

# **ENVIRONMENT AND RURAL DEVELOPMENT COMMITTEE**

Wednesday 3 September 2003  
*(Morning)*

Session 2

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## ENVIRONMENT AND RURAL DEVELOPMENT COMMITTEE

### 3<sup>rd</sup> Meeting 2003, Session 2

#### CONVENER

\*Sarah Boyack (Edinburgh Central) (Lab)

#### DEPUTY CONVENER

\*Eleanor Scott (Highlands and Islands) (Green)

#### COMMITTEE MEMBERS

Roseanna Cunningham (Perth) (SNP)

\*Mr Rob Gibson (Highlands and Islands) (SNP)

\*Karen Gillon (Clydesdale) (Lab)

\*Alex Johnstone (North East Scotland) (Con)

\*Maureen Macmillan (Highlands and Islands) (Lab)

\*Mr Alasdair Morrison (Western Isles) (Lab)

\*Nora Radcliffe (Gordon) (LD)

\*attended

#### THE FOLLOWING GAVE EVIDENCE:

Ross Finnie (Minister for Environment and Rural Development)

Jim Wildgoose (Scottish Executive Environment and Rural Affairs Department)

#### CLERK TO THE COMMITTEE

Tracey Haw e

#### SENIOR ASSISTANT CLERK

Mark Brough

#### ASSISTANT CLERK

Catherine Johnstone

Roz Wheeler

#### LOCATION

Committee Room 2



## Scottish Parliament

### Environment and Rural Development Committee

*Wednesday 3 September 2003*

*(Morning)*

[THE CONVENER *opened the meeting at 10:31*]

### Items in Private

**The Convener (Sarah Boyack):** I welcome to the meeting committee members, witnesses and members of the press and public—if any are in the room—and remind everyone to switch off their mobile phones. I have just done so as I was the culprit last time.

Item 1 is to invite members to consider taking in private item 4, which is the draft remit and suggested programme of evidence for the national waste plan inquiry, and item 5, which is on claims under the witness expenses scheme. Item 4 involves consideration of potential witnesses and item 5 involves a discussion of claims for named individuals. Is it acceptable to members that we take those items in private?

**Alex Johnstone (North East Scotland) (Con):** Item 5 is exactly the kind of thing that should always be taken in private. We should take item 4 in private today, but perhaps afterwards we should consider at our leisure whether that was the right thing to do.

**The Convener:** Item 4 includes information about potential committee witnesses. We will have to return to the matter when we decide whom we want to interview and what the scope of the inquiry will be.

## Subordinate Legislation

10:32

**The Convener:** Item 2 is subordinate legislation. We have eight instruments to consider under the negative procedure. They have all been considered by the Subordinate Legislation Committee.

### **Litter (Fixed Penalty) (Scotland) Order 2003 (SSI 2003/268)**

### **Agricultural Wages (Scotland) Act 1949 Amendment Regulations 2003 (SSI 2003/283)**

### **Agricultural Holdings (Relevant Date and Relevant Period) (Scotland) Order 2003 (SSI 2003/294)**

### **Sea Fishing (Restriction on Days at Sea) (Scotland) Amendment (No 2) Order 2003 (SSI 2003/300)**

**The Convener:** We have received no comment on the first four instruments. I will pass on the details of the instruments to the official report, for accurate logging.

### **Urban Waste Water Treatment (Scotland) Amendment Regulations 2003 (SSI 2003/273)**

### **Agricultural Subsidies (Appeals) (Scotland) Amendment Regulations 2003 (SSI 2003/302)**

### **Rural Stewardship Scheme (Scotland) Amendment (No 2) Regulations 2003 (SSI 2003/303)**

### **Oil and Fibre Plant Seeds Amendment (Scotland) Regulations 2003 (SSI 2003/304)**

**The Convener:** During its consideration of the other four instruments, the Subordinate Legislation Committee noted various points about which it was concerned and has drawn them to the committee's attention. The extract of the Subordinate Legislation Committee's report is included in our papers for members' information. Are members content to note the instruments and make no recommendation to the Parliament?

**Alex Johnstone:** I am content with the Rural Stewardship Scheme (Scotland) Amendment (No 2) Regulations 2003, but during our consideration of the budget we might want to consider whether

appropriate priority has been given to the scheme within the overall financial package.

**The Convener:** We will come back to that. It is not a matter for the agenda today, but I am happy to include it in our future programme. As members are content with the instruments and are happy to make no recommendation to the Parliament, that concludes discussion of item 2.

## Convener's Report

10:34

**The Convener:** During the summer recess, I circulated to members a rather large amount of correspondence, mostly in members' circulars. I draw members' attention to the matter of the Scottish Agricultural College. We have had rather a lot of correspondence on that following the witness evidence session that we held at our meeting before the recess.

The most recent letter from Ross Finnie refers to "benchmarking" SAC courses against other educational courses, but that leaves open the question of which courses the SAC courses will be benchmarked against. I recommend that we write back to the minister asking him to clarify the matter, because it will be an important financial issue in the SAC's future plans.

Since we issued the committee papers, I have received another letter from Brian Adam MSP and an e-mail from a member of the public. I recommend that we put the issues that they raise to the SAC and ask it to comment further. That is all that I recommend today but, now that I have circulated all that information, I invite comment from members. We took fairly extensive evidence at our meeting before the recess.

**Mr Rob Gibson (Highlands and Islands) (SNP):** The question of benchmarking requires to be emphasised, especially in relation to the cost of agricultural education. We must stress again that the resource base for agricultural education is unlike that for most desk-top education. When we find out what the costs of the SAC's courses will be benchmarked against, we ought to ask whether the Scottish Higher Education Funding Council supports similar courses and whether we could be given some examples of equivalents for that benchmarking exercise.

**The Convener:** The purpose of writing the letter is to clarify that issue. The SAC's courses could be benchmarked against lecture or class-based programmes, which would be entirely different from more intensive programmes. Do members have any other comments?

I felt that it was important to bring the issue back to the committee, given that we held a formal inquiry before the recess. The minister now has phase 3 of the Deloitte & Touche report, so I imagine that there will be an announcement on the SAC fairly soon. It is important that the final letters go back as soon as possible.

During the recess, I attended a meeting of the Game Conservancy Trust on behalf of the

committee, in my capacity as convener. Many very good discussions were held. I also went on Scottish Environment LINK's farming visit last week.

10:38

*Meeting continued in private.*

11:30

*Meeting continued in public.*

## Scottish Executive Partnership Agreement

**The Convener:** I welcome to the meeting Ross Finnie, who is the Minister for Environment and Rural Development, his officials and members of the public. We will take evidence on the Executive's commitments in "A Partnership for a Better Scotland", relevant extracts of which were circulated to members. I invite the minister to kick off and lead us into a discussion. We wanted to have you at our first meeting after the summer recess and we are glad that you could attend.

**The Minister for Environment and Rural Development (Ross Finnie):** When committee members were gracious enough to invite me to join them for lunch last week, I suspected that there was a catch. There is no such thing as a free lunch, so I realised that my attendance at a committee meeting was imminent.

I am grateful to have the opportunity of sketching how I expect the commitments in the partnership agreement to be developed. I will make a brief presentation that draws together the various strands in the agreement in so far as they impact on the committee's work.

The partnership document does not have separate sections on the environment and sustainable development. Instead, environment commitments appear throughout the document, often highlighted by a symbol. That approach is important, because it elevates the environment and shows that it is not just a narrow focus for me as Minister for Environment and Rural Development. The approach acknowledges that the environment transcends all departments and all ministers, so at the start of the document we reaffirm our commitment to sustainable development and to environmental justice.

