in Scandinavia from here.

To return to the future of defining LFAs in Europe, Scandinavia is okay in many senses and does not have the problems that we have, because one of the criteria is the length of the growing season. Scandinavian countries qualify because of their long cold winters, but that does

not suit us well at all, despite the winter that we have just been through.

Vicki Swales: It is becoming increasingly difficult to see the impacts of policy drivers on agriculture across Europe and to draw comparisons. In a previous life, I was involved in evaluations of policy for the European Commission, one of which included an evaluation of less favoured area policy. The implementation of that policy in member states is hugely variable. There is variation in the way that policy is implemented within the framework of EU regulations. We can add into that the different ways in which member states have implemented the single farm payment—there are many variations, including historic, dynamic hybrid and hybrid moving to area payments—and the varying emphasis that they put on pillar 2 measures such as agri-environment support and the different amounts of money that they have. The picture is varied throughout Europe, so it is difficult to distinguish whether a certain policy change has driven a particular impact on the ground.

Jonathan Hall: As a general comment, the common agricultural policy will be anything but common in the years to come. There will be a common framework of agricultural policy and, I hope, some important hooks for Scotland to hang itself on, as it were, within that. However, we have a diverse union with 27 member states, and 90 or so regions within those member states, of which Scotland is one. We need a framework for the single farm payment and rural development that allows Scotland movement within it to adapt the means of delivery so that they are most appropriate to Scotland's circumstances.

Bill Wilson: You almost seem to be saying that there is tremendous diversity in policy, but you cannot think of anything that we might learn from that wide diversity of policy and opportunity. That would be a little disappointing. Are there no interesting approaches that you can point to in other countries?

Jonathan Hall: I tend to look across the Irish Sea more than anything on such issues, because the Irish are certainly creative in considering the opportunities that are available within regulation.

Bill Wilson: How about giving us some examples from across the Irish Sea? I am not fussy about which sea we cross to get interesting examples.

Jonathan Hall: The Irish budget for rural development expenditure is massive compared with the Scottish budget. Vicki Swales has just touched on that issue. Therefore, the Irish have room to deploy a much greater range of measures than we can deploy, despite the budget cuts that have resulted from the downturn in the Irish

economy. Things such as grassland premiums are being implemented in Ireland. One way to go would be to use that idea in Scotland to underpin grazing systems better than we do now. That certainly warrants further consideration.

John Scott: I naturally have a chip on my shoulder about the support that we receive in Scotland. Is our disadvantage really driven by a lack of pillar 2 funding? The reason for the report was the decline of hill farms in Scotland. What is the key driver of that? I would have thought that there would be just as many stocks going off the hills in the north of England, but you are telling me that there are not. What is driving stock off Scottish hills but keeping it on the hills in the Massif Central and places like it? Is it a lack of SRDP funding or what?

Jonathan Hall: The UK is pretty much tarred with the same brush regarding the lack of rural development funding. Scotland is not much worse off than England in that sense. Compared with the rest of Europe, we are absolutely at the bottom of the league table. That is a fundamental issue.

Why hill farming in particular has been in decline relates to market returns. Most hill farms produce a store product, by and large, and the cost structures are extremely high partly because of socioeconomic factors such as remoteness. To be blunt, it is difficult for those businesses to operate net of subsidy—we all know that that is the case. How can we address that?

We must improve market returns. We must also—this goes back to an earlier discussion—truly value the public benefits that hill farming delivers. Yes, the sums show that about £250 million in single farm payments is going into the LFA part of Scotland and that another £60 million-plus is being provided in LFA support. Those are big sums of money being paid annually to about 13,000 or 14,000 producers, some of which are very small and some of which are very big. However, that is still extremely good value for money, in my opinion, because we are buying a whole range of public benefits and underpinning a range of communities. How does that money compare with the money that is spent on, for example, rural railway systems? I suspect that it stacks up pretty well. Yes, it is a big sum of money, but we are getting a lot for our money.

