The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

# RURAL AFFAIRS, CLIMATE CHANGE AND ENVIRONMENT COMMITTEE

Wednesday 26 February 2014

Session 4

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## RURAL AFFAIRS, CLIMATE CHANGE AND ENVIRONMENT COMMITTEE
**5th Meeting 2014, Session 4**

**CONVENER**

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

**DEPUTY CONVENER**

*Graeme Dey (Angus South) (SNP)

**COMMITTEE MEMBERS**

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

*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Stuart Ashworth (Quality Meat Scotland)
Jonnie Hall (NFU Scotland)
William Houstoun (Angus Growers)
Patrick Krause (Scottish Crofting Federation)
Roger McCall (New Entrants Group)
Debs Roberts (Scottish Organic Producers Association)
Sandy Simpson (Scottish Tenant Farmers Association)
Andrew Skea (British Potato Trade Association)
Dr Ronald Wilson (University of Edinburgh)
James Withers (Scotland Food and Drink)

**CLERK TO THE COMMITTEE**

Lynn Tullis

**LOCATION**

Committee Room 2

# Scottish Parliament

## Rural Affairs, Climate Change and Environment Committee

*Wednesday 26 February 2014*

[The Convener *opened the meeting at 10:07*]

## Common Agricultural Policy and Scotland Rural Development Programme 2014 to 20 (Implementation)

**The Convener (Rob Gibson):** Good morning and welcome to the fifth meeting of the Rural Affairs, Climate Change and Environment Committee in 2014. I ask committee members and members of the public to turn off their mobile phones, as they affect the sound system—no flight mode, silent or whatever, please.

Agenda item 1 is on the Scottish Government's implementation of the common agricultural policy and the Scotland rural development programme 2014 to 2020. The committee is holding its first evidence session on the subject. After hearing from stakeholders today, we will have another stakeholder round table on CAP and SRDP next week. Then, we will have a session with Owen Paterson. The week after that, we will have the Cabinet Secretary for Rural Affairs and the Environment with us.

First, I welcome our witnesses this morning—I think it is all gentlemen, so far. We should go round the table to introduce ourselves. We have received apologies from Cara Hilton, who will be late due to family issues. We will welcome her when she arrives.

**Jonnie Hall (NFU Scotland):** Good morning. I am director of policy with NFU Scotland.

**Patrick Krause (Scottish Crofting Federation):** I am with the Scottish Crofting Federation.

**Sandy Simpson (Scottish Tenant Farmers Association):** I am a board member of the Scottish Tenant Farmers Association.

**Roger McCall (New Entrants Group):** I am here to represent the new entrants group, and I am a full-time beef farmer.

**Claudia Beamish (South Scotland) (Lab):** I am an MSP for South Scotland and shadow minister for environment and climate change.

**Stuart Ashworth (Quality Meat Scotland):** I am head of the economics team at Quality Meat Scotland.

**James Withers (Scotland Food and Drink):** I am chief executive at Scotland Food and Drink.

**Richard Lyle (Central Scotland) (SNP):** I am an MSP for the Central region.

**Dr Ronald Wilson (University of Edinburgh):** I am from the University of Edinburgh.

**Nigel Don (Angus North and Mearns) (SNP):** I am the MSP for Angus North and Mearns.

**Andrew Skea (British Potato Trade Association):** I represent the British Potato Trade Association, and I am a seed potato grower and marketing person.

**Alex Fergusson (Galloway and West Dumfries) (Con):** I am the MSP for Galloway and West Dumfries. I draw attention to my entry in the register of members' interests, which shows that I own land in Ayrshire, although I do not farm it myself and I do not personally benefit from CAP support. In addition, I have recently agreed to chair the United Kingdom review of the voluntary code of conduct in the dairy sector. I hope that that will allow me to speak later in the meeting, too.

**The Convener:** We will see. [*Laughter*.]

**William Houstoun (Angus Growers):** I am general manager of Angus Growers, a soft fruit producer organisation in Angus.

**Jim Hume (South Scotland) (LD):** I am an MSP for South Scotland. I draw attention to my entry in the register of members' interests: I have an interest in a hill farm in the Borders, which my sons fully run, et cetera.

**Angus MacDonald (Falkirk East) (SNP):** I am the MSP for Falkirk East.

**Debs Roberts (Scottish Organic Producers Association):** Apologies for my late arrival. I represent the Scottish Organic Producers Association, and I am an organic farmer near Perth.

**Graeme Dey (Angus South) (SNP):** I am the MSP for Angus South.

**The Convener:** I am Rob Gibson, the MSP for Caithness, Sutherland and Ross. I am a member of the Scottish Crofting Federation, but I am not a crofter.

We will deal with the issues in three parts today: we will consider the CAP; we will consider the SRDP; and we will consider the wider implications as we go along. We are interested in what each of you thinks about how the Scottish Government should deliver pillar 1 direct support CAP funding in Scotland. What are you looking for in the

Scottish Government's priorities? There are a number of areas that we are interested in examining under this first question.

As we are moving from historical arrangements to an area base, that must be the first topic for discussion. I invite comments about that move and its implications.

**Jonnie Hall:** You have correctly identified the challenges that Scotland faces as we move from an historical system to an area-based system. Those challenges are magnified by the sort of landscape that Scotland has to farm. Scotland is a very diverse agricultural landscape, and fitting an area-based system to that presents its own set of challenges. That is further compounded by the fact that Scotland has a very limited pillar 1 budget to play with.

As we regionalise payments across Scotland, our predominant region will be the so-called rough grazing region. It is significant, with about 2.8 million hectares currently being used to claim single farm payment entitlements. Within that rough grazing region, there are huge variations. There are hills that are very productive and hills that are much more extensive and less productive but nevertheless active. The challenge of fitting what will always be a relatively blunt area-based payment to such a diverse agricultural landscape is huge.

The approach that we have always taken is to use the tools that are available through the political agreement of pillar 1 to most effect in order to target the limited funds at where they are most required. Targeting means, by and large, how we regionalise, how people use coupled support and any other measures that might be available.

**The Convener:** Basically, you are saying that we must try to have a package or pallet of items that deal with the problems of splitting into two, or at most three, areas.

**Jonnie Hall:** Absolutely. The worst-case scenario for Scotland would be to have a blunt, flat-rate system. That would severely hinder productive agriculture and, arguably, would overcompensate the very extensive rough grazing areas. Those areas still require support, but it is essential to get the balance right and to direct the support to where it is most needed and to the places where farm businesses are bearing the risk, bearing the costs and delivering the goods.

As we move to an area-based system, we must use the tools that are available to provide a package of support, as you say, that makes the most efficient use of our limited resources.

10:15

**Alex Fergusson:** Given that there is such enormous variation in the type of land within the rough grazing area that we are talking about, can Mr Hall or anyone else who wants to answer say how such targeting can be achieved? Mr Hall said that 2.8 million hectares currently receive single farm payments. How many hectares might come into the equation that do not currently receive such a payment?

**Jonnie Hall:** That is a very important point. The Scottish Government is certainly very well aware of the issue and we have been pursuing the European Commission on it for some months, if not longer.

Under the current single farm payment system, there are 2.8 million hectares of rough grazing. As I say, if we applied across that a flat rate, which, according to the Scottish Government's own calculations, would be about €24 per hectare, that would decimate what is available for the more productive land in, for example, the Galloway hills, the Borders, Perthshire, the Angus glens and various other places that can currently carry a ewe or a ewe and half per hectare, and also suckler calves—land that is therefore being used to produce a meaningful product. At the same time, a payment of €24 per hectare would overcompensate some stretches of land—if sheep are there at all.

Within the 2.8 million hectares, there are also the existing naked acres. Under the new scheme from 2015, as long as that land is eligible, there is a danger that without a proper and robust activity test—I know that the Scottish Government is very aware of that issue—we will suck up to a million more hectares into the equation, so we could go up to 3.5 million or 3.8 million hectares. Given our very limited budget, that would dilute the payments for the active producer—and we would miss the target. There is no way that the Scottish Government or we can stand back and watch payments being bled on to empty hillsides that are doing nothing.

**Alex Fergusson:** How can you achieve what you are looking for with two regions?

**Jonnie Hall:** With two regions, the first step is activity. In the political agreement, there is the so-called Scottish clause, which I am sure you are all aware of—for the anoraks in the room, it is article 4(1)(c)(iii). We thought that that would be the magic bullet to sort out whether a farmer is active or inactive and that we could base stocking densities on that, but the Commission has said no to an absolute stocking density, because of World Trade Organization compliance issues to do with production-related support. However, in the last wee while—Richard Lochhead visited the

Commission again last week and we have made representations—it has emerged that there seems to be scope for allowing Scotland to put in place, on the rough grazing land, which is known as land that would otherwise be suitable for grazing if left to its own devices, a means by which an appropriate level of stock must be carried on it. We would have to devise criteria for what the appropriate level would be. That would certainly strip out land on which there is no farming, or what we might call token farming, from activating a payment.

We think that that is a vital first step. Thereafter, there are possibly two further options for differentiating payments within the rough grazing region. The first one, which is currently the front-runner, is to utilise additional coupled support over and above the 8 per cent that we have earmarked for the beef sector and—using the UK ceiling but still using Scotland's budget—to target hill sheep. How we target hill sheep is a very complicated business and we cannot possibly go into the detail of that now. Nevertheless, if we could use more coupled support, the rough grazing region budget would be targeted at where the livestock are. That would allow us to lower the base area payment where the sheep are fewer in number or are not there at all—although of course land on which there are no sheep at all should be cleared out anyway by a robust activity test.

That is the primary goal right now. Beyond that, if we cannot find a reasonable fix, we will have to look long and hard at how to split the rough grazing region according to some sort of objective criteria. That is challenging in itself, but there is the possibility of looking at where the rough grazing is, because that information is collected in integrated administration and control system data, so we know about that on a field parcel basis. We could overlay something like a Macaulay approach, which would enable us to undertake land capability mapping to distinguish between improvable rough grazing on the one hand and unimprovable rough grazing on the other and introduce two payment rates. That would not be perfect, but it would be a significant step away from having a flat rate across 2.8 million hectares of extremely variable hill ground.

**The Convener:** I should bring in Patrick Krause, because quite a lot of the unimprovable land would be in crofting areas.

**Patrick Krause:** Thank you, convener. I was about to start waving my pen at you.

I should start by saying that I cannot offer the technical detail that Jonnie Hall can give you, because I work only part time on agricultural policy. I tend to speak much more about principles.

Several things strike me as the NFU lays out its table. One is that the idea of payment for activity is excellent. We fully support that approach. We were making the same point in 2003, but we lost to the NFU, which at the time was pressing hard for historic payments and the single farm payment. That was unfortunate, and we saw what happened to the areas that I represent as a consequence of the approach. It is good that there has been a fundamental shift towards payment for activity.

Fundamental to the whole discussion is that the CAP is not what it used to be. I am not trying to preach to the converted, but it sometimes helps to remind ourselves that the CAP has made a fundamental shift. I can understand why Jonnie Hall says that we need much more regionalisation—of course I can, because more regionalisation keeps the money more where it is. If I use the word "redistribution", I am sure that the hairs will stand up on the back of Jonnie Hall's neck, but the fact is that the CAP is moving towards redistribution, and area-based payment is about ensuring that public money is spent responsibly.

We must keep reminding ourselves that this is public money—we are talking about taxpayers' money: your money and my money. It is much more that than it is an agricultural or farmers' income support system—it is not such a system; it is public money for public goods, and it is the Government's responsibility to ensure that public money is spent responsibly.

**The Convener:** Let us continue this discussion until we can move on to other groups. This is a fundamental point, because how pillar 1 is distributed will determine whether we see a different kind of CAP develop, as opposed to a system of support for larger farms—if I can put it that way. Jonnie Hall wants to come in to justify such an approach.

**Jonnie Hall:** As you all know, the CAP is built on two pillars. Yes, pillar 1 has a public interest and public good dimension, and it is taxpayer funding. However, the clear, stated purpose of pillar 1 funding is to provide income support, to underpin businesses by cushioning them against the volatility of input prices and output markets, and to cover the costs of cross-compliance. Those are the stated objectives of pillar 1.

