



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

RURAL AFFAIRS, CLIMATE CHANGE AND ENVIRONMENT COMMITTEE

Wednesday 14 March 2012

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**RURAL AFFAIRS, CLIMATE CHANGE AND ENVIRONMENT COMMITTEE
8th Meeting 2012, Session 4**

CONVENER

*Rob Gibson (Caithness, Sutherland and Ross) (SNP)

DEPUTY CONVENER

*Annabelle Ewing (Mid Scotland and Fife) (SNP)

COMMITTEE MEMBERS

*Claudia Beamish (South Scotland) (Lab)

*Graeme Dey (Angus South) (SNP)

*Jim Hume (South Scotland) (LD)

*John Lamont (Ettrick, Roxburgh and Berwickshire) (Con)

*Richard Lyle (Central Scotland) (SNP)

*Margaret McDougall (West Scotland) (Lab)

*Dennis Robertson (Aberdeenshire West) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

David Barnes (Scottish Government)

Richard Lochhead (Cabinet Secretary for Rural Affairs and the Environment)

CLERK TO THE COMMITTEE

Lynn Tullis

LOCATION

Committee Room 4

Scottish Parliament

Rural Affairs, Climate Change and Environment Committee

Wednesday 14 March 2012

[The Convener opened the meeting at 10:00]

Common Agricultural Policy

The Convener (Rob Gibson): Welcome to the eighth meeting in 2012 of the Rural Affairs, Climate Change and Environment Committee. Members, and members of the public, should turn off mobile phones and BlackBerrys as leaving them in flight mode or on silent affects the broadcasting system.

Under item 1, we will hear from the Cabinet Secretary for Rural Affairs and the Environment on the proposed common agricultural policy reforms. This is our final evidence-taking session on the issue for the time being. Following this session, at a future meeting of the committee, we will agree any conclusions and recommendations that we wish to make on the issue.

I welcome Richard Lochhead, who is accompanied by David Barnes, the deputy director of the Scottish Government's agriculture and rural development department, and invite the cabinet secretary to make an opening statement.

The Cabinet Secretary for Rural Affairs and the Environment (Richard Lochhead): It is a pleasure to be before the committee to discuss the on-going CAP negotiations. I look forward to engaging with the committee not only over this period of time, but over the next two to three years on this important issue for Scotland.

I do not need to tell the committee how important agriculture is to Scotland. Our key objectives throughout the negotiations are to ensure that the outcome enables Scotland to continue to be a key and leading food-producing nation, with the capacity on the ground to produce food, and to ensure that we have viable agriculture. We also want to ensure that the nation can meet head-on some of the big challenges of the 21st century, not least food security, given that there will be billions more mouths to feed across the world in the coming decades. Scotland has a role not only in producing food for the national interest but in contributing towards global food security.

We are negotiating against a backdrop that is radically different from the one against which the current policy was negotiated a decade or so ago, not least in terms of the co-decision process in

Europe, which gives the European Parliament a much bigger role. In the year ahead, we will have to engage much more with the European Parliament and Scotland's members of the European Parliament. Given the economic climate and some of the wider debates in Europe, there are additional pressures on funding, which will have an impact on the common agricultural policy budget. Further, there are other challenges, such as food security, climate change and environmental issues.

I will touch briefly on Scotland's priorities—I am sure that the committee is familiar with the particular issues to which we have to pay close attention. First, we want to ensure that there is a justification for on-going direct support for Scottish agriculture, given our unique geographical and weather challenges and the distinctive needs of our sectors. It is important that we get a fair share of funding for Scottish agriculture through the CAP. As the committee knows, we get the fourth-lowest direct support pillar 1 funding in Europe, which we think is unjustified. In terms of pillar 2 funding, for rural development support, we get the lowest level of funding in Europe, which we also think is unjustified. Securing a fair share of funding is an important priority for the Scottish Government and, I am sure, for this committee.

We believe that there is a case for some coupled support in the new CAP. We have limited coupled support for the beef sector at the moment, and we want to continue to have that option. That is another key priority.

We want to ensure that new entrants are catered for by the new CAP. A big debate that the committee is interested in—and which members will have seen on their televisions recently—concerns the fact that support is delivered on an historic basis, which means that people receive support based on their activity of several years ago, while there are extremely active new entrants who are getting no support through the CAP. We must address that anomaly. That is another big priority.

Greening the new CAP is important. We are in favour of that, but we want the delivery of that to be suited to Scottish circumstances. The one-size-fits-all approach that is currently on the table from Europe is not suited to the Scottish circumstance, and we have to negotiate a better deal for Scotland.

We want to ensure that the new CAP is deliverable and is not so complex and bureaucratic that it leads to big problems in the future. Simplifying the CAP is therefore an important priority for us all, as is ensuring that we have the flexibility on the ground so that the Scottish Government can implement the CAP in a way that is suited to Scottish circumstances.

Finally, we want to ensure that support goes to the genuinely active farmers in Scotland, not to the inactive ones. Addressing that in the new CAP is important to Scotland.

There is a range of key issues that we will have to address in the next year or two with regard to the negotiations, in which I know that the committee takes a close interest. I could talk for hours on this subject but I will not do so, as I am keen to hear your views and to answer your questions to the best of my ability.

The Convener: Thank you. We are keen to ask questions, too. Process is our first general area and Jim Hume will kick off.

Jim Hume (South Scotland) (LD): Morning—I was going to say Richard, but I had better call you cabinet secretary.

As you know, Jim Paice was at the committee last week and we questioned him on the process. One part of the process is obviously the devolved situation in the United Kingdom and the fact that we have different agricultural ministers. Of course, the UK Minister of State for Agriculture and Food is Jim Paice. In your view, what is the relationship like with regard to building consensus on the CAP between all the devolved Administrations and, of course, Westminster?

Richard Lochhead: That is a good question, because we have a very diverse UK with different political parties in administration in different parts of the UK and, of course, the devolved Administrations have different needs on which they want the CAP to deliver in the years ahead. As you know, we have very distinctive needs here, particularly as roughly 85 per cent of our land has less favoured area status, whereas the situation south of the border is exactly the reverse. There are different priorities across the Administrations and I do not envy the UK ministers' having to balance them. The situation is very challenging.

Clearly, we have many common interests with the UK Government regarding what we want to see coming out of the new CAP. We all agree, for instance, that it should not be overly complex or overly bureaucratic and that we should look for opportunities to simplify it. We have common concerns about issues such as greening, too, which we will no doubt come on to in future questions.

There are differences, of course. One of the biggest battles that we have faced over the past two or three years, not just with the current UK Administration but with the previous Administration, has been about the extent to which direct support should be delivered from Europe for farmers in Scotland. We believe, of course, that direct support is even more important in the Scottish context than it is in the rest of the UK,

particularly given the challenges in our uplands and hills, which are far from their markets and face additional challenges, such as the fact that there is often market failure when it comes to delivering a viable income for such businesses. In those circumstances in particular, we feel that direct support is essential.

As you know, the previous UK Government wanted to phase out the pillar 1 direct support as quickly as possible, which would have decimated Scottish agriculture. We hoped that the new UK Administration would have a much more refreshing view of what Scotland needed, but we got off to a pretty rocky start in that it, too, took the position that pillar 1 support should be phased out as quickly as possible. I think that its view has softened now, in that it thinks that support should be phased out but that that should happen over time. There is still a slight disagreement on the emphasis of our negotiation stances. I still think that the body language and overall language that are used by UK ministers suggest that we want to phase out pillar 1 support and that the emphasis of the negotiations should lie there, whereas I feel that the emphasis in negotiations should be on securing the best possible and most appropriate deal for Scottish farmers on direct support.