Dr Smyth: LFAS is one tier of support; the single farm payment is the other. Of all the nations within the UK, Scotland receives the lowest average amount in single farm payments. Northern Ireland receives almost twice as much as Scotland in single farm payments, which could have an impact on the success of those areas.

Vicki Swales: Scotland's share of the subsidy reflects where we have come from, as it

recognises the fact that Scotland has a lot of poorer quality land that has not been productive in the past because of its physical capabilities. There is a strong argument that, if we move to a different system that values the public goods that the land can produce, not only should Scotland get a much greater share of the UK pot but the UK should get a much larger share of the European pot.

There are problems in the fact that we have retained the historical system of the single farm payment, which is by far the largest payment to farmers, and in the current distribution of those payments. We have produced maps that show the distribution of LFASS payments and single farm payments, and it is heavily skewed towards the east and south, which reflects the more productive areas in the past system. The farmers who need it most because they are marginal get the least. We therefore think that the distribution of the payments is upside down—it is the wrong way round.

The Convener: Okay, we are getting less money, but does the same thing happen in other countries? Does the single farm payment create a few millionaires in the better agricultural areas and not deliver enough payments to those in more marginal areas?

12:00

Vicki Swales: It will. The European Environment Agency did some work on the distribution of payments, and it reflects the more productive areas. Because the payments are linked to how many tonnes of wheat or head of livestock were produced previously, the more intensive areas will always get more money. However, that depends on the single farm payment model that the member states have adopted. The vast majority of the EU 15 went for historically-based payments of one kind or another, while most of the new EU member states from central and eastern Europe operate a single farm payment system. A few countries, including England, have moved to an area-based payment system or have introduced some kind of dynamic hybrid system.

The sooner we have a more consistent approach and move as a first step to area-based payments, the better, but of course that leads to big arguments about the kind of area-based payment system that should be introduced and what it will mean for distribution across Europe, between member states, within member states and within regions within member states. Unfortunately, the issue is quite complicated.

The Convener: It would be useful if you shared some of your work with us.

Liam McArthur: In a sense, you have almost answered my question by reinforcing Professor Maxwell's points about the value of looking at pillar 2 payments, which are based on need rather than historical spend, as well as pillar 1 payments. Can the Scottish and UK Governments sensibly do a job of work in marshalling the arguments and, given the various vested interests that will be competing for a declining budget, is it likely that any progress will be made in achieving a better balance if not parity with other member states?

Jonathan Hall: There is absolutely an argument for doing that. Regardless of the final shake-out of European budgets and of what Scotland's share of pillar 1 and 2 payments will be—in fact, we might not have pillars at all by then; we might get just a single lump of money—we will still require some means of distributing that money in the most appropriate way to get the most out of it. In fact, getting that right will be an even more pertinent issue if budgets fall and Scotland ends up with a total spend of £300 million through agricultural systems. We will really have to think about how those funds are targeted to ensure that we get the most out of them.

As well as arguing about budgets, the Scottish Government, the UK Government and the European Commission need to start moving towards where they want to be with this issue by asking fundamental questions such as what they want out of the single farm payment, what they want it to achieve, who they want it to support, what they want them to do and—bringing in the pillar 2 stuff—how they incentivise them to do more, if that is what they really want. That needs to be done right now; in fact, it is being done right now, although it might not be as clear as it ought to be. There has been a lot of discussion and dialogue about redistribution effects—or, to put it bluntly, who the winners and losers will be—not only, as Vicki Swales has said, between member states but between regions and, indeed, between enterprises and regions of Scotland, never mind individual businesses.

It is all the more important that we get the distribution of funding right if we are getting less and if we want to do more with it. There is clear public will to ensure that we get the most out of these funds, which we are distributing to farmers on the understanding that they do particular things with them. The agricultural industry also needs to understand or at least know what is being asked of it. The biggest problem for an individual farmer is that he does not know what is being asked of him. Is he supposed to be a good producer? Is he supposed to be a guardian of the countryside? Is he supposed to be managing water quality, tackling climate change or creating or managing biodiversity? Faced with the many conflicting signals in Scottish agriculture as a result of the

whole range of regulation at one extreme and the range of incentives and advice at the other, individual farmers simply do not know which way to turn. We have to do this for them if for no one else.