We are seeing that approach developed, with the greening of pillar 1 and so on. If support is targeted in the right way to the producers who deliver, we will see the multiple benefits that come from local economies looking after the environment, through compliance and so on, and the social dimension that comes from retaining activity in rural areas. It does not matter whether the areas are remote rural areas, with more extensive systems, or nearer the central belt, with more intensive production systems; that is what we are underpinning.

However, if we do not target the limited pot of money, it will soon bleed onto relatively empty, if not completely empty, hillsides and we will not see any delivery of public benefit. The money will just be pocketed. We want to ensure that the support is driven through people who are active and who are producing—the two things are interchangeable.

Thereafter, there is pillar 2, which is specifically designed to deliver the public benefits over and above that, through all sorts of ways and means.

We are, rightly, moving pillar 1 and pillar 2 closer together, but we need to be careful not to blur the whole thing. The CAP is not purely about delivering environmental gain and so on. However, we can channel that effort by sustaining the businesses of farms and crofts across Scotland, allowing them to deliver what they already deliver in terms of rural development.

**The Convener:** Three people want to talk about this issue—Angus MacDonald, Jim Hume and Stuart Ashworth. We will try to get this question put to bed in this round, if possible.

**Angus MacDonald:** I recognise Jonnie Hall's point about the issue of empty hillsides, and I must also pick up on Patrick Krause's point.

It is fair to say that there are concerns in crofting communities about the prospect of rough grazing support being as low as €20 per hectare, as such a low level of support might result in crofts no longer being viable. That is a salient point that has to be borne in mind throughout the whole debate. We are talking not only about production but about viable communities. There are concerns that we could see land abandonment, rural depopulation and a significant reduction in the numbers of store stock that come from the north-west of Scotland and the islands. Clearly, everybody has a wish list, but do members of the panel feel that a minimum of perhaps €35 per hectare, properly targeted in the crofting areas, would go some way towards addressing the concerns about depopulation and lower stock levels?

**Jonnie Hall:** I feel that I am dominating the discussion, but I have an answer to that question.

**The Convener:** Feel free to come in first.

**Jonnie Hall:** Alex Fergusson talked about the additional coupled support, and we need to think about how we can target payment into the rough grazing regions in the north-west, the south-west and so on. A budget of about €70 million has already been earmarked for those rough grazing regions through the Scottish Government's own modelling. Our calculations show that, if you employ some of that through a coupled support mechanism, you could reduce the basic payment to €15 per hectare but then apply a payment per ewe on that same ground of about €30 per hectare, which would take you into the region of €45 per hectare for the hill ground that has a ewe per hectare on it. That applies in Shetland and in certain parts of the north-west, but not everywhere. Thereafter, if you were in the much more extensive systems where there is a ewe per 5 hectares, you would get something in the order of €20 or €21 per hectare. That would enable the funding to be targeted to where the activity is, whether it is in the crofting system or farming system. The money would be used much more efficiently and effectively, because an element of it would be linked to production, which is, essentially, the activity that we are seeking. That would underpin farming communities and crofting communities, no matter where they are.

**Angus MacDonald:** Have you fed that into the consultation process?

**Jonnie Hall:** We are in constant dialogue with the Scottish Government about how we think that this could and should work. Our suggestion needs to be fed into the consultation, and more people need to push the issue. It uses the same funding in the rough grazing regions but does so in a more effective way.

**Patrick Krause:** It is a bit strange that such a low level was suggested in the consultation. My understanding was that the modelling by the James Hutton Institute looked at figures of up to €50 per hectare, so it is odd that the Scottish Government suggested a figure right at the bottom. Even then, the James Hutton Institute said that, with a level of around €27 per hectare, you would get more winners than losers in the crofting areas.

It is a bit of a red herring to talk about winners and losers all the time. If crofters were getting very little and all end up getting marginally more, that is not really winning, is it? It is not really doing all that we can do; it is simply shifting things very slightly. As far as we know, a minimum figure of between €30 and €35 would possibly stop the land abandonment, but if it is below that, there will probably be further land abandonment.

A fundamental point is the idea that those on better land, who have more choice about what they can do with their business and can rely on a market more because they are able to produce more, somehow deserve more of the public money to support them. As far as I understand it, what is being suggested is that 90 per cent of the pillar 1 money is to be spent on supporting farmers in the better areas and 10 per cent is to be spent on those in the poorer areas. That just does not make any sense.

10:30

**The Convener:** Right. We will try to take that forward. Jim Hume has a comment.

**Jim Hume:** It is just on the rough grazing. Jonnie Hall has talked about decimation and Patrick Krause has talked about land abandonment, which are quite scary terms to use. Obviously, sheep and beef are produced in rough grazing areas. Does QMS or anybody else have figures on the percentage of Scottish beef and Scottish lamb that is produced on rough grazing land?

**Stuart Ashworth:** I will take the opportunity to comment. I do not have such figures with me, but I am sure that we can find something for you to put a handle on that. I will go back to your original question, convener.

QMS as an organisation recognises that we must move to area payment. The challenges for us have been well articulated by Jonnie Hall, so I will not repeat them. However, I have a couple of observations. From my point of view, sustainability starts with having sustainable economic activity and sustainable businesses out there. I would debate the extent to which the CAP has moved or should move; there are some serious questions to address there.

That leads me to split the current debate into a debate about direct payment and a debate about greening. The direct payment is designed to support and encourage the industry. In that regard, I would draw a parallel with other policies that the Scottish Government has in its food and drink agenda, and the targets that it has set for our industry. If we do not have the heartland of the livestock sector functioning well, then some of the other objectives that we have for the Scottish economy as a whole will be jeopardised.

I am very supportive of what Jonnie Hall said in relation to the drift of the base payment away from activity, because that will change the economic balance. Patrick Krause observed that it has changed the economic balance in the Western Isles, for example, which has had significant reductions in stock, as have Dumfries and Galloway, and the Borders. They may have taken a couple of years more before they started to move, but they faced the same challenges.

We must therefore recognise what the objectives are for our businesses in relation to having sustainable economic businesses that then generate many subsidiary things and a base product that James Withers's organisation can promote and build.

**The Convener:** Committee members visited Glenlivet in the summer, where we were lobbied heavily by beef producers about the way in which the split might take place. As somebody said, those producers are the engine room of the Scottish agricultural industry in terms of livestock. I think that we ought to get comments about those prime beef producers, whose work starts the food chain and who feel that they might lose out the most in the uplands.

**Stuart Ashworth:** I will start the response. Good-quality rough grazing and a better permanent grassland are the heartland of what I would describe as medium-sized beef production businesses. They are the ones that will be significantly challenged from an economic point of view. Some of the guys who produce the store lambs and the store cattle will be rearer-finishers and will, therefore, cover the whole chain, but a high proportion of those people will trade that stock and are very vulnerable to the economic circumstances of the wider global market. If those businesses start to withdraw, there will be serious consequences further down the line for store cattle finishers, abattoir operators, our red meat exports and our whole industry. Getting that sustainable economic change is a significant challenge for us, and we probably lost that a little bit over the past decade or so.

**The Convener:** We are dealing with a situation that we have inherited, but can the package in the CAP as it is presently proposed ensure that those essential parts of the engine room of livestock production will have a better future than they have had in the past decade?

**Stuart Ashworth:** Within the entirety of the package—I include pillar 2 in that, as there are some significant opportunities within pillar 2 to help our red meat industry to develop and improve its efficiency and so on—there is the potential to create an operating environment over the next half a dozen years that will allow our economic farming businesses to get themselves into a better frame of efficiencies to sustain long-term economic activity. There are a whole host of things within that mix, and we could no doubt debate for the rest of the day how all those elements, including age profiles, skill levels and new entrants, build into the package. There is a framework within the CAP to achieve those objectives, but I am not totally convinced, given how the current design proposals sit, that the building blocks have been put together in the right order.

**The Convener:** We will try to take that one forward, but I think that we should move on to the greening issues. We have proposals that affect a lot of different kinds of farmers, and as we move through the stages we may be able to pick up some of the points that Stuart Ashworth has just made.

**Graeme Dey:** I want to look at how the greening measures should be implemented. On the subject of greening, the written evidence from the NFUS talks about avoiding Scottish requirements being added

"that gold plate the EU standards."

A cynic—I declare an interest as such a cynic—might view that as an indication that greening in a general sense is seen as something of an inconvenience and not the right road to go down in agriculture. In looking at the issue, can you provide reassurance that agriculture buys into the broader green agenda that every other area of Scottish life is buying into?

**Jonnie Hall:** The NFUS was cited in the question and the comment, so I should respond to that. Greening is clearly an issue at a European level, where the targets of greening are to prevent monoculture, to create greater biodiversity opportunities through ecological focus areas and to lock carbon into permanent pastures.

That said, if you stand on any hillside anywhere and look at the Scottish agricultural landscape, you do not see a monoculture. You see a whole mosaic of different land uses and land types, including agricultural activities, woodland and all sorts of things. We do not need to drive environmental concerns as hard through pillar 1 as perhaps we should through pillar 2, where we can utilise our agri-environment climate measures to deliver the things that we want.

It is quite clear that the European deal, through the Commission, the Parliament and the Council, has produced an amended set of greening rules that will affect farming across the European Union and will allow some exemptions. The new rules basically say that, if the farming type is of a certain sort—with less than 30 hectares of arable ground, for example—or if Scotland as a whole retains its permanent pasture levels within a tolerance of 5 per cent of existing levels, then there is no need for those farm businesses to adjust or change their practices. In that sense, we can say that Scotland is essentially green already. If we want to add additional benefits, over and above that, that is the role of pillar 2.

If we go back to some of the food and drink issues that we are targeting, and if we look at the Scottish Government's own analysis of how many farms would be affected by greening, we see that it is predominantly the arable producer and the specialist grower who would be affected. An obvious example of a specialist grower is someone in the north-east of Scotland who is growing malting barley to underpin the Scottish whisky industry. If we tell that individual, "You must now take 5 per cent of your productive land out of production because of ecological focus areas," or, "You cannot grow a predominance of spring barley and you must now intersperse that with other crops to satisfy a three-crop rule or crop diversification rule," that hampers and hinders that business from meeting a market demand.

Surely we want the CAP to turn farmers away from being reliant on the brown envelope and to make them more market focused. That is the process that we should be in, but if we lock in conditions for pillar 1 support to such an extent that we prescribe the type of farming that must take place, producers cannot then be more responsive to market signals, because they have to meet those conditions.

If we want to go above and beyond those targets through some sort of certified equivalence scheme, which has been rejected in the rest of the United Kingdom, that would impede the competitive position of many of the more productive agricultural businesses in Scotland, because the targets apply in the arable sectors rather than the grassland sectors.

**Graeme Dey:** I do not want to misrepresent what you have said in any way, but it sounds to me as if you are saying, "Pillar 1 is pillar 1. Give us that money and that's fine. If you want us to be green, give us more money out of pillar 2 and we'll follow measures through that." Is that right?

**Jonnie Hall:** We have done that. The cabinet secretary has already taken the decision to move 9.5 per cent across from pillar 1 into pillar 2 to underpin the spend on agri-environment. He has enhanced the spending on agri-environment and, as a consequence of that, the option is available for farmers, crofters, foresters and others to deliver greater public benefit through that route.

As I said, the underpinning purpose of pillar 1 support is income support to put those farm businesses on a viable footing, no matter what they are producing, so long as they are active, to cushion against volatility in the marketplace in both input costs and output prices, and then to cover the costs of cross-compliance. Every sector in Scotland is faced with a plethora of cross-compliance issues.

**Debs Roberts:** As far as greening is concerned, Jonnie Hall may be misrepresenting the purpose of pillar 2. Granted, there is an income support justification behind that, but the EU is firmly driving us towards a more environmentally friendly farm business production base. From an organic point of view, we have an exemption from greening, as far as I understand it, although I am still waiting for clarification about how double funding might not be affected under the greening and pillar 2 payments.

The Scottish Organic Producers Association would have proposed a higher rate of flexibility between pillar 1 and pillar 2, whereas I believe that

NFUS was quite happy with the 9.5 per cent transfer.