The emphasis on some of the negotiating priorities is, perhaps, different, but there is a lot of common ground in some areas. The key point over the next year or two is how we will reach a common UK position while at the same time allowing the Scottish Administration to have its say in Europe about what is best for Scottish agriculture. We often find that the position that is taken by other member states in Europe is closer to Scotland's position than that which is taken by our own UK Government.

Jim Hume: To follow up on that, Jim Paice stated that he thought it would be unlikely for a new CAP to be agreed by January 2014 and that it was more likely to be a year later. His view—I would be interested to hear whether you share it—was that that would not affect pillar 1 payments, but could affect pillar 2 payments and therefore the Scotland rural development programme and less favoured area support scheme. Has your Government put in place any contingency plans for that?

Richard Lochhead: That is an important point. To start off on a positive note, one area in which we agree with the UK Government is that it is unlikely, looking at the present situation, that a deal on the new CAP will be concluded by 1 January 2014, so we must have a contingency plan for bridging that year. As you rightly say, under the regulations, direct support will roll over for a further year if that is required, but pillar 2 support for the rural development programme will

come to an end, so if everything were delayed, there would be a year's gap from 2014 to 2015.

That is a problem that not just Scotland but all the UK Administrations face. As it will impact on all our rural development programmes and on the rest of Europe, we will not have to put in place specific contingency arrangements for Scotland, although there may be some issues that we have to deal with. Europe will have to allow us to have a year's roll-over or a contingency plan, particularly for LFASS payments, which come out of the rural development regulation funding rather than pillar 1. There are certain areas in which we would definitely have to plug the gap, but we are working on that with the UK and with Brussels.

Jim Hume: That is good—thank you.

The Convener: We had some discussion with Jim Paice about how things would work in the roll-over period. You mentioned that, given that it is a pan-European issue, particularly as it relates to pillar 2, discussions are taking place with Brussels. Have you had any indications of how the issue is viewed there? Will funds be made available? Can a universal solution be envisaged?

Richard Lochhead: There is not a lot of detail on that. One point that I failed to mention in response to Jim Hume is that the European Commission takes the opposite view to that of Jim Paice and I, in that it believes that it will stick to the current timetable and that the new CAP will be in place for 1 January 2014. That is why those in the Commission are not falling over themselves to put in place a contingency plan just yet. However, behind the scenes, there will be a recognition that if, in the coming months, it looks likely that there will be a delay, attention will have to turn to a contingency plan.

The Convener: We move on to funding issues.

Graeme Dey (Angus South) (SNP): Good morning, cabinet secretary.

I want to continue with the subject of direct support. Jim Paice challenged the view that a reduction in the single farm payment would lead to a reduction in production. Indeed, he said:

“the assumption that we need to continue to pump large sums of money in through the single farm payment to maintain food security is a leap too far. If farmers increase their competitiveness and improve their productivity ... there will be greater opportunity for them to generate income from the marketplace, which will stimulate production.”

How do you view those remarks in a Scottish context?

On the timescale, what do you understand Jim Paice to have meant when he said that, although there should not be a big cut in pillar 1 payments today or tomorrow,

“a trajectory should be set for a decline”?—[*Official Report, Rural Affairs, Climate Change and Environment Committee*, 7 March 2012; c 701, 699.]

Richard Lochhead: That goes back to my concern that the emphasis of the UK's negotiations in Europe is in the wrong area. Too much emphasis is being put on cutting the CAP budget and phasing out pillar 1 support. Thankfully, that appears to be the minority view in Europe. Other countries appear to be closer to Scotland's position, which is that, for the foreseeable future, there is a cast-iron case for continuing pillar 1 support, because food production is of the utmost importance and we must not jeopardise it. Many farming businesses, particularly in Scotland, simply would not survive or be viable without single farm payment support.

At the moment, the UK Government—it should make no bones about this—is actively agitating for a substantial reduction in the CAP budget and is, at the same time, maintaining that the focus of the remaining CAP budget should be on pillar 2, which is the rural development regulation. Therefore, the logical conclusion is that the UK Government is sending out the message that direct support should be substantially reduced as quickly as possible. Even though that line may not be there in black and white, if we bring together the negotiating lines that the UK is taking, the logical conclusion is that it favours a rapid decline in pillar 1 support.

As I have said, pillar 1 support—direct support—for agriculture is particularly important to Scotland, because 85 per cent of our land has less favoured area status, so our businesses face many more challenges.

10:15

We know from the statistics that a substantial number of farming businesses in Scotland rely on the single farm payment to be viable. Therefore, we will need the single farm payment for years ahead to underpin many farming businesses, particularly in certain parts of Scotland, if we want our land to be productive and if we want the economic benefits of active agriculture in more rural and remote parts of Scotland.

However, I give Jim Paice some credit in that the two issues are not mutually exclusive. One can argue for single farm payment support for many years to come until the environment changes and, at the same time, argue that we need to support our businesses to become more competitive and innovative and to gain much more return from the marketplace. That is very much the Scottish Government's approach—we think that we need both.

We need to encourage businesses to get a bigger return from the market, which is why our national food and drink policy is so important. We want to create more demand for Scottish produce, which in time should increase the return that our farmers receive, which is good for their bottom line. However, at the same time, because of the diverse nature of Scottish agriculture, the challenges for some of our farming businesses will not go away, so support is justified and essential.

Graeme Dey: Jim Paice challenged the basis for the assertion, which you have restated today, that Scotland is the fourth-lowest recipient of pillar 1 funding in Europe, on the grounds that the calculation is done per hectare equally across all of Scotland's land, when large areas of the land are of significantly lower agricultural value than others. He also pointed out that the Scottish Government wants to take that land out of the subsidy scheme. How do you respond to those comments?

Richard Lochhead: Last night, I refreshed my memory by reading the *Official Report* of the meeting at which Jim Paice gave evidence. From what I can gather from his comments, he misses two key points. First, we are not saying that land that is not used for production should not attract support; we are saying that, where support is being provided to farmers who have that land and who are not active, they should be active. We are not saying that support should be withdrawn from that land; we are saying that the land should be actively farmed to justify the support. I hope that I am explaining the issue properly, because there is a world of difference between the two interpretations of what we are trying to achieve.

The second key point is that we have simply calculated using the way in which Europe calculates the funding. For instance, in relation to the current convergence criteria, Europe is considering how much countries attract per hectare to calculate where they sit in the league table and, in turn, to calculate what the convergence should be between 2014 and 2020 to provide more of a level playing field. If we use exactly the same criteria for Scotland, we come out as the fourth-lowest recipient of the single farm payment in Europe. We are comparing like with like. We have not created some fancy new formula to justify saying that we have the fourth-lowest payment in Europe.

The Convener: I want to follow that up by referring to a visual from the programme "The Money Farmers", which revealed that naked acres on the slopes of Glencoe are rented out by the National Trust for Scotland to a money farmer. Could such areas that are mainly scree and steep grass in the west Highlands be used for agricultural purposes? The question about what

land can be included as agricultural land perhaps requires a more precise definition.

Richard Lochhead: Yes. That is why the debate on active agriculture is important. As you are aware, we have negotiated with Europe a new clause in the draft proposals that will give the member state more influence over how to define activity. In Scotland, we face additional challenges. The issue has arisen because of the ability for farmers to trade their entitlements. In effect, under the historic basis for calculating the payments, farmers can transfer entitlements from what was at one point actively farmed land in one part of the country to land in another part of the country. They can transfer payment that was generated by activity to another part of Scotland and to land that is not actively farmed and is much cheaper to rent because it is of poorer quality.