Dr Smyth: There is a lot of continuing discussion in Europe about the objectives of the new CAP. A leaked document on the EU budget from October 2009 concluded that the CAP needs to be reshaped to ensure that it delivers added value.

We suggest that, before we go into discussions about redistribution, the most important objective is to secure the largest share so as to address the wide-ranging factors that Jonny Hall has already mentioned, such as climatic change, food security, flood alleviation and animal health and disease. The most important thing is to secure the budget to ensure the survival of agriculture and the environment.

Liam McArthur: Is it realistic to expect to do that sequentially? I understand what you are saying, but the Pack inquiry is beyond the interim stage now. A difficult task is being made even more difficult by the lack of certainty about the future of LFASS and about the budget overall. From what you have said, there seems to be some hope that slightly more clarity might be brought to the debate about the overall size of the cake and about redistribution.

Dr Smyth: We have to send a strong message to the European Commission about the question of enlarging the fund. We have such an enormous task at hand, with climatic change and everything else that is happening, and we need to advance a strong argument. We will have to have parallel discussions with the Pack inquiry committee, but the main thing is to secure a fund, and then to ascertain what is doable.

Vicki Swales: It is difficult. The previous agriculture commissioner said that we must not let the budget debate drive what we want the CAP to deliver. Unfortunately and inevitably, the budget debate will drive what policy we will end up with, and there will be a bit of a bun-fight between member states. They will say how much money they put into the coffers, and they will ask for the same amount back.

However, the more we focus on objectives and the more the Scottish Government shows leadership and direction, and outlines how it believes the CAP should deliver and what objectives it wants to achieve—and the more the UK can take a lead and work with other member states—the greater the clarity we can achieve, and we can make a defence of a budget share in order to deliver all the challenging things that face us in the future, not least climate change.

Liam McArthur: Is there not some risk that we set the objectives for the CAP in an aspirational way, but are then told, “That’s all very well, and we agree, but there will be no change in the distribution of the budget, so you’ll jolly well have to get on with it”, with a fraction of the budget that other member states can deploy?

Vicki Swales: The only thing that is a given is that the CAP budget will be cut. There is no doubt about that.

Jonathan Hall: You are right—it will be cut. However, the CAP budget is split, with pillar 1 and pillar 2. A key question is what the distribution will be between pillar 1 and pillar 2. At the moment, it is heavily weighted towards pillar 1. If we are going to tackle the other things and pay for the co-products of agricultural activity, and if you are genuine about tackling climate change, water quality issues and all the other things—the new challenges, as they are referred to in Europe—the weighting that is given to rural development pillar 2 stuff will be critical. The question is indeed how much money there will be in the CAP budget, but it is also about the distribution of that money between the two pillars and between member states, regions and so on.

The debates around the CAP budget and redistribution are entirely parallel—it is not possible to do one exercise without the other. No matter what we are left to play with, we have to come up with a defensible, justified means of spending the funding. What do we buy with the money? Whether we have tuppence ha’penny or a couple of billion in our back pocket, we still need the right keys for distributing the money. The less we have, the more important it becomes to get the spend key right.

John Scott: On the model of choice, you alluded earlier to southern Ireland. Do you all agree—in an aspirational sense—that it would be good if we could achieve something similar here? Even if we are apparently not able to fund it, that would be the aspiration. Would that be a model of choice for us to go for?

Dr Smyth: I am a bit concerned about the example of the Republic of Ireland. Coming from Ireland, I know that the environmental scheme there is problematic and that funds have been cut significantly. The model might be a good one but, because of the financial crisis in Ireland, things are not working very well.

John Scott: Is there a model of choice somewhere, which you could recommend to the committee?

