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Pàrlamaid na h-Alba

Official Report

RURAL AFFAIRS, CLIMATE CHANGE AND ENVIRONMENT COMMITTEE

Wednesday 17 April 2013

Session 4

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RURAL AFFAIRS, CLIMATE CHANGE AND ENVIRONMENT COMMITTEE
13th Meeting 2013, Session 4

CONVENER

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

DEPUTY CONVENER

*Graeme Dey (Angus South) (SNP)

COMMITTEE MEMBERS

*Jayne Baxter (Mid Scotland and Fife) (Lab)
Claudia Beamish (South Scotland) (Lab)
*Nigel Don (Angus North and Mearns) (SNP)
*Alex Fergusson (Galloway and West Dumfries) (Con)
*Jim Hume (South Scotland) (LD)
*Richard Lyle (Central Scotland) (SNP)
*Angus MacDonald (Falkirk East) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Claire Baker (Mid Scotland and Fife) (Lab) (Committee Substitute)
George Lyon MEP
Ronan McGarry (Scottish Government)
Paul Wheelhouse (Minister for Environment and Climate Change)

CLERK TO THE COMMITTEE

Lynn Tullis

LOCATION

Committee Room 1

Scottish Parliament

Rural Affairs, Climate Change and Environment Committee

Wednesday 17 April 2013

[The Convener *opened the meeting at 09:30*]

Decision on Taking Business in Private

The Convener (Rob Gibson): Welcome to the 13th meeting in 2013 of the Rural Affairs, Climate Change and Environment Committee. Members and the public should turn off mobile phones, BlackBerrys and so on as leaving them in flight mode or on silent will affect the broadcasting system. We have received apologies from Claudia Beamish; we wish her well and welcome her substitute, Claire Baker, to this morning's meeting.

The first item is for the committee to decide whether to take agenda item 5, which is consideration of the work programme, in private. Are we agreed?

Jayne Baxter (Mid Scotland and Fife) (Lab): No.

The Convener: Do you wish to say something about that, Jayne?

Jayne Baxter: Having studied the work programme, I genuinely cannot think of any reason why we should not discuss it in public. It is simply a list of topics. We will not be discussing those topics or the surrounding issues in any detail; we will simply be agreeing the list, and I see nothing in it that is sensitive or which needs to be discussed in private. Because I cannot think of any reason to justify our taking the item in private, I think that we should do it in public.

The Convener: Do other members have any comments?

Alex Fergusson (Galloway and West Dumfries) (Con): Although I entirely understand where Jayne Baxter is coming from, I might want to say certain things in private during a work programme discussion that I would not wish to say on the record. I think, therefore, that we should stick with the tradition of holding work programme discussions in private.

Graeme Dey (Angus South) (SNP): Although I understand Jayne Baxter's view, I endorse Alex Fergusson's comments. I have to say that, over the past two years, I have found it extremely helpful to discuss the work programme in private because it allows the Scottish Parliament information centre representative and the clerks to participate in the process. Because I find that input extremely valuable, I concur with Alex Fergusson.

Claire Baker (Mid Scotland and Fife) (Lab): I support Jayne Baxter. On those occasions when the work programme is more undefined than what we have before us, there might be a case for taking the discussion in private. Today, however, we seem to be agreeing a list of topics that has previously been discussed by the committee. As a result, I think that we should take the discussion in public.

Angus MacDonald (Falkirk East) (SNP): Given that all the committees on which I have served have taken items on the work programme in private, I concur with Alex Fergusson and Graeme Dey. I have to say that it is a bit presumptuous to assume that members will not want to ask questions and I therefore support the view that the work programme should be discussed in private.

The Convener: Arguments have been advanced on both sides. Jayne, are you convinced that the majority of the committee do not agree with your position?

Jayne Baxter: Apparently so, but I maintain my position and ask that the work programme be considered in public.

The Convener: Then we will move to a vote on taking item 5 in public.

For

Baker, Claire (Mid Scotland and Fife) (Lab)
Baxter, Jayne (Mid Scotland and Fife) (Lab)

Against

Dey, Graeme (Angus South) (SNP)
Don, Nigel (Angus North and Mearns) (SNP)
Fergusson, Alex (Galloway and West Dumfries) (Con)
Gibson, Rob (Caithness, Sutherland and Ross) (SNP)
Hume, Jim (South Scotland) (LD)
Lyle, Richard (Central Scotland) (SNP)
MacDonald, Angus (Falkirk East) (SNP)

The Convener: There are two members in favour and seven against, so we will take the item in private as usual.

Common Agricultural Policy

09:33

The Convener: Item 2 is an evidence-taking session via videoconference with George Lyon MEP on common agricultural policy reforms. I remind members that because of the technical aspects of the video link, there will be a delay between the end of members' questions and Mr Lyon hearing and responding to them, as well as a delay the other way. Because we are using a video link, it is important that no one tries to speak over anyone else. As a result, members should speak only if I call them to do so and they should not try to interrupt a colleague or, indeed, Mr Lyon, as that will affect our ability to hear the answers. We have allocated roughly an hour for questions, but George has indicated that he needs to go to a vote before that hour is up.