In other words, although it costs a lot more money to rent active land than to rent poor land, the same payment can be transferred from the land that is much more expensive to rent to the land with much cheaper rent, which means that more of a profit or a bigger income can be made. I cannot sit here and tell the committee which hectare in which part of Scotland will be taken into account with regard to future activity; however, this country has a lot of land, much of which is capable of being a lot more active than it is at the moment, and we must work on the principle that activity, wherever it might be, will attract support.

The Convener: That was very helpful.

Claudia Beamish (South Scotland) (Lab): Why, in the lead-up to the new CAP arrangements, has the Scottish Government not been able to deal with the current situation with regard to inactivity? I understand that it has something to do with unintended consequences, but I wonder whether you can clarify that point. For example, I have heard that in the Netherlands interim arrangements might be put in place.

Richard Lochhead: Our position over the past couple of years has always been that support should go only to active farming. However, if we do not give support to inactive farming, the money simply stays in Brussels; we cannot call it down and are therefore not able to transfer it from inactive to active farming. I must put that on record because I have read some comments that the money could have been transferred from inactive farming to new entrants. That is not the case; as I have said, the money is not called down from Europe.

The idea, though, is to attach conditions to support in order to incentivise farmers to be active—if that makes sense—and over the past couple of years we have been concerned that under the current legislation we have been unable

to do so. In 2010, as part of the CAP health check, the European Commission made some changes that it felt addressed the situation. We said, "We don't think it's an ideal solution but we'll do our best to make it work."

The clause in the legislation to which the commissioner keeps referring relates to the ability to withdraw support in areas where agriculture is not the primary activity; however, applying that measure has proved incredibly difficult and complex. Holland has managed to apply it by stipulating that Schiphol airport should not attract support because its primary purpose is to be an airport, not a farmer. That seems to me to be clear cut but as far as Scotland is concerned—this is where the unintended consequences come into play—we have 4,000 to 4,500 crofters attracting single farm payments but we cannot justify the claim that their primary activity is agriculture because they have other jobs and because of the nature of crofting itself, with which the committee is familiar. We would end up in a quagmire and find ourselves having to deny support to crofters.

The clause is simply unworkable; indeed, when all the consequences became clear, the industry and the Scottish Government took the view that we could not make it work under the current CAP and that we needed a better CAP in the future.

The Convener: Jim Paice thought that not only Scotland but other European countries were affected by the measure. Do you have any information on that? After all, active farming will be the aim of most countries.

Richard Lochhead: I take heart from the fact that other member states have commented on the issue; in fact, the commissioner has talked about ensuring that only active farming is supported across the whole of Europe. However, although the debate is being held elsewhere, it is clearly much more intense in Scotland, given that, unlike other countries and because of our geography, we have millions of spare naked acres that allow the transfer of entitlements from active to less active land and which make it more possible for people to exploit the loophole.

The Convener: We should be able to find allies for the Scottish clause in the new CAP.

Richard Lochhead: I do not envisage any opposition to a Scottish clause—I think that there will be support for it. It will be a vehicle to help us in Scotland. It will still involve a difficult debate, because we need to define activity and decide how we will use such a measure, but it gives us a way to clamp down on those who are referred to as slipper farmers.

John Lamont (Ettrick, Roxburgh and Berwickshire) (Con): The other side of the coin is that Scottish Government figures suggest that at

least 2,000 people who are involved in farming are not entitled to any single farm payment support. Will that issue be adequately addressed by the current reforms?

Richard Lochhead: You are quite right to talk about the other side of the equation, which is the question of how we help new entrants who deserve the support. That is an important point and a key issue in the negotiations. A number of farmers in Scotland attract no support because they are new entrants who have come into agriculture since the trigger point for the current CAP was negotiated several years ago.

The new proposals address that to an extent, but in our view they do not go nearly far enough. The opportunity exists to support new entrants who came into agriculture in 2011 and who will still be in agriculture in 2014: it is referred to as the double gate provision. Farmers who would have triggered payments in 2011 if they had been included, and who will still be active in farming in 2014 by the time that the new CAP is in place, would qualify under the new proposals. Of course, that still excludes the new entrants who came into agriculture post-2011 or who will come in under the new CAP up to 2020. We want a catch-all provision that ensures that there is a means to deliver support to anyone who is active in agriculture.

The Commission is proposing one-off top-slicing to create a national reserve to help new entrants. However, that would be a one-off for the farmers to whom I referred, rather than being repeated on an annual or any other basis up to 2020 so that the current situation, in which new entrants are excluded if they came into agriculture after a certain trigger point, will not be repeated in future years.

John Lamont: Am I right in thinking that it is expected that those farmers will continue without support until 2014 or 2015 until the reforms come through? Can the Scottish Government do nothing further to give them additional help and support?

Richard Lochhead: The Commission has said that it is unable to open up the current regulations outside the CAP negotiations—in other words, the regulations are being reviewed anyway as part of the new CAP, so that is where we must find the answer. That means that we will not be able to provide the support that we would like to deliver until 2014.

Jim Hume: We have jumped a wee bit ahead, but on the issue of new entrants we have been told until fairly recently that anyone who wants to get support under the CAP in the future would have to have put in a claim in 2011. At last week's meeting, Jim Paice stated that he thinks that that provision is unlikely to stand, and that there seems

to be a lot of pressure in other European nations to negate it, which could cause concern with regard to existing landlord-tenant situations. Are you aware of that? Do you feel that there is a move in Europe to ensure that that clause will not stand?

Richard Lochhead: I am not clear whether you are talking about a move to water it down or to strengthen it.

Jim Hume: I believe that Jim Paice meant that there was a move to water it down. As things stand, as you know, a farmer who wants to get a CAP payment in the future will have to have claimed on their land in 2011. Jim Paice thinks that that will not stand, and that other nations in Europe—the majority, I think—want to remove or ignore that clause.

Richard Lochhead: I understand that that is perhaps the case with some member states, but I am unaware of a groundswell towards having it removed. I will raise that point with Jim Paice when I next meet him. That is a big issue for Scotland in the CAP negotiations: we want change, but the change must strengthen the system and certainly not water it down.

I am not sure whether David Barnes is aware of any groundswell in Europe in that regard. David has just returned from meeting lots of MEPs in Europe over the past couple of days and talking about the issues that we are discussing. I am not sure whether that issue cropped up.

10:30

David Barnes (Scottish Government): It did up to a point. The concerns that members have raised this morning are being echoed in some places around Europe. However, to call that a groundswell would be exaggerating it, as the cabinet secretary said.

On the one hand, our concerns are shared by at least some in Europe; on the other hand, I think that it is widely known that that element of the CAP proposals was inserted at the last minute by the European Commission with one particular member state in mind. We are told that one national Government lobbied very hard and said that in its particular circumstances, in order to avoid distortions of landlord-tenant relationships, such a rule was needed. The provision was included in the proposals in the first place as a response to a single member state. That being the case, it is fair to say that one might expect a majority of member states to be relatively neutral on it. They might not be demandeurs for it, but they might not oppose it if they do not see it doing any harm. As members have said, we have to ensure that, if there is a risk of the provision

having unintended negative consequences in the Scottish situation, we get that addressed.