Jonathan Hall: I do not think that we should pick something off the shelf. Like every other region in Europe, Scotland must tailor things for its requirements, which means thinking outside the

box about what we want. What do we want the single farm payment and the rural development funds to deliver in the best interests of Scottish agriculture, wider rural development and so on? Rather than look closely at what others do, we should work within the regulations but try to influence the process from now until 2013 to enable us to have flexibility. We are devolved at the UK level, which is called subsidiarity at the European level, so let us utilise that to the best of our ability. We are in a unique situation and have unique issues to address. In that respect, I am sure that area-based payments will be demanded of us. We should differentiate payments according to the different benefits that different types of land and farming deliver for both the marketplace and the public interest. There is undoubtedly enough ability among Government, stakeholders, academics and researchers in Scotland to crack that problem, so we should not be afraid to grasp it. Time is ticking away, so we should forge ahead with it right now.

The Convener: On pillar 2 and SRDP schemes supporting farming in LFA, and given the Cook review, have the schemes made improvements?

Vicki Swales: There is an issue in that regard, some of which comes back to funding, unfortunately. There is a good scheme for rural priorities, although it has had teething problems. However, many of the things that it pays for are exactly what we should do in the hills and uplands. Some farmers are getting into the scheme, but many good applications are turned down simply because there is not enough money in the pot. Things can still be done to improve the scheme. For example, we should devolve the budgets to the regions so that they genuinely reflect regional priorities, and we can probably improve some of the scheme's prescriptions and measures. There is an on-going process of looking at upland options for land managers, but the question is how that might be funded. A number of LINK members and the NFUS and others are working with the Scottish Government to look at what can be achieved through that.

We have some good measures in pillar 2 that work alongside LFASS. We do not feel that LFASS is delivering enough for the public good; the payments are not right and the distribution is wrong, because it does not support the right things. Some of that money could be better used in agri-environment and other measures in pillar 2. We have options, but we do not have enough money and are not getting enough farmers and enough areas under agreements in order to do what we need to do.

Dr Smyth: On whether the SRDP is effective, we all sit on the SRDP programme management committee, which will undertake a mid-term review

of the SRDP that should deliver some results. We could probably do guesswork about what is working and what is not, but the review will provide a more definitive response.

I agree with Vicki Swales about the rural priorities, which we must tailor a bit more. Brian Pack's report suggested moving towards the top-up fund for rural priorities. We have gone through the teething problems and the headaches, and people are getting bedded in and used to the system. The new programme may perform a more useful role if it is better focused.

Jonathan Hall: I agree with a lot of what has just been said. The rural priorities scheme is the flagship of the SRDP, but it is beset by teething troubles and operational problems. There are many good things in it, though.

The principle of regionalisation in the rural priorities scheme is the right one. What is appropriate for Argyll is not necessarily appropriate for Shetland, and the Borders are somewhat different from Dumfries and Galloway even though they are not far apart. The problem is that funds are still held centrally. We might have devolved some decision making about which measures it is appropriate to support, but the budget has not been devolved to the regions. We have huge lists of so-called priorities, but in fact they are not priorities at all; they are just lists. Nobody has been bold or brave enough to rule anything out or in, so we just end up with everything. We still have a long way to go to overcome the problems with the rural priorities scheme.

12:15

What is within our gift is far better focusing and targeting of the existing measures. There is a whole raft of things that we could utilise better. LFASS needs some surgery. The cabinet secretary's announcement last June of a 19 per cent increase, and then a further 19 per cent, for fragile and very fragile areas was good news, but as Jeff Maxwell said earlier, the scheme is an extremely blunt approach. What about the real hill units in the standard area? Highland Perthshire, Dumfries and Galloway, the Scottish Borders, upper Deeside, parts of the east coast, the eastern Grampians and so on have received no assistance at all, yet they are as vulnerable. Farmers in those areas are farming equally disadvantaged land. The LFA system is based on grazing categories A, B, C and D. It is a geographic blunderbuss of an approach.