I welcome to the meeting George Lyon, whom I officially wish good morning.

George Lyon MEP: Good morning, convener.

The Convener: As agreed, members will have a chance to ask their questions after I ask an opening question.

Looking at the big picture, can you tell me the benefits of the new CAP reform for taxpayers, farmers and the environment?

George Lyon: It all depends on the outcome of the negotiations. We are in the second half of the game, so to speak, and the objective of the Irish presidency is to complete the final text by the end of June. That means that between now and June there will be 34 trilogues in which the Council of Ministers, the European Commission and the European Parliament negotiators will sit down and try to thrash out a common text. I hope that at the end of the process we will have a support system that ensures a relatively level playing field across Europe with regard to the amount of support going into each country, and much more sustainable agriculture through the incentives in the CAP. After all, one of the great challenges is to ensure that our food production system becomes much more sustainable to meet the rising challenge of growing worldwide demand and the need to cut the resources that the industry uses to produce its food.

We also want to ensure that the industry is market focused, that the agreed regulations and legislation do not create any barriers to trade across Europe and that Scotland is able to take advantage of the huge opportunities that will exist as a result of the growing worldwide demand for food over the next 30 years.

The Convener: Thank you for that. Graeme Dey will ask the next question.

Graeme Dey: Good morning, Mr Lyon. Can you, by way of a scene-setter, apprise us of the latest news from the European Parliament about approval of the budget and give us a general feel for where you think it is headed?

George Lyon: I should say that I also wear the hat of vice-president of the European Parliament's budget committee. The state of play with the budget negotiations is that on 7 and 8 February the heads of state agreed the Council side of the argument. However, in that new budget, the amount of money in heading 2—in other words, the CAP budget—drops substantially.

The Parliament's position is that it is not ready to agree that budget proposal. We have instructed our three negotiators to sit down over the next three months and negotiate with the Irish presidency greater flexibility in how the budget is spent and a mid-term review to allow us to look again at the budget when, as is hoped, economic times improve. We should remember that this is not an annual but a seven-year budget. No Government in the world has set an austerity budget for the next seven years, and we will need another opportunity to open up the debate. That will probably be linked to discussions about closer monetary union.

The third element, which is very important to the Parliament, is flexibility in managing the budget process. At present, the Parliament does not even have the Scottish Government's flexibility to move money between headings in-year and it cannot roll over end-year underspends, which are always returned to member states. Given the tightness of the budget, we believe that flexibility will be important.

I hope that, once the negotiations are finished, there will be a vote in Parliament by the summer to confirm the budget agreement. However, that could slip into September if negotiations prove difficult.

Graeme Dey: Thank you. What is your best guess on whether agreement will be reached through the negotiation process?

George Lyon: Agreement on the budget may well be completed by July, but there is no guarantee. The negotiations on the CAP reform will run in parallel with that. The Irish presidency hopes to complete the legislative agreement by the end of its presidency. That is quite a tall order but it is not outwith our grasp, provided that there is willingness to compromise on both sides.

We have already started the trilogues on the direct payments dossier, which I took part in last Thursday, and we have another negotiation tomorrow. The first indications are that the negotiations will be quite constructive. There is willingness on all sides—the Commission, the Council and the Parliament—to try to make progress because, at the end of the day, farmers and the rural businesses that are affected by our decisions need certainty to plan ahead.

It is absolutely essential that we try our best to complete the process by the end of the summer so that people can plan ahead for the introduction of the new programmes, beginning on 1 January 2014 for the rural development structural funds, with the introduction of the new direct payments taking place in 2015.

Jim Hume (South Scotland) (LD): Good morning, George. How much is Scotland likely to get from pillars 1 and 2 of the CAP for the new 2014 to 2020 period, and how does it compare with 2007 to 2013?

George Lyon: The final figures for what each country might get have not been published. Of course, there will be no overall agreement on the total sum for the European budget until the Parliament votes on it. However, we can be reasonably certain that the figure of €363 billion that was allocated to the common agricultural policy in the heads of state meeting on 7 and 8 February will not change terribly much. If that figure stays as it is, the cut in the direct payments part of the budget will be about €58 billion, which is a real-terms cut of roughly 12 to 13 per cent.

The rural development budget is likely to suffer a similar reduction. Until the allocations for each country are published, it is difficult to tell what the impact on Scotland will be, but clearly the budget will be reduced. I am one of the shadows on the 2014 budget and the Commission already has a proposal on the table to cut direct payments across Europe by 5 per cent for the coming year. That would affect farms that receive payments of more than €5,000. Those that receive payments of less than that would be exempt under the proposal that the Commission has put forward. We will oppose that proposal because it would hit Scottish farmers, and United Kingdom farmers in general, disproportionately because of our bigger farm sizes.

Jim Hume: You mentioned the pillar 2 funds. There is not much clarity at present about how they will be allocated. Are there any early signs about that?