**Jonnie Hall** *indicated disagreement.*

10:45

**Debs Roberts:** No? I beg your pardon.

We would have liked to see more funds available under pillar 2 but, as it is, the EU is directing us that greening is going to be in place and must be undertaken. I do not think that it will be as difficult as it might seem. The proportion of 5 per cent of cereal production is not that difficult to achieve; organic farmers do it all the time through rotation. There are clearly researched and delivered environmental benefits from that. There are areas that are almost monocultural in Scotland, and we are looking at fairly constant wheat and oil-seed rape rotation, which is pretty much a duoculture. There are ways and means of doing this, and it is not as difficult as some people are expecting it to be. In addition, there are exemptions through the rough grazing provisions. All those things will ensure that we are heading towards what the EU wants us to do.

**James Withers:** My interest comes from a wider food and drink perspective. Our sector has been the best-performing domestic sector in the economy in the past few years, and it is the fastest-growing export sector, so we must ask how we can build on that. The description of agriculture and farming as an "engine room" is spot on.

Greening is important, but we should make no mistake about it: our environmental brand and story completely underpins our reputation here and overseas. I will say something that certainly would have got me shot if I was still working at NFU Scotland. Sometimes gold-plating can be a good thing, because it gives us a point of difference in developing a brand. We can stand up in front of buyers overseas and say that Scotch beef is better than Brazilian beef because our saying so is underpinned by incredibly high environmental standards, animal welfare standards, et cetera.

My concern about greening is twofold. One issue is supply. There will be a bit of a shock factor in response to the changes in pillar 1 and the reductions in support for more active businesses. We have known for a decade that the changes have been coming, but there will, nonetheless, be a shock for producers, and we need to use every power that we have to make the landing as soft as possible. We need to think hard about where greening might impinge on our production capability, because if we do not have that productive supply, our food and drink industry targets will go out of the window.

In many ways, the "C" in CAP should just be abolished and binned, because it is not a common policy any longer; it is impossible to have a common policy across 29 member states. The second thing about greening that worries me is that trying to establish a greening framework that fits incredibly intensively producing countries as well as Scotland, which has very extensive production, is extremely difficult—it is nigh-on impossible.

If we could think about greening in the context of seeing ourselves as others see us—which is already as an incredibly green, environmentally friendly and extensive production system—we would see that we are in an unbelievably good place in terms of our environmental record. I am comfortable with asserting that we can compete with anyone in the world on our environmental sustainability story, so we should focus on maintaining that, rather than adding bells and whistles.

**Patrick Krause:** I think that the term "engine room" was first used by Brian Pack in his interim report a couple of years ago. I do not have the quotation written down, unfortunately, but I remember that the report stated that our target for agricultural production cannot be met without environmental damage.

I remember that, at the time, we said, "That's not the way we're supposed to be going." We are not supposed to say that we should just take pillar 1, which is by far the greater part of the CAP budget, and turn a blind eye to the environment. We should not just hand the money over to farmers as income support and say, "Just get on with what you're doing because we have targets to meet and just ignore the environment." To say, "Ah no, pillar 2 is for the environmental stuff" does not take account of the fact that, as Debs Roberts pointed out, only 9.5 per cent was transferred to pillar 2. That percentage is not something that we should be proud of—it could have been 15 per cent, and if we really wanted to show that we care about our environment and that we are trying to move towards sustainable food production and land management, we could have gone higher.

**The Convener:** That has opened up a few more areas of questioning. Graeme Dey can go first.

**Graeme Dey:** I want to move the discussion on a little, if I may. Fundamentally, agriculture, like every other sector of society, has a responsibility to reduce its carbon footprint. I would welcome views on the emergence of the agricultural resource efficiency calculator. A number of the committee members visited the greencow initiative at Easter Howgate a few weeks ago, where we received a briefing on the carbon calculator that has been developed by SAC Consulting Ltd. SAC is part of the SRUC, which is known as Scotland's

Rural College. We were told that the basic version is available gratis and that there is a more detailed version that people can buy. SAC Consulting estimates that it takes between two and four hours to complete the process.

Should we introduce the calculator into the CAP payment process, so that the amount that a farmer receives is influenced at least to some degree by the measured progress that they are making year on year in reducing their carbon footprint? We have the means to look at that; we just need the willingness to engage with it. I would welcome your views on that.

**The Convener:** We will take the witnesses in order, so that we can pick up the previous two points. William Houston can go first.

**William Houstoun:** To offer a perspective on another part of the CAP, the intensive fruit and vegetable scheme insists that anyone who is benefiting from it makes environmental improvements year on year. We are currently using the SAC Consulting calculator to measure the carbon footprint across all our farms. As suppliers to Sainsbury's, we have signed up to its 2020 target, which insists on a 20 per cent reduction in carbon emissions by 2020. We are very aware of that.

To come back to the initial point about the intensive arable greening measures under pillar 1, it is quite difficult for fruit growers with an area of very intensive and very productive land to meet those cropping requirements. We would prefer to be very green in some areas of the farm, although we would also certainly be not doing any environmental damage in the intensive areas. The deputy convener might be pleased to hear that we are undertaking a big project on water run-off at present—using big areas of polytunnel—which is something on which we are being targeted.

We are aware that we can produce a vast amount of very high quality fruit on some of the best land in the country, to meet demand. Again, I stress that we do not want to do any environmental damage, but the requirements of the fruit and vegetable scheme, combined with the potential requirements of pillar 1 under the reforms, make it quite difficult to manage the productive area of the farm. If that area is profitable, and if there is an incentive under pillar 2 to be very green in the other areas, that would help us to produce the food and maintain the environmental benefits.

**The Convener:** I want to throw in something before we move on. The idea of being able to counter micropathogens is probably one of the reasons why monoculture is being targeted under the greening measures. While maize and wheat farming in the Île-de-France, the south-east of England and so on might be a far bigger target, should we be thinking about the issue in terms of what we produce, even in a bicultural system with rape and wheat, or in a malting barley regime? We want to be able to support greening, but is it about something more fundamental, as I presume Debs Roberts would say?

**Jonnie Hall:** Arable management to reduce the adverse impact of diseases—folk at the table know this better than I do—has been for decades, centuries and beyond, as has been said, about crop rotation rather than crop diversification.

For a potato producer, for example, disease management is huge in terms of the sector's performance. In order to manage that, the potato-producing land is constantly on the move. That means that we are not growing the same thing in the same ground year in, year out, across great swathes of Scotland.

We would back Graeme Dey on his suggestion about carbon efficiency measures. Clearly, the production end of agriculture in Scotland has to step up to the plate when it comes to playing its role in tackling climate change issues. If we look at the CAP as a package, that is not necessarily going to be delivered through pillar 1; it is far more likely to be delivered through the agri-environment climate options because they are now being consulted on for pillar 2.

All sorts of efficiency measures could be introduced into every production system—beef, dairy or cereals—that would allow farmers to take measures to reduce energy use, reduce manufactured fertiliser use and examine how the systems operate in order to create efficiencies. Input efficiencies are good for the business itself—it is common sense. Part of it is about education and awareness and providing the right tools to allow farmers to appreciate their own savings, which not only are good for the bottom line of the business but have an environmental benefit.

We have been involved in projects such as the farming for a better climate initiative—with its climate change focus farms—from day 1, four or five years ago. That project has come to an end and we now need to roll out those ideas. That is why an advisory system is being built up in the new pillar 2 and why support will be targeted in a particular way.

On Patrick Krause's point about the 9.5 per cent transfer out of pillar 1 to pillar 2, that transfer equates to about €57 million per year. In the previous discussion we were concerned about eroding the amount of money that is available for base payments. We cannot have it both ways. We argue that if we kept more in pillar 1 and targeted it the right way, we would get the rural development benefits that you are seeking, because at the backstop of all this is cross-compliance.

**The Convener:** We will try to pick up on some of the points about capping, in a moment but we will hear from Stuart Ashworth first.

**Stuart Ashworth:** The beef industry takes carbon management very seriously. I have been involved for a number of years, locally and internationally, in trying to establish methods for calculating greenhouse gas emissions from the livestock sector. It is an absolute nightmare, but offline I am quite happy to share with you some of the discussions that have been taking place.

I have applied the early SAC Consulting calculator in QMS enterprise profitability exercises for three years. I could never accept any suggestion that we should use the carbon calculator as an annual key performance indicator. Circumstances change from year to year, as is well illustrated by our climate in the past 18 months. The difference in the level of feeds, purchase feeds and so on that our livestock industry has had to use to maintain animal welfare against lower production would completely distort any carbon emissions calculation that was made on the basis of a single year.

Having said that, I will pick up on what Jonnie Hall said. Our industry has recognised that there are technological production efficiencies that will deliver more efficient livestock operations and reduced carbon emissions. We have, through pillar 2—in particular through the knowledge transfer fund, but also through the agri-climate options that Jonnie mentioned—a range of tools that can be crafted in a way that will help to inform and to demonstrate to the whole farming industry where technical efficiencies can be achieved. Those efficiencies will help to sustain economic efficiency and they will also reduce the wider Scottish agricultural carbon footprint. There are opportunities there. I would not like the carbon calculator exercise to be a blanket requirement for producers, but I see potential for it in some of the pillar 2 regimes, where we can begin to inform people.

My final observation is about what our friends in the Republic of Ireland are doing in their origin green initiative—I say to James Withers that I hope that I have got the words the right way round. They are working along the lines that have been described. Perhaps we can take that offline and chat about what the Irish aim to do and how they aim to do it.

11:00

**The Convener:** I want to wrap up two or three other pillar 1 issues. We will then have a short break before moving on to pillar 2. We have still to deal with the additional capping of payments, new entrants and new sectors, and coupled support. I say that so that people who have not said much yet know that their chance will come.

Perhaps the discussion of whether additional capping of payments should take place will not be long, since we have discussed it a bit already. Does anyone other than the usual suspects have points to make on that?

**Debs Roberts:** As a general principle, our approach to CAP reform has been that it should achieve fairness and simplicity of delivery. For fairness, we support a cap, because we feel that it could be argued that some businesses—which were touched on in our earlier discussion—have been oversubsidised under the historic regime. We will have a new way of interpreting and delivering the CAP, so we support a cap on pillar 1 payments and degressivity, as proposed.

**Jonnie Hall:** I clarify that there is no absolute cap in the deal now, although that was originally proposed; degressivity is now proposed, as Debs Roberts was right to identify. It is important to make the clear distinction between how a cap might have applied to current allocations of historic single farm payments and how degressivity might work under an area-based system in the future. The analysis that we and the Scottish Government have done shows that degressivity cannot kick in until the amount reaches €150,000 per business, which does not include the greening payment—it includes only the base payment and other direct support through coupled payments. The amount can also be offset against salaries, labour costs and so on.

Under an area-based system, few farm businesses would operate on that scale and get anywhere near a base payment of €150,000. Degressivity will therefore not be a major factor, because moving from historic payments to area-based payments will spread out the payments. We will not be in a historic system; we are moving to an area-based system in which we will spread out the payments. That will be all about the payment rate per hectare that is appropriate for the farming systems that we want to support. We do not view degressivity as a major challenge. If there are funds from it, they can be diverted into pillar 2, as the regulations require.

**The Convener:** We move on to new entrants—this is a chance for Roger McCall to speak. We have noticed that, at last, there will be a permanent means—a national reserve—for ensuring that new entrants have an opportunity under the new CAP. Are you happy with the proposals? Do you have further suggestions?

**Roger McCall:** Thank you, Mr Chairman, for the opportunity to give evidence. Any living entity needs the ability to survive, compete and grow. From the new entrants group's perspective, if we overlay that with CAP reform, we find that the Scottish Government's proposals to deal with new entrants will allow them to survive, but the ability to compete is another matter.

I would like to set out three different timescales. First, there is the timescale from now to 2015, and the committee should remember that we will probably not get any direct money into our accounts until nearly 2016. Secondly, there is the possible transition period that the Government has proposed. After that, we will have the level playing field, which is a phrase that has been mentioned numerous times, not least by the cabinet secretary himself. However, I think a bit of rowing back is going on at the minute; the language in the consultation has, unfortunately, changed and the phrase "level playing field" has become "a fair deal".