A key element is our commitment to strategic environmental assessment. As members know, we plan to go further than the European directive. The matter is complex, but we are determined to deal with it in that way. In that sense, Scotland will take a lead. We have begun work on the complex issue of dealing with those elements throughout the Executive.

In environmental justice, we propose more rights for the public. We shall consult on new environmental information regulations to increase public rights to access such information and on access to courts for non-governmental organisations on some environmental matters.

In the previous parliamentary session, we set out ambitious targets on waste, and the clear task in my department is to ensure implementation of the national waste strategy and to ensure that the targets that we set out in the previous session will be achieved.

The first bill that I will ask the committee to consider will be on nature conservation. We have had a satisfactory consultation and we will take on board many of the excellent points that consultees made. I acknowledge the considerable contribution that they all made. The bill will provide stronger protection of our natural heritage and will ensure that the system of protection is more open, transparent and comprehensible.

On genetically modified organisms, we have committed ourselves rigorously to apply the precautionary principle. We will be pro-safety, pro-environment and pro-consumer choice.

In the previous session, the Parliament passed the Water Environment and Water Services (Scotland) Act 2003. A clear and important commitment for the Parliament will be to put in place the elements of that act in the time frame that the act requires.

We shall continue our commitment to Scottish Water by retaining it in public ownership, improving its efficiency and improving its quality and standards of service. New regulations and a grant scheme to assist users of water supplies that are not connected to the public system will be implemented next year, which I hope will improve the quality of life in rural Scotland.

We will develop a strategy for the management of our coasts by 2006 and will consider whether a national coastline park might offer advantages. I hope to work in close collaboration with the committee on that topic. In a similar vein, we shall look at the case for marine national parks and consider what form of park might be suitable for Scotland.

We shall improve air quality by grant-aiding the cost of fitting vehicles with emission-reduction equipment. We shall also help to establish a sustainable market for alternative clean fuels through the PowerShift and autogas+ programmes.

We will continue to deliver the vision that is set out in "Rural Scotland: A New Approach" by mainstreaming rural issues in the formulation and delivery of policies across all Executive portfolios. The partnership document reflects our commitment to rural Scotland and we will continue to pursue our commitments. We will support innovation and enterprise in our rural communities. We will provide more resources to address transport needs in rural areas by extending the rural transport initiative and improving air, ferry

and bus links. We will encourage rural community planning partnerships to work together to share ideas on rural development. We will increase the availability of affordable rural housing and protect and develop rural services, such as community health facilities.

The Deputy Minister for Environment and Rural Development, Allan Wilson, and I will continue to liaise with portfolio ministers who have the responsibility for delivering some of our commitments. We will ensure that the needs of rural communities are acknowledged, understood and met. We will also continue to seek independent advice from the Scottish national rural partnership on the effectiveness of our delivery. We will monitor progress towards delivery of the partnership commitments in rural areas and disseminate that through an annual report, which we will publish in spring 2004 and each year thereafter.

Strategies on food and agriculture were worked up in the previous session and we must ensure that we continue the drive to deliver those. We will have a more detailed discussion later this morning on the common agricultural policy reform package, which is the result of months of tough negotiations. However, I think that the package contains the foundations and flexibilities to give a boost to Scottish agriculture. The package will provide a framework to allow progress in aspects of our forward strategy, which proposed an innovative approach to delivery through the suggestion of embracing land management contracts.

Land management contracts are a mechanism for delivering support payments to farmers and we will continue to work that up. The key to developing LMCs is accessing sufficient funding that can be deployed flexibly to pay for the different outputs. The CAP reform regime provides opportunities in that direction and we will consider that mechanism in consultation with others. We also have a specific commitment to encourage sustainable agricultural activity within our 13,500 hill farms and we plan to continue to do that, using the less favoured area support scheme.

The food strategy aims to provide targeted support to projects that encourage greater sourcing and processing of Scottish produce, help to achieve sustainable growth through co-operatives and market initiatives and encourage the sale of local produce to local consumers. Quality assurance and improved labelling are also priorities.

Protecting and improving the environment are also a key feature of our agricultural plans. The CAP reform package makes compliance with legal standards for environmental protection—and, indeed, for animal and plant health and animal welfare—a condition for the receipt of financial



support. I believe that that sits comfortably with the initiatives that we have taken or are driving forward.

We used the agricultural strategy to generate the important environmental report "Custodians of Change", which set out an agenda for bringing about environmental benefit. We are engaged in implementing that agenda. Important elements within the agenda are the national strategy for farm business advice and skills, which also extends into environmental practice; the diffuse pollution initiative, which the Scottish Environment Protection Agency operates to determine the extent of diffuse water pollution; and developments on waste management through regulations that incorporate farm dumps within the landfill regulatory regime and amend the waste management licensing regulations.

I recently announced improvements, which I hope the committee welcomes, to the agri-environment schemes. The improvements allowed me to offer funding this year to nearly 99 per cent of those who applied under the rural stewardship scheme—which I think is a huge improvement. That is coupled with the important announcement that we will allow those who are leaving the environmentally sensitive area scheme to have automatic access to the rural stewardship scheme. That extension will help to preserve the benefits that have been built up over the years in the communities where the original scheme operated.

Organic food continues to be an important issue, and we have taken action to implement our commitment to increasing the production of organic food. Our proposals—which are, sadly, still subject to European Commission approval although I expect them to get parliamentary approval—will improve and extend support to farmers who are converting to organic production and will provide new funding for capital costs.

Animal health and welfare are another important area, and we have committed ourselves to introducing a protection of animals bill during this session. The original intention was to draft a bill that would seek to improve the welfare of commercially farmed animals but, following consultation, we are considering extending the bill's scope to include a wider range of animal health and welfare issues.

We have also published an outline animal health and welfare strategy, which has a UK basis as we are a single epidemiological unit. Nevertheless, we are absolutely clear that the strategy will have a Scottish implementation plan. I hope to bring the strategy before Parliament by the end of the year. Animal disease surveillance is mentioned specifically in the partnership agreement, and we are working in a United Kingdom framework to produce a UK surveillance strategy. The strategy

will build on existing surveillance agreements and will place greater emphasis on the dissemination of surveillance information.

On sea fisheries, we are committed to focusing on reform and the implementation of the reforms that have been achieved in the common fisheries policy. Under that commitment, we have undertaken to do three things: first, to maintain the specific common fisheries policy measures that benefit Scotland; secondly, to improve governance; and thirdly, to promote sustainable development. We have protected relative stability, the Hague preference and the Shetland box. We have taken steps to progress regionalisation by promoting regional advisory councils for the North sea. That is taking some time and is proving a little slower than some fishermen in Scotland would wish. Nevertheless, the Executive has been working hand in hand with them to advance the initiative.

Regrettably, the prospects are less secure for the development of our white-fish fisheries. The present rumours are not hopeful and suggest that this autumn's scientific advice may confirm that cod and haddock stocks continue not to be in good condition. Sustainable development implies a fundamental process of balancing the need to take seriously the environmental advice that we receive with the need to sustain communities that are dependent on fishing activity. We are at the early stages of trying to work out how we will negotiate with Europe this autumn. We are pursuing a lot of work in that area and have a long way to go.

Inshore fisheries are recognised, both from a commercial point of view and, crucially, from an environmental point of view, as being of increasing importance. I recognise the fact that a more strategic approach is required if we are to conserve that important resource. Our aim is to identify how we can do that. Because of the difficulty in enforcing regulatory orders, we have made a commitment to provide for greater involvement of the Scottish Fisheries Protection Agency in that work.