George Lyon: Clearly, it was part of the deal in the negotiations that took place on 7 and 8 February. We still do not have published figures to show what that means for each individual country. We are waiting for those figures and until we get them we will not be able to engage in the negotiations.

We have seen some rough figures on direct payments and, as I recall, it looks as if the cut to the UK funds is somewhere around 4 or 5 per cent. However, that estimate was done by an outside organisation. Until we see the Commission's figures it is difficult to tell exactly what the final outcome will be.

Jim Hume: I get quite a few questions from farmers about what they need to do to prepare for the changes. Can you give any advice on that?

09:45

George Lyon: Farmers ask me all the time about how they should prepare for the new system. In particular, they are concerned about the move away from the historic payment system that the Scottish Government backed in 2004-05 to the new area-based payment system that is envisaged under the reform, which will basically mean a huge redistribution of money between farmers and, potentially, different areas in Scotland.

We have tried to ensure in the negotiations here that the Scottish Government will have the utmost flexibility to implement that in Scotland as sympathetically as it possibly can. However, the key thing for most farming businesses in Scotland is to know the Scottish Government's plans for implementing the changes. The Welsh Government has published a discussion paper and its minister is wandering around Wales taking farmers' views on the subject. Until the Scottish Government tells us exactly how it plans to use the flexibility to implement the new system, how long the timescales might be and how many regions there will be in Scotland, it is difficult to answer farmers' questions about what actions they should take to plan for the big change that is coming down the track.

The Convener: You referred to the Government being sympathetic to farmers. Which farmers would it be sympathetic to in those circumstances, given the exercise that the Scottish Government did some years ago, via Brian Pack, on how the new area-based payments should be set out?

George Lyon: It will be for the Scottish Government to decide how to introduce the changes. Brian Pack set out some ideas back in 2010. Clearly, the package that we have on the table is different from some of the plans that he set out—for example, the amount of cash that is available is different.

We are getting to the stage at which farming businesses need to plan for changes that are 18 to 20 months away. The sooner the Scottish Government sets out detailed plans on how it will implement the changes, the better prepared farmers will be to make the relevant changes to their businesses to accommodate them.

The experience from England and Germany, where the changes have already taken place, is that farmers need at least six or seven years to adjust their businesses to the big changes in the payments that they will receive over that period. It is therefore essential that the Scottish Government gives the industry a clear indication of its future plans, because there is a lot of flexibility in how the changes might be implemented and we need to know how it might be used.

The Convener: I am sure that we will ask all our witnesses about that topic, including the Cabinet Secretary for Rural Affairs and the Environment.

Alex Fergusson: Convener, the discussion has moved on to the topic that I was going to ask about, so I wonder whether I may put my question to the witness.

The Convener: Please do.

Alex Fergusson: Good morning, George. The understanding has always been that the transition from historic to area-based payments will be completed by 2020. Is there any flexibility in that? To what extent is it up to the Scottish Government, or Europe, to front load, equalise or indeed back load the transition? Will you expand on that?

George Lyon: The European Parliament and the agriculture and fisheries council have taken the position that all member states must, depending on the start year, take a first step in 2014 or 2015 to move away from historic payments. By and large, the Parliament and Council position is that it will then be up to member states to decide what steps are taken and the pace of change. Indeed, under some of the options on the table, they will not be required to complete a full transition to equalising the payments across each of the regions that are set up in the country concerned. Therefore, there is huge flexibility with regard to how quickly the transition is implemented and whether the full equalisation of payments in a particular region is completed. There is also tremendous flexibility for member states to set up as many regions as they choose.

The other flexibility that will be offered is the ability to top up the payment for the first 50 hectares. That has been put on the table by the French Government, which envisages that people would get double the regional payment for the first 50 hectares and the average payment for every hectare after that. Without doing the modelling, I have no idea whether that would be of any advantage to Scotland. The French are introducing it because they believe that it will take money from their arable areas and transfer it to their livestock areas.

The answer to your question is that there is a huge amount of flexibility. There will be no requirement to equalise the payments over the period to 2020. I think that the final outcome will be that payments should be within 20 per cent of the average—20 per cent below it or above it. That will minimise transfers between farmers.

Alex Fergusson: Okay. Thank you.

Jayne Baxter: Good morning. What are the implications for Scotland of the positions that the Parliament and the Council have taken on the transfer of funds between the pillars of the CAP? How will that affect the Scottish Government's ability to fund the next Scotland rural development programme? Will current levels of modulation be allowed to continue?

George Lyon: The Council's proposals on flexibility are slightly different from those of the Parliament. The Parliament proposes that member states should have the flexibility to transfer 15 per cent of the direct payments into rural development funding provided that they provide matched funding—in other words, that they put £1 of their own money on the table for every £1 that they transfer. In addition, member states whose average direct payments are below the European average are to be allowed to transfer 10 per cent of their rural development budget back the way into direct payments. The United Kingdom would come into that category—it would be allowed that flexibility.