What the Scottish Government is proposing is absolutely a move forward but can we call it a level playing field? Certainly and absolutely not. You will see as much if you come down into Dumfries and Galloway, where in the short term people are trying to compete for grass park lets, for livestock in the livestock ring, for tenancies at auction and so on. I know from speaking to a number of my neighbours that a dangerous period is coming up. They have found that, because more and more information is getting out to established farmers, the people with the bigger payments are coming in, offering higher and perhaps uneconomical prices for grass parks for 2014 and trying to take that into 2015 in the belief that the reference year will be in and around those two dates. I think, therefore, that there will be a regression certainly in the area that new entrants—by which I mean genuine new entrants—had on their IACS forms. I think that the figure will go down rather than up; indeed, I will be surprised if it continues to rise as it has done because of that short-term issue.

If the cabinet secretary were here today, I would ask him to speak to his colleague the finance secretary and ask him for more money to fulfil the de minimis rules. Of the money that he provided last year, no one received the maximum amount, and there is an opportunity for more money to be made available from the Scottish Government's own coffers to provide help in the intervening period. That certainly should be done.

We have already discussed voluntary coupled support. We need think only of a new entrant sheep farmer. The majority of new entrants are sheep farmers because they cannot afford to get into beef and because getting into sheep incurs only half the set-up costs. A farmer on PGRS land—

**The Convener:** PGRS?

**Roger McCall:** Permanent grassland.

**The Convener:** Okay.

**Roger McCall:** No problem.

A farmer on such land is allotted money, but the first thing that might happen is that he loses 13 per cent of that through modulation and 8 per cent to the beef sector. He cannot change the system now or at the least he will find it very difficult to go out and compete. It costs £1,500-plus to buy any breeding animal, and perhaps more again for one with a calf at foot. We come back to the issue of competition, becausee the people with higher payments can afford that sum and the new entrants cannot. That is the situation that this new entrant sheep farmer finds himself in. He cannot afford to change his system in the short term, and the first thing that he finds is that he loses 13 per cent as a result of some of the things that we have discussed this morning.

It is also worth pointing out that the national reserve will be fully funded from the basic payment pot. None of the 3 per cent that we have heard will be taken off payments will be taken off historic payments; instead, it will all come off the basic payment pot, which means that, if there is a 50:50 phase in year 1, a new entrant will have to pay twice as much compared with someone who receives a historic payment of the same value. In other words, instead of 3 per cent, the figure will be 6 per cent. I hope that a new figure will be given to the new entrants panel on Friday.

However, we expect the 3 per cent to rise to a much greater figure—perhaps double that—to meet need. Therefore, instead of losing perhaps 6 per cent, the new entrant will find that it will actually be 12 per cent. It will all have to be funded through the basic payment pot, compared with the situation for people who get a part-historic payment.

**The Convener:** Thank you, Mr McCall. You have given us a lot to think about. I point out gently that I am the convener, not the chairman—that is how we work in our Parliament.

We have a response from Jonnie Hall.

**Jonnie Hall:** I will add a couple of points of clarification to what Roger McCall has just said.

In the overall package that is available, new entrants tend to be referred to as young farmers in Europeanspeak, because we have a bar for those over 40 years old. In many ways, that seems a bit perverse: we should be targeting support at new entrants, regardless of their age. Clearly, the Scottish Government is going to design the national reserve in such a way as to identify the categories of new entrant—although some of them have actually been farming for 10 years and more—who have been disadvantaged by the current system. That is quite right, and we are pushing for it all the time.

However, that is not the be-all and end-all of the situation, because Scotland must also allocate 2 per cent of its gross budget to an additional top-up in pillar 1. That will come under the young farmers scheme and will offer some additional support that the others will not get. In the pillar 2 consultation, you will see quite clearly that the Scottish Government is proposing a new entrant, or young farmers, scheme that will establish grant funding of up to €70,000 for new entrants to pay for machinery and equipment, the upgrading of buildings and—I have been told this by the Scottish Government, although it is not in the consultation—the purchase of livestock. If the new entrant requires funding to get in at the point at which he can start buying his first few cows, rather than being forced down the route of having to buy sheep because doing so is the cheaper option, that funding will be available. Based on a five-year business plan, there will be a tranche of money up front and a tranche further down the line.

That gives us something really quite new and different in support for new entrants, and we need to seize the opportunity. Obviously, funding is an issue because there are many competing demands in pillar 2, but that is one demand that the Scottish Government should really focus on.

**The Convener:** Are you happy with that evidence or do you want to come back on it, Roger?

**Roger McCall:** I have a little bit on what Jonnie Hall said and a little bit on transition for new entrants, convener. I am not sure whether you will have a question on transition later.

**The Convener:** We will deal with that towards the end of this section.

**Roger McCall:** Okay. Perhaps Jonnie Hall will be able to enlighten me, but I am not sure whether the people who were already new entrants will be able to access the funding that he talked about. There are 1,400 or 1,500 of them, which is quite a significant number. I do not think that the extra funding applies to them. Again, we have a void in between that is not being filled.

**Alex Fergusson:** Can you clarify how far back you are going? I presume that it is to 2003.

**Roger McCall:** Are you speaking about the national reserve?

**Alex Fergusson:** No. I am referring to the existing new entrants—the 1,500-odd people. Are you going back to 2003 to get to that number of new entrants?

**Roger McCall:** As you know, there are people who started in 2000 who have 100-plus cows and 400 breeding sheep on tenancy farms and who never got a penny of the single farm payment.

**Alex Fergusson:** I just wanted to clarify that.

**Roger McCall:** The new entrants panel is fully aware of the issue and probably intends to go back to 2000 for new entrants if funding is available.

**Jonnie Hall:** The Scottish Government has identified the group to which Roger McCall referred as one that, because it is a disadvantaged group, should be eligible to access funding under the national reserve. Whether those people started in 2003, 2004 or 2005, they did not have any historical reference element. They might have gone out and bought a handful of entitlements to help their fledgling business, but they operate at a much lower level than their neighbouring counterparts. Helping them is what the national reserve is for.

That is one category, but there will be others, such as developing businesses that have taken on new land. However, there will also be new entrants from this day forward who will have to be accommodated. The 3 per cent figure further down the budget works out at about €9 million per year. The question is whether that will be sufficient to satisfy the demand that Scotland might face for national reserve funding.

The key thing for us is that we make the national reserve continuous. Back in 2005, we had a national reserve for one year. If we had taken the decision at that time to have a continuous national reserve, using a siphon on the sale of entitlements or whatever to fund it, that might have prevented some of the problems that we are having to address today.

11:15

**The Convener:** I am not sure what the Scottish Executive's view about that was at the time, but we must move into the present. We have not yet dealt with the new sectors that are coming into the CAP, and this might be a chance for Andrew Skea to say something about that. I am glad to see that both fruit and vegetables are now important produce in the modern food and drink industries.

**Andrew Skea:** The potato sector is very much at the fringe of the CAP right now, although most people who grow potatoes are involved with the CAP through other crops. The potato sector is keen to see that there are no implications that disadvantage our sector going forward.

People are trying to predict what the reference year will be and what the baseline will be. A big proportion of potatoes are grown on rented ground, and one of the concerns is that it may be difficult to rent land in that year. Landowners may decide that they want to keep the land and grow cereals on it, so that they themselves become eligible for the payments. That is one of the few implications that we are concerned about.

In principle, I would be in favour of something that is as simple as possible. I work alongside people who are involved in cereal and livestock enterprises, and I am sometimes disappointed to see the amount of management time that they devote to looking after this side of their business, which could be devoted to running the enterprises that I would like them to devote all their time to. We are fortunate, in potatoes, that we do not have that distraction, but I see it in other enterprises.

**The Convener:** Those are issues on which we will question the cabinet secretary when we see him in due course. Does William Houstoun want to make any points?

**William Houstoun:** I repeat what Andrew Skea has just said—that we would not like to see the fruit and vegetable sector disadvantaged by anything. We operate in a very competitive UK-wide market and we are close to our customers. It is a very high-value but low-margin sector, so small differences between ourselves and our competitors and colleagues further south can make a big difference to profitability. We would like everyone to bear in mind that disadvantage is probably the greatest worry in the sector.

**The Convener:** Is our CAP proposal likely to bring disadvantage or advantage in how it is rolled out in Scotland?

**William Houstoun:** From what I have seen, I do not believe that it will bring disadvantage. However, as I said earlier, the cropping mix could create problems and force people to grow more crops than is economically sensible.

**Andrew Skea:** The potato sector tends to use different land on different farms each year, and it does not want the availability of that land to be cut short in whatever year is going to be the reference year—whether it is this year or next year. Next year seems to be the year that people are worried about.

**The Convener:** I think that we have got that. That is a fair point.

**Debs Roberts:** If I may, I will offer a scenario within the organic sector that picks up on some of the points that have been made in the past 10 minutes or so.

In Morayshire in particular, there is very good ground on which the organic growing of carrots is thriving. It is a complicated supply chain, or production chain, if you like. Carrots cannot be grown in the same field every year, so the carrot growers rely on seasonal lets of organic ground on which to grow their carrots. At the moment, the market is undersupplied; there is growing demand for organic carrots, and our problem is that we cannot get enough land with organic certification on which to grow carrots to meet the market demand.

If we go back a step, farmers have difficulties with the availability of organic land and troubles with getting seasonal grass park lets—Roger McCall talked about that—and down the line we foresee a great threat to the established market's ability to meet demand, because we simply do not have the certainty for people to be able to commit to growing these high-value vegetables.

**Jonnie Hall:** I have a point that relates to Roger McCall's concerns and certainly to what we have heard about vegetable ground. It is to do with how we deal with rented ground. I clarify that the default position that the Scottish Government will have to take if it does not take another course of action on the matter is that whoever is occupying eligible land in 2015 will get an area payment for it as long as they are actively farming. That, in itself, has triggered a response from some landowning interests, who are saying, "I'm going to take some of this land back in hand, sit on it and try to draw down the payment." That is a major concern for us and, I am sure, the STFA, new entrants and the vegetable producers. I know from speaking to our members that it concerns them. That also relates to Debs Roberts's point.

Under the regulations, the Scottish Government has an option: in 2015, it could limit the number of area-based entitlements that go to an applicant to either the number of entitlements that they activated in 2013 or the area that they farmed in 2013. That would close the door—not 100 per cent, but partially—to people taking land back in hand, sitting on it and waiting for a payment. The Scottish Government has to use that option. As I said, the default is that, as long as they can prove that they are active, which might end up involving some token farming, whoever is sitting on the land will claw in the payment, and that will keep out the guys who previously actively farmed it.

We already have lots of anecdotal evidence that that is happening. I will have to watch my language a wee bit, but some of the interested parties, or their advisers, have been suggesting that they should think about occupying the land and taking it back in hand. That is a major concern.

**The Convener:** Your point is well made and we will bear it in mind.

We have a couple of other things to discuss before we take a short break. We have talked a bit about coupled support, but we would like to discuss that a little more; the other thing is transition, which we have also touched on.

On coupled support, there is a problem about the market, the market rules, state aid and all that stuff. Do people have any comments on the way in which coupled support should work? Does Alex Fergusson want to kick off on that?

**Alex Fergusson:** I am particularly interested to know what panel members think. It is clear that, since the consultation went out, the situation has been changing rapidly, and it now looks as if we are looking—we hope—at the ability to go to 13 per cent for coupled payments. I think that it has been indicated that, while 8 per cent will go to the beef sector, an extra 5 per cent might be applicable to the sheep sector for reasons that Jonnie Hall outlined in his opening remarks.

The consultation suggests that coupled payments to the sheep sector would be extremely difficult. I wonder how they might be applied in order to address most effectively the problem of the payments across the rough grazing region.

**The Convener:** Who wants to kick off on that?

**Jonnie Hall:** Others can go first, but I will say something on that—surprise, surprise.

**Sandy Simpson:** The difficulty that our members have perceived is that, if you tried to implement some sort of assisted payment in relation to hill ewes, for example, there is a huge regulatory burden to identify the ewes in the first place. It is a fact of life that if you put 100 ewes on the hill, you will not take 100 ewes back—some of them will disappear. That is nature.