Under our proposals to change LFASS further, which are sitting with the Scottish Government, we would target land capability and demand more appropriate levels of activity depending on the

grazing category that the farmer occupies. That would start to move us towards better utilisation of what is a scarce resource—funding—that will no doubt become even scarcer in future. We need to be a lot better at targeting the existing resources. That will require some pretty major surgery on some of the existing schemes as well as changes to the single farm payment.

Dr Smyth: The land use strategy will probably have to be discussed in parallel with the future objectives. Jeff Maxwell referred to that. As Jonny Hall said, if we are to take a more regional approach, the land use strategy might help to direct the priorities for the regions, given that we have a huge array of objectives that we are trying to achieve. It might be worth while to consider those two things in parallel.

Liam McArthur: The teething problems with the rural priorities scheme and the overall way in which the SRDP is directed have been mentioned. One concern is that, although the overall spend has been quite impressive in recent times, there has perhaps been a drift towards a situation in which fewer but larger projects receive support. I return to the issue of remote and fragile communities in hill and island areas. It is not difficult to see why there is concern that, under the SRDP, the funding is not going to smaller projects in those areas. Is that a legitimate concern? Is it something that we should address as part of the debate?

Jonathan Hall: It is a legitimate concern, but my approach to trying to resolve it would not be to say, "Let's dismantle the rural priorities scheme." Instead, it is more important to build on things such as land managers options and make them more fit for purpose. At present, we have a tiered system. The single farm payment is tier 1, if you like, which is subject to cross-compliance, and the top tier comprises the focused, targeted rural priorities stuff. In theory, in between we have tier 2, with land managers options that should be accessible and non-competitive and allow a stepping stone from doing the basics to delivering more in specific areas, but we are not making the most of that. The Cook report's fundamental outcome was that we need some sort of stepping stone or lead-in so that people can do more without overcommitting.

Individuals often cannot access rural priorities funding because they cannot score enough points. A classic example involves Shetland. A lot of people are coming out of the ESA because it has come to an end. As individuals, they are not big or ugly enough to get into the rural priorities scheme, but they would certainly benefit from something in between land managers options and rural priorities.

I know that the Scottish Government is closely examining what we might call rural priorities lite—or sugar-free rural priorities. We need something that is less onerous in terms of hoops and hurdles. For example, projects that are under a £10,000 threshold would go through automatically if they were seen to deliver the right outcomes, rather than the system being weighted towards the big, grand-scale projects that score all the points.

Dr Smyth: Jonathan Hall's suggestion of a rural priorities lite scheme is a good idea. I have been contacted by some of our members who run small businesses. They went through the rural priorities process and were completely confused and muddled. They did not get anywhere, so they just decided to give up. We need them to reconnect with the process. Perhaps it is a knowledge transfer issue—the Government should provide a bit more hand-holding for small businesses so that they can get on the ladder.

Vicki Swales: That is certainly the case. Larger businesses can afford to employ agents to put their applications together, and those applications have gone through. Smaller businesses and producers have not been able to do that. There have also been big regional disparities. Grampian was getting a lot of applications through and had used a lot of agents in comparison with Dumfries and Galloway. Some of the problems are the result of administrative teething problems and the way in which things have been set up. However, I agree that we need to consider other options to help some of those small to medium-sized businesses to get into the schemes. Ultimately, it is the outcomes that are being delivered that matter.

The Convener: I thank the witnesses for their attendance. If any issues occur to you after the meeting, please write to the committee as soon as possible.

Annual Report

12:22

The Convener: Item 4 is consideration of the committee's draft annual report for the parliamentary year 9 May 2009 to 8 May 2010. If members have no comments or suggestions, do we agree to the report?

Members *indicated agreement.*

John Scott: I congratulate the clerks on their clarity.

The Convener: That concludes the public part of the meeting. The committee's next evidence session will take place on 26 May, when it will hear from representatives of the Macaulay Land Use Research Institute and from the Cabinet Secretary for Rural Affairs and the Environment.

12:23

Meeting continued in private until 12:34.

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