We have developed a strategy on aquaculture, but we have a lot of work to do to ensure that the 33 priorities for action that are highlighted in that report are addressed and that the strategy does not become simply a piece of paper that sits on a shelf. Many of those action points are aimed specifically at reducing the environmental impact that is associated with the industry. It is, therefore, crucial for us to make progress on that work.

We are also committed to promoting access to freshwater fisheries for salmon and freshwater fish, commensurate with the need to ensure that such fisheries are sustainable and to improve the management of those fisheries. To that end, we

have engaged stakeholders to establish the size and potential for growth of the freshwater angling sector.

We will consult all sectors—aquaculture, freshwater fisheries and sea fisheries, with a particular reference to inshore waters—on the need for primary legislation and we will produce proposals in the light of that consultation.

We are determined to make a difference and to increase the economic, environmental and social benefits of Scotland's trees, woods and forests through the implementation of the Scottish forestry strategy. We intend to get the best out of our forests through the management of that huge natural resource by providing incentives through the Scottish forestry grants scheme and by working together with a range of partners to implement the strategy.

Finally, one must remember that my department has the benefit of having much of its work underpinned by good science. The agriculture sector, land use more generally, conservation and biodiversity, the natural environment and rural development are all important areas, and are very much underpinned by the high quality of our Scottish agricultural and biological science base. That is achieved primarily through our funding of the Scottish agriculture and biological research institutes, in pursuit of the research strategy that we published in 1999, which we fully implemented. The SABRIs began to undergo rigorous peer review this year. We will publish a new research strategy for the period beyond 2007. However, I remain of the view that policy development must continue to be based on good scientific research.

That was a quick canter—as brief as I could make it—through some of the main issues. It drew together strands from other departments but focused on much that passes through my department. I am happy to take questions.

11:45

**The Convener:** Thank you for your comprehensive overview. The work will keep you and your officials busy, and we will be kept busy with scrutiny throughout the session.

We have a half-hour session before we move on to the common agricultural policy mid-term review. Everyone has a question. We will try to work through all members.

**Alex Johnstone:** I have a series of short questions—to which I hope we can get short answers—to help me understand something a little better. The commitment to 40 per cent renewable energy by 2020 is laudable, but I worry that it may not be achievable. When you say 40 per cent, what projections for electricity demand in 2020 are you working on? Of what is it 40 per cent?

**Ross Finnie:** I have two quick answers. I know that this will be to your enormous disappointment, but in order that the energy division within the Scottish Executive can act in a co-ordinated way, renewable energy is now the fiefdom of the Enterprise, Transport and Lifelong Learning Department, so I am not familiar with the detailed answer to the question. However, I take your point. The Executive consulted on the issue. It is important to note that before we arrived at that figure there was extensive consultation of the industry. We did not simply pluck a figure out of the air; we sought views from the industry.

The big issue is not demand but the drive to induce technological development, not so much on the wind side but in the provision of wave and tidal power. That is why the Executive is committed to the intermediary technology institutes and to the experimentation in Orkney, and why we believe that if the Executive gives a positive response, leadership and direction, and states that it wants that level of renewable energy, there is a real incentive for people to invest in the research and development and technology that are necessary to make that viable. There are great prospects for Scotland.

**Maureen Macmillan (Highlands and Islands) (Lab):** I have several questions, convener. Do you want me to ask them all at once, or do you want to come back to me later?

**The Convener:** I will let everyone have a first round, and then come back and see how we get on.

**Maureen Macmillan:** To start with I have a couple of questions on transport. I received a letter this morning from an Inverness hotelier, who complained about the lack of integrated transport in the Highlands and Islands. Transport services in rural areas are not well enough integrated. What does the Executive propose to do about that? I recognise that you are not the Minister for Transport, but transport has an impact on rural development.

I also want to pick you up on affordable rural housing, which is a tremendous issue in the Highlands and Islands. What contact does the Environment and Rural Affairs Department have with the Development Department and Communities Scotland? What will happen in situations such as those on the edge of small towns or villages, where, because SEPA will not give permission for another septic tank and Scottish Water will not provide sewerage, housing developments are prevented from going ahead?

**Ross Finnie:** There are three questions there. On transport, in the partnership agreement and elsewhere one of the issues that we must resolve is the framework that we need to have. The

Minister for Transport will undertake consultation on what kind of strategic authority is needed. Where strategic passenger authorities exist, some people claim that they work, but others say that they do not. The issue concerns who takes responsibility for ensuring the integration that is sought. Simply leaving it up to the respective operators does not work. That is one of the issues. An even bigger issue for strategic passenger authorities is the way in which investment is co-ordinated at several levels including the operational level. We will come back to the committee with our thinking on that.

I give you an assurance that the rural policy team in my department collaborates closely with the Minister for Communities on affordable rural housing and I discuss the issue with her. Over the past few years, we have progressively increased the budget provision for Communities Scotland in relation to rural areas. It is never enough, but we have made some significant improvement in that spending.

The water sewerage issue is being looked at across the piece by both SEPA and Scottish Water. The huge investment—the detail of which was published yesterday—is primarily targeted at ensuring that we raise the standard and meet certain legal requirements. It does not deal with the issue of the constraints on development, whether in the Highlands, the Borders or elsewhere. That is a matter on which we have asked Scottish Water to report back to us. Previously, we thought that some of the £1.8 billion would address some of those problems. However, it has become increasingly clear that that sum will do no more than meet basic legal minimum requirements by reducing the amount of leakage and renewing facilities that are below standard to get us up to the minimum standard. That is a separate issue on which Scottish Water will report back quite soon.

**The Convener:** Thanks for that detailed prediction.

**Mr Gibson:** I have two questions. First, what efforts have been made, with the UK Government and the electricity companies, to strengthen the electricity grid, given that we are in the process of development of and research into the scheme that the minister mentioned in the Orkneys? Have undersea cables been discussed with the UK Government as an important addition to strengthen the grid?

My second question relates to improving quality of life. What measures does the Executive use to determine economic and non-economic elements in that area? Is the same methodology applied across Executive departments?

**Ross Finnie:** For reasons that I explained in my first answer, I am not up to speed with the most

recent discussions. However, we were notified at an earlier stage of the absolute importance of Scotland and Scotland's position, the condition of the grid being part and parcel of the British electricity trading and transmission arrangements. The way in which those arrangements are structured—in terms of the sharing of costs for the provision of additional capital to strengthen the grid—and the way in which the proposed arrangements might interface with the current renewables obligation certificates will be critical. If there were a dysfunction between those, that could act as a positive disincentive to the production of renewable energy. Unless we ensure that the BETTAs are cross-border arrangements, we will not gain access to the sharing of cost on a national basis. Discussions have taken place to try to secure the necessary infrastructure improvement to the grid. Those discussions, as you rightly pointed out, will be important for the delivery of the improvements.

We use indicators for a variety of purposes, including the measurement of quality of life. You will be aware that we published indicators for sustainable development last year. I made it clear at the time that they were very much a first stab, and they proved to be enormously difficult to get off the ground. Indeed, if we examine what is done in other Administrations in the United Kingdom and in Europe, we discover, when we peel away the results, that establishing indicators is a development process.

I cannot remember the time scale, but I think that I am obliged to come back to this committee or another one to indicate what progress has been made on the indicators and to take on board suggestions on practical ways in which the current indicators could be improved, or on how the list of indicators could be improved without becoming unmanageable. I think that I am committed to coming back on that in the new year. Therefore, the committee will get a chance to feed in what I take are its concerns about how the measurement is being done.

**The Convener:** That will be useful and we will programme it into our timetable. It is useful to have notice of that. Next on my list is Nora Radcliffe. I reassure members that I am working round the committee in order.