Another way of looking at it might involve paying some type of headage payment on the lambs that were actually sold off the holding. I suppose that that comes back to the calf scheme. However, the calf is tagged at birth but that cannot really be done in a practical sheep situation. The most practical time to tag sheep is when they are put through the market—when they go off the farm in verified numbers and are part of a system that is traceable. That might be one method of introducing extra money into the sheep sector. It might not meet with universal approval, but it is a method that could be implemented practically, without too many extra costs either to the producer or to the Government, because that information is already collected, and it would be a method of feeding money back to the sheep producers.

**Jonnie Hall:** Alex Fergusson made a point about how we could use the additional 5 per cent coupled support. The real purpose of that, in our view, is to drive it through the sheep sector in order to differentiate the payments and get away from the flat-rate payment across a variable rough grazing region, which I mentioned earlier. We think that it is vital that we do that.

That said, we recognise the complexity of how we do that when we are talking about lambs, hogs, gimmers, ewes, individual head counts and so on. It is challenging, and there is resistance of the compliance issues and what they might entail. Nevertheless, having looked at the regulations, we think that there is some scope to do something. Because the payment is coming out of a coupled envelope, a consideration of stocking density could be applied. We could consider a stocking density on a certain type of unit that has a predominance of rough grazing in its return—say, 75 per cent or more—and say that that farm is carrying X amount of blackface, Cheviot or whatever. It is almost going back to the days of hill livestock compensatory amounts, when we had specially qualified flocks and support was targeted at the type of hill ewes that we want to support in this context.

It is not that long ago that we had the sheep annual premium scheme, which was worth about €30 per ewe. It did not seem to be too difficult for people to go through that process, because it unlocked a payment. The system that we are suggesting would not be compulsory; it would be optional. If people did not want to go through it, they could stick with the base payment, and the coupled payment would be available for those who thought that it was in their interests to collect that information and make the application.

An audit trail would be attached, but farmers already comply with so much in terms of returns and data about the livestock that they hold in their land that we do not think that it would be that difficult to come up with something meaningful. I am always reminded that there might be a silver lining at the end of all sorts of things. The silver lining at the end of electronic identification for the sheep sector might be that, when the sheep go through a critical control point at a mart, the technology can be used to verify the fact that those lambs exist. Sheep EID has been the bane of the sheep sector for long enough, as you all know, but identifying production that has come from a certain type of hill unit that needs an additional level of support might be a positive way to use it.

**The Convener:** I wondered when we were going to get to EID, and I am glad that we have.

**Dr Wilson:** I would be a bit concerned if the coupled payment for sheep was used as a way to differentiate hill land only—in other words, if it was said that it concerned only those animals that are associated with hill land, and that other sheep stock would not be eligible. That might require further thought.

11:30

**Jonnie Hall:** We estimate that there are around a million hill ewes on the rough grazing region that we have trouble with. We have around 2.5 million ewes in Scotland. Five per cent coupled support on the existing budgets would give us in the order of €27 million. If we divide that by 2 million-odd ewes across Scotland, that will not serve the purposes that we want to achieve. If we limit that to the million ewes on our rough grazing—we want to differentiate the payments in the rough grazing to attach support to where the activity is—it works. It means that we will get in the order of €27 to €30 per ewe on that ground.

It should be remembered that the low-ground ewes will be on land that will get €200-plus per hectare. Is that extra support needed to sustain that type of production system? As Patrick Krause might suggest, that sort of sheep unit has choice, because it is on better ground.

**The Convener:** Right. We will take those points forward.

**Alex Fergusson:** May I ask one more question about coupling?

**The Convener:** Yes—before we move on to transition.

**Alex Fergusson:** Thank you very much, convener. I will be brief.

It is always acknowledged that the purpose of the coupled payments going to the beef calf scheme is to underpin the critical mass that is required in the beef sector, basically to keep the industry going. I am bemused by how a scheme that pays the biggest payment for the smallest number of calves and then reduces those payments the more calves someone has encourages the retention or, indeed, the expansion of the national beef herd. Would it not make more sense to do it the other way round and pay a small amount for the first 10 calves and increase the amount the more calves someone has?

**Stuart Ashworth:** Perhaps I need to respond to that question.

Alex Fergusson makes a relevant point. We are doing a lot of soul searching in QMS. Let me start from an objective. If the objective is to secure or increase livestock numbers—from QMS's point of view, it definitely is—I do not think that I would reverse scale, which is what Alex Fergusson suggests, but I am very sympathetic to the view that there should be a single rate, irrespective of the number of calves that someone has.

There are a couple of elements behind that. One is the sort of Pareto principle of 40 to 50 per cent of the calves lying within 18 per cent of the businesses. Before we came up here, I had an interesting debate with Sandy Simpson about whether it is easier to get a big business to put on five cattle or to find five small businesses to put on a single animal each. We talked ourselves round in a very interesting debate with arguments for both sides, but I think that, for the benefit of securing a volume of production, discriminatory payments do not reward. If any original discriminatory payments were based against an environmental and economic issue, perhaps there is a different objective. That is an environmental objective that could be funded in an alternative way. In Patrick Krause's area in particular, mixed cattle and sheep grazing has particular value environmentally; the machair is a classic example of how that approach benefits.

I return to the original point. If our objective is to stimulate greater production of cattle, encouraging larger businesses to put on cattle would be easier than encouraging small businesses to do so. On that basis, I am sympathetic to the view that level payment of the 8 per cent that we talked about is the best way of achieving that objective.

**Alex Fergusson:** I am glad to hear that that is being thought about and spoken about. I am quite happy with that.

**The Convener:** Okay. We move on to transition; we will then transition into a short break.

**Jim Hume:** Other countries have adopted a longer transition period for the changes in CAP. Regardless of the system that the Government comes up with, there will—as Patrick Krause mentioned—be redistribution, some of which might be quite dramatic. Does the panel think that a short transition period or a longer transition period for the CAP changes is preferable?

**Sandy Simpson:** We have surveyed our members on what they would prefer and, surprisingly enough, their views are polarised. Maybe that is not surprising. People such as Roger McCall who are working very hard and are making a damn good job of farming without subsidies want to jump off the cliff tomorrow, whereas people who have established very large single farm payment entitlements, mainly through dealing in large numbers of livestock on a very small area, want to hold on to those for as long as they can.

There are arguments on both sides. As an organisation, we think that a more phased transition might be preferable. That could take place over the lifetime of the parliamentary session, or the lifetime of the scheme—in other words, five years, which is what is suggested at the moment. At the end of the five years, we would come out the other end on a level playing field. That is what was talked about originally, but "a level playing field" has now been changed to "a fair deal". That is the view that we are picking up from our members.

As an arable farmer in Perthshire, my personal view is that I take exception to the suggestion that a single farm payment is a form of income support. I have always firmly believed that the single farm payment was introduced to ensure that the people of the UK would have a plentiful supply of affordable food, given that the market was unable or unwilling to meet the difference between the cost of production and the price that people will pay in the supermarket.

As has been alluded to many times previously, low-ground farmers have options, whereas hill farmers have very few. We should not lose sight of the fact that we must support agriculture in the more deprived areas to a greater extent than we are doing at the moment, because large tracts of the uplands—this is certainly the case in Perthshire—have no stock on them any more, because we cannot get people to take the ground and farm it, and because it is not economic for the people who own it to farm it.

The pillar 2 funding could be redirected, or directed more positively. Scotland's landscape is a result of agriculture. Our tourism industry is massive. James Withers has already said that he is more than happy to sing Scotland's praises as an environmental country. Greening is perhaps not as much of an issue as might initially have been thought.

I agree with Stuart Ashworth that making us accountable for carbon every year without having safeguards built in to do with the effects of the climate would be a disaster for agriculture. I have no doubt at all about that.

Those are some of the findings from our survey of our membership.

**The Convener:** Does anyone else have a brief point to make about the transition period?

**Patrick Krause:** We would like the transition to take place as quickly as possible. It is a shame that, as the process has gone on, the end point seems to have moved further and further away. We will talk about the less favoured area support scheme.

**The Convener:** We will do that after the intermission.

**Patrick Krause:** At the beginning of the process, it looked as if there would be a move from less favoured areas to areas of natural constraint. That is an example of how everything keeps getting pushed further and further back, for obvious reasons.

**The Convener:** That point is well made.

**Roger McCall:** I will make a number of points on the transition, starting with the Pack report. The other devolved Administrations are considering a phase-in over five years, probably, which is similar to what the consultation said. However, they did not go into the detail that the Pack report went into. Given the roadshows and so on, we could probably establish that the vast majority of the farming community understand the idea that was behind that inquiry and know what its findings were. Many people read the report and considered how the changes would affect their businesses.

The cabinet secretary says that the majority of farmers will be better off under the system that he proposed in the consultation. Surely the majority of farmers have been living in that expectation since 2010. They have been living—and farming—with the expectation that they will get more money, the amounts being similar to those that were mentioned in the Pack report. Now, suddenly, there is a possibility that they will be told to hold on and wait, because that money is not actually coming to them, and it will be kept away from them for a number of years.

If we consider the various figures to do with QMS and so on, we see that there is some momentum, given the amount of stock that we are losing. We have to think of something that we can use to grow the industry. Perhaps I have youthful enthusiasm, but I would like to grow the beef industry, and I do not want to see production falling—I do not want to see a continual decline, with momentum, which the historic system has created.

How do we do that? The first thing that we must realise is that, in talking about production and producers, the thing that is doing the producing is the land. The farmer is the manager, but the land—the hectare—is the thing that is producing. In my parish, we have people on a £1,000 per hectare payment. Next door to them, in the same business type, with the same land type and—to my eye—the same stocking density, there are people on £40 per hectare. That is wrong. Every hectare is important if we want to grow the agricultural business—the food and drink business. All those hectares are like spokes in a bicycle wheel. No hectare is more important than the other, if we are comparing land capability, yet there is a 25-fold difference in payments. If we take that through a tunnel, as some people are proposing—well, I let you draw your own conclusions.

Speaking from the youth point of view, I have been looking forward to mentioning social mobility today. That means the ability for any individual farmer, through his efficiency, to grow, expand and drive his business—just as we want to drive the food and drink business. That cannot be done using a historic system in which there are people doing the same thing but with a vast difference in payments. That is completely and utterly wrong.

In the reference years, the average age of the person farming was 55. That was back in 2001. We are 14 years on from that. If we add 14 years to the 55, we end up with 70. If we want to have a tunnel, we end up with 80. Are those the people you want driving the business forward while they are kept on enhanced payments?

On stock reduction, we hear about the idea that people's payments will be reduced and that there will be catastrophic loss of livestock numbers. People in Dumfries and Galloway are farming 100 or more cows and 350 ewes on tenanted farms, and they have had no payment for 10 years. Does a high payment create fiscal incompetence, such that these people cannot come down from £440? Some people say that their payment is being halved. Can they not come down from £440 to £220 with five years' warning? I cannot marry the two facts together. The other person has been farming for 10 years, doing the exact same thing, but gets no money.

**The Convener:** That was strongly put.

**Debs Roberts:** I echo some of the comments that have been made. We have taken views from members of our organisation, and they are quite mixed. Polar opposite views are being expressed.

Basically, the new entrants and those who have been penalised by low activity in the base years of 2000 to 2003 want immediate convergence as soon as possible, with the caveat that the rural payments and inspections directorate must be in a ready state to handle the transition. We do not want to have a repeat of the difficulties that England experienced under the previous CAP. That was extremely harmful. As long as RPID can be urged to be ready to hit the ground with some urgency, we would wish there to be an immediate convergence. Counter to that are the people who wish to protect their historic payments, who are farming actively and who do not wish those payments to go. In the interests of fairness, we would say that we would support immediate convergence.

**The Convener:** We have heard a number of different points of view. We will take a short break.

11:45

*Meeting suspended.*

11:57

*On resuming—*

**The Convener:** We will start again now—I ask everybody to come to order.

We will be thinking about what we suggest the Scottish Government should do to implement pillar 2—the SRDP funding—in Scotland. Under that theme, we might want to consider three parts: what measures should be included in the programme; how the funds should be divided between the measures; and the application process and the assessment of applications, which we touched on a little earlier.