Richard Lochhead: My understanding is that having the 2011 entry date is why it is called a double gate. The 2014 date is the start of the new CAP, so that is important for the new level of support being delivered, but the retrospective element to 2011 is to avoid the landlord-tenant relationship changing at the current time, because landlords could think, "I'll change my arrangements to try and take advantage of 2014 to maximise my support." Europe listened to one member state and decided to include the retrospective 2011 entry date to prevent people from doing that.

The Convener: We move on to basic payment schemes.

Annabelle Ewing (Mid Scotland and Fife) (SNP): Good morning, cabinet secretary. The UK minister suggested last week that we move to area-based payments and that 40 per cent in the first year would be too rapid. What is the Scottish Government's view?

Richard Lochhead: Do you mean in terms of the general approach to the transition to area-based payments?

Annabelle Ewing: Yes.

Richard Lochhead: Scotland's move from historic payments to area-based payments is a fundamental change in how we deliver support, so we must handle it carefully; the transition will be very important.

I do not entirely disagree that the proposal is complex and that—as Annabelle Ewing suggests—the basic payment part of the new scheme should itself include a transition period, in which the payments are partly historic and partly area based, and should then move over time to become a purely area-based payment. That will clearly help member states with the adjustment. In Scotland, a number of farms receive substantial payments and if they were to go overnight from historic payments to 100 per cent area-based payments, that would be quite a jump and would be quite disruptive. We agree that there should be a transition period.

We think that the debate about new entrants is very important. The greater the historic element in the payments going forward, the longer new entrants will be frozen out because the system is based on historic payments from years ago. Help for new entrants within the overall CAP regulations, which is what we have just been discussing, would ease our minds somewhat and would allow a greater part of the basic payment to be historic over the coming several years. We do not want new entrants to be disadvantaged any

more than they are just now, so we are paying close attention to that.

Annabelle Ewing: The issue of slipper farmers is tied up with this. If I understand matters correctly, the Scottish clause has been neutrally received, which I suppose comes back to the point that was made by Mr Barnes that we need to consider the impact of proposals on other member states. The clause will provide Scotland with important room for manoeuvre, so it would be interesting to hear the UK Government's position on it. Is it actively supporting promulgation of the clause among other member states?

David Barnes: Under the current proposal, the Scottish clause on activity could be applied by member states if they found it to be helpful. However, the eligibility rules are compulsory and must be applied in every member state. Our view is that, if any issues about unintended consequences arise with a specific rule, members should be more relaxed with it if they have the option not to apply it than if they are obliged to comply with it. Because of the ability to opt out of the Scottish clause, the likelihood of member states being concerned about its impact on them should be low.

Annabelle Ewing: Although that response is extremely helpful, I go back to the point that, in negotiations in Brussels, things can get lost or perhaps end up in a different place than one might have expected. I take the point that, because the clause is optional, other member states might feel that it will have no impact on them, but we must ensure that the clause is in the final agreement and that it is possible for us to implement it. As a result, we need some comfort that the proposal is being promoted among other member states. Given that the UK Government takes the lead in the negotiations, is the Scottish Government comfortable that such promotion is being carried out?

Richard Lochhead: I see no reason why the UK would not support our proposal; indeed, as a result of lobbying by Scotland, the Commission has proactively included the clause in the draft proposals. Because the measure is optional, I do not envisage much opposition to it from other European countries. That said, once we get into the hard negotiations, we must ensure that nothing that is really important to Scotland is traded away—and the clause is certainly of vital importance.

Annabelle Ewing: Last week, we discussed capping. I am sure that the cabinet secretary will have noted Mr Paice's lack of enthusiasm for that particular provision. What is the Scottish Government's view of it?

Richard Lochhead: We are a bit more relaxed than the UK Government about capping. We think that we have to stick to some principles; first of all, we have to be able to justify to the public the support that goes to agriculture—after all, it is taxpayers' money. The Commission's view is that one way of doing that is by ensuring that a business receives a proportionate amount of support, so it has proposed capping in that respect. We have looked at this closely; as you can imagine, we have considered the potential impact on Scotland first and foremost, and have concluded that the impact on Scotland of the current capping proposal will be minimal. It might affect a maximum of 40 to 60 businesses: even then, the impact might be not as much as was originally feared.

On the other hand, we share Jim Paice's concerns about the practicalities of implementing the proposal. After all, anyone who has a clever lawyer could get around it simply by creating several businesses that, individually, would not breach the cap. I am not quite sure how we would deal with that.

In summary, we are relaxed about the principle of capping. It will not have a huge impact on Scotland and, as I have said before, the majority of farmers—and, I should add, the public—to whom I speak either support capping or are relaxed about it.

Annabelle Ewing: How do other member states view the proposal? Is there general support—la demande—for it or are the member states neutral about it?

Richard Lochhead: Again, I can give only impressions at this point. Many member states have reservations about capping. I argue the principle that we have to justify to the public the huge amounts of support that go to agriculture. Those on the other side make the valid argument that what matters is that we support active agriculture. That is an important principle. No matter whether they are small, medium or big, farms deserve support if that can be justified by activity and by what is being produced.

The Convener: As we know, the emphasis in pillar 2 means that in certain set-ups people might not actually be farmers; for example, they might be paid to maintain our natural heritage. You have already said that it is difficult to define the term "active". Does it, as Jim Paice suggested, cover his stewardship schemes or our high-nature-value schemes, which are of great interest in many parts of the country?

Richard Lochhead: I think that that takes us into the greening debate.

The Convener: We are just coming to that.

Richard Lochhead: I will explain something that has given us comfort and made us slightly more relaxed about capping. When the debate started, we were not clear about what would happen to the money that was capped. My view was that if Scotland was to be a net loser as a result of capping, we should not support it. Since then, however, it has become clear that the money that will be saved through capping will go into pillar 2 funding for the member state, which means that the money will stay in Scotland. That the money from capping will go into pillar 2 and then be redistributed to other farming businesses in Scotland gives me some comfort.

The Convener: I want to pursue one or two issues, the first of which is transparency.

In our common fisheries policy report, we recommended that there be a register of firms that own vessels, and that—given the very different forms of ownership—that should be carried out at the European level. I have information from the map of 2005 showing the single farm payments by parish in Scotland; however, because of transparency issues, we are unable to publish anything other than evidence of firms that gain money through the CAP. You said, on capping, that people are reluctant to give up support, so I wonder whether it would be in Europe's best interests to find out who is getting the money. The public need a clearer picture of the distribution of subsidy across the country. After all, this is not about wealth, but about the amount of subsidy that is being received.

Richard Lochhead: I totally agree. I, for one, have found it frustrating over the past couple of years that I have been unable to be more transparent about single farm payments. We must use every possible means to become a lot more transparent. The convener makes a good point: I will ensure that we take it into account in the CAP negotiations to find out whether we can become more transparent.

Members might know that we are unable to be any more transparent because of a court case that resulted in member states not being able to publish the details of every type of business that is in receipt of single farm payments. As the convener has pointed out, we can publish details of businesses, but court cases mean that we are legally obliged not to publish names of individual recipients. I find that unfortunate. Payments of public money into any type of business should be perfectly transparent. Most farmers to whom I speak are perfectly relaxed about that. Anyone who is not relaxed about it should be.

10:45

Claudia Beamish: To go back to area-based payments, do you have any concerns about different forms of land use in a particular area and the detail of how that is decided? For example, would the system apply differently in various parishes? In the Clyde valley where I stay, farmers are concerned about the fact that the land on the valley floor is very different to the land on the hillsides.

Richard Lochhead: That is a good question; I have found that to be a difficult debate. It will be difficult to work the system out in Scotland as we move forward, and the new proposals will be tricky to implement.