**Nora Radcliffe (Gordon) (LD):** I want to pick up and take a wee bit further the research into indicators. "A Partnership for a Better Scotland" talks about meeting the distinct needs of rural communities. Can the minister expand a bit more on what we are doing so that we can be sure that we are picking up the distinct needs of those communities and that our tools for measuring rural deprivation are adequate and effective in a context that is different from urban deprivation?

That is one area of concern. Do you want me to run through my various points on different matters, convener?

**The Convener:** No. I will let you pick only your top other one.

**Nora Radcliffe:** I would like a bit more information about environmental courts and the minister's thinking on what we mean by that. It is all very well having legislation in place along with sustainable indicators and all the rest, but we must have sticks as well as carrots. The bottom line, if we are going to exercise sanctions against people who do not put all those things into practice, is getting time in court. At the moment, we are competing in the ordinary courts with such matters as serious crime against the person. How do we free up court time to have the sanctions taken seriously?

**Ross Finnie:** On the rural deprivation question, some but not all members will be aware that we have devoted considerable resources to that issue within my department and in collaboration with the Minister for Communities. We are trying to develop a range of indicators that would give us a better opportunity of identifying and defining deprivation in rural areas. Indeed, we are at an advanced stage in the finalising of those indicators.

A component of the deprivation index that applies in urban areas—the Carstairs index—simply says that if someone possesses a car, they are given a lower rate in the deprivation index. Given that more people go into debt in rural areas to acquire a motor vehicle because that is their only means of transport, it is clear that that kind of index is wholly inappropriate for rural areas. That kind of simple illustration drove us to develop our own indicators, and we are close to finalising that process.

The work on the indicators has been difficult because, as members will know, there tend to be pockets of deprivation in urban areas, whereas deprived rural areas tend to be close to, and closely integrated with, areas that would not be described as deprived. Therefore, it is more difficult to identify deprived rural areas. I think that members of the previous Rural Development Committee highlighted that point. We have had to engage with people in the academic world who have expertise in that area. We are at an advanced stage in the process of obtaining a range of indices that will enable us to recognise where rural deprivation exists. I hope that those indicators will be a huge improvement and will assist us both in policy development and in making decisions about funding allocations.

**Nora Radcliffe:** Deprivation is one thing. A realistic estimate of the cost of service delivery in rural areas is another. Is work being done on that issue?

12:00

**Ross Finnie:** Yes, that is a continuing process. The Scottish Executive Environment and Rural Affairs Department—both ministers and officials—is engaging with every other department on policy delivery. The general policy is agreed, but we are asking about the way in which it is delivered and the mechanism for delivery, and whether that mechanism gives rise to additional cost. Because we have a set of ministers who are much more acutely aware of the rural dimension and who can be badgered by SEERAD, the issue of service delivery is progressively becoming part of our thinking.

We are in discussions about justice with the minister responsible. As has been said, there are issues associated with establishing a system that would give more prominence to environmental matters. Our discussions with the Justice Department are at an early stage.

**Mr Alasdair Morrison (Western Isles) (Lab):** I want to touch on two areas: fisheries and agricultural support. I welcome the statements in the partnership document about inshore fisheries and the minister's introductory remarks on that issue. I want to catch up on the point that we have reached with regional management advisory committees for inshore fisheries and with legislative proposals for the reform of the Inshore Fishing (Scotland) Act 1984. The conservation measures that have been introduced, such as the reduction in the number of scallop dredgers, have been widely welcomed.

The minister will be surprised to learn that I want to ask about the point that we have reached with the reconfiguration of the less favoured areas support scheme. He will also be surprised to learn that I am seeking a northerly and westerly bias in that reconfiguration.

**Alex Johnstone:** Needless to say, I am not.

**Ross Finnie:** In the interests of good manners, I will not enter into that debate. I will simply say that Alasdair Morrison is talking about a further redistribution of LFASS funding. The facts show that, in aggregate terms, even the previous reorganisation of LFASS shifted resources to the north and the west.

In my introductory remarks, I said that we need to take a much more strategic approach to the management of the inshore fishery resource. The department is committed to working up draft proposals for bringing together the various strands of work on inshore fisheries. We want to consider whether that can be achieved under the existing regulating order legislation, but we are all slightly sceptical about that. Regulating orders can be effective, but they are difficult as they tend to deal with specific areas. As a consequence, they do not

provide an overarching view of the inshore fishery. However, we do not want to dismiss the possibility of using existing legislation, because there may be a mechanism for amending it that does not require us to resort to entirely new legislation.

Even if we have a more holistic form of inshore fisheries management and a better regulatory orders system, we must still deal with the issue of enforcement. As Alasdair Morrison is aware, there is a slight disjunction between the powers that are invested in the Scottish Fisheries Protection Agency and those of a regulating order. There is a great deal of work to do, but we will consult communities. The section of SEERAD that deals with inshore fisheries has been much encouraged by what is contained in the partnership agreement and is keen to develop some of that thinking.

Alasdair Morrison talked about a reconfiguration of the LFASS. I would be cautious about using that form of words. There are proposals to make adjustments to the scheme, but for a variety of reasons—not least the common agricultural policy reform that we will have to manage—we are not contemplating a major reform of the LFASS. Across Scotland, including the crofting counties, we have already had two changes. If we move from the hill livestock compensatory allowance to the LFASS and then to a different LFASS, we will introduce a degree of uncertainty.

However, changes are being contemplated and discussed with Europe. Jim Wildgoose, who is with me this morning, has been in Europe to discuss those changes. The aim is to deal with the obvious anomalies that have arisen in some parts of the crofting counties. There is no homogenous mass that we could pick up as being treated oddly, but there are pockets in the extreme west and in Easter Ross—the problem is not uniform and that has a lot to do with stocking densities. Some time ago, we gave a commitment to the Scottish Crofting Foundation that we would try to deal with the anomalies, but there are budgetary constraints within the scheme. I must try to resolve that issue.

**Eleanor Scott (Highlands and Islands) (Green):** I have a quick comment and two questions. The minister said that good science had to underpin the Executive's decision making. Under the heading "Supporting activity", the partnership agreement mentions planting trees as carbon sinks. I suggest that the minister should get a tutorial on the carbon cycle—I am prepared to provide one after the meeting if he wishes.

**The Convener:** But not now, thank you.

**Eleanor Scott:** The minister mentioned that renewable energy production is no longer within his department's remit, but I presume that energy conservation is. To follow up on what Alex Johnstone said, to achieve a sustainable energy

generation policy, we do not have to simply replace fossil fuel generation with renewable energy generation, but to reduce our energy demand. Near the end of the partnership agreement, there is a commitment to

"take measures to reduce energy use".

Will the minister confirm that that matter still falls within his department's remit and say what the measures will be?

Secondly, what does Mr Finnie understand by the precautionary principle that he said he will apply in relation to GMOs?

**Ross Finnie:** I am grateful that the tutorial on the carbon cycle will be deferred until the end of the meeting.

On every issue that relates to the environment, I have a cross-cutting role to ensure that our environmental commitments are met. As I made clear in my opening remarks, in the partnership agreement we tried to do things a bit differently and to recognise that every minister has a contribution to make in achieving our several environmental ambitions.

In the first session of Parliament, legislation was passed that will improve the thermal capacity of buildings, but the Minister for Communities must keep that matter under constant review and consider how to improve the thermal capacity of new buildings and buildings that are refurbished. The Minister for Transport also has to deal with issues that relate to the reduction of energy use, as does my department. Issues also arise in relation to the sheer administration of the Scottish Executive—it is important that the Executive's energy contracts are placed with renewable energy providers, that our buildings meet the required standards and that we give attention to the reduction of energy use.