Let us stick to the first point: what measures should be included in the SRDP?

**James Withers:** I want to make a point of principle. The others around the table will be much closer to the detail these days than I am, but it strikes me that, in the fairly uncertain world of farming, there are a few certainties. One is that direct support going into the industry will go down. There is no doubt about that; there are debates about the pace, but it will go down over time. Another is that the cost of producing food and farming will probably go up because of the inputs that we need will get more expensive. Over that time, there will be an increasing gap—an economic void—that will need to be bridged.

At the start of the meeting, the question was posed whether we have enough tools in the CAP box to secure the future of the beef industry. The answer is no. The CAP will not secure the future of the beef industry or any other industry. Only two things will do that: the market and farmers striving to be better and more efficient at what they do.

What are the levers to help with that? To me, the next phase of the SRDP and the next seven-year programme will be more important than any SRDP that has gone before it. We need to consider every lever in it to help farmers to become more competitive and to bridge the gap between the poorest performers and the best, which is still an extraordinary gap and not just a product of geography, topography or peripherality.

We need to be imaginative. We have touched on some of the areas that we need to address—such as climate change, inefficiency, animal health planning, nutrient management and business planning—to get the farming industry into as fit a state as possible to survive in an era in which direct support will keep going down and farmers will have to survive in the marketplace.

That is my point of principle on the SRDP: be imaginative and support competitiveness.

**Nigel Don:** Good morning, everyone—just.

12:00

I want to challenge that statement directly because the economist in me is asking why on earth we need to support any business in the marketplace. Surely its efficiencies should come from the need to compete in that marketplace.

Let me put that comment into context. I used to make detergents for a rather large business, and no one subsidised anything that that business or its major competitor did. Everything was entirely driven by the marketplace and our ability to produce efficiently and economically goods that the market wanted. There are of course some differences, but can you please tell me why the differences in the food industry are so significant and why we should need to support anything at all?

**James Withers:** I will respond to that on two fronts. First of all, 28 member states are going to tap into an EU rural development pot. We could take the moral high ground and say, "Do you know what? We're going to fight on our own," but I do not think that such a position would be sensible given that there is a pot to be used.

Secondly, I want to use what might seem like the bizarre example of cavity wall insulation. Over the past three years, every single MSP in this building should have revamped their cavity wall insulation. Whether or not you believe that such a move will help with climate change or saving the planet, the fact is that it saves money and is energy efficient. Why, therefore, has not every MSP or every person in this room put in cavity wall insulation? It is because we are human beings. We are not always rational or logical, and sometimes we need incentives and levers to do things. That is why cavity wall insulation grants are available. Given that a grant pot for rural development is available, we should use it as a lever.

It is worth remembering that, for right or wrong, some sectors of our farming industry have for the past 50 years been institutionalised into receiving support and have been told, "The market will not tell you what to produce—politicians and Brussels will." That situation is changing very quickly, but attitudes cannot change overnight, so we should use the £1.2 billion or £1.3 billion programme to create incentives and levers to move the industry into being more efficient—which is what other sectors have done—and use that funding as a transition window to get them into a fitter state.

**Jonnie Hall:** I support what Jim Withers has said. The industry is constantly in transition. Some of that change is driven by the changes in direct support payments that we are witnessing now and which we have witnessed over the past few years, and some of it is driven by the economic environment in which the industry operates, the marketplace and so on. Input costs have been all over the place but are on a rising curve, while output prices for most agricultural products tend to go through peaks and troughs. Farmers, in particular, have to get a bit smarter at planning for and managing that situation but, as James Withers has rightly pointed out, they are human beings.

We therefore need to incentivise changing behaviours and practice. The term that the Scottish Government always throws back at me is "transformational change", which will put every business and type of enterprise coming out of Scottish agriculture or related to land use in general across Scotland in a better place. At the same time, however, there is a demand and expectation that farming, forestry and crofting will all deliver a range of public benefits in addition to the private or market-driven benefits of producing product. That puts agriculture, in particular, in a very different place from detergent production and so on.

In this rural development package, we need to attach significant money to the right sorts of measures but target it in a particular way. The previous SRDP took a blanket approach with little or no targeting. There was a shopping list in every region; there was also a bit of a bun fight in which the biggest and ugliest managed to unlock the funding and big blobs of money were spent here and there. We need to spread the limited budget now available to us more evenly and create better access and opportunities to ensure that we have a wider range of farms and crofts across Scotland. In turn, they will individually start to change behaviours and practices, which will start to make a difference collectively.

Some of those behaviours and practices relate to resilience. I mean by that not just physical or climatic resilience in tackling climate change issues but the ability to deliver against, say, biodiversity targets and financial resilience to be more able to manage and cope with the peaks and troughs that I mentioned. It is therefore not just the measures but some of the supporting elements in the proposed SRDP that will be important.

The big headline spends are LFA support, agri-environment and climate change and forestry. Thereafter, there is a second wave that includes food and drink support, which is beyond the farm gate but will create avenues and opportunities for farming, and funding for co-operative action, which is seeing farmers collaborating far more than before to create benefits and deliver things on a catchment scale, which becomes important. We are also putting more dedicated resources into an advisory service that puts farmers in a better place to understand not only what might be good for their business but what might deliver the wider public benefit that is expected of pillar 2 funding.

**Dr Wilson:** Although I am disinclined to interrupt Jonnie Hall in full flow—which I am sure we all enjoy—we seem to be overlooking the fact that any Government intervention, which is what Nigel

Don was talking about in the first instance, impacts on structural change and slows it down.

We have heard about resilience—James Withers has talked about human capacity. We have individuals in the industry who, by dint of education, age or circumstances, might be in a situation in which they are supported while in other circumstances they might not be supported. That is an uncomfortable truth to face.

When we talk about growing the industry, we are talking about the individuals—perhaps some of the younger generation—who have the capacity and vibrancy to go on and make something of the industry. Therefore, support for everybody on a blanket area basis—which is what we have signed up to; I am not disagreeing with that—comes with the disadvantage that there are some folk who receive that support who would perhaps be better elsewhere in the economy.

**The Convener:** Indeed. We are talking about the difficulties of our geographic and landscape situation as well as the soils that we have to deal with.

**Graeme Dey:** Jonnie Hall has reeled off a range of pillar 2 measures that are accessible to farm businesses, but the NFUS has called for more money to be made available through pillar 2 by cutting the forestry grant scheme. That is a wee bit surprising given that the NFUS was on the woodland expansion advisory group and, I presume, signed up to the targets that we are trying to meet.

Setting that to one side, I want to focus on a comment in the written evidence from NFUS that talks about

"the possibility of achieving equivalent climate change goals through on-farm efficiency measures."

What evidence can be produced to back up that assertion and prove that it can be done? Can we get an understanding of what those measures might be, to demonstrate how one would match off against the other?

**Jonnie Hall:** I sat on the woodland expansion advisory group, but I do not think that I ever signed up to a target of planting 10,000 hectares of trees per year for the next 10 years.

**The Convener:** Is that not just rewriting history? There was an agreement.

**Jonnie Hall:** It was never agreed by us—it is a Scottish Government target. The woodland expansion advisory group was about planting trees in the most appropriate places; it was not about signing up to 10,000 hectares of trees per year being planted in Scotland. That is an aside.

In our pillar 2 response, we will suggest that we should continue to plant trees but maybe not at that rate. Currently, £32 million a year is earmarked for 10,000 hectares of woodland expansion. A calculation on the back of a fag packet tells me that that is £3,200 per hectare. We would rather see that target reduced to 5,000 hectares, which would still see woodland expansion on that engine house of Scottish agriculture. That 5,000 hectares would cost in the order of £16 million, and we think that £16 million saved from the woodland grant allocation within the new SRDP could be better spent on some of the measures that Stuart Ashworth talked about earlier and some of the measures that are being taken in Ireland to drive efficiencies in more intensive production systems, particularly in terms of beef, dairying and livestock.

With regard to energy reduction and input efficiency measures, planting a tree and locking carbon into it is one solution for tackling climate change, but it is not the only solution. I cannot give you facts and figures right now, but putting all—or almost all—of our eggs in that particular basket is rather simplistic. We can say, "Well, we can plant trees and lock up carbon", but the area of productive land in Scotland is limited. Once that land is turned over to trees it is no longer available for food production, which undermines progress on the Scottish Government's food and drink targets.

**The Convener:** We have to calculate how much that would amount to, which is one issue that crops up. It is interesting that the third most popular investment in renewables among farmers is in wood-fuel heating. Where is the wood going to come from?

**Dr Wilson:** The opportunity that is given to farmers to plant some of their land with trees should not be removed from them. We are not talking about planting productive land for forest.

To say that the calculations show that the cost of planting trees is £3,000, £6,000 or so many thousand pounds per acre is not strictly true. As things stand, the Forestry Commission is struggling to get folk to plant trees—I am talking about the 9,500 hectares that it says has to come from the private sector. It is struggling with the level of grants, which it does not think are sufficient. Therefore—I am surprised to hear myself say this—we are not talking about taking productive land out of agriculture.

**The Convener:** What about the people who have sold their land to the Forestry Commission because they felt that they would get a good price for it? That is the human behaviour of some farmers.

**Dr Wilson:** That is market forces. We should give them that opportunity.

**Jonnie Hall:** It is a case of market forces being driven by an incentive. If we apply a payment rate of £3,200 per hectare, there is an incentive.

**Dr Wilson:** It is for a limited time—it is not every year, year after year. For farmers in certain circumstances, it makes sense.

**Jonnie Hall:** Yes, but once—

**The Convener:** One at a time. Dr Wilson can go first.

**Dr Wilson:** For farmers in certain circumstances it makes sense, and it is right and proper to provide them with the opportunity to make that choice. If we want to restrict woodland planting, we should restrict it through the planning process. It is quite easy.

**Jonnie Hall:** There is clearly scope for having farm woodlands of a certain scale and type, and they can be beneficial in many farm situations. However, once a hectare of productive land is under trees—

**Dr Wilson:** I agree—it is gone.

**Jonnie Hall:** You are suggesting that it is for a moment in time, but it is not—the land is gone.

**Dr Wilson:** Yes.

**Jonnie Hall:** We have a very limited supply of productive land in Scotland, and we are eroding it all the time.

**The Convener:** Before we move on, Graeme Dey wants to make a point.

**Graeme Dey:** To be fair to the NFUS, it has made that point. Do other witnesses share the view that the balance in the proposed budget is wrong with regard to the forestry grant scheme, or is it just the NFUS that feels that way? We have other farmers here today.

**Jim Hume:** I can add something that may help. In my experience—this may be where the members of the Scottish Tenant Farmers Association come in—planting trees is really only a valid option for owner-occupiers or landlords, because tenants have no interest in planting trees.

Perhaps I have set up Sandy Simpson to contribute.

**Sandy Simpson:** Certainly.

We have two worries about the scheme. First, as Jim Hume rightly pointed out, the option is not open to tenant farmers. Secondly, there is a much more worrying trend. The Forestry Commission is actively buying land and outbidding farmers—with taxpayers' money, which is often forgotten; you and I are all paying for that land. The tenants have been put out of some of the farms that the commission has bought in order for the owners to sell those farms.

Some within the Forestry Commission have planted the areas that they wish to plant and gained massive brownie points and publicity by offering staff the farms. Roger McCall is obviously smiling about that because he, like us, does not think that those are viable starter farms in many cases, as the best land has been taken out. It is not only the Forestry Commission that is acting in that way; private enterprise is investing in forestry because there are tax efficiencies and tax benefits for the people that are doing it.

If we are trying to encourage forestry, there are vast areas on farms—well, they are not vast, but they exist—that would be suitable for planting trees. There would possibly be a half-hectare here or a hectare there in small areas. A fundamental change would be required in the legislation, first to allow tenants to take advantage of those schemes in order to plant trees, and secondly to allow them to receive some form of compensation if they go ahead and do it but their tenancy expires before the woodland can be harvested.

12:15

As things stand, the landlord could come at the tenants at the end of their tenancy with a dilapidation claim because they have turned the land from what was arable land when the tenancy commenced to—as Jonnie Hall rightly said—land of which a hectare has been taken out of production. That is the other side of the coin, and we cannot have it all ways.