The Council's position is different, in that it says that member states should be allowed to transfer 15 per cent of direct payments from pillar 1 to pillar 2 without providing any matched funding. That would mean that they would be able to transfer the money straight over to the rural development budget without having to top it up from national funds. The Council also proposes to allow all member states to transfer 15 per cent of rural development funds back the way. I think that the Parliament will take a pretty tough line against that, because we believe that it would lead to huge distortions in the application of the policy across Europe.

Jayne Baxter: That is fine—thank you.

The Convener: Is it the case that the transfer of up to 25 per cent of funds between pillar 2 and pillar 1 is being discussed?

George Lyon: That is correct. In addition to the 15 per cent proposal for every member state, there is the ability to transfer 10 per cent for member states whose payments are below the European average. I should have made that clear. In total, therefore, 25 per cent of funds could be transferred from pillar 2 to pillar 1. The UK would be one such member state, but it is mostly the eastern European states that fall into that category.

The Convener: Thank you for that. We move on to the next question, which is on process issues.

Angus MacDonald: Good morning, Mr Lyon. You mentioned that you hope that a final agreement on CAP reform will be concluded by the summer. As we know, that is certainly the wish of the Irish presidency. You also mentioned that the on-going negotiations between the Parliament, the Council and the Commission on a final deal are going well, but that it is clear that there are some sticking points. What are those sticking points?

George Lyon: The major differences are on the level of flexibility to transfer funds between pillar 1 and pillar 2. If that is changed one way or the other, it will have huge implications. That is one of the big battlegrounds.

The second big sticking point relates to the capping of payments. The Council's position is that the application of a cap by member states should be voluntary rather than mandatory, whereas the Parliament's position is that it should be mandatory. There is also a voluntary/mandatory argument on the young farmers support scheme.

On greening, the Council's position builds in much more flexibility, as farmers with agri-environmental schemes and certified schemes would be able to qualify for the greening payment. The Parliament originally took that position in the vote in the Agriculture and Rural Development Committee, but that was reversed in a vote in the Parliament. Therefore, our position on greening provides for far less flexibility. Regarding flexibility for implementing the change from historic to area-based payments, both the Parliament and the Council are in a similar position.

On double funding, which is whether farmers can receive funding both for an agri-environmental scheme and for greening under pillar 1, the Parliament's position is utterly against that. The Council is slightly in favour of double funding, which I find difficult to justify.

The final big area of difference relates to the regulation of the marketplace—the so-called single common market organisation legislation—on which the Parliament has taken an extremely protectionist position. Some people argue that the legislation could give powers to renationalise some markets within the European Union and it will certainly allow countries to put up serious barriers to free trade. For Scotland and the United Kingdom, as major exporting countries, that would be a disastrous outcome. The Council position is very much against that protectionist route, but Michel Dantin managed to secure backing for that southern agenda by a reasonable majority in the Parliament.

Those are the key discussions that have still to be thrashed out over the next two and a half to three months.

Angus MacDonald: That is quite a list of sticking points, given that we need to have a solution by the summer. Will a solution to the double funding issue be secured before the summer?

George Lyon: I think that the position on double funding is really clear. Under World Trade Organization rules, double funding would be struck down if a complaint was made to the WTO panel. Although a majority in the Council appear to be in favour of allowing double funding, the idea would be open to challenge right away. Therefore, I believe that sense will prevail. The Commission and the Parliament are utterly against double funding, so I hope that the Council will be forced to back down.

Angus MacDonald: I know that you have criticised the European Parliament for failing to listen to reason on the proposals relating to the electronic identification of sheep. You have also raised concerns about the return to wide-scale use of intervention and storage, which you have warned could take us back to the bad old days of milk lakes and food mountains. On those two examples—on including EID in cross-compliance and on intervention—what can be done to address your concerns, or is it too late for that?

George Lyon: The vote in the Parliament was disappointing, given that the Agriculture and Rural Development Committee had voted to delete EID from the cross-compliance proposals, which would have given us a strong negotiating position to try to force the Commission to try to do something about the practical challenges of implementing that cross-compliance requirement. That has now been lost because none of the big political groups in the Parliament supported that deletion. The Greens, the European People's Party and the Socialists all voted the proposal back into the text, so we now have no negotiating position on that whatsoever.

The issue about intervention buying relates to the argument on the single CMO. The Council and the Commission are utterly opposed to that reregulation of the marketplace. From our perspective, one hopes that they prevail in that negotiation.

Richard Lyle (Central Scotland) (SNP): Good morning, Mr Lyon. Basically, the new CAP will not be implemented in 2014, so transitional measures will apply. What do we know about the implications of those for rural development? What will the implications be for Scotland as a whole?

10:00

George Lyon: It certainly looks as though the new legislation on direct payments will not be implemented until 2015. Given that we do not yet have a final agreement, I think that that is wise, because it will take a significant amount of time to implement the new changes. Lessons can be learned from England, where the change from historic payments to area payments was a disaster. There has to be a lot of careful thought, and there will have to be quite a significant investment on the part of the Scottish Government to ensure that the information technology systems can cope with the change. Germany is the model for that.