I have a role in reducing energy use, although I am not the only minister who has such a role. Either through the Cabinet sub-committee on sustainable Scotland or through myself or my deputy, we will seek to ensure that we do not lose sight of our aims. The same goes for the Minister for Health and Community Care—I could give a range of examples.

Our view on the precautionary principle is that we should proceed on the basis of applying the principle at each stage of a development. Eleanor Scott referred specifically to GMOs. All those developments have begun in laboratory circumstances and, with each, we have taken the same approach of setting tests that must be met before one receives a certificate to move to the next stage of the process. In this case, that would mean that one would move through part A of European directive 2001/18/EC to part B and then

to part C, which would involve the granting of a commercial certificate. However, we do not have commercial certificates in this country. Criteria are set at each stage, which means that we do not simply say "The first stage seems okay" and then go to the end of the process. Instead, we move forward on a particular basis.

European directive 2001/18/EC says that we should be clear on scientific grounds about the next stage of progress. I have made it absolutely clear on behalf of the Scottish Executive that, as long as we do not have the results of the field-scale evaluations of the crops that were being tested, the precautionary principle is quite plain. Even though the directive does not provide for such evaluations, we carried them out nevertheless. It would be quite against the precautionary principle to grant approvals for crops that were so tested without having the benefit of those results.

**Karen Gillon (Clydesdale) (Lab):** I have a few questions on rural transport. First, on rural railways, it has been difficult to develop new railway lines because of the difficulty in dragging Railtrack and Network Rail to the table. What can you do to support that process and to enable integrated rural transport and, in particular, rural rail development to take place?

Secondly, the biggest hostage to fortune in the partnership agreement is the statement on rural roads. How much is needed to ensure sufficient resources for the non-trunk-road network and how much has been secured for that network in subsequent years? Moreover, given the proliferation of opencast and mineral extraction in my own and other constituencies, how will that money be allocated?

**Ross Finnie:** I am grateful that, as far as rail development is concerned, you recognise the difficulty in getting the various parties together. Although the Minister for Transport's own people deal with studies across Scotland, we perform a useful and practical function in funding and supporting rural transport support schemes. Those schemes are very small scale, which does not quite answer your question. However, a body of evidence emerges from such activity. It is all very well saying that we do not have any new railway lines, but we need a slightly more detailed assessment of the situation before we invest any money. We make a valuable contribution by continually engaging with the transport section of the Enterprise, Transport and Lifelong Learning Department, passing on to it our experiences of various local rural transport schemes that have become essential and adding to the body of knowledge and understanding about any greater problems. That did not happen at the start, but it does now.

As for funding allocations to roads, I have to say with respect that I do not have those details to hand, but I will be happy to supply them to Karen Gillon and the committee. The Minister for Transport might even do so.

**The Convener:** After listening to colleagues' questions, I have two questions of my own at the end of this session. First, from your response to a number of questions that we have asked, it is clear that another ministerial colleague is responsible for delivering on the partnership commitment. Who is responsible for holding ministers to account and evaluating how effectively they are implementing environmental commitments? Does responsibility lie with you as Minister for Environment and Rural Development or with the sustainable development committee?

**Ross Finnie:** Well, the answer is yes to the second part of your final question. However, the responsibility for co-ordination clearly rests with me, because I have been asked by the First Minister to perform that function. Moreover, notwithstanding the fact that the First Minister will chair the sustainable development committee, co-ordinating what is required to deliver whatever comes out of it will also fall to me.

I hope that we have been making some progress on those matters since the Scottish Parliament was established, but such things do not happen overnight. The Executive has been keen not to operate in old-fashioned silos, in which departments do not even talk to each other. That gives completely the wrong signal to officials, and we are therefore trying to break down that culture at ministerial and official level to try to ensure far greater cross-fertilisation of requirement and delivery. I have a co-ordinating role, but I will also be dependent on huckling colleagues and friends to deliver. That will look good in the *Official Report*. I will probably get a letter from another minister tomorrow.

12:15

**The Convener:** I welcome warmly the strong commitment that you made at the start of your speech to the partnership agreement's commitment to strategic environmental assessment, which I note goes beyond the European Union requirement and includes strategies. Do you have a view on the pros and cons of primary versus secondary legislation? We had a briefing on secondary legislation at our away day last week. Once a piece of secondary legislation is drafted, it is not amendable. Might there be benefits to a short framework bill that would send a clear political message to all public bodies and could be followed up by more detailed secondary legislation as appropriate?

**Ross Finnie:** Yes. You have managed, not surprisingly, to put your finger on all the issues with which we are trying to wrestle right now. I am conscious of the perceptions and issues that surround the difference between subordinate and primary legislation. At the moment, I want to be clear that we have to scope out precisely what we meant. It is quite clear in general terms. The directive is clear that strategic environmental assessment arises only from a legislative requirement. We want to go beyond that. It also only applies to practical plans. We want to extend that, as you know, to strategies and development. We will perhaps apply different final implementation criteria to that, but it is crucial that we change the culture of Government and developmental processes so that environmental considerations are at the top of the agenda.

Going round departments and probing how we would not only implement the directive's basic requirements but take the directive forward—in the absence, sadly, of some of the directions that the European Commission had promised in relation to guidance on certain elements within the directive—has proved to be an interesting exercise. You have made a helpful suggestion, about which I had been cogitating, of having a framework bill. It is not yet clear to me whether, if I go down that route, I will end up by missing the directive's implementation date or only add to the burden. In other words, are we better doing it as a big bang, or can we do it in the way in which you suggest?

There is no question of any slackening of our commitment—far from it. We have actually made substantial progress throughout the Executive in beginning to get the detail of what we require to give effect to our commitment, but we do not know what the best way of dealing with that is. We do not know whether it should be a two-stage process. I want to get that scoping right so that I do not plump for what looks right and then discover that it will diminish the impact of what I am trying to achieve. I am keen to be clear that the objective that is set out in the partnership agreement is what I will end up with.

I am sorry to be slightly vague about that. A lot of work is going on to flesh out the two or three lines in the partnership agreement in a way that I hope the committee will find helpful.

**The Convener:** We have run slightly over our deadline. Members will not be surprised to hear that I am not going to go round the committee and let everybody ask a supplementary question or raise another issue. The discussion gives us a sense of the range of interests that we have on the committee and the number of issues to which we will have to return later in the year.

I thank the minister and his officials. I also want to flag up that we are keen to see their time scale

for the legislative programme as soon as that is humanly possible. Obviously, I do not ask for that today, but it would be helpful to allow us to programme the committee's work so that we can engage with members of the public and conduct effective scrutiny. I leave you with that detailed thought.

## Common Agricultural Policy

12:20

**The Convener:** We move on to item 7. We have allocated time until 1 o'clock for this subject, which the committee has been keen to hear about. The minister wrote to us during the summer. We are particularly keen on hearing about the process for engaging in the development of the Executive's proposals on the common agricultural policy mid-term review, so that we can have the most widespread consultation and receive input from all the key stakeholders. We also want to get the minister's initial thoughts on how he will drive forward the process and on the content of the review.

Over to you, minister.

**Ross Finnie:** As briefly as I can, I will do another quick canter through the main elements, which will pick up where I think the key issues are.

Clearly, the first element is the prospect that the scheme will provide for a single payment. Decoupled payments will be central to the new support system and, obviously, will cut the link to production. The new decoupled scheme, which is to be implemented from January 2005, will be a single payment, which will replace the separate payments under the main sectoral schemes in the arable, beef and sheep sectors. Slightly different arrangements apply for dairy, but decoupling is capable of being applied to all those sectors.