On the convener's comment about wood fuel, it is true that wood-fuel boilers are riding the crest of a wave at present. However, going back a few years, it was wind power, which is not an option for tenants either. Most renewable energy initiatives are not an option for tenants because they either cannot make an agreement with the landlord or cannot access the funding.

The measures under pillar 2 have been mentioned. We need to be more careful and try to target the money more effectively. Instead of having one or two great big schemes, we should have 50 or 60 much smaller schemes.

We could argue that giving somebody a large grant to build a pack house to process produce creates a bit of employment in the area and puts money back into the wider rural economy. However, if we target the same money among 20 or 30 small rural businesses to allow them to diversify, we might find that we create more local employment and, as we move forward, provide industries that can secure a small family farm into the next generation and possibly beyond.

That would also achieve the other goals of keeping people in the rural environment and creating local employment, and it is possible that rural business would become less reliant on the payments that it currently receives from Europe. As was pointed out, the way that payments from Europe are going, they will become minimal in their impact on the farm business. We might see a reorganisation in the farming structure in the United Kingdom—and certainly in Scotland—in the next five years, because the people who have been referred to as "subsidy junkies", for want of a better term, and who are inefficient, will go out of business.

The measures under pillar 2 include an increased advisory system, and I will tell you an interesting little story about that. [*Laughter*.] It is factual. In Perthshire, there was a large landowner who used the former Scottish Agricultural College in the days when it was free to do so. He did not take its advice, but the local adviser went to see him five years later when he saw the farmer implementing his proposals. The adviser was told in no uncertain terms, "Oh, I employed a firm of consultants and they gave me the same advice and charged me thousands of pounds for it, so I had to implement it."

Putting in place a free advice system does not necessarily mean that it will be taken up. It will be used by people such as Roger McCall, who are young and forward-looking and who want to get ahead, but it will not affect the people at the other end of the chain, who basically view the single farm payment as a retirement system. The money that will go into an advice service may not be fully utilised.

**The Convener:** We will have to deal with the question about application processes and assessment slightly later on. If there were 60 schemes, it would be even more difficult to administer them. The menu needs to be looked at, but there are other points. Patrick Krause wants to respond, and Nigel Don wants to come back in.

**Patrick Krause:** I will comment on the forestry aspect. The SCF was represented on the woodland expansion advisory group, and we pointed out that crofters have already gone a long way towards meeting Government targets under the crofter forestry scheme. Forestry is really good for crofting, but a question that interests me is what we are growing trees for.

If it is for fuel, crofters would say that that is really good and is the way to go, but if we are talking about putting trees in for climate change mitigation and carbon sequestration, I think I am right in saying that trees are not that efficient compared to peatlands. It is a huge difference. I cannot remember the actual figure, but I think that it is tenfold: an area of healthy peatland will sequester 10 times or so the amount of carbon as the same area of trees. We should look more at active peatland management through, for example, conservation grazing, and that should be part of what we are aiming for in pillar 2.

**Jonnie Hall:** Can I come in on the peatland issue? In the agri-environmental area, £15 million is specifically earmarked for peatland management, which the cabinet secretary announced some time ago.

**The Convener:** He did indeed. We will try to deal with some of the other issues, given that time wears on. Nigel Don wanted to come back in about support.

**Nigel Don:** I will be very happy to get on to the other measures, but I want to pick up on what Jonnie Hall said about grants for fuel efficiency. I do not think that I buy that. Grants are to get people to do things that they otherwise would not do. Efficiencies in any process are things that you do because they improve efficiency and are cost effective. I am very worried when I hear anybody suggest that we need to give people grants to do something that they should do anyway.

**Jonnie Hall:** That is an interesting observation. It is the Government's role to incentivise behaviour change, which it can do through either legislation or incentives: a stick or a carrot. There is a third element called advice. The awareness and advice elements that are part of the delivery stuff in the SRDP are important.

As James Withers and Stewart Ashworth mentioned, we all want our bottom-performing crofters and farmers in every enterprise to move up, but we do not necessarily achieve that by saying that the market will look after that. If you leave it to the market, you lose many of the rural dimensions that you get from having people in those locations.

You need a combination of approaches that includes incentives. Provide the incentive once—change the behaviour once—and the benefit will be realised. The classic example is soil sampling and nutrient analysis on grassland farms, arable farms—whatever it might be. Yes, the best farmers are doing that already, but there is a rump of inert farmers who are not doing that. If you incentivise that behaviour, they realise the benefits. Clearly there are benefits in terms of climate change and water quality, but there is benefit for the business, so they will continue that behaviour themselves.

It is pump priming, for want of a better expression: changing behaviour and letting people realise what the benefits are. You underpin that through knowledge transfer and innovation, which is another element of the SRDP: demonstration, best practice and benchmarking. Every sector in

Scotland could benefit from that. People realise that cavity wall insulation can save them a few quid, so they decide to do it, but it also does something for the planet.

**The Convener:** We must deal with some of the other elements in the SRDP. Claudia Beamish wants to run a line of questioning.

**Claudia Beamish:** I will ask two questions about other measures. One is about business support for food and drink. We have heard quite a lot about food and drink from the production side, but, as panel members will know, support is proposed for small and medium-sized food and drink enterprises in the form of start-up grants for new enterprises, business capital grants and non-capital investment.

We have our targets for food and drink and we have our export targets, but do any panel members see that there should be criteria for those applying for that support, in relation to how accessible, affordable and local food can be produced for rural and urban communities? That is my first question.

**The Convener:** Thank goodness.

**Claudia Beamish:** My second question is about co-operatives. Do panel members see co-operatives as going beyond farmers? Could businesses, farms and communities work together in a co-operative way under the new fund?

**William Houstoun:** I support such initiatives—I am duty bound to do so, as I manage a co-operative of 18 growers who market directly to end customers. I see huge benefits to those farmers from that. A greater return of the total food spend goes back to the farm and, equally important, the farmers have close contact with their supermarket customers—the buyers. Every year, the farmers meet the buyers face to face.

I have tried to establish such initiatives with meat in various countries, with varying degrees of success, but the approach is working successfully through a targeted fruit and vegetable scheme. Such an approach has huge potential benefits for Scottish farm businesses. We have a superb support system through the Scottish Agricultural Organisation Society and Scotland Food and Drink. The infrastructure is there and waiting to help farmers to earn more from the marketplace.

To tie things together, if the grants are intended to be one-off payments to help businesses to become more sustainable, they will provide a great opportunity to bring more of the end price of food back into farm businesses—or the rural communities outside the farm businesses—and create a sustainable rural economy. I fully support both the measures that Claudia Beamish referred to.

**James Withers:** To add to the consensus, I completely agree. Agri-food co-operatives are the unsung heroes of the food and drink industry. They do not shout from the rooftops. The SAOS does phenomenal work, but it does not shout that from the rooftops. The future of the food and drink industry and of farming will be in collaboration to achieve scale. Eighty per cent of food and drink businesses in Scotland employ fewer than 10 people, so they are small.

The food processing and marketing grants scheme has taken a relatively modest part of the SRDP pot, but it has been transformational for a lot of food and drink businesses. It is critical to support that spend in future.

I would support rigorous application criteria, including the contribution to the growth of targets in local markets, nationally across Scotland, nationally across the UK and internationally. An assessment of the contribution to that would be critical.

Throwing more support behind co-operation and collaboration will be the key for Scotland. We know that because other countries have been better at that than we have.

**The Convener:** So we must get better at that.

**James Withers:** Yes.

**Patrick Krause:** I support what has been said. The food processing and marketing support scheme has been good for us in crofting and has helped us to do the first part of development of a Scottish crofting produce mark. That is the way in which we must go. As James Withers said, Scotland has much that it could sell as iconic food. I always use the example of QMS's great photo of a guy standing in a kilt, with the Old Man of Storr on Skye behind him. We are trying to sell such an image. The more we can help to develop small businesses to sell directly, the better.

**Stuart Ashworth:** I have a very small point. My reading of the SRDP consultation document is that the discussion on co-operation emphasises land management issues—the example of drainage is used. I urge people, in referring to co-operation, to take cognisance of the debate that we have had about business co-operation to drive forward market opportunities. I am happy to be corrected if I have misread the document. However, if my reading is correct, I am concerned that the co-operation that is being talked about is landscape management co-operation for environmental gain and not business development co-operation.

12:30

**The Convener:** Okay. We will take that point forward. I want to raise a point about the crofting counties agricultural grants scheme, as it affects the Highlands and Islands and I am the only Highland MSP present. We know that around 5,000 crofts claim single farm payments and that about 11,500 farms and crofts get LFAS; and we see that the Government has been consulting on how the crofting and small farm support scheme should be run. Is the Government's figure of £20 million an increase from that for the previous CCAGS, which was more restricted? I should say that the figure is an indicative one.

**Patrick Krause:** It would not be an increase. It is a bit difficult to work it out exactly, because if the scheme was opened up to all 34,000 units in Scotland—

**The Convener:** Of under 50 hectares.

**Patrick Krause:** We should bear it in mind that that is the majority of units in Scotland, given that their average size is about 54 hectares.

The scheme might be opened up by a vast amount, but the funding will be increased by only 30 per cent. If all the people concerned were to apply for it, the budget would be gone instantly. The budget is much lower per potential applicant.

**The Convener:** If there are about 35,000 to 37,000 smaller units, many of them must be outside the less favoured areas, given that there around 11,500 in those areas.

**Patrick Krause:** They are outside the crofting counties, not the less favoured areas.

**The Convener:** They are outside the crofting counties. So, the idea is that you try to maximise the number of eligible small farms, but you do not actually increase the amount of money at the same time.

**Patrick Krause:** Not in the same proportion.

**The Convener:** I understand the proportion. I wanted to get that point from you because we will ask why the change has been suggested.

What, particularly, makes it so important for crofters to have the crofting counties agricultural grants scheme?

**Patrick Krause:** My understanding is that the grants originated at the time of the congested area board, so they are very old.

**The Convener:** That was 100 years ago.

**Patrick Krause:** Their purpose was to target units in a very marginalised area and we still support the argument that most crofters are in very fragile and remote marginal areas.

You asked why the change has been suggested, convener. I really have no idea. It certainly did not come from the SCF or from anyone else that I know of. The only time that I have seen a suggestion of the grants being opened up to non-crofters was when we prepared a report for the cross-party group on crofting. A working group prepared a report on the crofting scheme and although the NFU member of the group suggested that it should be opened up to non-crofters, no one else in the group supported that suggestion.

We will present a paper on the issue because we think that there is something odd. The stage 2 consultation material refers to the stage 1 consultation, but it does not accurately reflect what was said during the stage 1 consultation, when there was widespread support for a croft-only scheme. The figures that have been used in the stage 2 consultation are not accurate. I will not quote it all here; I will send a paper to the committee, if I may. We will bring the issue up with the cabinet secretary next week.

**The Convener:** Indeed. I am quite sure that the committee will want to see your paper, because we will be asking the cabinet secretary for his views in two or three weeks' time.

**Jonnie Hall:** We support the proposal to extend CCAGS to small units or farms, but, to be absolutely clear, we certainly do not support its extension beyond the crofting counties. We have always argued that, as was the case before, non-crofts in the crofting counties, of like economic status to crofts, should be enabled to access the same grant support mechanisms as crofters.

That was the case until three years ago, when Roseanna Cunningham, who was then the minister with responsibility for the issue, decided to remove the like economic status criteria from non-crofts in the crofting counties.

Our response will say that we support the proposal, but that it should be contained within the existing crofting counties rather than apply across the whole of Scotland.

**Graeme Dey:** Do you have an idea of how many businesses would be involved?

**Jonnie Hall:** Not off the top of my head. The Scottish Government should be able to provide that information from integrated administration and control system returns, on a regional basis in the crofting counties, in relation to non-crofts of between 3 hectares and 50 hectares. There will be a significant, if not huge, number. I can think of examples in Orkney where farms operate in a similar environment to crofts—they neighbour crofts, in many instances—but do not have access to the same production-related grant support that the crofting counties agricultural grants scheme offers.