Scotland is a diverse country and—as you can imagine—I speak to industries that have different concerns. There are different issues in Shetland, Orkney, the Borders, the west coast and Mull, for example, so we must, in implementing the area-based payments and the basic payments, consider how we use the flexibility that the common agricultural policy draft proposals give us. We can deliver the payments on a regional basis, and we have the opportunity to implement different area-based payments in different parts of the country.

That is important because where the land is of poorer quality, the basic payment within the area payment is greater, which could mean that we would be rewarding inactivity. We want to pin down as much of the area payment to activity as possible, which means that we want to minimise the basic payment element and maximise the other options that we have for linking payments to activity. Otherwise, in the vast areas of Scotland where the land is quite poor, we would end up paying a lot of money out to people for doing very little.

We might want to split Scotland into regions, taking into account the different factors: that suggestion is on the table. We have not yet decided how we would deliver that and how we would classify the land to justify the area-based payments, but we are working closely with the industry on that. It will be quite tricky, so I understand the concerns of the farmers to whom you have spoken, which will be reflected throughout the country.

Claudia Beamish: My concern was to highlight that issue as it applies in particular areas. It is reassuring that you will continue to look at it closely.

Richard Lochhead: David Barnes has been closely involved in the working groups that are considering those issues; I am not sure whether he wants to add anything.

David Barnes: We have, in the Brian Pack report, a fantastic foundation for analysing the situation. On the one hand it is not easy, as the cabinet secretary said, but on the other hand we understand the challenges much better than we did before the inquiry.

To be frank, we are at present focusing our efforts on the European negotiations. We do not yet need to get into the detail of implementation in Scotland, but we need to ensure that we do not miss things in the negotiations. We have slightly cut back our effort on implementation for the time being, with a view to coming back to it later. Although we have cut back, there will be a consultation process and we are still looking at options and discussing them with stakeholders.

I detect a growing consensus among Scottish stakeholders on one point: that it would be really difficult to solve such a difficult challenge through the use of area-based payments alone. However, if, as the cabinet secretary said, we start to build in the other elements that can be paid on different bases—activity based, coupled payments and even the pillar 2 less favoured area support—although it will still not be easy, it starts to look much more possible to put together an overall package that will give an acceptable outcome. We are not getting into the detail of how we will decide what a region looks like in Scotland, but there is consensus that we need to look at the overall package and not just at elements of it in isolation.

The Convener: Sticking with types of land and greening, the UK Government would prefer more support for pillar 2 to greening of pillar 1. Do you see advantages in that for Scotland?

Richard Lochhead: Member states that speak about greening only through pillar 2 and not pillar 1 often would rather not have a pillar 1. It is important to read between the lines on where those member states are coming from. Our position is that we need pillar 1 direct support and pillar 2. Pillar 2 is not just for agriculture—we must always remember that it is for rural Scotland.

I believe in principle that we should green pillar 1 because we have a pillar 1, if that makes sense. In other words, we have to justify having a pillar 1 in the first place and we want the whole CAP to be greened. It is quite complex and difficult to articulate, but those who argue that we should stick to greening pillar 2 are really saying it because they do not want pillar 1 in the first place.

The Convener: We use heather land for grazing, but it might be excluded from consideration as suitable grazing land. What do you think?

Richard Lochhead: If you will forgive the pun, that has cropped up a few times in the debate. We are well aware of the concern about that. Given

that good old Scottish heather is part of our environment and is unavoidable in many places, it should be caught within the definitions.

The Convener: It is not unknown that heather is part of the diet of certain sheep and cattle and that it gives them extra flavour. Heather is not merely an entirely useless if pretty article in the countryside.

Richard Lochhead: I cannot speak from personal experience about the flavour, but I take your word for it that heather is very flavoursome.

The Convener: Jim Paice shared Scottish stakeholders' concerns about permanent pasture and crop diversification. How are we ensuring that greening suits Scottish conditions? There are severe problems about maintaining permanent pasture, for example. How are we dealing with the crop diversification ideas and with maintaining ecological focus areas?

Richard Lochhead: That is a big issue. I think that I have said to the committee previously that it is perhaps the most popular issue that is raised round the table at the Council of Ministers. Virtually all member states are concerned by the current greening proposals. Likewise, we are very concerned that the greening proposals that are on the table represent a one-size-fits-all approach to tackling the monoculture that is more a problem in other member states than it is here. Circumstances in certain parts of Scotland—on the hills, for example—do not allow for crop rotation of three crops, so that proposal is not suited to Scottish circumstances.

Qualification as an ecological focus area requires that 7 per cent of land be taken out of production. Again, we do not want to find ourselves taking land out of food production in order to meet some Europe-wide target. We want what we are already doing to be taken into account. Much of what is happening in Scottish agriculture is helping the environment, biodiversity and so on: that should count. We do not have to reinvent the wheel, and we do not want a one-size-fits-all approach that is not suited to Scotland.

We think that a menu approach is the way forward. We are still working out what our policy should be and discussing it with the industry. The UK Government is taking a similar position.

I add that a specific Scottish message that we can send to Europe is that climate change is a big issue and we want to reduce the carbon footprint of Scottish agriculture and land use, so that should count and should be part of the debate. I want our industry to do a lot more to reduce its carbon footprint and that should count towards greening. I am disappointed that the carbon reduction measures that we want to see being taken do not seem to be part of the greening debate in Europe.

There are a lot of good opportunities for Scottish agriculture to reduce its carbon footprint and at the same time save money, cut input costs and so on. It could be a win-win situation, so let us try to make it part of the greening debate.

Claudia Beamish: Can you give us a bit more detail on the climate change aspects as well as on the inputs?

Richard Lochhead: Our starting position is that we have ambitious climate change targets. If I recall the figure correctly, about 20 per cent of emissions in Scotland are from agriculture and land use. How we use our land therefore has a big part to play in our achieving our targets. When we talk about greening the CAP, we should bring the two debates together. We should encourage agriculture to reduce its carbon footprint and ensure that that counts towards greening, so if 30 per cent of the payments have to be linked to greening, or greening is a condition of payment, we should somehow ensure that carbon reduction measures allow that box to be ticked. How we will do that is up for debate.

We are already doing some things in Scottish agriculture. Through the farming for a better climate initiative, we now have monitor farms set up, which are looking specifically at climate change issues and at reducing the carbon footprint of agriculture. Lots of new and innovative things are happening in Scotland. We should take that into account when we talk about greening the CAP and we should try to ensure that every farmer in Scotland is, to some extent, reducing their carbon footprint.

Graeme Dey: I have a small point. Is there any prospect of greening measures being ditched during the negotiating process, or is there a sufficient sense of environmental responsibility across the EU to ensure that at least something is done?

Richard Lochhead: I cannot say that there is no prospect of the measures being ditched. There is a lot of opposition in Europe to the greening proposals in pillar 1, so I cannot predict what will happen. Who knows where the debate will go? However, we must remember that the background to the situation is that two or three years ago we were fearful in Scotland, as other countries were, that there would be no pillar 1—that there would not be direct support. The Commission put that to bed by proposing that pillar 1 will be continued; there was quite a lot of relief. Pillar 1 is important to Scotland. The European Commission was persuaded to continue with a pillar 1 as part of the proposals on condition that it be greened. It is difficult to envisage the Commission backtracking from that because it feels that greening is one of the conditions that justifies continuation of pillar 1. It is unlikely that that condition will be ditched.

Dennis Robertson (Aberdeenshire West) (SNP): How supportive are our farmers of the proposals that you mention to tackle climate change and reduce carbon footprint?