All that will happen in rural development is an extension of the current programme for an extra 12 months, until the new one comes into play. A lot depends on the negotiations and how quickly they progress. I think that the Commission is hopeful that, if agreement can be reached by summer, it might be possible to implement the new rural development programme in time for the beginning of 2014. It might be that it goes ahead even though the direct payments package is not brought into being until 2015. A lot depends on the outcome of the negotiations. I imagine that the Scottish Government is already starting to work up the new rural development programme, given that it is not a contentious legislative proposal and, by and large, there are not a lot of big, challenging issues within the legislative package. With some certainty, you could start to prepare for the new rural development programme starting in 2014. Clearly, the minister would be able to tell you better whether that has been planned already by the Scottish Government.

Richard Lyle: What will the implications be for agri-environment schemes and will the transitional measures allow new applicants to enter schemes?

George Lyon: Are you talking about new entrants for the direct payments or new applicants for agri-environment programmes?

Richard Lyle: New applicants for agri-environment programmes.

George Lyon: Clearly, if a new programme is to be implemented, it will be opened up for bids. I do not know whether a points system will be used to decide who gets what. A lot depends on how much money has been put into the programmes, the size of the budget and what points system is used to ration the distribution of the money—in the past, the habit has been to use a points scheme, because there has not been enough money in the schemes.

Again, it is for the minister to make those decisions. I do not know what his plans are.

The Convener: Will the transitional measures have an effect on the point at which new entrants to the CAP become entitled to take part?

George Lyon: In terms of transitional measures, there will be no opportunity to deal with those who have no single farm payment until the new system comes in. In the Parliament text, we have tried to introduce new entrants as one of the priorities for the young farmers scheme, so young farmers and new entrants should get that help. Secondly, we tried to draw the national reserve article as widely as possible to ensure that anyone who currently does not have an entitlement qualifies. Of course, the test for that is having claimed one entitlement in one of the three years—2009, 2010 and 2011—and having made a claim in the 2015 claim year, if it is decided that that is the year in which it will go ahead.

We have also ensured that member states can use the national reserve in year 1 and in subsequent years, as we wanted to address the concerns about the farmers who have no entitlements due to the fact that they are unable to register for them in the first instance.

The Convener: Alex Fergusson has a question about changes to pillar 1.

Alex Fergusson: As I said earlier, I think that that subject has been largely covered. I am quite happy to leave the matter there, unless anyone else has any questions to ask.

The Convener: Claire Baker has a question.

Claire Baker: My question is relevant to the issue of the transition. There has been a proposal from some farmer representation unions about what has been described as an Irish tunnel approach, which would give a longer run-in to change. How has that proposal been received?

George Lyon: That is part of our text and it is part of the text in the Council proposal. Huge flexibility has been introduced for the movement away from historic payments to area-based payments. That will all be handed down to member states and all the powers will be handed directly to the Scottish Government, so it will not be a decision for the United Kingdom Government. Currently under the devolved arrangements we have Scottish, Northern Irish, Welsh and English CAPs. The decisions and the flexibilities will be for the Scottish Government to take up and run with and it will be up to the Scottish Government to decide how it wants to use them.

The Irish tunnel approach that Claire Baker referred to, which says that by 2020 all farmers must be within 20 per cent either above or below the regional average payment, is in our text and it is in the Council text as well. The impact of that is that some of the historic element of the payment will continue beyond the seven years of the current CAP period.

The Convener: Nigel Don wants to return to the changes to pillar 1.

Nigel Don (Angus North and Mearns) (SNP): Thank you and good morning. What are the implications for Scottish farmers of the greening requirements?

George Lyon: I would argue that the implications for Scottish farmers are reasonably serious. There are three greening requirements and one—which was the Commission proposal—is the requirement for farmers to retain the permanent pasture that they currently have on-farm. There would be very little opportunity to renew that pasture at all. Along with the Council, we have changed that in our text to make it a regional requirement, as it currently is under cross-compliance. That moves it from being an on-farm requirement to a national average, where the requirement is that we keep the same level of permanent pasture as we had in 2014 with some flexibility for renewal—I think about 5 per cent. That is a step in the right direction for Scotland.

On the crop diversification and the ecological focus area proposals, we had a provision in our text, which came from the agricultural committee, that farmers who had 75 per cent grassland and grew less than 50 hectares of crop would be exempted from those two requirements. We lost the plenary vote on that, so our position is still that those farmers do not have an exemption. However, in the Council text that exemption exists and that would be a big plus for Scotland, because we think that those two requirements are unnecessary for predominantly grassland farming, as is mostly the case in Scotland.

The ecological focus area requirement has been the focus of much concern. Our proposal and the Council proposal envisages only a 5 per cent ecological focus area with a review of that 5 per cent requirement in 2017, after a review carried out with the Commission to decide whether to go to 7 per cent, stay at 5 per cent or scale the requirement back if it was found not to be delivering the environmental biodiversity corridors that the legislation envisages. The Council text has the maximum flexibility and ours is closer to the Commission's, which has no flexibility for members states to implement that. Until we see the final outcome, it is difficult to know how much flexibility the Scottish Government will have to respond to the concerns of Scottish farmers.