**Patrick Krause:** The argument that was put forward by the Scottish Government for taking the grant away from like-status holdings was that the

Crofting Reform etc Act 2007 gave the holdings the ability to convert to crofts. The logic was that people who wanted the crofting grant should convert their holdings to crofts. It has been argued that it is not actually that easy to convert to being a croft. Our argument in reply is that the 2007 act should be worked on in order to make it easier to change smallholdings into crofts, because there is a difference between them. If the outputs and outcomes of crofting, farming and smallholding in the same area are all the same, they should be supported. I absolutely agree with that. The counter-argument, however, is to ask why one sector is regulated under specific legislation and the other sector is not. Therefore, convert to crofts.

**The Convener:** Well, we look forward to your paper. We cannot go into the issue of crofting reform in this meeting. However, this morning, I noticed that the Crofting Commission's website talks about crofts and small farms and discusses the crofting and small farm support scheme—that is what the scheme seems to be called at present. I do not know whether it has not caught up with the 2007 legislation or is anticipating some change. There is clearly a debate about whether there should be one form of tenure in areas such as the Highlands and Islands, but that is another matter. I wanted to get that clear. In other words, we look forward to your paper and we will try to take the issue forward.

We have dealt with quite a lot of the measures and pertinent issues that people have raised. We should consider in particular the issue of how the funds should be divided between the measures. If people want to make some brief points on that issue, that would be helpful.

**Patrick Krause:** Will we go on to the LFASS at some point, or should I raise the issue now?

**The Convener:** You can raise it now.

**Patrick Krause:** As you probably know, we have gone on about the LFASS for a long time, and the Shucksmith inquiry and the inquiry by the Royal Society of Edinburgh considered the issue in depth as well. I should point out that the LFASS is not being used in the spirit of a less-favoured area support scheme. The way in which the formula works means that what comes out at the other end of the formula is a situation in which higher payments per hectare go to the better land in the less-favoured area, which is most of Scotland. That means that we are using a less-favoured area support scheme to support more advantaged holdings.

At the beginning of the process, we hoped that the areas of natural constraint process was going to be used. It is much more specific about distributing money to the places where the constraint is the highest. However, we have been told that that will not be brought in until 2017 or 2018—that is what I alluded to earlier when I talked about that day moving further and further away. Therefore, we have said that, if the LFASS is going to carry on, it needs to be revised, and that the figures that invert the payments should be addressed so that more money goes to the more fragile areas. However, in a meeting of the CAP stakeholder group a month or so ago, the cabinet secretary told us that that will not happen in the foreseeable future.

**The Convener:** Okay. You have made your point.

We have talked about the measures but we are particularly focusing on the division of the funds within the overall pot for SRDP, if any other participants in the round-table discussion would like to comment on that.

If they do not, we will move straight on to the application process and the assessment of applications. You will know that investment is currently being made in the system. The aim is to deal with applications for grants of under £75,000 at a local level while a national panel will deal with applications for grants above that figure. Do any of you have views on the workability of the process?

**Jonnie Hall:** Yes. We have particularly strong views about the proposed approach. We endorse and back the idea of introducing different levels of entry so that, as you say, level 1 is for applications for grants up to £75,000, which will be assessed locally against local targets and priorities, whereas applications for grants above £75,000 will be assessed against national objectives by a national panel. We think that that is a step in the right direction but that it does not go far enough.

In our response to the stage 1 consultation, we proposed that there should be three entry levels. We want the first level of entry to be for grants under £10,000, because if we are talking about the accessibility of funding for relatively small-scale measures on farms across Scotland to change behaviours in practice, modest amounts of investment are required. We think that at that lower level, the process should be competitive—it has to be competitive for funding reasons.

The next level up should be for investment of between £10,000 and £50,000, and the national approach would be in place for investment of more than £50,000. We would not be opposed to sticking a cap on the whole thing for budget management purposes.

Two levels of entry is good, but three levels would be better, because that would open up access to a far greater range of farms and crofts, which in many cases would benefit from going in at that level, because they require business investment, environmental investment or whatever type of investment it might be. It would be as easy to manage the budget in that context, because limits could be set on how much is available at each level and so on.

The proposals are adequate but they could be better to broaden out the accessibility of the funding. A major criticism of rural priorities was that we spent big dollops of money on a limited number of projects and excluded a whole range of opportunities for others. We would like that to change. When there is limited funding, it is necessary to be careful, so the first level of entry is vital.

**The Convener:** Those are interesting points. Are there any other comments?

**Sandy Simpson:** I agree with most of what Jonnie Hall said. We would favour a lower limit for a lower level. However, we would really like to see two things. First, we would like there to be a greatly simplified application system, because people spend a lot of money preparing all their plans and if their applications are unsuccessful, they lose that money, which deters a lot of small businesses from applying. Secondly, as Debs Roberts alluded to, we would like to ensure that SGRPID, or at least its local area officers, are up to speed with all the details of the plans so that we do not find that we get information from it that, in actual fact, is less than 100 per cent accurate, as we have discovered with some schemes in the past.

**The Convener:** You have made your point.

Debs Roberts was mentioned and will comment next.

**Debs Roberts:** The threshold of £75,000 is an arbitrary figure and I do not believe that it makes a huge amount of difference. What is far more important are the issues that Sandy Simpson talked about: the application process and, even more so, the approval process.

The current system in the organic sector has made it extremely difficult to have impartial views of assessments put to local case officers. I do not quite understand why it is so difficult to separate the advisory role and the assessment role. The United Kingdom Accreditation Service principles are based on polarised differences; it is an oil-and-water situation. Advice cannot touch assessment, and that is how organic certification is managed according to UKAS. For any accreditation, from the Quality Meat Scotland Scotch beef label right through to the British Retail Consortium, advice cannot touch assessment.

I would like those principles to be introduced to consideration of pillar 2 SRDP proposals, so that the case officer on the ground who is working with and advising producers, perhaps touching on the advisory service that is also in the scheme—I have more concerns about that—is clearly separated from the assessment, which must be much more targeted and criteria set.

12:45

**The Convener:** That has given us plenty to go on. Thank you.

On our final area of concern, what are your views on the budget allocation decisions made by the UK Government and the Scottish Government on transfers between pillars, and do you have any messages to inform the planned review of UK CAP allocations in 2016-17?

**Jonnie Hall:** We are talking about two things, one of which is internal convergence, or the convergence dividend, in respect of the UK allocation of pillar 1 funding. There was clearly a strong argument that the dividend that the UK received from the convergence criteria set at a European level should have been passed on, not entirely but almost entirely, to Scotland, because it is the very fact that Scotland has a huge area of rough grazing that made the UK average fall below the European average, giving rise to the funding being available.

That is an important political argument, but let us be realistic about how much funding would have been generated. Even if Scotland had got it all, it would have been £11 million in 2014, rising to £60 million by 2019. That is one element.

The other element is that Scotland has taken the decision to take 9.5 per cent out of pillar 1 and put it across to pillar 2, which works out at €57 million per year, which is greater than the amount that we would have drawn down through the convergence dividend.

The Department for Environment, Food and Rural Affairs has committed several times to the Scottish Government and to the NFUS to reviewing the budget allocation, as has been flagged up, in 2016.

There are two important things about that review. First, it must be done on absolutely objective criteria that assess the payment rates that go to similar types of land across the different parts of the United Kingdom, and we can carry out that process only once Scotland has established its own payment regions, so that we have an arable payment, a grassland payment and a rough grazing or moorland payment that we can compare with payments in England, Northern Ireland and Wales. We must then establish what would be a parity of payments on that basis, and that would definitely drive money into Scotland. That convergence dividend would not drive all the money our way, but it would significantly help with our budget dilemma.

The next part of that budget review is a debate and discussion about whether, once the review has been carried out, we can implement such a change within the programme period, or whether we have to wait until 2020. The NFUS would argue that we have to go from 2017 onwards, but we can do that only once Scotland has established its own payment regions so that we can then draw a clear, objective parallel with the allocation of payments in other parts of the United Kingdom.

On the transfer from pillar 1 to pillar 2, Scotland is at 9.5 per cent, as you know. England will be at 12 per cent, which has pulled that budget down, so it is helping us to move towards parity, although I would rather move upwards towards the English than have them coming down to meet us. Wales will be at 15 per cent, which also helps to bring us closer to the level of payments that will apply in Wales on an area basis, as in Scotland. Finally, Northern Ireland's pillar 1 to pillar 2 transfer will be zero per cent. That leaves one of our main competitors within the UK family at a much greater advantage in terms of higher payment rates in pillar 1 and a pillar 2 budget that we can only dream about.

**The Convener:** Perhaps there are special circumstances in Northern Ireland.

**Jonnie Hall:** I suspect so.

**Patrick Krause:** The convergence dividend raises an interesting question. If Scotland had got that money on the argument that we bring the UK average down, would that same argument have been used within Scotland? In other words, if it is the rough grazing that brings the Scottish average down, does the money therefore belong to the rough grazing? Who knows? It would have been an interesting argument to have had.

**The Convener:** Indeed.

**Patrick Krause:** On the pillar 1 to pillar 2 transfer, when we answered the cabinet secretary's question about whether we agreed with the 9.5 per cent, it was interesting that our immediate reaction was no—we thought that it should be higher than that. There are many more interesting, advantageous and targeted things going on in pillar 2. As I said earlier, hopefully we are moving more towards that.

Where we get caught up, though, is that the LFASS accounts for something like 35 per cent of the pillar 2 budget, and we think that it is being used wrongly. To argue that we wanted more money for pillar 2 so that it could go into the units on the better land left us in a bit of confusion. However, in principle, if the LFASS was sorted out, more money should go into pillar 2.

**Graeme Dey:** This is not a party-political point in any way, but I wonder what comfort can be derived from the UK Government's promise to review the budget allocations for the next CAP—because, as I understand it, the review in 2016 is for the next CAP. In practical terms, the current UK Government is opposed in principle to direct payments and wants gradually to remove that particular type of support anyway. Further, there is a UK general election that year, and the current Government could be replaced by another. Scotland could be an independent country by then but, if we are not independent, and the Conservatives are re-elected, we could have an in-out referendum on EU membership anyway. What comfort is offered by what we are talking about?

**The Convener:** Very little by the sounds of it. Would the witnesses agree?

**Jonnie Hall:** There is a huge range of permutations there and not one of us can say with any certainty what the outcome will be. We are where we are. We got an historic allocation of that convergence dividend. The NFUS argues that it should have been made on much more objective criteria, based on the different land types. We have to go through the review process. Once we can compare like with like, we will have a clear idea of what Scotland is owed and we would press for that. We have already asked the Commission whether we can change that to occur within this programme period or whether it has to wait until 2020. As far as we are concerned, we will continue to keep the pressure on.

On all the other points, I would not dare to predict the outcome.

**The Convener:** That is a good point on which to end—

**Alex Fergusson:** If I could just—

**The Convener:** I thought that we were going to end there.

**Alex Fergusson:** I feel that I have to say that if that is Mr Dey making non-political points, I would hate to hear him making political points.

**The Convener:** He was very fair and gave a range of outcomes, to which you may add.

**Alex Fergusson:** There is a strong case to be made for implementing some of the recommendations in the review within this review period. I find it hard to believe that if a member state approached the European Union to make some changes within that member state's budget, the European Union would not look at that with some sympathy.

That is not the view that Richard Lochhead has taken to date, but I hope that he can be persuaded that we need to make representations on that. If reallocation is agreed through the review, there is no reason why we should not make the case for it to be put in place straight away. I would like to think that we could all unite—as we did on the convergence uplift issue—to make that case, when and if those recommendations are made.

**The Convener:** Indeed. There are all these ifs and buts, but that is a very fair point.

We have had a good run round on many of the issues. The committee has a lot of evidence to take in the next few weeks so that it can advise the Government of Scotland what it should be doing in implementing the CAP.

The panel's thoughts on these issues have given us excellent ammunition. I thank our witnesses for their contributions. Some of them were more trenchant than others but they were most certainly very helpful.

Our next meeting is on 5 March, when we will be taking further evidence from stakeholders on the CAP and SRDP. Thank you for your attendance.

*Meeting closed at 12:55.*

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