Richard Lochhead: I welcome Dennis Robertson to the committee, as this is my first opportunity to engage with him.

Most farmers that I speak to are relaxed about the principle of greening, but we should not hide from the fact that there is huge concern about the proposals that are on the table. There is also recognition that we are doing a lot in Scotland now that should count towards greening, so we do not necessarily have to do new things in every area. That must be part of the debate.

I think that there will be quite a lot of support for having a menu of options rather than saying, "Here are three things that you must do in every country in Europe." As you can imagine, we are engaged in the debate now. The NFUS is organising a big event on greening in a month or two to allow all to come together and focus on that dimension of the debate. If that goes ahead, I am sure that the committee will want to play a role in it.

11:00

The Convener: We have talked about the types of land in environmental focus areas. As part of our consideration of the Agricultural Holdings (Amendment) (Scotland) Bill, RSPB Scotland raised the idea of conservation tenancies. Of course, we have high nature value farming, which often occurs alongside commercial activity, so let us not say that it is non-productive. We are doing things on the major issue of nature, but can we strengthen those areas by encouraging approaches such as conservation tenancies? I believe that you have welcomed discussion about that, without any specifics being mentioned.

Richard Lochhead: There is an opportunity to look at such initiatives as the greening debate moves forward. I do not detect much resistance in agriculture to the concept of greening. As we have just been discussing, it is about how we deliver that. Perhaps there will be a step change in the coming years, as we all accept the principle of greening the common agricultural policy—both pillar 1 and pillar 2—which will help us to move forward with new initiatives such as conservation tenancies. I certainly have an open mind and welcome those sorts of ideas.

The Convener: I hope that the European Commission will ensure equivalence across Europe and that, if we are looking at those sorts of measures, we will get credit for them.

Richard Lochhead: Exactly. The origin of the debate about greening is not just in justifying pillar 1; it also lies in the fact that some parts of Europe are doing very little if anything to support the environment. That is why, in the eyes of the commissioner, the CAP should have a strict condition attached to it for all countries, so that no one can escape their environmental obligations. Countries such as Scotland that are already doing a lot for the environment get caught up in that, especially where it is very prescriptive. The equivalence issue is therefore quite important and it relates to the idea of a menu of options. We should be allowed to come up with our own measures if they give equivalent benefits.

Annabelle Ewing: On the issue of greening as regards permanent pasture and crop diversification, is the cabinet secretary comfortable that the Commission is aware of conditions on the ground in Scotland? The danger is that, if the Commission is not so aware, it might regard our case as just another case of special pleading by the Scots, who just do not want the conditions to apply to them. The issue for Scots farmers is that the conditions do not make any sense given the nature of most of the lands in question. Would it be worth while to have senior Commission officials over for site visits, if that has not already happened, to ensure that the debate takes account of the factual situation in Scotland?

Richard Lochhead: Yes, that is always a challenge that we face, whether in relation to permanent pastures, the presence of heather on Scotland's hills or whatever. We invited the relevant officials over from Brussels and took them to see areas of Scotland, which I hope will result in a lot more flexibility through the CAP proposals. Whether it is the issue of naked acres or any of those that we have just discussed, we have distinctive issues and attributes in Scotland that must be addressed. We put a lot of effort into getting the Brussels officials to come over here and, to be fair to them, they have visited on several occasions, including a visit specifically on the issue that the member raised.

Annabelle Ewing: Excellent.

The Convener: An issue regarding new entrants that was not mentioned is the degree of flexibility in deciding how to include new entrants. We have talked about the times when they will qualify—the gates that they must go through—but there is an age-limit issue as well. I was at a crofting conference at the end of last year at which a woman said to me, “Well, I want to assign my croft to my daughter. I’m sixtyish and she’s coming up to 40. She might be over 40 by the time she takes it on as a new entrant.” Is the age limit really acceptable given the way that we want to see agriculture going? People can move out of

employment and into agriculture as a second career. The age limit of 40 certainly concerns me; does it concern you?

Richard Lochhead: A lot more than it used to. *[Laughter.]* I used to accept that under 40 was young; now, I think that someone can be over 40 and still be young. It is a real issue, and many people in Scotland have raised concerns about the definition of new entrants and young farmers. We want a lot more flexibility. A new entrant can be over 40 and have a lot to offer, so we must ensure that the CAP caters for all new entrants. We have to address the ability to top-slice support of up to 2 per cent for young farmers, who are defined as under 40. We have made those points to the Commission, and we hope that our concern is shared by the UK and other countries.

The Convener: With an ageing population that is not necessarily inactive, it is all the more important that we make the best use of people's skills right across Europe.

Richard Lochhead: Yes. You have highlighted a good example, convener. By the time that sons and daughters are ready to have their own farm, they can be well into their 40s.

The Convener: We look forward to progress being made on that issue.

Let us turn to areas with natural constraints and coupled support. We have talked quite a bit about the issue already. It seems that the UK Government would rather see the emphasis moving into pillar 2, but you have said that we want to ensure that there will be coupled support in pillar 1. Will the Scottish Government consider using the provisions in pillar 1 to support areas with natural constraints? If so, how?

Richard Lochhead: We welcome the offer that is on the table of the option of top-slicing for areas with natural constraints. The Pack report also called for that kind of measure, so it is in line with Scottish thinking and is good news. I am not sure what else I can add other than that continuing the LFASS payments is an important priority for Scotland. There is some debate about how the funding should be delivered. If we are going to have pillar 1 options for top-slicing for areas with natural constraints but the LFASS payments are in pillar 2, we will have to decide, as a country, whether we want to use the top-slicing in pillar 1 or to transfer the funding—as we are able to do—from pillar 1 to pillar 2 and have just one scheme that is delivered through pillar 2. There are a few options for us to consider.

The Convener: We talked about using a proportion of the UK's national reserve to support the Scottish beef calf scheme, which might continue in the future. Jim Paice seemed to be relaxed about that. Are you hopeful that we can

continue the Scottish beef calf scheme, and do you agree that it is particularly useful in areas with natural constraints?

Richard Lochhead: Given the importance of the livestock sector to Scotland and the specific challenges facing our hills, uplands and islands, we think that one way in which to help the beef sector is to continue schemes similar to those that we have just now. How those will be delivered is all part of the debate that we will have over the next couple of years.

At the moment, to deliver our beef calf scheme we are allowed to use 3 per cent of the national envelope, but the beef calf scheme that we deliver requires 4.5 per cent. We therefore have to borrow from the UK's flexibility, as it does not use that kind of scheme. Under the new CAP proposals, a maximum of 5 per cent is proposed, so, to deliver the existing beef calf scheme, which requires a top-sliced 4.5 per cent, we would not need to use the UK's flexibility. However, we still think that there is a case for at least having the option to top-slice up to 10 per cent for similar coupled schemes. We want the UK's support for that but, unfortunately, the UK is lukewarm—to be generous—about increasing the 5 per cent maximum for coupled payments. As you know, the UK would rather have 0 per cent, but it accepts the case that Scotland might want to continue with such payments. As a negotiating point, we should therefore at least accept that 5 per cent is on the table, but Scotland wants the option of at least 10 per cent. Indeed, the Pack report stated that up to 15 per cent should be an option, to give us the option of having more than one coupled scheme in Scotland. Even if we had 15 per cent for coupled schemes, 85 per cent of the funding would still not be linked to production. I would think that a compromise would need to be at least 10 per cent.