The single payment will be based on the direct aids that the farmer has received during an historic reference period, which will be the years 2000, 2001 and 2002. Farmers will be allocated a number of entitlements based on their reference period. They will need to match each entitlement with a hectare of eligible land to claim the payment. Special arrangements will apply in cases where a farmer has no track record.

The single payment will have quite an important element of conditionality, which will be applied through cross-compliance. The conditions will relate to environmental, food safety, animal and plant health and animal welfare standards. Although farmers will not need to produce to receive the single farm payment, they will have to take steps to ensure that they keep land in good agricultural and environmental condition. It is for us to define what good environmental condition means in Scotland in a way that meets our particular requirements, but the definition must be based on the underlying European Union regulation. Farm advice is another element, but we in Scotland have already taken that forward under our forward strategy.

For the first time, there will also be compulsory modulation at an EU level. As members will be aware, modulation is the transfer of money from the market support part of the CAP budget to the rural development part—in simple terms, from pillar 1 to pillar 2. That is crucial for us, as it allows rural development money to pay for agri-environment schemes, such as organic aid and other measurements in the Scottish rural development programme.

The modulation agreements will apply rates of 3 per cent in 2005, rising to 5 per cent in 2007 until 2012. The rates will be applied to the single farm payment, with an exemption for the first €5,000 paid to all farmers. The money will then be surrendered to an EU pot to be distributed to the member states through a formula that will ensure that no member state receives less than 80 per cent of the funds that it contributes.

There are special transitional arrangements to take account of the fact that the UK in particular—as well as another two countries—already applies national modulation.

There is also a new financial discipline mechanism, which will ensure that expenditure remains within the agreed budgetary limits. In future, any new expenditure under the sectoral schemes would have to be accompanied by proposals for funding. If that expenditure would threaten the ceiling, the Council of Ministers would have to take action straight away.

The flexibilities that we negotiated in the package are options that are at our behest. We arranged for them to apply both nationally and regionally, so they apply to the UK and to Scotland. We can use national envelopes in each sector. They are created by reducing farm payments in a sector by up to 10 per cent and could be used to encourage types of farming that protect or enhance the environment or to improve the quality and marketing of agricultural products. We could also make better use of national voluntary modulation to transfer larger amounts of money.

I will describe briefly the crucial consultation process. The reforms are major. The arrangements that were made in Luxembourg set the framework clearly, but one should not seek to impose tablets of stone on the environmental community or the agricultural community. Therefore, I have planned an extensive and inclusive consultation process on the strategic options to ensure that everyone who is engaged has an opportunity to be involved in the process.

The consultation will involve a number of aspects. A formal consultation will begin in October and will last for three months. We will launch that at a stakeholder conference with the



intention of making it as inclusive as possible. We are also committed to involving as wide a range of stakeholders as possible throughout the consultation process and have had an extensive range of meetings with about 10 of the main stakeholder organisations. We intend to establish the stakeholder group on CAP reform, for example, which will inform the consultation process. I hope that membership of the group can be balanced and spread across the various interest groups. We are also seeking advice from the Scottish Civic Forum on how best to engage the wider public interest.

We plan to hold a series of regional meetings, which will involve the same range of interests as are on the stakeholder group. They will try to establish a local and regional dimension to the issue. We are also preparing information to send to individual groups, which will set out the main elements of the agreement and offer them the opportunity to comment. We will hold regional focus groups, particularly with farmers. Although we will deal with all groups, farmers have a particular difficulty. They are knowledgeable about the current raft of regulation, but they will have to understand the major change in administration, so we intend to hold group meetings for them to explain the situation.

No decision will be taken on the strategic options until that process is complete. I expect and hope to make an announcement by February or March next year. The committee has had an opportunity to see the broad spectrum of how I propose to engage in the process. In more detailed discussion, we can agree on how the committee can make its contribution and plug into that process.

**The Convener:** Thank you; that was useful.

**Mr Morrison:** From 1 May next year, the number of farmers in the European Union will increase by 50 per cent. We are talking about CAP reform at the same time as the European Community's borders are being extended. How will your department help Scottish farmers and others who are involved in agricultural production to realise the opportunities that EU extension will afford? How will it help them to deal with the challenges that will arise?

**Ross Finnie:** On the challenges, I hope that the consultation process will not only give us a huge amount of information on people's general concerns about this major change, but allow and inform the course of action that I recommend. We will accumulate detailed information on the issues, which will not be dumped when the consultation is over—we will have to act on that to assist people in the rural community.

On EU extension, I attended a rural futures conference in the Borders. Quite a lot of work has

yet to be done to ensure that the opportunities that are opened up by the accession member states are realised. We should regard those states as providing trading opportunities. Although the thrust of the question was about agriculture, those opportunities should be seen more widely. We have to progress that work.

Our resources have been somewhat tied up in trying to get to grips with the detail of CAP reform. As a result, we have not done a huge amount of work on EU extension. The preliminary work that we have done with stakeholder groups has been quite time consuming. The two points that Mr Morrison raised will form part of our agenda. I hope that we can take forward both aspects.

12:30

**Maureen Macmillan:** I am really just looking for information. I get the impression that what is in people's minds is monoculture—we know what the sheep, cattle or arable farmers want. However, where I live, a lot of mixed farming goes on. The farmers raise sheep and cattle and grow barley, oil-seed rape and so on. How will the measures affect those involved in mixed farming? Given that mixed farming is probably more environmentally friendly than monocultures, will the measures support farmers who want to carry out that kind of farming?

**Ross Finnie:** There is no reason why not. After all, as I said in my opening remarks, if we go down the full decoupling route, the amount of the single payment is calculated by reference to the three-year reference period. The farmer will continue to receive a broadly similar aggregate sum of money, subject only to the impact that might or might not result from compulsory modulation. Therefore a disincentive to engage in mixed farming does not immediately arise.

Particular issues arise in respect of livestock farming. I am thinking in particular of the potential benefits of downsizing some of the particularly extensive farming activities. That said, when one looks at Scotland plc, there is a danger that that process could swing a little too far. Those are the kind of issues that the consultative process will be designed to draw out.

No sudden impediment appears as a result of the CAP reform that would worsen the conditions for mixed farming. Indeed, there is no change. Jim Wildgoose might like to add to what I have said.

**Jim Wildgoose (Scottish Executive Environment and Rural Affairs Department):** In point of fact, the issue is the other way round. Decoupling will allow producers to produce what they want and what the market demands. Therefore, the tendency will be for people to produce what the market will bear, and mixed

farming encourages that approach. The incentive is the other way around. There will be no incentive for monoculture farms, but there will be an incentive for farmers to utilise their resources towards the best means of production.

**Mr Gibson:** Bearing in mind the partnership agreement aim to support the more rapid development of environmentally sustainable farming that provides consumers with quality products, how does the minister see the position of small producers in the Highlands and Islands? I am thinking, for example, of cattle farmers on the islands. How does the minister view the situation for them in respect of the discussion about retaining 10 per cent of payments to establish a national envelope that will assist transition and encourage specific types of farming?

Will the minister be able to give the committee detailed regional definitions of his approach at an early stage in the consultation, or at the outset of the consultation? It is important for people in the Highlands and Islands to get a flavour of how the minister will treat people in the least favoured areas.

**Ross Finnie:** The question addresses two issues, but I am not sure that we can subdivide them. We can separate the national envelopes within Scotland and we can operate national envelopes within each sector. Beyond that, we get into some difficulty about our ability to regionalise. There is concern about certain environmental configurations. Perhaps it would be beneficial environmentally and for the sustainability of agriculture if we were to utilise the national envelope to assist in that process.