Nigel Don: Do you share my concern that that flexibility is essential for Scotland?

George Lyon: Absolutely. That is why I fought tooth and nail to get it into our text. I was particularly concerned that a big push by our colleagues in the Green group and in other political groups, who saw that as a weakening of the greening, won out in the plenary vote. We were adamant that the flexibility had to be accompanied by the Commission signing off on any use of that flexibility so that there was a check to ensure that it was not used as an excuse to water down the greening requirement. Thankfully, that flexibility is in the Council text and I hope that when it comes to final negotiations we can agree on the flexibility that is needed to ensure that Scotland and the Scottish Government have the power to implement it in the way that suits Scottish needs.

The Convener: Thank you. We move on to another question in this area from Claire Baker.

Claire Baker: You have spoken about the budgetary constraints that are being faced, but at the centre of reform is the drive towards making sure that we make the best use of public money and that support is directed to where it is most needed. Part of that has been about tackling the so-called slipper farmers. Do you feel that the requirements to ensure a minimum level of activity will go some way towards addressing that?

George Lyon: Yes. Three measures are being offered to member states: the minimum activity test; the test of keeping land in good agricultural condition; and the European requirement to set up a negative list of organisations that are definitely not farmers. That would include golf courses, airports, local authorities and a range of other organisations. That will be a European list. The only question about that is whether member states will have the ability to add to the list or subtract from it. That is a point of argument between the Council and us. We are concerned that if member states are able to add and subtract, they will just empty the list out. We will come round to the position that member states will be able to add to the list as a way forward.

One other proviso will also allow an economic test on those that are caught by that negative list. They will have to demonstrate that they are genuinely farmers. If an organisation has a substantial farming enterprise, whether it be an airport or something else, provided that it can demonstrate that there is substantial economic activity on that land, that will be allowed. I am not 100 per cent sure that that is a good idea and we are still negotiating with the Council on that issue.

Claire Baker: The focus of the debate is on activity, so are you confident that there is enough accommodation in there to meet the needs of farming in more remote areas and some of the challenges that Scotland faces with activity on some farms?

George Lyon: Yes, there is enough flexibility. We have managed to get the Scottish Government's requirements into the text. It is the Scottish Government that will implement the measures and we have given it the tools to stop so-called slipper farmers. We are talking about a uniquely Scottish issue, because a third of our land currently has no claims against it. The practice of people selling up and renting cheap land is a Scottish issue. My Irish colleagues cannot understand how anyone can make any economic sense out of renting land that in Ireland would be €350 to €400 a hectare, and putting a payment on it. It does not make any financial sense so it does not happen in Ireland. We have a unique set of circumstances.

One other flexibility that we have in the text is that member states, indeed the Scottish Government, will have the power to say that there will be a coefficient use of some of that unfarmed land. Instead of 1 hectare qualifying for a payment, it might be 4, 6 or whatever. That is one way of limiting the huge movement of money from productive areas to non-productive areas.

There are a lot of tools in the toolbox and, hopefully, the Scottish Government will be able to use them, but it will be up to the Scottish Government to decide how to do that. Our job is to make sure that the tools are there.

Graeme Dey: Can you outline for us the up-to-date position of Parliament and the Council on coupled payments? Where will we end up in that regard? I am thinking specifically about the possible impact on Scotland's ability to continue the beef calf scheme.

George Lyon: The European Parliament says that you can allow 15 per cent recoupling and you can use it to couple to tobacco, cotton, you name it—every product across the European Union can be recoupled according to our text. To be quite honest, I think that that is crazy, as it takes us back to the bad old days, especially with the subsidising of tobacco and cotton, which we have moved away from doing.

The Council text is an improvement on the Commission text in that it says there should be 7 per cent for those member states that were using the coupled payments previously, and 12 per cent for the two or three member states that had special exemptions previously. I think that the Council text is a reasonable compromise, but there will clearly be negotiation and we will need to see what the outcome is. As far as operating the Scottish beef calf scheme is concerned, Scotland should be able to implement a better scheme under both texts, if the minister thinks that that is appropriate.

10:15

Jim Hume: What are the positions of the Parliament and the Council on capping payments to individual farm businesses and what is the likely outcome?

George Lyon: It is difficult to know. The Council text states that it is voluntary for member states to introduce a cap on payments, while the Parliament text says that it is obligatory and that the maximum is €300,000. I foresee a danger, though, given Scotland's farm sizes. Introducing the principle is fine as long as the cap stays above what the current payments are for any individual farmer, but once the mechanism is there you can ratchet it down as low as you can. The danger then is that all the small farmers in Europe escape the cap but we are penalised.

There is a second argument about capping that concerns me, which is that if we are moving away from income support as being the rationale for direct payments to one of payments for public goods, up to 50 per cent of the new direct payments can be targeted at supporting less favoured area production, young farmers and the greening requirements—payments for environmental services, payments to support the rejuvenation of industry and payments to ensure that we still have production continuing in the upland areas. If we are moving to payment for public goods, I do not understand the argument for capping.