Jim Hume: I believe that areas with natural constraints—ANCs as they are starting to be called—will basically replace less favoured areas. Where are we in defining where the areas with natural constraints will be? How different will they be from the existing LFAs?

Richard Lochhead: Again, we have been working on this with the industry. I will bring David Barnes in in a second, because he is more closely aligned with the working group dealing with that issue. Our thoughts have been focused not so much on that angle but on what options should be available so that we can deliver it. The situation has been confused in that we currently have LFASS under pillar 2, but we have the new option of top-slicing pillar 1. Aside from that, we have the overall option of transferring pillar 1 to pillar 2. For simplification purposes, we would much rather have just one scheme, delivered through either pillar 2 or pillar 1. That would be a lot simpler.

On defining the areas with natural constraints, a lot of work is going on at the moment as part of the debate about the future of LFASS.

David Barnes: It may be worth while reminding ourselves of the starting point, which was that, under the current legislation, member states are given a lot of flexibility to set their own criteria for which land counts as less favoured area. The European Court of Auditors has long argued that that is a bad thing and that some member states have used inappropriate criteria. For that reason, the Commission is now proposing a set of biophysical criteria for the definition of what is called the intermediate LFA—or now the ANC. The criteria that were used in Scotland to define our LFAs are very close to the biophysical criteria that the Commission has in mind, so a relatively relaxed way of looking at this is that Scotland did it right in the first place. The change is targeted at member states that did it wrong, but Scotland is not in that boat. Nonetheless, we have been working very hard with the Commission and there have been several iterations of different biophysical criteria.

Once again, it is a challenge for the Commission, as it has to set criteria that are appropriate for the whole of Europe. We need criteria that account for cold, wet areas, but our Spanish colleagues are saying that extremely dry areas have natural constraints, too. The criteria need to be able to cover all the situations in Europe. We think that where we are at the moment is that the proposed criteria would give an area with natural constraints map in Scotland that is very similar to the current LFA map. It is possible that, if anything, slightly more land will come into the areas with natural constraints.

11:15

One reason for that is that, under the Commission's proposal, if the proportion of land in a particular area—a parish, an administrative unit or an EU statistical unit—that met the criteria was above a threshold of, say, 50 or 66 per cent, the entire parish or ward would be classified as an area with natural constraint. Let us compare that with how we have classified the LFAs in Scotland, which is done in a much more fine-grained way. We have even said that, within individual holdings, some land is LFA and some is not. If we move from that fine-grained approach to a much more lumpy one, there must be the risk that some good land that is outside that definition will fall inside it in the future, because it happens to be in a parish with some poorer land.

We have held meetings to discuss that with stakeholders. The view that we have received is that stakeholders are relaxed, to some extent. If the dilemma is choosing between land falling out

that is currently in and land coming in that is currently out, they would rather risk more land coming in than risk legitimate LFA falling out. In future, we might have to think about the detail of an LFASS-type scheme. The current principle is that all the land that is in the LFA deserves to be in there and, in principle, it can all qualify for LFASS payments. If we are forced to use a less fine-grained system, which we know is going to bring some good land into the area with natural constraint, that might mean that the design of the future LFASS has to say that we do not pay on all the land in the LFA; we have to be able not to pay on land that is of a high-enough quality that the payments are not justified.

Jim Hume: You are talking about a less fine-grained system, about looking at the parish level and putting all the parish in if it is more than 50 per cent. Is the reverse true? Perhaps there might be a hilly end to the parish, but it makes up only 40 per cent of the parish, so the hilly part could fall out of the LFA. That might be putting a negative spin on it, but I am looking for clarification.

David Barnes: Absolutely. That is a theoretical risk. Our modelling and mapping does not lead us to think that it is a big issue in Scotland, but you are absolutely right. Part of the debate that we are having with the Commission is that, if some member states are not able to do the mapping in a fine-grained way and have to take a pragmatic and higher-level approach in some circumstances, that is fine if it works for them, but we should be given the option of retaining the fine-grained approach if we have the capability to do it. If we were to succeed in getting that option, the theoretical risk would be solved.

Jim Hume: Thank you.

The Convener: We have not mentioned the convergence criteria. I do not want a short seminar, but we are expecting Europe to have seen that happen just before 2020. It bothers me that some of our support for areas with natural constraint and less favoured areas might have to shrink between 2014 and 2019.

Richard Lochhead: There is a debate about the convergence criteria and their impact on Scotland. The irony is that, if we were a member state in our own right, the proposed convergence criteria would deliver anything between €170 million and €190 million a year in Scotland, which would be a substantial boost and would give us many more options for targeting support within Scotland. The less favoured areas would stand to benefit if we were a member state because the convergence criteria would give us an opportunity to target support.

Our calculations show a potential dividend for the UK as a member state under the convergence

criteria, although it would be much smaller. We are asking the Commission or the UK to verify our initial calculation, but we are not making in-roads on that. Our calculation shows that we could benefit to the tune of €66 million per year. If Scotland was an independent member state, we would benefit from between €170 million to €190 million, and even within the UK, there is a potential dividend under the convergence criteria. We are waiting for the UK Government to verify our calculation, but it has not yet said that that is the result it comes to.

My argument is that, if the UK were to benefit, whether by €66 million, €10 million, €5 million, or whatever it might be, 100 per cent of that should come to Scotland, because the only reason why the UK qualifies under the convergence criteria is as a result of the Scottish statistics. If we take Scotland out of the UK, the UK does not qualify. With Scotland as part of the UK, the UK qualifies. Given that, as we said earlier, Scotland has the fourth-lowest level of single farm payment in Europe, I argue that 100 per cent of that money should come to Scotland. That would at least give us some benefit, albeit that it would not be the benefit that we would get if we were a member state. The convergence debate is interesting for Scotland and has a direct impact on Scotland. Imagine the boost that we could give to farms in certain parts of Scotland if that extra resource was available to us.

The Convener: Margaret McDougall will lead on rural development.

Margaret McDougall (West Scotland) (Lab): We have spoken about the importance of increasing the size of pillar 2 funding and the priority that the Scottish Government is giving to that. Do the recent cuts to agri-environment funding, which were justified on the basis that demand has been met, undermine the argument for greater levels of support?

Richard Lochhead: Certainly not. The demand on rural development funding goes across a range of budgets. As you know, in the current rural development programme, we can constantly shift resources from one budget heading to another, depending on demand. Therefore, given the limited overall pot of money, we had to consider how much would go into the agri-environment budget heading, for instance. We had to calculate what we thought future demand would be, and the figures in the budget are based on that expectation. So far, we are comfortable with where that is going and there is no sign that we have miscalculated, although time will tell. If need be, we would have to revisit all the budget headings, although we have limited ability to do that because of the declining budget overall and the fact that the rural development programme is coming to an

end, which means that, as the money is used up, we have less ability to manoeuvre.

Our case for a more justifiable rural development budget is cast iron. The only reason why we have a poor level of rural development funding—not only is the UK the lowest in Europe, we are the lowest in the UK, which makes us the lowest of the low—is that past UK Governments negotiated badly on Scotland's behalf. We have to change that. The grain of comfort that we can take from the current negotiations on the rural development budget is that in future it should be based not on historic expenditure but on more objective criteria, which will give us an opportunity to negotiate a more justifiable budget.

Other member states that are the same size as Scotland and which are no more rural get literally billions of euros more than Scotland does for rural development expenditure. That expenditure is not just for farms—it is for things such as village halls, community facilities, environmental schemes and forestry. At present, all those sectors in Scotland are losing out because of poor negotiations by past UK Governments. I hope that we can use the opportunity of the new CAP to change that.