We are discussing how to set out the material that we intend to issue without making it grotesquely complicated—we are attempting to set out the available options in reasonably simple terms. We are doing that because people who live in remote and rural areas should be clear about the prospect and possibilities of using the national envelope route if they desire to do so. People might have different views on how the national envelope should be used, but we need to put our material out in any case.

We are wrestling with the question of getting the consultation material out in advance. I do not want just to dump it all on everybody's tables—apart from anything else, there is my environmental commitment not to tear down every forest to produce a consultation document: I might get into a bit of difficulty were I to do that. We cannot simply state what the EU regulations say and then ask people to give us their views. The whole purpose of the current discussions with a range of environmental and crofting representatives and other stakeholders is to ascertain what the key issues are. The task then will be to take those key

issues and present them in a consultation document in a manner that will be easily understood.

**Mr Gibson:** We look forward to your wrestling results.

**Ross Finnie:** Indeed; we look forward to them as well.

**The Convener:** We will be watching.

**Karen Gillon:** First, what are the circumstances particular to Scotland that the minister is considering when deciding on the package for Scotland? How might they differ from the circumstances of the rest of the United Kingdom?

My second question is on cross-compliance. In the past, we have encountered problems with different member states implementing different standards. As definitions of good environmental and agricultural conditions are to be made at a regional level, have the implications for Scotland been considered if the definitions differ from those in other EU countries? How will the minister ensure that Scottish farmers are not placed at a disadvantage?

**Ross Finnie:** On the first question, on where I think things will be different, that is what I am trying to avoid saying. I am trying to avoid dictating what I think to be the solution, although I have views about certain elements of it. Broadly speaking, the consultation process will be genuine and will embrace as wide a range of stakeholders as possible. It will go far beyond farmers and crofters; it will reach environmental groups and will have to take into account the views of producer groups, consumers and a range of other people. Our action will depend on the consultation—on what route the emerging body of evidence indicates we should go down. If that is different from the solution that is being applied in England, so be it. That seems an essential aspect of devolution.

There would not be much point in spending three weeks in Luxembourg achieving derogations at regional and national levels if we were not open to applying different solutions. I am not saying that we will necessarily act differently; I am saying that we will be different if the conclusion of the consultation process points strongly in a different direction. If there was a strong body that viewed a given measure as a threat, danger or difficulty, we would have to fashion the policy instrument to take account of that issue—which relates to what Rob Gibson was saying.

I acknowledge that the definition of good agricultural practice has caused some anxiety and difficulty, but the fact that policy is to be implemented at a regional level presents an opportunity. I invite Jim Wildgoose to expand on where our thinking lies in that regard.

**Jim Wildgoose:** The regulation contains specific provisions that indicate the conditions that have to be met throughout the Community. In essence, the exercise is one of taking the provisions and translating them into prescriptions that are suitable for Scotland. That will involve quite a bit of technical work. There will be consultation on the issues once the technical work has been done. Some of the principles that are involved are soil erosion, organic matter structure and the minimum level of maintenance required to avoid degradation in permanent pasture. Those issues require some technical input, which has started, but there will be subsequent consultation on them. The idea is to get a set of principles that will apply throughout the Community, but which will also be tailored to individual situations. That is the balance in the approach.

**Eleanor Scott:** The minister's letter mentions that money from the national envelope could be used for marketing. To what extent could national envelope money be used for rural infrastructure? I am thinking of slaughterhouse facilities, for example.

**Ross Finnie:** There are two separate issues. We have an instrument for providing food-processing grants. Again, this will depend on the consultative process. I will have to check the regulation, because one slightly sticky issue is that whereas the moneys that we use for food processing have been transferred from pillar 1 to pillar 2 and so have ceased to be a direct agricultural subsidy, even if we move to a single payment under the present proposal and whether or not we apply the national envelope to it, we will still be dealing with moneys that are essentially an agricultural subsidy. Frankly, the marketing aspect is peripheral to that. We want to apply the scheme as flexibly as we can to achieve the correct result.

**Jim Wildgoose:** I cannot add much to that. The existing marketing and processing scheme allows facilities in the chain to receive subsidies for particular projects. The text of the envelope mentions improving the quality of produce and gets into the legal interpretation of that wording. The minister is correct that the context is agricultural support. I emphasise that money is available for processing and marketing projects through another scheme.

**Eleanor Scott:** There are precedents. For example, it could be argued that the less favoured area support scheme should be pillar 1, although it is pillar 2. I would have thought that downstream processing is somewhat further away from direct agricultural subsidy than other schemes that are considered to be pillar 2.

**Ross Finnie:** There is cohesion in that argument, but the difficulty is that all such matters are set within the framework of EU regulation. The

LFASS is a pillar 2 payment. We have been trying to make the concept a little more simple and applicable across Scotland by developing management contracts, but we remain constrained by the amount of money which we in Scotland and the United Kingdom receive from pillar 2. Eleanor Scott will be aware that our allocation is, I think, 3.5 per cent, but, on anybody's analysis, by reference to our land, land use and land quality, it ought to be about 9.3 per cent. However, that argument was lost in 2000, at the last settlement, and the issue remains a difficult one for us.

We have processing grants to try to promote better food-processing facilities. Eleanor Scott might want to write to me separately on that issue because I am not sure that the issue is confined exclusively to the reform, although the reform has ramifications for it.

**The Convener:** I want to follow up on the point that Eleanor Scott has been digging round. We have dived into the detail, which is hugely important, but perhaps we should stand back from the process and think through the opportunities that arise from it for investing in an integrated approach to rural areas.

We need to consider whether there is any crossover to the Scottish rural development plan. How might the plan change and what other opportunities might come through the plan from your discussion on the reordering of the CAP subsidies? I ask that having visited a farm in Perthshire last week, where the point was made very articulately to me about the real challenge that exists.

12:45

As Maureen Macmillan pointed out, farms may be doing not just one type, but a variety, of agricultural work. They may also be involved in forestry. How will we bolster our rural communities and create rural jobs from the opportunities that are provided by slipping money from pillar 1 to pillar 2? How can we build that into the rural development plan to provide other things, such as the slaughter facilities that Eleanor Scott mentioned or the marketing of quality produce that other members have talked about?

All of us sense real nervousness in the agricultural community about the big change that is taking place. I think that we need to give clear messages about what will be possible, so that people will have a sense of the money that will be made available and that can be followed. We do not want a vacuum in which people do not know what will come next. To what extent is there scope for doing that through the consultation process, rather than just saying, "Over to you—what do you all think?" Perhaps the Executive needs to lead the discussion a bit more strongly down that route.

**Ross Finnie:** There are some things that we need to remember. There are several pluses to the process but, as I said to Eleanor Scott, one of the biggest constraints is that we actually start with an agricultural subsidy. Even with the CAP reform, the definition has not changed, so the single payment starts life as an agricultural subsidy. There are opportunities to have more funding for rural development, but the only way that we can achieve that is first of all through the mechanism of compulsory modulation, which is set out in the reform. In addition, the reform provides that—as Scotland has done for the past few years—we can continue to operate national modulation.

In the consultation, we need to see both the extent to which we can get consensus about whether there is a need for more pillar 2 funding—if I may use that shorthand term—and the extent to which some broader agreement can be arrived at about the extent to which we should proceed to increase the rate of national modulation. There is no option other than to utilise the compulsory modulation. Those areas will be part of the consultation process.