Clearly, if a farmer is delivering X number of public goods, then he should get the relevant payment for that rather than a cap being introduced. I guess it depends on your philosophical outlook whether you believe that direct payments should continue in the future as income support or whether they should move to payments for public goods. Certainly, our political group believes that we need to move in the direction of payment for public goods, of which LFA support is a crucial element.

Jim Hume: Can you guess what the outcome will be? Where do you think we will get to?

George Lyon: I suspect that the voluntary route may be the compromise, but it is difficult to know at this time because we have not even had that discussion in the trilogues yet. Until we see what flexibility the Council has on that and whether Parliament is willing to be flexible, it is difficult to know.

The Convener: What is your view of the idea of publishing the figures on the payments that are received by farmers for their businesses?

George Lyon: Our amendments reintroduced that into the Parliament text. Thankfully, we won that vote in the plenary after the proposal was heavily defeated in the committee. However, there was a last-gasp attempt by the centre-right group to introduce another alternative text that would have hidden the payments again. Thankfully, that now appears to have been defeated by the four other groups in the Parliament. Our position is to publish, but I think that the argument remains as to whether those in the small farmer schemes, who would be about 40 per cent of the farmers in Europe, are exempt. I think that that will be the argument.

The Convener: Thank you for your answer on that point.

As you probably know, the UK Secretary of State for Environment, Food and Rural Affairs, Owen Paterson, visited the National Farmers Union Scotland at the end of last month. Obviously, on subjects such as coupled payments there is a big disagreement between the Scottish approach and the UK one. We talked earlier about what the taxpayer thinks, and in that regard there was an interesting report by Joe Watson in *The Press and Journal* that stated that Owen Paterson

> “views coupling, where subsidies remain linked to production, as difficult to sell to taxpayers who are under pressure because of Europe’s economic woes.”

Would you like to comment on that?

George Lyon: The beauty of the current devolved system is that all decisions are made in Scotland and, provided the flexibility is agreed at the European level to allow Scotland to take different decisions, I am happy for Owen Paterson to have his view and implement it in England. That is his job, and the English situation is totally different from Scotland’s. England has 75 to 80 per cent arable farming and 15 per cent LFA. We are the complete opposite so, as one would imagine, we have a different agenda.

The most important thing is to ensure that we have the flexibility to implement what is appropriate for Scotland. Indeed, the United Kingdom has four different CAPs currently: the Welsh one; the Northern Irish one, which has a mix of area-based payments and historic payments; the Scottish one, which has historic payments and coupled payments as well; and the English one, which is area-based payments alone. Devolution works fantastically well. We have the best of both worlds. I imagine that the Scottish minister would want to use that flexibility to introduce a new Scottish CAP that reflects the challenges that we currently face.

The Convener: Indeed. Thank you for those comments. We will meet Owen Paterson in June in this round of discussions. Do you have any final message to him regarding the UK Government’s approach to the allocation to the share of CAP that is finally agreed?

George Lyon: My view, as I have said many a time, is that, under the current historic payments calculations for the UK, which the Scottish Parliament voted to back in 2004—I remember the vote well; it was unanimous across every party—on an area basis, we have quite a small pot of money in the direct payments.

If Scotland decides to abandon that historic basis for distributing the payments, and if Northern Ireland and Wales do the same—Northern Ireland has partially decoupled already—there will have to be a negotiation within the United Kingdom about what the new distribution key will be. However, that can happen only once we have moved away from historic payments in the three parts of the UK that still retain them. Of course, we could then move from €130 a hectare up to the UK average of €224 a hectare. However, that debate cannot really start until we abolish historic payments in Scotland, Wales and Northern Ireland, and it will only come into force provided we are still part of the UK. If we leave, who knows what the implications will be?

The Convener: That is an interesting point on which to end our discussion. I am sure that we will continue it in due course. We thank you very much for your evidence. It adds to our sum of knowledge and it is good to get an up-to-date view from the European Parliament from you.

George Lyon: I thank the committee very much for its time.

10:23

Meeting suspended.

10:28

On resuming—

Subordinate Legislation

CRC Energy Efficiency Scheme Order 2013 [Draft]

The Convener: Item 3 is subordinate legislation. The draft order has been made under the affirmative procedure, which means that the Parliament must approve it before its provisions can come into force. Following this evidence session with the minister, the committee will be invited to consider the motion to approve the draft order. I welcome the Minister for Environment and Climate Change, Paul Wheelhouse, and his officials from the Scottish Government: Bob Irvine, deputy director, climate change and water industry; and Ronan McGarry, policy adviser in the emissions trading branch.

The Minister for Environment and Climate Change (Paul Wheelhouse): Thank you, convener, and good morning, everyone.

The draft order implements the carbon reduction commitment and energy efficiency scheme simplification. It is a package of measures designed to reduce the administrative burden of the scheme, while maintaining the majority of its emissions coverage. The CRC is a largely devolved scheme, which the Transport, Infrastructure and Climate Change Committee approved in 2010 as a key part of our ambitious climate change strategy. I am pleased to say that there was unanimity at the time and I hope that it will be the same today.