Margaret McDougall: Basically, you are looking for quite a few changes in the SRDP.

Richard Lochhead: In relation to the budget criteria and budget calculations, we feel that we need the UK Government to fight vigorously for a much better share of the rural development budget for Scotland.

Margaret McDougall: The delays that occurred when the current SRDP was established were in part because of problems with the computing and administration system. How will the Scottish Government ensure that that will not be repeated? How will administration in general be simplified?

Richard Lochhead: It is important to put on the record that the delay in implementing the rural development programme was experienced by many other countries and by other parts of the UK, as I think Jim Paice acknowledged last week in his evidence to the committee. The delay occurred in many countries and was partly caused by the delay in getting the budgets passed in Europe. Following that, we had to submit our rural development programme, which it then took months and months for the Commission to give the green light to. We then had to implement it in Scotland. I am not abdicating all responsibility for any of the delay, but the delay that we experienced was experienced by many other Administrations in the UK and beyond.

Some of the delay that we were responsible for was to do with the computer and information technology systems and the complexity of the rural development programme, which was agreed

before we came into office. As I said, it was like getting a new car with a fancy new engine but finding that no one had tried the ignition. We were left to try the ignition and we found that some fine tuning was required to make it work. That situation was not of our making.

You are right that the focus must be on ensuring that the next SRDP is fit for purpose. A lot of effort will be put into achieving that goal. The simpler the programme is, the easier it will be to implement. The IT systems had to cope with the complexity of the current SRDP. A lot of effort will have to be put into ensuring that we get that right the next time.

Margaret McDougall: Are you getting the feeling that everyone is of the same mind? Does everyone want the programme to be simplified so that it is easier to administer?

Richard Lochhead: The general feedback that I get from all the stakeholders is that the SRDP has made a world of difference to many sectors and has been very worth while but that some of the pain and the delays that the bureaucracy has caused could have been avoided. We are concentrating our efforts on ensuring that the next SRDP is more focused and simpler and on finding the investment to invest in new IT systems to deliver it.

Claudia Beamish: I take your point about the simplification of the SRDP, but there are two issues that I want to highlight. The first relates to the concern that exists not just in Scotland and the UK but throughout the EU about meeting the biodiversity targets. How can we bring that into the new scheme? The second relates to the general concerns about rural deprivation. How can the scheme help to regenerate and develop our rural communities?

Richard Lochhead: As you said, the biodiversity targets are a challenge that all countries in Europe face. The fact that every country missed its targets says more about the targets than it does about the performance of individual countries and shows how difficult a debate it is, especially at a time of climate change. My bugbear has always been that, although biodiversity targets are important for focusing our minds, the big challenge that we face is climate change. As the climate is changing, it is becoming more difficult to predict biodiversity, which means that it will be difficult to achieve our biodiversity targets or to have the right targets in place. In my view, we need to focus on climate change and do what we can to address biodiversity.

The next SRDP should take the biodiversity targets into account. A lot of good work is being done through our biodiversity strategy. For example, we must ensure that every farm in Scotland is playing its role. That is another

justification for greening the CAP. I do not pretend that there are any easy answers on the biodiversity challenge, but I hope that the committee can help us to plot a way forward that allows us to do well.

It is worth noting that the RSPB commented on the fact that the farmland bird populations are now healthier and that the trend is going in the right direction. We should look at the positives as well as the negatives, because there are some good-news stories out there.

Your other question was about regenerating rural communities. Will you clarify exactly what you were asking about?

11:30

Claudia Beamish: You mentioned support through the SRDP for village halls. I wondered whether there are other areas that you believe it might be helpful to consider in order to address issues such as rural isolation and supporting young people to stay in the area.

Richard Lochhead: We have to have a debate to focus the SRDP on what we want the outcomes to be in rural Scotland. I do not think that we should radically change everything that we have in the current SRDP, as much of it is arranged along the right lines. However, we must first consider the big picture of rural development policy and then work out how the SRDP can support that. As you know, I feel that the rural development policy should be based on putting communities in control of their own assets, either through ownership or through the building of new assets. Connectivity should be taken into account, too, and is being supported across Government. The food and drink sector and the use of our natural resources for economic development make up another big element of our rural development policy. The SRDP should continue to support that by working with agriculture and local food interests and helping innovation in the food and drink sector and the associated tourism sector.

Jim Hume: You mentioned the RSPB and the agri-environment cuts by the Government this year and in previous years. You said that those cuts were demand led, but the RSPB heavily criticised the Government and said that it had altered demand by changing some of the criteria for agri-environment schemes such as hedgerow management. How would you react to that criticism?

Richard Lochhead: We will take that criticism on board and think about it. If we need to revisit that issue, we will do so. I will not sit here and say that we get everything perfectly right all the time. However, we usually have a reason for making such changes, such as a lack of demand or

feedback from stakeholders. We do not change these schemes without having some sort of evidence that we should do so.

Jim Hume: Why was hedgerow management, which had been one of the most popular agri-environment parts of the scheme, taken out of the arrangements?

Richard Lochhead: I cannot quite remember the details, but I am happy to write to the committee on that point. I remember that there were some aspects that were not attracting interest, which is why some of the criteria were shifted. We do not shift the criteria to try to reduce demand, *per se*. It is a sort of chicken-and-egg situation—if we make changes because of a lack of demand, and that lack of demand continues, people will blame the lack of demand on the changes that we made. I understand that. However, I will examine the issue and get back to the committee.

Margaret McDougall: The UK minister said that small farmers should not be exempt from the greening requirements. What are the Scottish Government's views on that?

Richard Lochhead: I would be uncomfortable with simplifying certain payments to such an extent that we were not expecting the public to receive anything tangible in return. I understand the minister's concerns. I will need to reflect on the issue, but I think that he has a point. The whole purpose of the small farmers scheme is to have a simplified scheme, because it involves much smaller payments that do not have the same levels of bureaucracy and conditions attached to them. We have to work out what that means in the Scottish context. Small farming has a lot of potential in Scotland and is something that we support. However, we have to have a debate about whether we want any conditions attached to such payments. I have some sympathy with the minister's comments.

The Convener: On the rural development programme, the complexity of the forms has been mentioned and stakeholders have suggested that the committee might like to see what the current forms look like. I will suggest that we build into our work programme an assessment of what the forms have looked like and what they look like now. I hope that we will also be able to take a look at the potential new forms, or at least be told what amendments to the forms are being considered. That will be later in the year, but I think that it is essential that the members of the committee are able to discuss with the public how complex the forms are.

Richard Lochhead: The complexity of the forms and the application process has been a huge frustration.

I should say that we are clearly talking about rural priorities here, which are just one part of the programme. We should not tar the whole programme with the same brush. Many parts of the programme have worked completely fine, but the rural priorities area has had an element of bureaucracy attached to it.

I am happy to ensure that all my officials are available to meet the committee and ensure that you are given an insight into what is happening behind the scenes to address the issues. I have already instructed officials to find ways of simplifying the form filling and the application process. I want our work in this area to be guided by the users on the ground, such as the village hall committees and others who have experienced the programme. That is important. I welcome any input from the committee in that regard.

The Convener: I think that we have dealt with the subject on which we have to make a report. I thank the cabinet secretary and David Barnes for their fulsome evidence. I recognise that we will be able to share our views with the Government and contribute to what will hopefully be a much more positive approach in future—not that the approach has not been positive and supportive of our rural areas and agriculture; I simply hope that we can make it even more effective.

11:37

Meeting continued in private until 12:09.

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