On the potential for increasing the amount of funding available for rural development through the rural development regulation, I can confirm that that will be possible. It depends where one starts from, but if we start from the proposition that decoupling will involve the potential to move from the various sectoral schemes—indeed, some sectors have several schemes—to a single payment that is not related to production, the next consideration will be some of the issues that were raised by Karen Gillon, Maureen Macmillan and Rob Gibson. As they mentioned, we will then need to decide whether we wish to take advantage of the flexibilities, either by retaining some of those schemes or by utilising the provisions of the national envelope. There is also the fact that there is the opportunity, either within compulsory modulation or national modulation, to enhance the amounts available for funding schemes within the rural development regulation.

To come back to the point that I made earlier, we need to ensure that everyone understands the wide ramifications of the change and we need to do so without making the issue too complex, while explaining in sufficient detail so that people grasp what it is all about.

**Alex Johnstone:** I take this opportunity to draw members' attention to my entry in the register of members' interests, where it is noted that I run a farm business. What we are discussing could impact on that business—it remains to be seen whether that impact is positive or negative.

I have a number of points to put to the minister. Is it okay if I go through them one at a time, or will I list them?

**The Convener:** I ask you to run through them all.

**Alex Johnstone:** My first point is a specific one. I understand that, in certain quarters, it is believed that the proposals might pose a threat to the less favoured area support schemes. Are we sure that the LFAS schemes that are currently in place—which we know may be varied through negotiation with the European Union—will not come under threat as a result of the process, and that they will remain in place and unaffected?

Secondly, I am interested in degressivity. I assume that the proposals under the scheme will begin the process of transferring funds from areas where they have been used traditionally to some of the new areas of the EU, where responsibilities under the CAP are about to extend. What time scale is likely to be applied for the reduction of funds spent in Scotland and for the subsequent transfers? What is the likely level at which such transfers would take place?

Finally, the options for retaining coupled payments—or production support payments for certain sectors—have been set out in detail in the letter that the minister sent with the details of the proposals. When such options come along, there is always a danger that people will look at the list and see how they can exploit it, making an assumption that, as the opportunity to retain coupled payments exists, they should exploit them to the maximum. Will the minister give a commitment that he will, when dealing with the consultation, keep open the possibility that none of the options will be used, and that the full support mechanism will be passed to the decoupled payment?

**Ross Finnie:** The reform of the CAP as it has been agreed—even once the detailed regulations are fully published—will in itself pose no threat to the LFASS. We need, however, to be aware that the LFASS and all elements of the rural development regulation and the various schemes and mechanisms within it might be considered at European level at the impending review of the regulation next year. Members will find at European discussions references being made to reports by audit and other committees on the effectiveness or ineffectiveness of LFAS schemes in various member states. That is not necessarily a threat, although questions might be raised. The LFASS is not fundamentally threatened by anything under the CAP reform.

Degressivity has no connection with the joining of the accession states. What is lovingly known as the Berlin ceiling was set for agricultural expenditure some years ago, not surprisingly, at a meeting that took place in Berlin. It is a bit like the Maastricht treaty—the names of such agreements are very original. Notwithstanding one or two

exceptions among those who always want to spend more, the key larger member states are absolutely committed to keeping total agricultural expenditure for the existing member states below that ceiling.

Separate arrangements have been entered into with regard to the progressive accession by member states to agricultural subsidies. However, those arrangements do not, in the short term, affect the actual amounts of money involved.

The problem with degressivity is that any reform or change to the system—for example, even reform of some of the dairy or arable payments—has to be paid for from somewhere because the reform is taking place within that budget.

In my opening remarks, I gave the example of the modulation process, under which it is guaranteed that not less than 80 per cent of funds that are modulated on the compulsory basis are returned to the member state. Overruns in expenditure or, more particularly, other instruments within the agriculture framework that proved more expensive or reforms that cost money, would be paid for by the Commission in the recycling process. That means that the total amount that is received at farm level and, more particularly, in the aggregate payment that is received at national level, could be reduced.

The other threat, which I mentioned briefly, is the financial discipline of the absolute agreement that the Berlin ceiling should not be broken. In any given year from now on, if the European Commission has evidence from its own accounts that agricultural subsidy payments will overshoot, the Commission is required to report to the next meeting of the agriculture and fisheries council, which is obliged to take action to rectify the overshoot.

Given that that is the case, it is inevitable that there will be a scaling back in the level of subsidy. That said, any scaling back is more connected to the inflation that puts serious pressures on the sort of situations that I described. I say to Alex Johnstone that it would occur at that level rather than in the accession states.

**The Convener:** The only member who has indicated a request to speak is Nora Radcliffe.

**Nora Radcliffe:** I am trying to get my head round whether the person who was receiving the money would achieve greater flexibility from funds in the national envelopes than from a single payment. The whole idea is supposed to reduce bureaucracy. A single payment sounds nice and easy, but then we start to talk about cross-compliance and about this, that and the other. Can the minister assure us that the end result will be a reduction in bureaucracy?

**Ross Finnie:** That will depend on the farmers, environmentalists, producers and the various others in the 12 or 13 groups who are to be engaged in the process. If one is trying to get one's head around the flexibility issue, the simplest thing would be to do what Alex Johnstone suggested, which was to sweep the whole thing away and ignore everything else. I say to Alex Johnstone that if one was to take that option—it is a big “if”—those at the individual farm level could be provided with the maximum.

The consultation process will have to tease out the answer to the question—highlighted by Karen Gillon, Rob Gibson and other members—whether environmental issues or production issues could be adversely affected in the short term by such a simple transfer. One might wish to make use of the national envelope to provide some form of alleviation while the new system beds down. That is a possibility.

If I take the beef sector as an example, one could elect to go into more or less all the current suckler cow premium regulations or the beef special premium arrangements, but not both of them. However, that decision would have to be weighed up against all the bureaucracy of the regulations, especially if the suckler cow premium was to be considered, because it opens up issues such as quota controls, the dry heifer rule and retention periods. One would have to be aware of all those considerations.

We already have cross-compliance. If a farmer receives a payment for agricultural purposes, which has a wider environmental impact, it is not unreasonable for the receipt of that payment to be conditional on the farmer's meeting certain minimum standards. However, as Karen Gillon pointed out, we have to be careful to have a standard that is clearly and transparently understood and which is applied across the field.

**The Convener:** I want to pick up on one last point. Alex Johnstone's last question concerned the extent to which full decoupling is an option that is being actively explored, or whether it is not on the table for discussion.

**Ross Finnie:** No; full decoupling is absolutely part of the discussion, but it depends on where one starts. You can start anywhere. The options that are available to us—which we will lay out—are for us to have the full decoupling proposal, the opportunity within the scheme—

**The Convener:** So—will full decoupling be on the agenda?

**Ross Finnie:** Of course it will. It will be on the table. The committee has that assurance. There is also the issue that certain of the schemes can be partially recoupled. Although that can be done separately, I suppose that one could also do both.

One could also access the national envelope for particular purposes—that is what we are all about. I think that I have begun to illustrate the pluses and minuses in the argument about which option might be used and why it might be used. That is what this very big debate is about.

**The Convener:** I thank the minister and his officials. We could go on for another couple of hours, but I think that we have hit the high-level issues, certainly in terms of this first exploration of the issue. I am very glad that the minister was able to come before the committee and answer all our questions.

The agenda for our next meeting includes discussion of how we will scrutinise the Executive's budget. Given that we will discuss the potential advisers who will assist the committee in that budget discussion, I suggest that we discuss that item in private. If we do so, the meeting will not have to go in and out of public session, which was a problem for us today. If we have that discussion in private before we move into full public session, we will be able to timetable the discussion properly. Is that agreed?

**Members** *indicated agreement.*

*Meeting closed at 13:01.*

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