The CRC is a mandatory UK-wide trading scheme that targets large, non-energy-intensive organisations to incentivise energy-efficient practices. There are 132 such organisations that participate in Scotland, including many of our largest private companies and public bodies. CRC participants are responsible for about 10 per cent of the UK's carbon emissions—some 54 million tonnes of carbon dioxide annually—and have an average annual electricity spend of £500,000. Scotland's participants account for about 8 per cent of our national emissions, or 4.1 megatonnes of CO_2.

Following continued stakeholder engagement and dialogue with the UK Government and other devolved Administrations, we committed to simplify the scheme. A public consultation last year led to this draft order. Although the majority of the changes will be brought in at the start of phase 2 of the scheme in 2014, we intend to implement some of the more pressing changes, notably a reduction in fuel coverage from this year so that participants can immediately benefit from the reduced compliance costs.

10:30

Overall, the simplification should lead to an average 55 per cent administrative saving for participants—or £272 million—up to 2030, with net present value of £77 million compared to the existing scheme.

With those changes in place, it is intended that the scheme will be less burdensome for participants, while still encouraging investment in energy-efficient practices, with the associated benefit of lowering Scotland's carbon emissions. I have agreed with my UK and devolved Government counterparts to review the scheme in 2016 to ensure that it is operating as intended. The order has passed without issue through the Northern Ireland Assembly, the Welsh Assembly and the House of Lords. I hope that the committee will also approve the order so that we may enact its provisions.

The Convener: Thank you. I invite members to ask any questions about the draft order.

Graeme Dey: Good morning, minister. You mentioned that the potential impact of the measures might be financial savings for those involved. Is it possible to estimate the positive impact that the measures might have on carbon emissions?

Paul Wheelhouse: There have been some changes to simplify the coverage of the CRC scheme. Some fuels have been taken out, while other areas have been brought in, such as energy consumption by businesses. However, the net impact is broadly the same.

Although the revised CRC scheme will not deliver a substantial change in the emissions reduction, by 2027 the scheme will have contributed substantially to reducing emissions. We estimate about a 10 per cent reduction for the business and public sector as a result of the scheme. It plays a significant role in bringing down UK and Scottish emissions.

Richard Lyle: Good morning, minister. I have two questions, one for the minister and one for Ronan McGarry.

I note that you are from the emissions trading branch, Mr McGarry. Part 4 of the cover note for the draft order says:

> "the administrator must maintain records in relation to allowances."

Do you administer this or is it administered by another body?

Ronan McGarry (Scottish Government): It is administered by the UK Environment Agency, with assistance from the Scottish Environment Protection Agency for Scottish participants. Data on allowances is kept by the Environment Agency in a secure registry.

Richard Lyle: The minister mentioned reductions. Do you just keep a note of those?

Ronan McGarry: Yes. We have access to all the data, but it is kept securely by the EA.

Richard Lyle: My second question is for the minister. Page 11 of the cover note refers to the Scottish Parliamentary Corporate Body. It says:

"The SPCB is required to comply with the CRC. For 2011/12 the cost of purchasing these allowances for the SPCB was £38,136. As a result of a reduction in electricity use by the Scottish Parliament"—

which I am sure is welcomed by everyone in the building—

"it will not be required to participate in the second phase of the CRC".

Do you think that the lead that the Scottish Parliament has taken in reducing its electricity use may encourage others to do the same?

Paul Wheelhouse: I am grateful to Richard Lyle for raising the performance of the Scottish Parliament. I congratulate the Parliament on a strong performance in the league tables. It is ironic in a sense that it is no longer required to take part in the scheme. It has demonstrated good leadership. The Scottish Government has tried to reduce its own emissions over many years.

On the specific reasons why the Scottish Parliament is no longer required to be covered by the CRC, I will direct the question to Ronan McGarry to answer from a technical point of view.

Ronan McGarry: I have not seen the Scottish Parliament's supplies. However, it is certainly the case that if it has dropped below the threshold for supplies of 6,000MWh a year, it would drop out.

Alex Fergusson: Assuming that the draft order is agreed to, as I am sure it will be, will there be a completely level playing field across all the constituent parts of the UK? In other words, there will be no competitive disadvantages as a result of the scheme.

Paul Wheelhouse: Indeed. It is a UK-wide scheme and the measures apply equally throughout the UK. In that respect, there is a level playing field for all businesses that are covered by the scheme.

Alex Fergusson: So there are no differences between this order and the others.

Paul Wheelhouse: No. As Ronan McGarry has indicated, SEPA has a degree of involvement in that it gives guidance to businesses in Scotland. Other than that, though, the scheme is uniformly applied.

Motion moved,

That the Rural Affairs, Climate Change and Environment Committee recommends that the CRC Energy Efficiency Scheme Order 2013 [draft] be approved.—[*Paul Wheelhouse.*]

Motion agreed to.

The Convener: I thank the minister and his officials for attending.

10:37

Meeting continued in private until 12:06.

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